

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY 2016-2018

Pablo Hernández de Cos
Director General

29 September 2016

OVERVIEW

- **Activity:**

- *a prolongation of the expansionary phase is forecast*
- *albeit at a somewhat lower pace*

Prices:

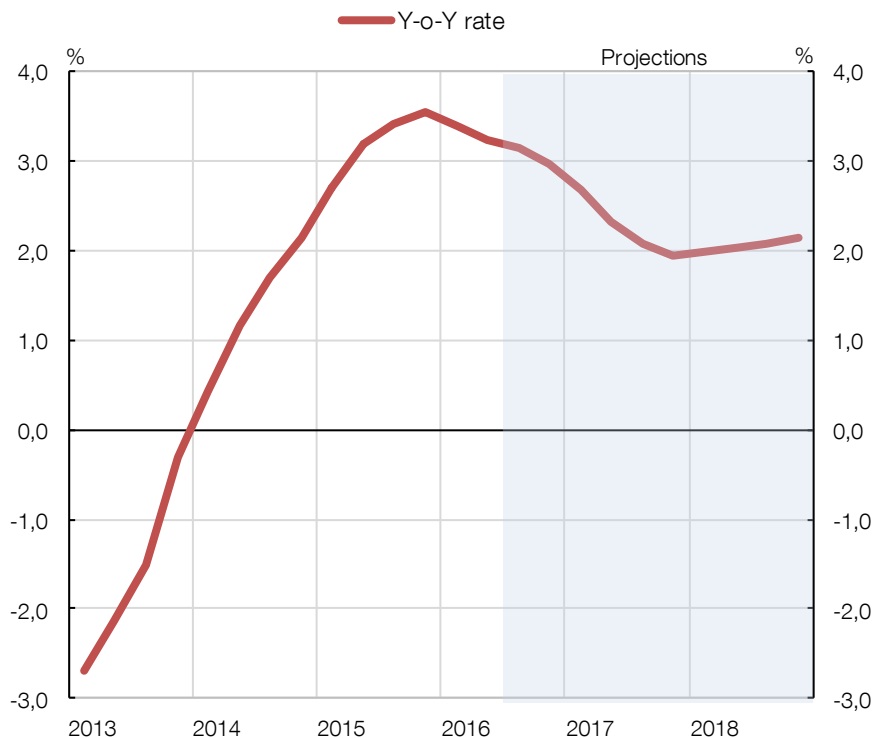
- *path clearly marked by oil prices, with positive rates from September 2016 and with a significant rise early next year.*
- *more gradual recovery in core inflation*

		Projections September 2016		
	2015	2016	2017	2018
GDP	3.2	3.2	2.3	2.1
Employment	3.0	2.9	2.0	1.8
Inflation (CPI)	-0.5	-0.3	1.5	1.6

