Europe Economic Outlook

First quarter 2015
Europe Unit

- The eurozone will recover in 2015, supported by the lower oil price and a more depreciated euro
- The crisis between Russia and Ukraine, negotiations with Greece and the delay to reforms are the key risks to the downside
- Inflation will be negative in the first half, but the risks of deflation will remain contained
- The ECB's bond purchase policy will continue to support activity and inflation expectations

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Closing date: 13 February 2015

1 Editorial

There are several positive elements that will support the strengthening of the recovery in the eurozone in 2015. On the one hand, **recent data are improving**, not only on the external side, as we used to seeing in the eurozone, but also on the consumption side, which seems about to revive.

Moreover, **there are two new factors** that allow us to think that this year we will finally leave the stagnation behind. The first and most important is obviously that of **falling oil prices**, mainly due to positive supply factors and implying an average price 40% lower in 2015 than in 2014, according to our estimates. Lower energy bills in Europe **will mean higher real incomes, supporting the recovery in consumption and investment**. The second is **the additional depreciation of the euro** against both the values at the end of 2014 and what we had expected for this year. Our EURUSD forecast this year is for an average of 1.1, about 7% below our expectations three months ago. These two factors together may add several tenths of additional growth to the forecast for 2015.

On the negative side, there are **several risks** that **persist** and have worsened, **and that have more to do with political or geopolitical elements** than purely economic issues. **The conflict between Russia and Ukraine** remains unresolved, and sanctions on Russia and the falling oil prices have drastically cut our growth forecasts for the country in 2015 by 3pp. This **has a direct effect on European exports** (with different impacts across countries), a**nd an indirect effect, more difficult to determine, on confidence and investment**, especially in countries with more trade and financial links with the area. Second, **the resurgence of the crisis in Greece** after the elections in late January and the new government's refusal to extend the Troika's current programme have reopened the possibility of a Greek withdrawal from the eurozone. The final result of negotiations between Greece and its European partners is difficult to predict, and will probably take several months, **but we believe there is room for an agreement** providing for more fiscal space for Greece (in terms of lower primary surplus) and the maintenance of the plan of structural reforms, which in any case are necessary for Greece to secure the growth that is, as yet, barely picking up, that could be seriously affected by the current uncertainties. In any case, **the impact of a possible 'Grexit' on the rest of the eurozone would be much lower than it might have been in 2012**: the economic fundamentals of the other peripheral countries are now better, banking union now supports a greater robustness and transparency in the European banking system, some improvements have taken place in fiscal union and ECB's monetary policy helps holding back financial tensions across countries.

Economic policies as a whole continue to support activity. The big news in this regard is **the policy of quantitative easing** (QE) **announced by the ECB** in its January meeting. This decision was already foreseen three months ago, but has proved **more substantial than expected**, **although most purchases of sovereign bonds of domestic banks will not be mutualised**, which gives a negative signal about the fragmentation of markets. QE had already started playing a role before the ECB's announcement, through the depreciation of the euro (anticipating the impact of QE on the exchange rate), but may have additional effects through a flattening of the yield curve and in signalling that interest rates will not rise until at least September 2016 (expected date of the end of the purchasing programme, although the possibility remains that it may be modified). In our scenario, the first rate hike will occur in 2017.

As regards fiscal policy, it will probably remain neutral in 2015, following the decision of the Ecofin in November not to put pressure on countries, especially France and Italy, to modify the budgets that they have submitted and to give more leeway to introduce adjustment measures and reforms. **One possible incentive may be the Juncker Plan**, which seeks to mobilise private investment through a system of guarantees backed by a small provision of funds (EUR21 billion). The plan, if well implemented and able to mobilise new investment (beyond that already planned), may result in an additional impulse for growth, but will probably be more evident in 2016 and 2017 than in 2015.

In all, **we have maintained our growth forecast for the eurozone as a whole at 1.3% this year**. Although this number has an upward bias if all the positive effects mentioned above materialise in full, the slackness shown by the eurozone in recent years and the difficulties of investment in taking off - something we have not seen yet - make us cautious with our forecasts. **For 2016 we expect an acceleration to 2.2%**, partly closing the output gap. These forecasts could yet be affected negatively if the outlook in Russia and Ukraine worsens, if a satisfactory agreement is not reached with Greece or if, once again, all the elements provided for recovery do not translate into investment growth.

Regarding inflation, we expect negative figures in the coming quarters due to the strong impact of energy prices, **but we do not see a deterioration of core and trend indicators**. The risk of deflation is still present but it is not imminent, especially if the recovery in demand occurs as we have foreseen, maintaining the improvement of private consumption, as observed in the last quarters.

