Spain: Optimism returns

The Bank of Spain has upgraded its growth forecast and we agree

After a few months of heightened uncertainty due to the tensions in Catalonia, optimism on the economic outlook has returned to Spain.

An example of this is that the Bank of Spain recently upgraded its growth forecast for 2018 from 2.4% to 2.7%. The bank cites many reasons, such as the ongoing strong activity and world trade, but also the easing of the political uncertainty in Catalonia. Our GDP growth forecast for 2018 has stood at 2.6% since February 2016.

We, therefore, agree with the growth forecast upgrade by the Bank of Spain.

2.6% ING's GDP growth forecast for 2018

Spain certainly profits from the strong global activity. The latest evidence comes from merchandise exports. According to preliminary figures by the Spanish Economy Ministry, merchandise exports increased by 6.5% YoY in January to reach €22.8m while merchandise imports increased by 8.9% YoY to €26.8m. These figures imply a widening of the seasonally-adjusted merchandise trade deficit to EUR3.9bn, from EUR3.1bn in December 2017. Next week the current account balance will be published and will give us a fuller picture on the developments of the external sector, given the importance of the tourist sector for Spain's balance of payment.

The recent decrease of political uncertainty in Catalonia is certainly a plus, but the situation remains delicate. There is currently no longer-term solution to the issue, meaning that there is still no regional government in Catalonia and that Article 155 is still in place. That said, recent polls

show that there is dwindling support for independence, which reduces the prospect of turmoil in the coming year.

Also important is that there is still no approved 2018 Spanish budget due to the Catalan crisis. The Basque Nationalist Party does not want to approve any budget as long as the central government suspends some of the autonomous powers in Catalonia. While the 2017 budget deficit came out at 3.1% of GDP, the fiscal situation is expected to improve. The Spanish government had until now an official growth forecast of 2.3% for 2018. This is likely to be upgraded with a positive impact on the expected budget deficit.

All in all, we keep our growth forecast of 2.6% for 2018. This is still a decent figure, although it implies a slowing of the economy compared to last year when annual growth equalled 3.1%.