

MACROECONOMIC PROJECTIONS OF THE SPANISH ECONOMY 2017-2019*

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KEY POINTS

- **Activity:**
 - *Expansionary phase expected to continue*
 - *But some easing in growth expected over the projection period*
- **Prices:**
 - *Trajectory strongly marked by oil prices, rising significantly in early 2017, but more moderate growth rates expected thereafter*
 - *Gradual increase in core inflation*

		March 2017 projections		
	2016	2017	2018	2019
GDP	3.2	2.8	2.3	2.1
Employment	2.9	2.6	1.9	1.8
Inflation (CPI)	-0.2	2.2	1.4	1.6

CHANGES IN ASSUMPTIONS



- Changes are generally modest
- Most notable change: **oil prices revised up in 2017 and down in 2018 and 2019**
- Projections envisage that **Spain's export markets will perform somewhat more favourably in 2017** and that the **effective euro exchange rate** will depreciate slightly
- Expected interest rate trajectory virtually unchanged compared with December

INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS

Annual rate of change, unless otherwise indicated

INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS		Current projection			Differences between current and December 2016 forecasts		
Annual rate of change, unless otherwise indicated	2016	2017	2018	2019	2017	2018	2019
International environment							
World markets	1.7	3.5	3.9	3.9	0.4	-0.1	-0.1
Spain's export markets	2.2	3.7	3.7	3.6	0.5	0.0	0.0
Oil price in dollars (level)	44.0	52.4	52.1	51.9	3.1	-0.6	-2.7
Monetary and financial conditions							
Nominal effective exchange rate against the non-euro area (2000 = 100 and percentage differences)	113.6	112.0	112.2	112.2	-1.1	-1.0	-1.0
Short-term interest rates (3-month Euribor)	-0.3	-0.3	-0.1	0.1	0.0	0.1	0.1
Long-term interest rates (10-year bond yields)	1.4	1.8	2.2	2.6	-0.1	0.0	0.1

CHANGES COMPARED WITH DECEMBER PROJECTIONS



➤ Activity:

- Revised up for 2017-2019 by more than warranted by changes in assumptions, owing to:
 - Recent performance more positive than anticipated in December
 - Global trade and activity both stronger than envisaged in assumptions
 - Imports expected to lose momentum, in line with their recent performance

➤ Prices:

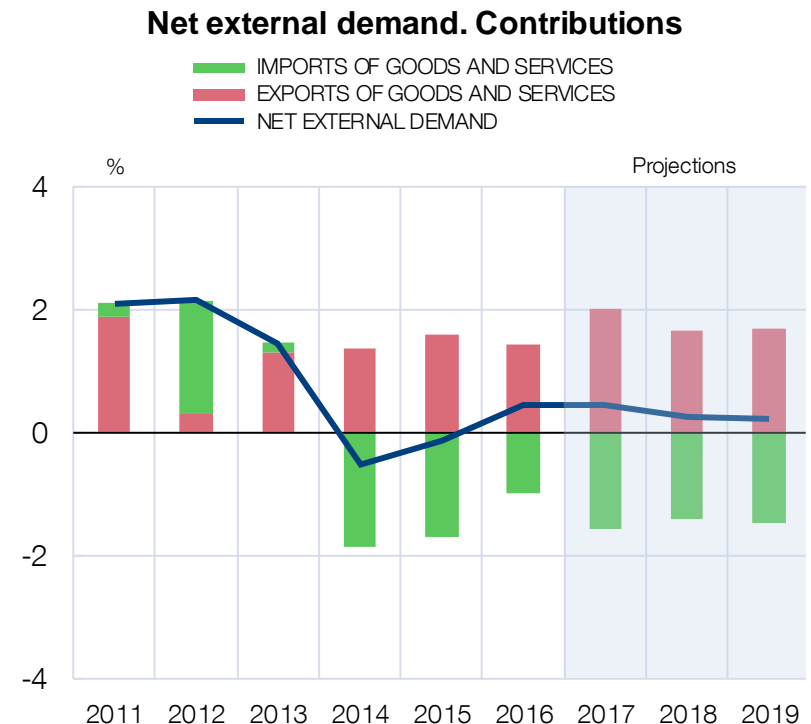
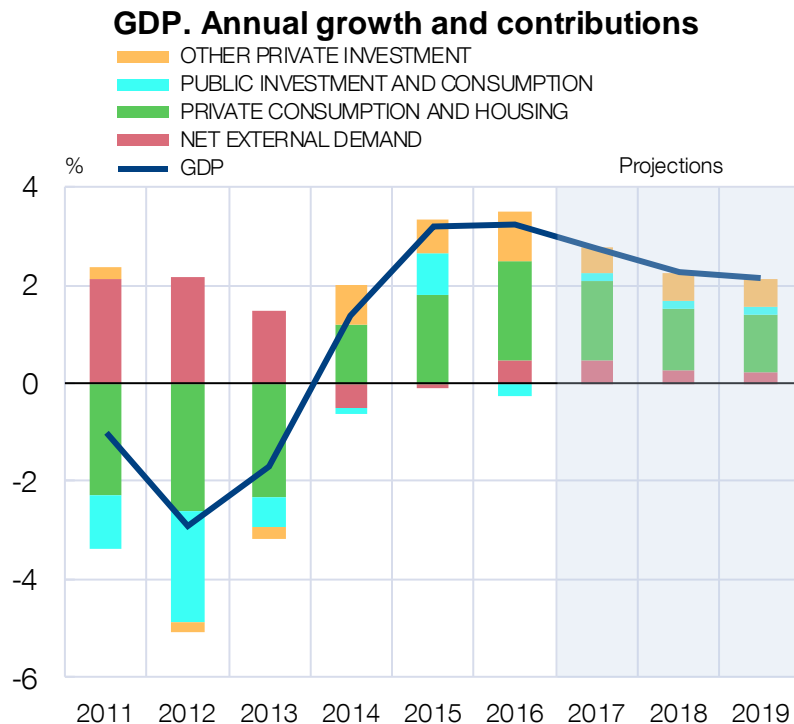
- Revised up for 2017 as a result of surge in energy prices
- Very modest revisions for 2018-2019, as rates of change expected for oil prices are somewhat lower than those considered in the December exercise