2 Moderate global growth with increasing divergence between economic areas

The world economy will have closed 2014 with growth of close to 0.8% QoQ, according to our estimates, a similar pace to that in 3Q14, and slightly stronger than in the first half of the year. A dynamic economic performance in the US has been offset by the weakness of the recovery in Japan and the eurozone, and the progressive deceleration of China and other emerging economies. Altogether, **we estimate that global GDP will have grown 3.3% in 2014**, 0.1pp more than in 2013, with a slight increase in the DMs' contribution vs. the three previous years, and the EMs continuing to decelerate.

One of the novelties in the global economic scenario in recent months is the very sharp fall in the oil price and its uneven impact on different countries, depending on whether they are net importers or exporters. Overall, we think the global impact of cheaper oil should be positive in terms of growth, inasmuch as the reduced burden on household and corporate income in oil-importing countries (such as the US, the eurozone and China) offsets the reduced activity in the principal producer countries. However, even lower prices or levels like those at present for Brent, around USD50/bbl, for an extended period could generate geopolitical and/or financial tensions that might compromise global stability.

In fact, **the increased volatility in financial markets, which has now reached the same level as in mid-2013 according to the BBVA Financial Tensions Index, is another of the highlights of the quarter,** and one the EMs and the DMs have in common as a consequence of two factors. First, the combination of the geopolitical crisis between Russia and Ukraine with the fall in commodity prices, which has raised doubts on the economic development of many EMs. Second, the uncertainty around the Fed's rate-hiking cycle, especially when the ECB is introducing QE measures and there is an increasing political debate on the most appropriate balance of policies to strengthen the region's recovery.

The correction in the oil price also accentuates the risks of a global scenario of too low inflation, at least until the second half of 2015. In addition to the recent general decrease in inflation, common to all the principal geographies (the average for the US, the eurozone, Japan and China was 1% in 2014), there has been the steep fall in industrial production and import prices. Although so far the translation of the fall in energy prices to core inflation and salaries appears to be contained, the sharp adjustment in medium-term inflation expectations and the all-time lows in long-term interest rates reveal the degree of uncertainty that exists about the pace of recovery of the global cycle and the capacity of the central banks to restore inflation to levels compatible with their objectives.

In this context of low inflation and moderate economic growth, **monetary policies remain accommodative in tone, although the biases differ**. The new oil-price scenario gives the Fed and the Bank of England room for manoeuvre to delay or reduce the intensity of the upward path of official interest rates. In the case of the ECB, negative inflation prints have been the catalyst prompting the decision made in January to announce an expansion of the bank's asset purchase programme, this time to include purchases of public debt. The PBoC could introduce further cuts in the discount rates to cushion the deceleration of activity while tightening controls over private and local authority borrowings. In the EMs, those countries that are benefiting from cheaper commodity prices, reflected inter alia in an improvement in their external balances (for example India or Turkey), are also opting for more lax monetary policies in spite of the Fed's potential interest-rate hike in 2015.

The convergence of US growth towards 3% over the course of 2015, together with the progressive normalisation of the Fed's monetary policy, should translate into a gradual increase in the yield on the long bond. We expect yields on German public debt to rise more slowly, as a reflection of our expectation of slower nominal growth in the eurozone and the impact of the ECB's above-mentioned purchases of sovereign assets. **The different rates of growth anticipated for the US and the eurozone and, above all, the change in expectations of monetary policy in the two areas, have been reflected in the evolution of EURUSD,** with a significant appreciation of the dollar in recent months. This has sent the pair back to around 1.15, and we think it could continue to trade around this level for the rest of this year, on average.

The improvement in world growth will continue in 2015 and 2016, exceeding 3.5% on average, but there will also be a significant differentiation between geographies (see our forecasts in section 5 and in the Global Economic Outlook First Quarter 2015). In spite of the support offered by economic policies and lower oil prices, **the risks to world growth in 2015 remain to the downside**. The risks presented by geopolitical tensions have been joined by risks associated with the effectiveness of the economic policies (with an intense debate on the most appropriate balance of policies to strengthen the European recovery) and monetary measures, in particular, introduced to increase inflation expectations and their potential impact – in the case of the Fed in particular - of a strategy for withdrawing stimulus that could erode the EMs' financing conditions to such an extent that this restricts their growth.

3 Eurozone: oil and the ECB offset the downside risks

The challenges are the recovery and avoiding deflation

The signals being emitted by the eurozone's economy confirm our forecast of three months ago: an improvement in the indicators at the end of 2014, after the very poor figures in the middle of the year raised the spectre of a third recession. The improvement has made itself felt recently in private consumption, but there are also signs that exports were buoyant in the last quarter of 2014, probably as a reflection of the effect of the euro's depreciation, although uncertainty persists as to whether international demand will continue to recover.

