

MACROECONOMIC PROJECTIONS FOR THE SPANISH ECONOMY 2017-2020

DIRECTORATE GENERAL ECONOMICS, STATISTICS AND RESEARCH

15 December 2017

OVERVIEW

- **Activity:**
 - *Prolongation of the expansionary phase in the medium term, albeit at a somewhat lower pace, against a background of less supportive economic policies*
 - *GDP growth is revised slightly downwards in 2018 and 2019, as a net result of:*
 - *the negative effect of the uncertainty associated with the political situation in Catalonia*
 - *the positive effect of the changes in the assumptions considered as a whole (in which the improved outlook for foreign markets, in particular euro area markets, predominate)*
- **Prices (CPI):**
 - *Until early 2018, a slowdown in the CPI continues to be forecast as a result of the base effects linked to the energy component being stripped out*
 - *Subsequently, a gradual rise in overall inflation is projected, in step with the growing use of the productive factors*

Annual rates of change (%)	2016	December 2017 projections			
		2017	2018	2019	2020
GDP	3.3	3.1	2.4	2.1	2.1
Employment	3.0	2.9	2.3	1.7	1.6
CPI (inflation)	-0.2	2.0	1.5	1.4	1.7

Projections cut-off date: 30 November 2017.

CHANGES IN THE ASSUMPTIONS

- The changes include most notably the upward revisions in the growth of Spain's export markets and in the expected path of oil prices
- On a lesser scale are the downward revisions in interest rates and in the effective exchange rate of the euro

INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS	2016	Current projections				Changes from the September 2017 projections		
		2017	2018	2019	2020	2017	2018	2019
Annual rate of change, unless otherwise indicated								
International environment								
World output	3.0	3.6	3.6	3.6	3.5	0.1	0.1	0.0
Spain's exports markets	2.5	5.3	4.9	4.0	3.6	0.5	1.0	0.3
Oil prices in dollars/barrel (level)	44.0	54.3	61.6	58.9	57.3	1.6	7.3	4.3
Monetary and financial conditions								
Dollar/euro exchange rate (level)	1.11	1.13	1.17	1.17	1.17	0.0	0.0	0.0
Nominal effective exchange rate against non-euro area countries (2000=100 and percentage differences)	113.6	116.9	121.1	121.1	121.1	-0.3	-1.1	-1.1
Short-term interest rate (3-month Euribor)	-0.3	-0.3	-0.3	-0.1	0.2	0.0	0.0	-0.1
Long-term interest rates (10-year bond yield)	1.4	1.6	1.7	2.1	2.4	0.0	-0.2	-0.2

The cut-off date for the technical assumptions is 22 November 2017, including the external environment assumptions. Differences relative to 18 September 2017.

REVISIONS COMPARED WITH SEPTEMBER

➤ Activity: *Slight downward revision*

- *Negative impacts associated with:*
 - *Increased uncertainty over the situation in Catalonia (where it is assumed that the recent increase in uncertainty will abate during the first half of 2018)*
 - *Recent rise in oil prices*
- *Partly countered by the improved outlook for foreign markets, in particular the euro area markets*

➤ Prices: *Upward revisions to 2018, and downward in 2019*

- *2017-2018: the effect of the revisions attributable to higher oil prices predominates*
- *2019: The effect of the downward revisions in the core component predominates, in line with its recent and somewhat less dynamic than previously anticipated course*

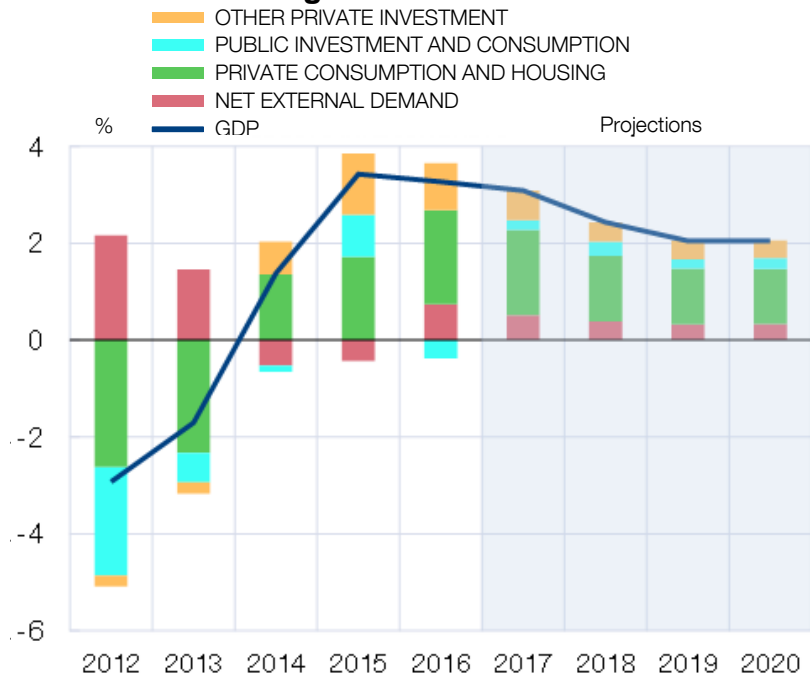
Annual rates of change (%)	December 2017					September 2017		
	2016	2017	2018	2019	2020	2017	2018	2019
GDP	3.3	3.1	2.4	2.1	2.1	3.1	2.5	2.2
Inflation (CPI)	-0.2	2.0	1.5	1.4	1.7	1.9	1.3	1.6

