

MACROECONOMIC PROJECTIONS OF THE SPANISH ECONOMY

2017-2019

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28 September 2017

OVERVIEW

- **Activity:**

- *Continuation of the expansionary phase, albeit at a somewhat lesser pace, in the absence of transitory impulses such as those prevailing in the past*
- *The relatively limited impact of the effective appreciation of the euro is offset by the recent improvement in the external environment*

- **Prices:**

- *To early 2018, the path is conditional upon the expected course of energy prices, whose base effects will progressively lose momentum*
- *Subsequently, a gradual rise in overall inflation is anticipated, in step with the increase in the use of the productive factors*

Annual rates of change (%)	2016	September 2017 projections		
		2017	2018	2019
GDP	3.2	3.1	2.5	2.2
Employment	2.9	2.7	2.2	1.8
CPI (inflation)	-0.2	1.9	1.3	1.6

Projections cut-off date: 25 September 2017. The 2016 data correspond to the annual accounting series prior to those released by INE on 12 September.

CHANGES IN THE ASSUMPTIONS

- Notable among the changes is the appreciation of the euro (8% in nominal effective terms vis-à-vis the non-euro area countries)
- The upshot of this is a downward revision of the expected paths for the export prices of our competitors and oil and other commodities prices measured in euro
- Furthermore, some downward revision in interest rates

INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS

Annual rate of change, unless otherwise indicated

	2016	Current projections			Differences relative to the June 2017 projections		
		2017	2018	2019	2017	2018	2019
International environment							
World markets	1.8	5.3	4.0	3.9	0.8	0.1	-0.1
Spain's export markets	2.5	5.1	3.9	3.6	0.4	0.0	-0.1
Oil price in dollars (level)	44.0	52.7	54.3	54.6	1.2	2.9	3.1
Monetary and financial conditions							
Dollar/euro exchange rate (level)	1.11	1.13	1.20	1.20	0.05	0.10	0.10
Nominal effective exchange rate against the non-euro area (2000=100 and percentage differences)	113.6	117.3	122.5	122.5	3.9	7.8	7.8
Short-term interest rate (3-month Euribor)	-0.3	-0.3	-0.3	-0.1	0.0	-0.1	-0.1
Long-term interest rate (10-year bond yield)	1.4	1.6	1.9	2.3	-0.1	-0.2	-0.2

The cut-off date for the technical assumptions is 18 September 2017, excepting the external environment assumptions, whose cut-off date is 14 August. Differences relative to 23 May 2017.

REVISIONS RELATIVE TO JUNE



➤ Activity:

- *The moderately negative impact of the appreciation of the effective exchange rate of the euro has been offset by the recent strengthening in the external environment, especially in the euro area*

➤ Prices:

- *Downward revision of 0.1 pp in 2017 owing to the fact that the recent course of prices has been less dynamic than anticipated*

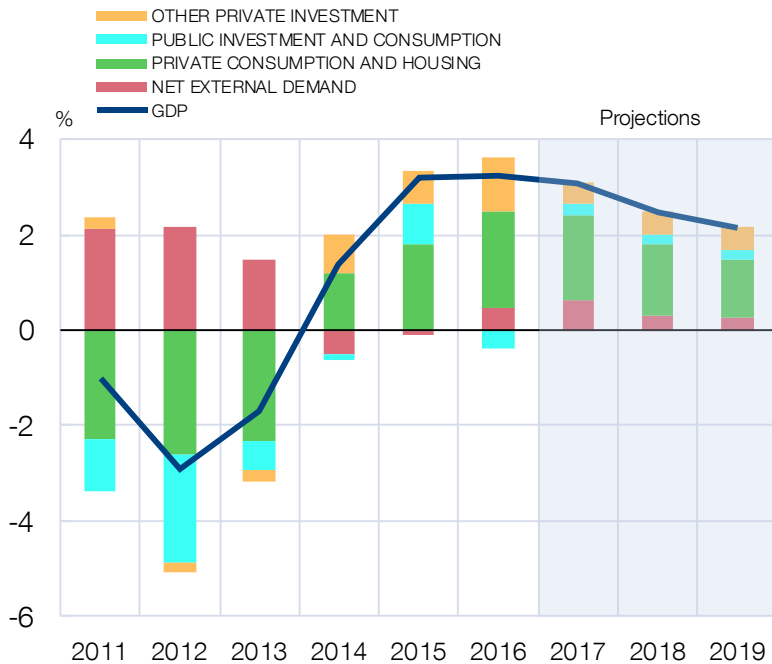
Annual rates of change (%)		September 2017			June 2017			Revisions (pp)		
		2016	2017	2018	2019	2017	2018	2019	2017	2018
GDP (real)	3.2	3.1	2.5	2.2	3.1	2.5	2.2	0.0	0.0	0.0
CPI (inflation)	-0.2	1.9	1.3	1.6	2.0	1.3	1.6	-0.1	0.0	0.0