		March 2017			December 2016			Revisions		
	2016	2017	2018	2019	2017	2018	2019	2017	2018	2019
GDP	3.2	2.8	2.3	2.1	2.5	2.1	2.0	0.3	0.2	0.1
Inflation (CPI)	-0.2	2.2	1.4	1.6	1.6	1.5	1.7	0.5	-0.1	-0.1

COMPOSITION OF GDP GROWTH



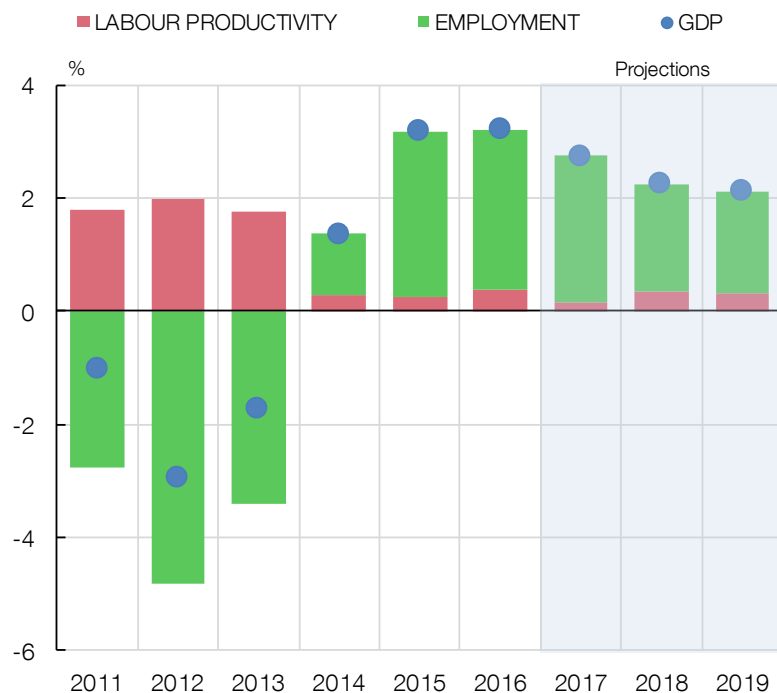
- GDP growth will continue to be underpinned by domestic demand, even though the slowdown observed in the latter variable in 2016 is expected to continue
- Net external demand to make a slightly more positive contribution than was projected in December