The new key factor underpinning growth in 2015 is the oil price, together with a euro which is more depreciated than expected (we have changed our expected trajectory for the euro against the dollar), and some improved economic fundamentals, both at the core and on the periphery of the eurozone, after years of fiscal adjustments and reforms in a number of countries, which ought to provide more scope for growth. The Juncker Plan and the ECB's accommodative policies, plus the important change of embarking on a quantitative easing policy, also ought to support the recovery. On the contrary, some negative factors continue to weigh down on activity. As well as the conflict between Ukraine and Russia, there is now the Greek crisis and the difficulties in renewing an aid package, with the danger of Greece's exit from the euro in the background.

Uncertainty arising from political and geopolitical tensions will continue

Uncertainty about the eurozone's recovery is influenced by the impact of political and geopolitical factors.

Externally, **the conflict between Ukraine and Russia looks likely to carry on squeezing confidence and exports in parts of the European economy**. Since the crisis began, growth forecasts for Russia in 2015 have been revised downwards by about 3pp, which could have an impact on the eurozone economy, not just through trade (the share of exports to Russia is 4.5% in goods, and around 3% in services) but also, and above all, in the negative effect on confidence, which will end up delaying investment decisions in 2015. We lived through a similar effect in the middle of 2014, when tensions flared up between the two countries. In particular, our estimates suggest a negative impact on GDP of around 0.5pp over our forecast horizon[1].

Internally, **the refusal by the new Greek government, in place since the elections at the end of January, to prolong the rescue programme** negotiated with the troika has brought back uncertainty about the country remaining in the eurozone, although the most probable scenario is that Greece and the Eurogroup will reach an agreement.

A disruptive outcome to the crisis is in neither of these two groups' interests. Greece has already introduced most of its fiscal adjustments and a good part of its reforms, and is showing the first signs of a return to growth. Reversing part of the corrections would not give rise to long-lasting growth, given the need to keep the economy's public and external accounts balanced. From the perspective of Europe's official creditors (who, together with the IMF, have more than 80% of Greek public debt), support must continue to be given to the adjustment in Greece, not only as creditors, but also to avoid the failure represented by an exit from the single currency by one of its members. This could also have potentially long-term consequences if the markets perceive that a country with severe imbalances is able to leave the euro. **Any final deal between the two sides ought to involve less stringent conditions for the deadlines and interest rates of Greek**

1: Based on a VAR panel for the eurozone countries and simulating a GDP fall in Russia of 3pp. INSEE, based on a trade model, analyses the impact of a negative GDP shock on eastern and central European countries, estimating an impact of around -0.4pp
http://www.insee.fr/en/indicateurs/analys_conj/archives/dec-2014-D1E.pdf

debt, leaving a certain extra fiscal margin, as well as with sticking to most of the reforms and even adopting others defended by the new Greek government (for example, those on tax compliance).

A third factor which may cause uncertainty in the eurozone is the structural reforms in countries such as France and Italy, where the recovery has been delayed, partly because of lack of confidence. In France these reforms were presented in December and ways of liberalising some services sectors are being debated (certain professional services and some changes to shop opening hours). In Italy the proposals are more hard-hitting, ranging from root-and-branch change in the electoral system and the restriction of the Senate's powers (in order to encourage the formation of more stable governments), to a framework law for reforming the labour market. These measures still have to be passed, however, in both countries, and it is not clear to what extent they will influence confidence and investment in 2015.

Oil and the euro are going to be positive forces in 2015 and 2016

The recent and persistent **fall in the price of oil** seems to be **caused** principally **by a positive supply shock** in production, and to a lesser degree by a reduction in expected demand. As such, despite its effect to the downside on prices (see our impact estimate in the next section), this reduction in energy prices will **help domestic demand to revive, thanks to private consumption and investment, because of the reduction in production costs and the recovery in incomes**.

Our oil scenario now expects Brent crude prices to hover around USD65/bbl to USD75/bbl in 2015 and 2016, compared to our baseline scenario three months ago of USD105/bbl and USD104/bbl respectively, which means an oil price that is nearly 40% lower in 2015, and 30% lower in 2016, than our previous forecast. On the assumption that 70% of the current shock is due to more supply and that 30% is due to less demand[2], **the lower oil prices contemplated in our new scenario could boost GDP by around 0.2-0.4pp in 2015 and 2016**[3].

When it comes to **how the exchange rate will move**, we had already priced in part of the euro's depreciation three months ago, since we were discounting a debt purchasing programme by the ECB, and as such the depreciation was a response to differences in monetary policy with the Fed, as well as the cyclical decoupling of activity from the United States. Nevertheless, the fall in inflation at the end of the year, and the increased risk of de-anchoring inflation expectations, led the ECB to announce these measure earlier than we expected, measures which also go further than initially forecast (see below). On the other hand, the reaction of other central banks (Switzerland and Denmark) to the ECB's new strategy has also contributed to the recent euro depreciation. **We are now looking at a euro that might be around 7% weaker against the dollar in 2015, and slightly under 5% weaker in 2016**, and which could drive up exports by around 0.4pp this year and 0.2pp next, **with an impact on GDP of around 0.2pp and 0.1pp respectively**.