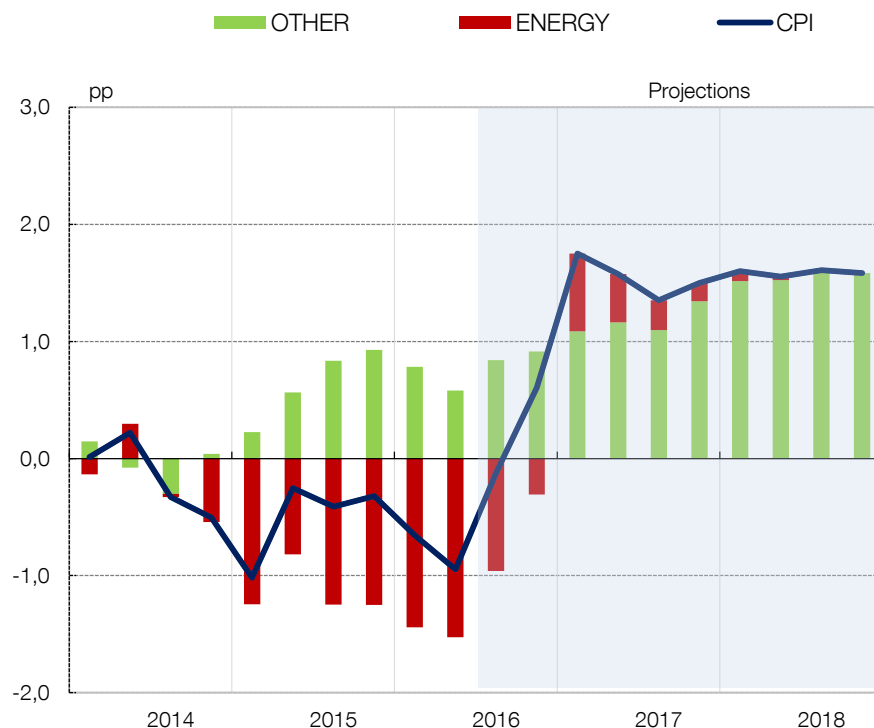
GDP AND INFLATION

- Gradual slowdown in activity as certain temporary impulses peter out (oil prices, currency depreciation, fiscal stimuli).
- Inflation (CPI) will move into positive territory in the final stretch of the year, once the effect of the fall in oil prices in 2015 is diluted.
- The CPI excluding energy and unprocessed food prices will gradually accelerate as the degree of utilization of productive factors increases.

REAL GROSS DOMESTIC PRODUCT



CONTRIBUTION TO CPI GROWTH



CHANGES IN ASSUMPTIONS

- The impact of the assumptions would suggest a downward revision in 2017-2018 of GDP growth and of inflation.
- The estimated negative effect of the change in the assumptions is chiefly associated with the lower growth of export markets (which is in turn essentially related to the adverse impact of the UK referendum result), partially offset by an improvement in financing conditions.

INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS					Changes from the June 2016 projection		
Annual rates of change, unless otherwise indicated							
	2015	Current projections			2016	2017	2018
		2016	2017	2018	2016	2017	2018
International environment							
World trade	1,9	1,8	3,3	3,9	-0,7	-0,6	-0,3
Spanish export markets	3,1	1,8	3,4	3,8	-1,2	-0,7	-0,4
Oil price (in USD)	52,4	43,6	50,2	50,8	0,1	1,2	-0,5
Monetary and financial conditions							
Nominal effective exchange rate vis-à-vis the non-euro area countries	113,0	114,2	114,8	114,8	-0,6	-0,7	-0,7
Short-term interest rates (3-month Euribor)	0,0	-0,3	-0,3	-0,4	0,0	0,0	-0,1
Long-term interest rates (10-year bond yields)	1,7	1,3	1,3	1,5	-0,3	-0,7	-0,8

REVISIONS COMPARED WITH JUNE

➤ Activity:

- *Upward in 2016: as a result of more-favourable-than-expected data in Q2 and in the summer months, and of the improvement to the projections in the final stretch of the year.*
- *Practically none in 2017-2018: the negative impact of the new assumptions (worse external markets, somewhat higher oil prices) would be offset by the 2016 carryover effect.*

➤ Prices

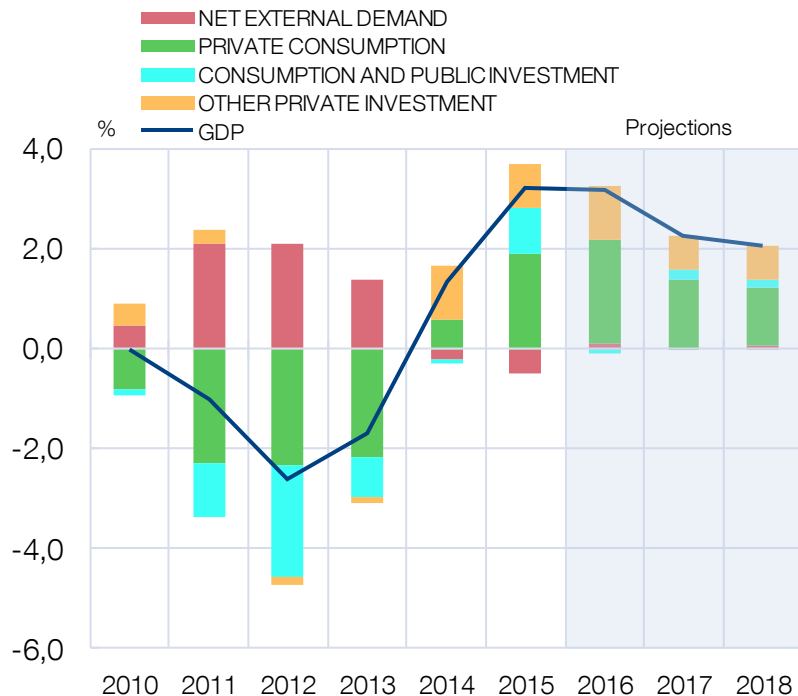
- *Upward in 2016 alza: due mainly to a lower-than-projected decline in the energy component.*
- *In 2017-18: relatively insignificant revisions.*