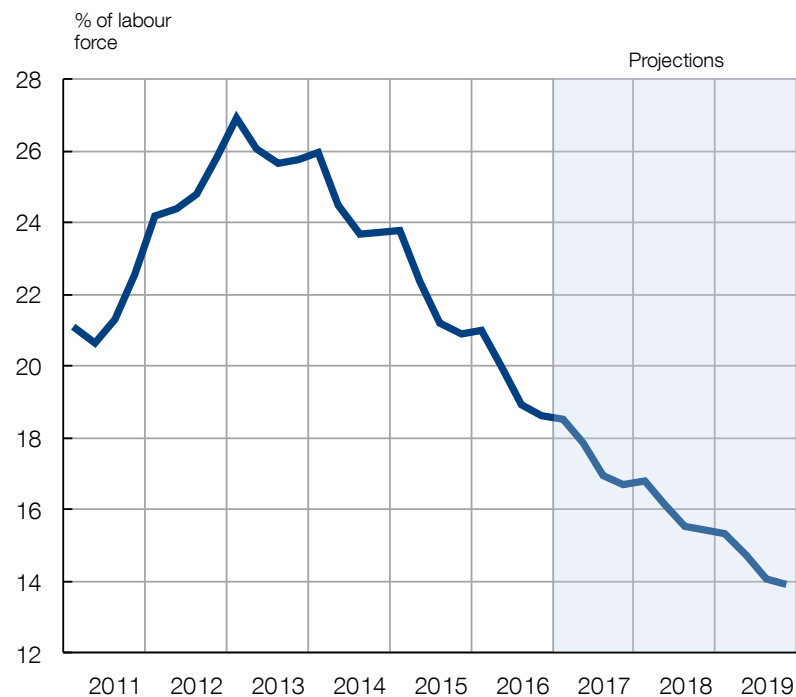
EMPLOYMENT AND UNEMPLOYMENT

- Employment will continue to grow at a strong pace, in line with activity, prompting limited productivity gains
- The higher employment rate will make for further reductions in the unemployment rate, which is expected to be down to around 14% at end-2019