COMPOSITION OF GDP GROWTH

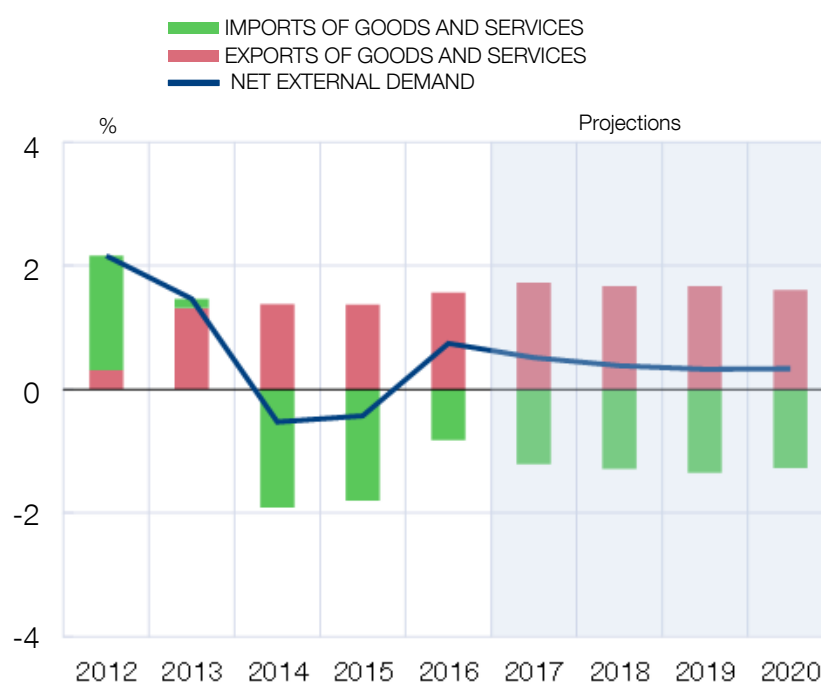


- The expansion in output will continue to be underpinned by national demand, although a slowdown in the coming years is forecast for this component
- Net external demand will continue exerting a positive though slightly diminishing contribution throughout the projection horizon

