



### Macroeconomic framework

## THE CATALAN ECONOMY WILL GROW BY 3% IN 2008

- **Next year, Catalonia will grow 0.9 points more than the euro zone**
- **The Catalan GDP is entering a new phase characterised by a pattern of more sustainable development**
- **The intense recovery of productivity is consolidated, which in 2008 will increase by 1.2%**
- **Exports will grow by 5.3%: the good progress of the exterior sector consolidates the recovery of industry and compensates for the moderation in interior demand**

The Catalan economy will grow by 3% in 2008. The analysis of the macroeconomic chart envisaged for the forthcoming year shows how the Catalan GDP will enter into a new phase characterised by solid growth and on more sustainable bases. In a context marked by the generalised slowing down of the advanced economies, Catalonia will grow 0.9 points above the euro zone (2.1% according to the IMF). The indicators also suggest that the foundations of this growth will be more balanced: the slowing down of the consumption of homes and the deceleration of investment in construction will help to moderate the contribution of the interior demand on the whole. This reduction will be compensated by the maintaining of the good progress of the exterior sector, with exports that will grow by 5.3% in 2008. The slowing down of the consumption of homes will also stabilise the increase in prices, which will contribute to improving the competitiveness of Catalan products. In addition, the Catalan economy will continue to create employment: with 66,700 new jobs, the rate of unemployment in 2008 will be 6.1%.

Catalonia will continue to grow above the economies in the surrounding area despite a context marked by the downward revision of perspectives for growth due to tensions in the financial markets derived from the mortgage crisis in the USA and the increase in petroleum prices and those of other raw materials. Therefore, in accordance with the forecasts of the IMF, Spain will grow one point less than in 2007 and Ireland, 1.3 points less; following the same line, the United Kingdom, the EU-27 and Germany will grow 0.8, 0.5 and 0.4 point less, respectively.



In accordance with government calculations, the GDP at the end of 2007 will have grown by 3.7%. Throughout this year, the Catalan economy has adopted a more sustainable pattern of growth. In this way, it has produced a gradual adjustment to construction: in 2006 it grew 1.5 points above the GDP however, during the first nine months of 2007, this difference was reduced to 8 decimal points. For 2008, it is envisaged that this sector will remain dynamic although, in a progressive way, the industry and services will take over as the main motors of growth. Thus, it is calculated that the construction sector will resize itself, with greater weight in the civil works area, it will reach a participation in the joint GDP similar to that which it has in most European economies, of around 7% (currently in Catalonia, construction represents around 10% of the GDP and of employment).

Industry, on the other hand, shows symptoms of vitality driven by the good behaviour of sales to the exterior. From January to September 2007, the industrial sector grew by 3.2%, a rate that contrasts with the stagnation registered during the 2002-2005 period. In the third quarter of 2007, the contribution to the growth of industry (0.6%) was greater than that of construction (0.4%), which shows how the sources of growth have diversified and how the economy has stopped revolving, to a great degree, around a single sector.

### **The dynamic activity of the exterior sector compensates the moderation in the interior demand**

The interior demand will continue to grow above the GDP, however, it is envisaged that it will pass from 4.3% in 2007 to 3.4% the following year. This slowing down is explained, first of all, by a restraint in the consumption of homes - which will grow 2.9% in 2008, half a point less than this year - due, among other reasons, to the types of interest taken on after the latest increases. In second place, the investment in construction will grow by 2%, far under the 5.1% this indicator registered during the first six months of this year.

We can talk about healthier growth because the factors that explain this moderation in the interior demand do not affect the improvement of the productive fabric. On the one hand, the investment in business equipment will maintain high levels (5.9%), as Catalan companies recur, to a great degree, to self-financing and are therefore less sensitive to increases in the price of money. On the other hand, and with regard to the reduction of investment in construction, it should be pointed out that the dynamic nature of civil work is maintained. In this sense, bidding on public works had grown, up until July, by an average of 14.5%.



The moderation in the interior demand is compensated by the dynamic activity of the exterior sector. For 2008, it is envisaged that the negative contribution of the exterior demand will be contained until settling at -0.4%, a figure that contrasts with the average of -1% of the last six years. This can be explained by the dynamic nature of exports, that this year will grow by 5.3%, favoured by the reactivation of consumption of the European economies. Despite the fact that the growth envisaged for the euro zone is slightly inferior to that of 2007, it is calculated that private consumption will accelerate and grow by 2.1% next year. This combination clearly favours sales to the exterior by Catalan companies, which have the European Union as their main market. In addition, the high proportion that is represented by the exchanges with the community area softens the effect that the recent appreciation of the euro could have on the competitiveness of Catalan products.

Another feature that will favour the competitive factor of Catalan companies is the moderation of inflationist tensions, favoured by the subdued rhythm the interior demand will register. During 2007, the Catalan RPI has been upheld at more subdued levels and will close the year, on average, clearly below the 3.67% registered in 2006.