GDP growth. Contributions of employment and labour productivity



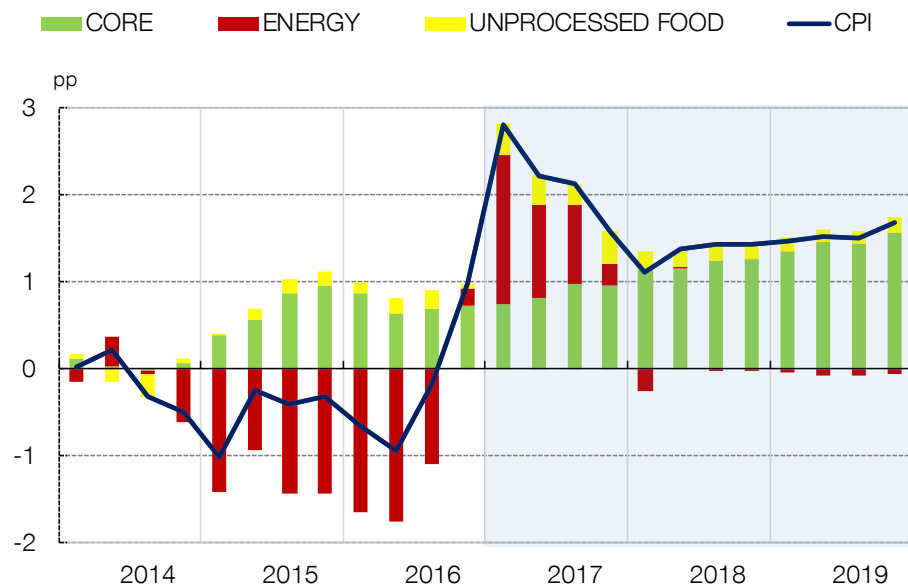
Unemployment rate. Level



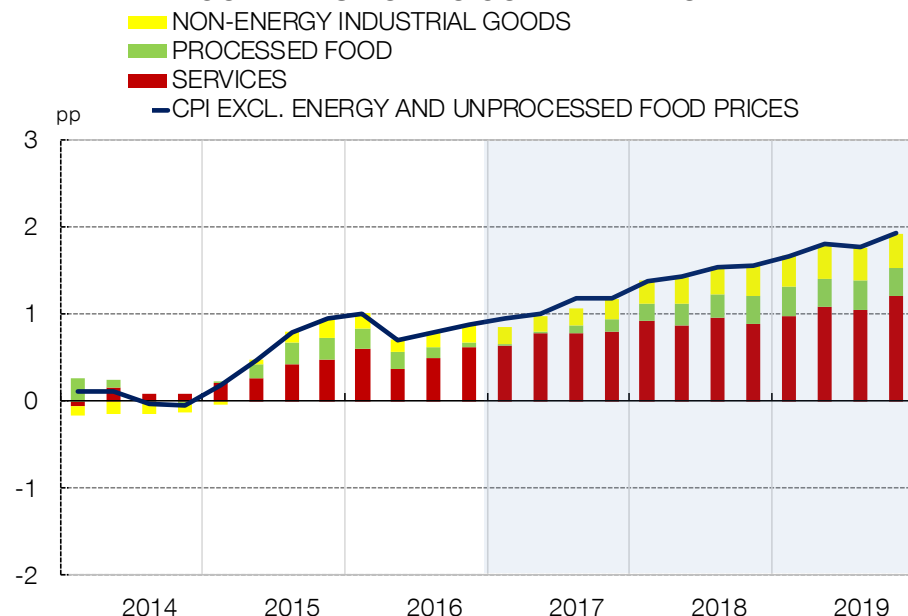
INFLATION

- Inflation trajectory strongly marked in 2017 by the path of the oil price
- Recent strong upturn mainly as a consequence of surge in energy component where base effects have played an important part
- Oil prices expected to steady during remainder of 2017, prompting a slowdown in CPI up to 2018 Q1
- Core inflation expected to rise gradually, as output gap gradually narrows and unit labour costs progressively edge up

CONTRIBUTION TO OVERALL INFLATION



CONTRIBUTION TO CORE INFLATION





Activity: **predominantly downside**

- *External environment: related to a greater-than-expected tightening of global financial conditions, a possible increase in trade protectionism, the uncertainties surrounding the forthcoming elections in various European countries and the implications of Brexit*
- *Domestic front: the persistent uncertainty surrounding the future course of economic policies, both in respect of fiscal consolidation and structural reforms*

Prices : **moderately downside**

- *Related to materialisation of the downside risks to activity*
- *There is also a risk that the expected upturn in core inflation may not fully materialise, as in the last two years*
- *On the upside, although there are no signs of second-round inflationary effects, should these materialise they could prompt a higher-than-expected increase in prices and wages*

PROJECTIONS TABLE (2017-2019)



Annual rates of change in volume and as a % of GDP

	2016	Projection			Difference between current and December 2016 forecasts		
		2017	2018	2019	2017	2018	2019
GDP	3.2	2.8	2.3	2.1	0.3	0.2	0.1
Private consumption	3.2	2.4	1.6	1.5	0.3	0.1	0.0
Government consumption	0.8	0.8	0.8	0.8	0.0	0.0	-0.2
Gross fixed capital formation	3.1	3.3	4.4	4.4	-0.5	-0.2	0.0
Investment in capital goods	5.0	3.1	5.1	5.1	-2.0	-0.7	0.1
Investment in construction	1.9	3.7	4.4	4.5	0.1	0.0	0.0
Goods and services exports	4.4	6.1	4.8	4.8	1.9	0.3	0.2
Goods and services imports	3.3	5.2	4.4	4.4	1.5	-0.3	-0.2
National demand (contribution to growth)	2.7	2.3	2.0	1.9	0.1	0.0	0.0
Net external demand (contribution to growth)	0.5	0.5	0.3	0.2	0.2	0.2	0.1
Nominal GDP	3.6	3.8	3.6	3.7	0.4	-0.1	-0.2
GDP deflator	0.3	1.0	1.3	1.5	0.1	-0.3	-0.3
Consumer price index (CPI)	-0.2	2.2	1.4	1.6	0.5	-0.1	-0.1
CPI excluding energy and unprocessed food prices	0.8	1.1	1.5	1.8	0.1	0.1	0.0
Employment (equivalent jobs)	2.9	2.6	1.9	1.8	0.3	0.2	0.1
Unemployment rate (percentage of the labour force). End-of-period data	18.6	16.7	15.4	13.9	-0.3	-0.2	-0.5
Net lending (+)/ net borrowing (-) of the nation (% of GDP)	2.1	1.9	1.8	1.7	-0.1	-0.1	-0.1
General government net lending (+)/ net borrowing (-) (% of GDP)	-4.5	-3.3	-2.8	-2.4	0.4	0.5	0.4