COMPOSITION OF GDP GROWTH

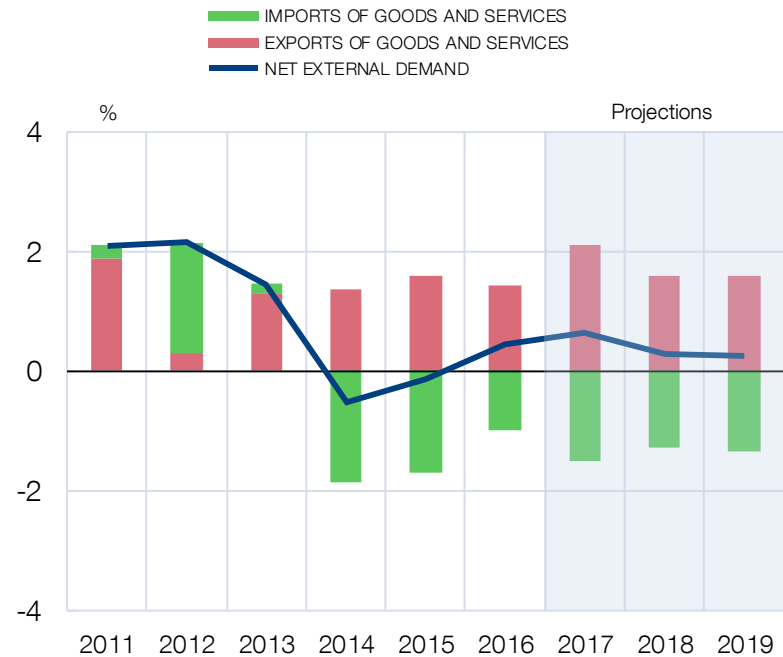


- The expansion in output will continue to be underpinned by national demand, although its various components will ease somewhat
- Net external demand will exert a slightly positive albeit diminishing contribution over the course of the projection period