GDP. Annual growth and contributions



Net external demand. Contributions

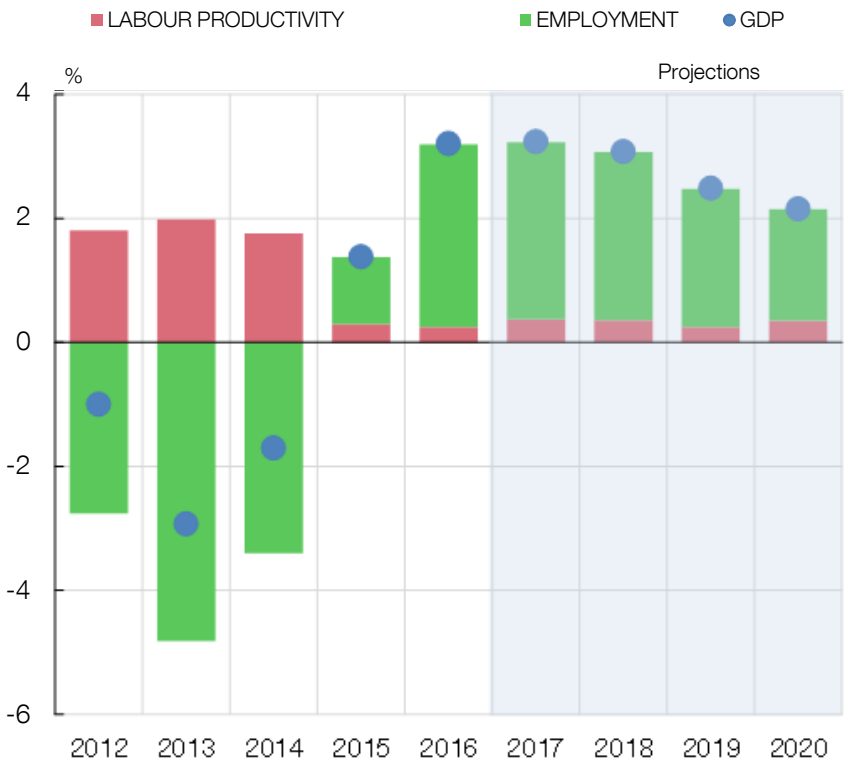


EMPLOYMENT AND UNEMPLOYMENT

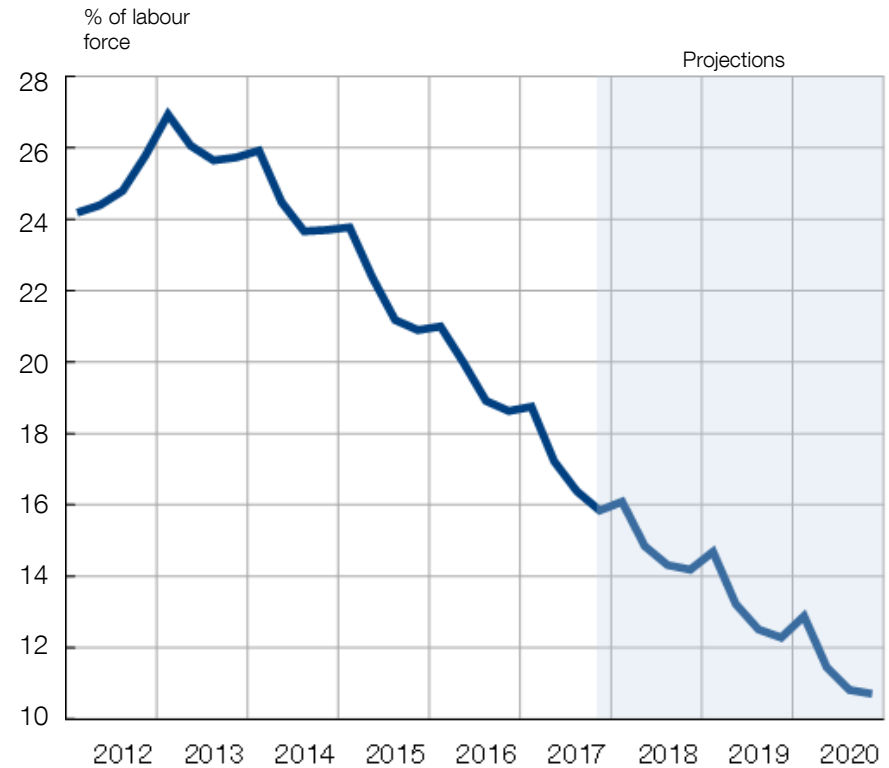


- Employment will continue to grow at a high rate, though lower than in the recent past, in line with the slowdown in activity
- The increase in employment will allow for further reductions in the unemployment rate, placing it at around 11% by late 2020