		September 2016				June 2016			Changes in projections		
		2015	2016	2017	2018	2016	2017	2018	2016	2017	2018
GDP		3.2	3.2	2.3	2.1	2.7	2.3	2.1	0.4	0.0	0.0
Inflation (CPI)		-0.5	-0.3	1.5	1.6	-0.5	1.5	1.7	0.3	0.1	-0.1

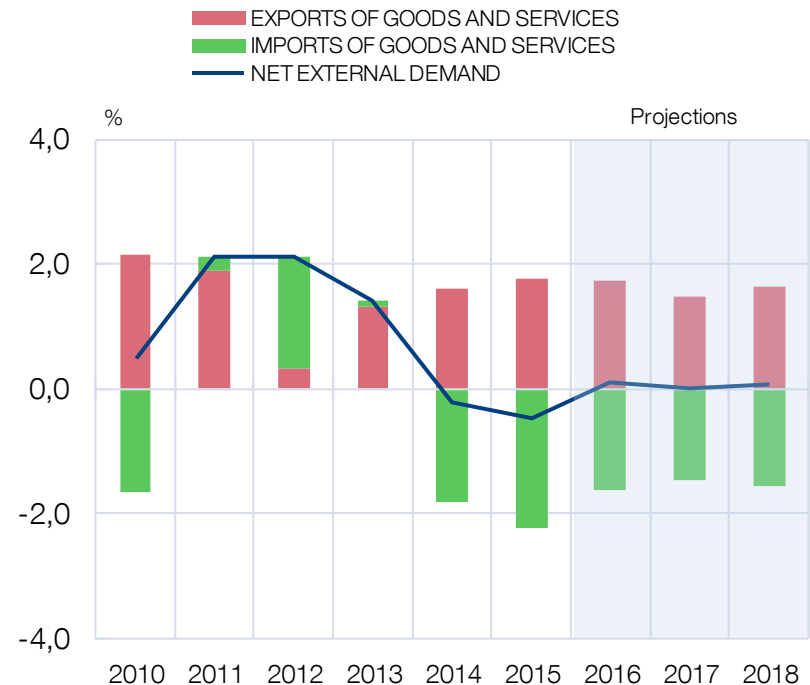
COMPOSITION OF OUTPUT GROWTH

- The expansion in output will continue to be underpinned by private national demand, as has been the case since the start of the recovery, although its various components will moderate to some extent.
- The contribution of the net external balance will be practically zero.