GDP. Annual growth and contributions



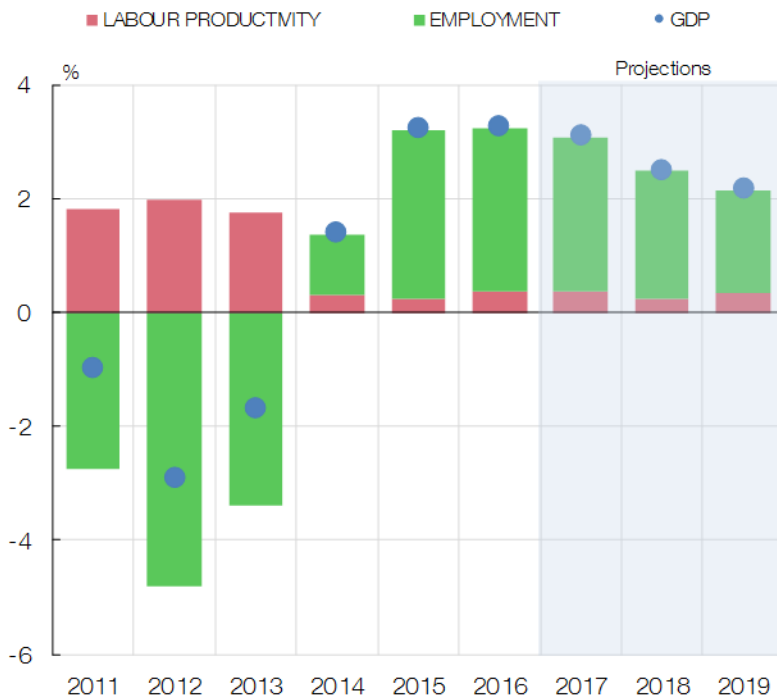
Net external demand. Contributions



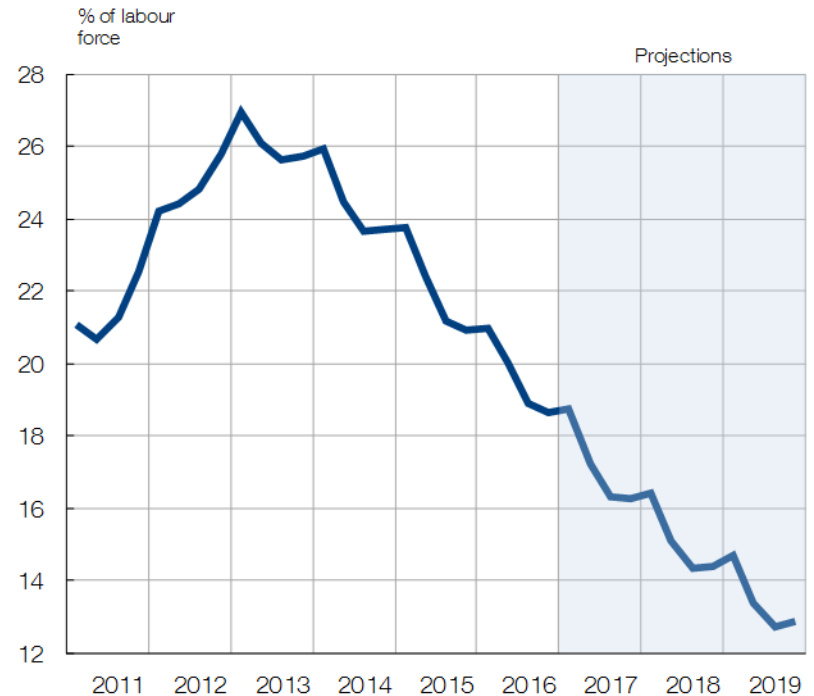
EMPLOYMENT AND UNEMPLOYMENT

- In line with activity, employment will continue to grow at high rates, albeit lower than in 2015-2016
- Employment creation will provide for continuing declines in the unemployment rate, which will stand below 13% at end-2019, set against some reduction in the labour force

GDP growth. Contributions of employment and labour productivity



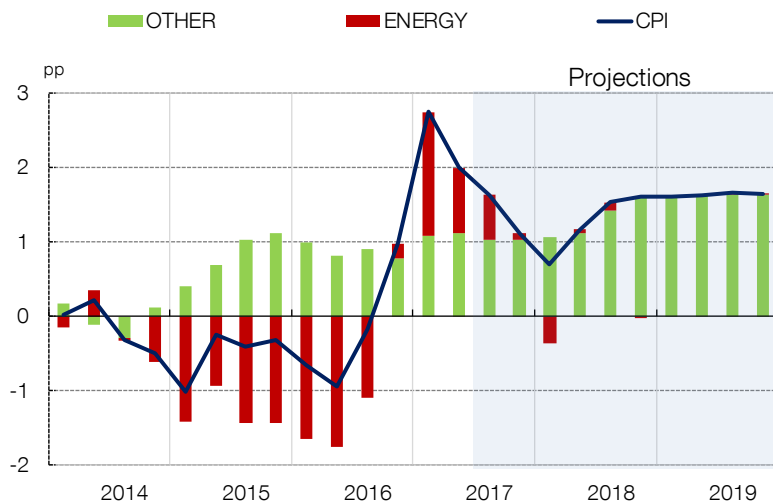
Unemployment rate. Level



INFLATION PATH

- **To early 2018:** slowdown in consumer prices, owing to the gradual dilution of the base effects associated with energy prices
- **In 2018-2019:**
 - A practically flat profile is expected for oil prices and, in that connection, a virtually zero contribution of the energy component to overall inflation
 - Gradual increase in core inflation, in step with an increasingly positive output gap and a very moderate acceleration in unit labour costs
 - Accordingly, a mildly rising trajectory is also projected for overall inflation

CONTRIBUTIONS TO OVERALL INFLATION



CORE INFLATION