GDP growth. Contributions of employment and labour productivity



Unemployment rate. Level

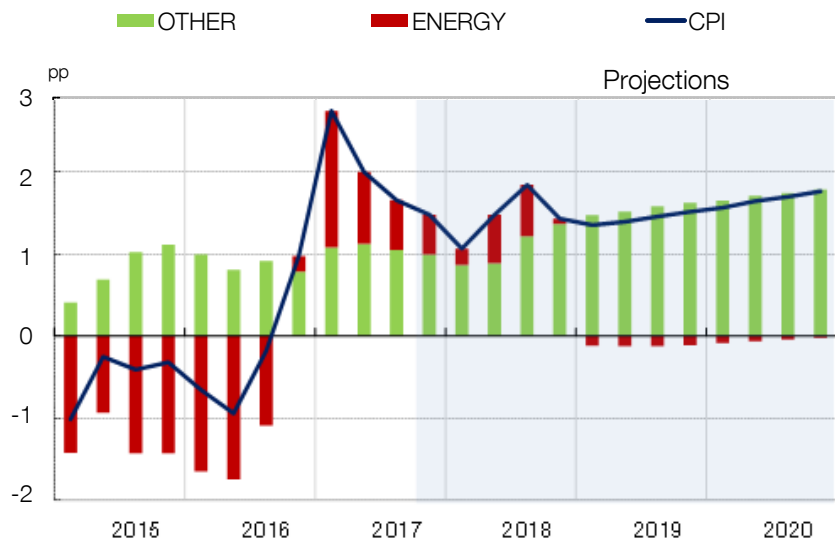


INFLATION PATH

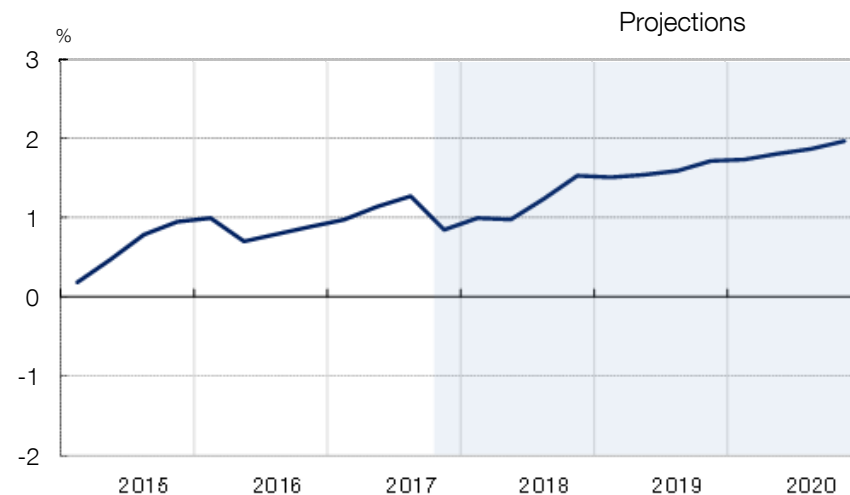


- **Until mid-2018:** V-shaped trajectory of the growth rate of consumer prices, where the *comparison effect* associated with energy prices predominates
- **Over the rest of the projection horizon:** the mildly rising trajectory forecast for core inflation will predominate overall inflation dynamics, against the background of the prolongation of the cyclical upturn

CONTRIBUTIONS TO OVERALL INFLATION



CORE INFLATION





Activity:

- *on the external front:*
 - *in the short term: possibility that the global economy (and, in particular, the euro area) gains greater traction*
 - *in the medium term: uncertainty related to the high valuations posted by certain financial assets, the ongoing redressing of the imbalances in the Chinese economy and Brexit*
- *on the domestic front: uncertainty over future political developments in Catalonia. On one hand, an easing in tensions, as has begun to be seen, may be conducive to a more favourable scenario for the Spanish economy as a whole. On the other, a hypothetical resurgence in tensions in the coming months could lead to a more pronounced impact on private agents' spending.*

Prices:

- *possibility of a lower-than-projected increase in core inflation, against a backdrop of uncertainty over the volume of idle resources and the influence of activity on prices*

PROJECTIONS TABLE (2017-2020)



Annual rate of change in volume terms and % of GDP

	2016	December 2017 projections				September 2017 projections		
		2017	2018	2019	2020	2017	2018	2019
GDP	3.3	3.1	2.4	2.1	2.1	3.1	2.5	2.2
Private consumption	3.0	2.4	1.9	1.4	1.4	2.4	2.0	1.5
Government consumption	0.8	1.1	0.9	0.7	0.7	1.0	0.8	0.8
Gross fixed capital formation	3.3	5.0	4.0	3.7	3.7	4.3	4.4	4.0
Investment in equipment	4.9	5.9	4.4	3.7	3.8	5.4	4.8	4.6
Investment in construction	2.4	4.5	3.8	4.2	4.2	3.6	4.7	4.3
Exports of goods and services	4.8	5.2	4.9	4.7	4.4	6.4	4.6	4.5
Imports of goods and services	2.7	4.1	4.1	4.2	3.9	5.0	4.1	4.2
National demand (contribution to growth)	2.6	2.6	2.0	1.8	1.8	2.5	2.2	1.9
Net external demand (contribution to growth)	0.7	0.5	0.4	0.3	0.3	0.6	0.3	0.3
Nominal GDP	3.6	4.1	3.5	3.6	3.8	4.0	3.9	3.6
GDP deflator	0.3	1.0	1.0	1.5	1.7	0.9	1.4	1.5
Consumer price index (CPI)	-0.2	2.0	1.5	1.4	1.7	1.9	1.3	1.6
CPI excluding energy and unprocessed food prices	0.8	1.1	1.2	1.6	1.8	1.1	1.4	1.7
Employment (full-time equivalents)	3.0	2.9	2.3	1.7	1.6	2.7	2.2	1.8
Unemployment rate (% of labour force). End-of-period data	18.6	15.8	14.2	12.3	10.7	16.3	14.4	12.9
Net lending (+) / net borrowing (-) of the nation (% of GDP)	2.1	2.1	2.1	2.1	2.2	2.1	2.3	2.2
General government net lending (+) / net borrowing (-) (% of GDP)	-4.5	-3.2	-2.5	-2.1	-1.8	-3.2	-2.6	-2.1