GDP. Annual growth and contributions



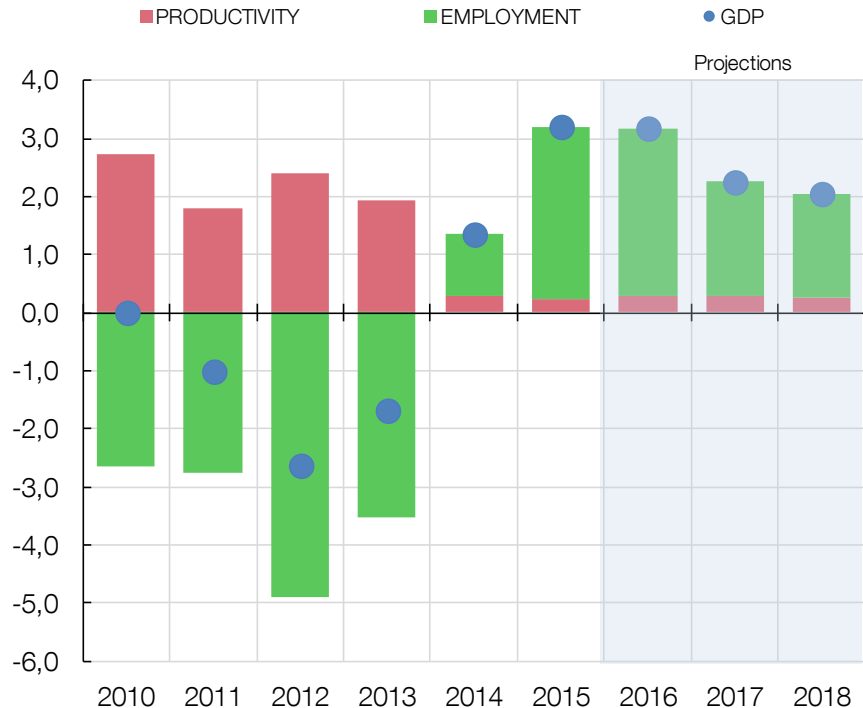
Net external demand. Contributions



EMPLOYMENT AND UNEMPLOYMENT

- The growth of activity will continue to be employment-intensive, meaning productivity will post moderate growth rates.
- Job creation will provide for further reductions in the unemployment rate, which would stand at slightly below 17% at end-2018.

GDP growth. Contributions of employment and labour productivity



Unemployment rate





Activity: tilted to the downside

- *In the external environment:* associated with developments in the global economy, particularly in certain emerging economies, with the presence of geopolitical hotspots and with the uncertainty over the timing and characteristics of the UK's exit from the European Union.
- *Within Spain:* uncertainty over the future course of economic policies, arising from the interim nature of the government, in relation both to the process of fiscal consolidation and to economic reforms.

Prices: moderately downside

- *Relating to the materialisation of a more unfavourable global growth scenario.*

Under both activity and prices these risks might be partly offset by a greater impulse from the already adopted unconventional monetary policy measures than that incorporated into the baseline scenario.

ANNEX: PROJECTIONS TABLE (2016-2018)



Annual rates of change in volume and% of GDP		Projections			Changes from the june 2016 projections		
	2015	2016	2017	2018	2016	2017	2018
GDP	3,2	3,2	2,3	2,1	0,4	0,0	0,0
Private consumption	3,1	3,4	2,0	1,5	0,4	0,2	0,0
Public consumption	2,7	1,0	0,8	0,8	-0,1	-0,1	0,1
Gross fixed capital formation	6,4	4,0	4,8	4,5	-0,7	-0,7	-0,4
Investment in capital goods	10,2	7,9	6,6	5,7	-0,2	-0,5	-1,0
Investment in construction	5,3	2,1	4,2	4,4	-1,3	-1,2	-0,2
Exports of goods and services	5,4	5,3	4,5	4,8	0,9	-0,3	-0,2
Imports of goods and services	7,5	5,4	4,9	4,9	0,1	-0,6	-0,4
Domestic demand (contribution to growth)	3,7	3,1	2,3	2,0	0,2	-0,1	-0,1
Net exports (contribution to growth)	-0,5	0,1	0,0	0,1	0,3	0,1	0,1
Nominal GDP	3,8	3,5	3,3	3,7	0,3	0,0	-0,1
GDP deflator	0,6	0,3	1,1	1,6	-0,1	0,0	-0,1
Consumer price index (CPI)	-0,5	-0,3	1,5	1,6	0,3	0,1	-0,1
CPI excluding energy and unprocessed food prices	0,6	0,9	1,3	1,7	0,0	0,0	-0,1
Employment (full time equivalents)	3,0	2,9	2,0	1,8	0,4	0,0	0,0
Unemployment rate (% of labor force). End of period data	20,9	19,0	17,8	16,7	-0,7	-0,5	-0,6
Capacity (+) / borrowing (-) financing of the nation (% of GDP)	2,1	2,6	2,2	1,9	0,6	0,7	0,7
Capacity (+) / borrowing (-) financing general government (% of GDP)	-5,1	-4,9	-3,6	-3,1	-0,8	-0,2	-0,2