funcas

PRESS RELEASE

First economic projections for Europe

Funcas is predicting growth in the eurozone to rise to 2% in 2017

- **During 2017-2018, 4.5 million jobs will be created and unemployment will fall to 8.5%, its lowest level since January 2009**

- **Public consumption will increase by 1.4% this year and next**

- **Differences between Eurozone countries will become more evident: the differences between unemployment rates will increase by more than five points in ten years**

Madrid, 18 July 2017. According to Funcas' first predictions, the eurozone economy will grow by 2% this year, two decimals more than in 2016. Recovery will speed up as domestic demand bounces back, although private consumption is starting to reflect rising inflation, and exports accelerate. Faster growth is the result of low interest rates, rallying international markets and renewed optimism among consumers and companies. In 2018, **Funcas** is expecting growth to slow to 1.9%, due to climbing rates and their impact on private investment and consumption.

Not only the private sector, but also public demand is performing well, as consolidation measures are coming to an end in most countries, thus maintaining positive consumption and investment levels. Total consumption by public administrations will grow by 1.4% in both 2017 and 2018.

All this in a context where public deficit has fallen to sustainable levels (-1.3% of GDP in 2017 and -1.1% in 2018), although the pace of this improvement is slowing. Between 2012 and 2016, the public deficit shrunk by half a point per year, while the European economy grew at an annual rate of 0.8%. In 2017-2018, it will fall by two decimals per year, when around 2% growth is expected. However, the shrinking deficit will not be enough to lighten public debt, which will still stand at almost 90% of GDP in the next two years, 25 points more than pre-crisis levels.

COMMUNICATION DEPARTMENT
comunicacion@funcas.es
Patricia Carmona
619 329 695

PRESS RELEASE

FUNCAS EUROZONE ECONOMIC FORECASTS, 2017-18
Annual percent change

	Actual data			Funcas Forecasts	
	Average 2001-2007	Average 2008-2015	2016	2017	2018
1. GDP and aggregates, constant prices					
Gross Domestic Product	**2,0**	**0,2**	**1,8**	**2,0**	**1,9**
Final consumption	1,7	0,3	1,9	1,6	1,5
Public consumption	1,9	0,9	1,9	1,4	1,4
Household consumption	1,6	0,1	2,0	1,7	1,5
Gross fixed capital formation	2,5	-1,5	3,7	3,9	3,4
Domestic demand [a]	**1,8**	**-0,2**	**2,1**	**2,0**	**1,8**
External balance [a]	**0,1**	**0,4**	**-0,3**	**0,0**	**0,1**
2. Inflacion, employment and unemployment					
Consumer price deflator	2,3	1,2	0,5	1,5	1,2
Total employment	1,1	-0,1	1,3	1,5	1,4
Unemployment rate	8,6	10,4	10,0	9,2	8,5
Productivity (GDP per employed person)	0,9	0,3	0,5	0,5	0,5
Compensation per employee	2,5	1,9	1,6	1,8	1,5
3. Financial balances (% GDP)					
Current account balance with rest of the world	0,2	1,0	3,3	2,9	2,9
General government deficit	-2,3	-3,8	-1,5	-1,3	-1,1
General government debt	67,4	85,0	89	88	87

[a] Contribution to GDP growth
Source: Funcas.

This upturn in the economy will impact the job market. Joblessness has fallen for 38 consecutive months, with a significant improvement during the last year. In 2017-2018, a total of 4.5 million jobs will be created and unemployment will fall to 8.5%, the lowest level since January 2009. All this aside, 1.7 million jobs are still needed to reach pre-crisis rates.

COMMUNICATION DEPARTMENT
comunicacion@funcas.es
Patricia Carmona
619 329 695

funcas

PRESS RELEASE

When it comes to inflation, the consumer price index will rise at an annual rate of 1.5% in 2017 and 1.2% in 2018.

Greater divergence

In its analysis, **Funcas** has underlined cross-country differences. Some countries are still blighted by high unemployment, low investment, weak competitiveness and high levels of debt, weakening the sustainability of the single currency. This is the context in which the policies of the European Central Bank are masking structural weaknesses in the Eurozone without resolving them. The disparity between unemployment rates has increased in the last decade. In 2017, the five countries with the worst results in terms of jobs (Greece, Spain, Cyprus, Italy and Portugal) have unemployment rates which are ten points higher than the average rate in the five countries with the healthiest job markets (Germany, Malta, the Netherlands, Austria and Estonia). In 2007, the difference was less than five points.

On the other hand, the results point to a significant deterioration in the competitiveness of countries like Finland, Greece and Italy. In the last 10 years, these three countries have lost more than 20% of their share of global goods and services markets.

The differences are also evident in levels of household debt: in ten of the 19 Eurozone countries (particularly in the Netherlands, Portugal, Cyprus, and Finland) household debt than is heavier than at the start of the crisis. In Spain, convergence indicators are pointing to an improvement, although high levels of unemployment and public debt suggest that there is no case for complacency.

To tackle these divergences, the most seriously affected countries must continue to make reforms. Strengthening the functioning of the Eurozone would be crucial as well. Completing the banking union, ensuring that bad debts on European bank balance sheets do not hinder the recovery and strengthening macroeconomic management in the Eurozone continue to be matters of pressing importance.

To see the complete document, click here

COMMUNICATION DEPARTMENT
comunicacion@funcas.es
Patricia Carmona
619 329 695