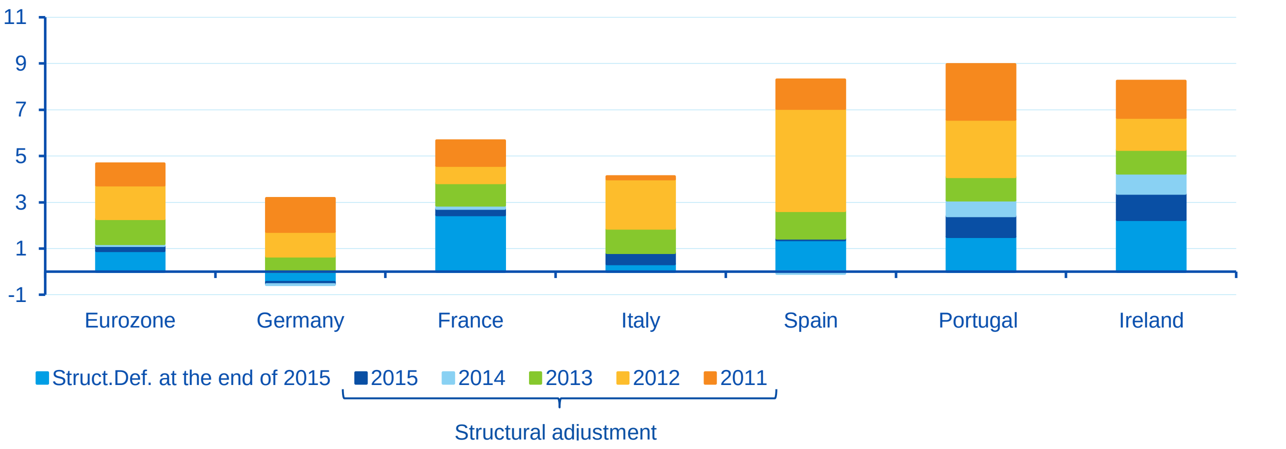
Supported by a more accommodative fiscal policy, including the Juncker Plan…

Fiscal policy in the eurozone in the last few months is no longer the polemic it has been in years past, after the European Commission relaxed its assessment of the most controversial country fiscal plans, and in particular those of France and Italy. The decision about 2015 budgets and the rating of excessive deficits has been postponed to March of this year, but is clearly going to follow a less restrictive stance than the policy initiated in mid-2013. **For 2015, we expect** practically no variation in the primary structural deficit in

2: For a more in-depth look at determinants in oil price changes, see: https://www.bbvaresearch.com/wp-content/uploads/2014/12/2014.12-Macro-impact-of-lower-oil-prices-v05_i-1.pdf
3: To analyse the impact of the oil shock, we have estimated a structural VAR model identified with sign restriction to establish the type of shock (supply or demand). For more detail, see Box 2 in: https://www.bbvaresearch.com/wp-content/uploads/migrados/1105_Europeeconomicoutlook_tcm348-258116.pdf

the eurozone as a whole, implying **a neutral fiscal policy** which neither supports recovery nor hinders it, which it did, and significantly so, in the years leading up to 2013 (see Figure 3.1).

Figure 3.1
Structural adjustment 2010-15 and structural deficit of 2015 (% GDP)



Source: FMI and BBVA Research

Europe-wide, **the big news in fiscal policy is the approval of the Juncker Plan**; even though it does not represent discretionary stimulus under the strictest definition, it may lead to an increase in internal demand, supported by public resources, if correctly executed. Specifically, the plan consists of mobilising EUR21bn from the European Investment Bank (EIB) and from a new fund (EFSI), with an estimated leverage ratio of 3:1, to attract private investment for a total sum estimated at EUR310bn over three years (from mid-2015). The plan would be jointly managed by the European Commission and the EIB, with a selection of infrastructure and SME projects that meet efficiency – and not national – criteria. The funds may be topped up by additional contributions from countries (although they may not be earmarked for investments in specific countries). **The target investment represents 0.8% of GDP a year, but, given that there will inevitably be a deadweight effect** (substituting the financing of an investment which would have been made anyway), **its real impact is very difficult to establish**. In any event, it is important that the projects are managed using the efficiency criteria mentioned above, and with a risk profile which is not excessively cautious, to ensure that the deadweight effect is as low as possible.

… and above all a monetary policy with QE that is credible in terms of quantities, but with contained risk

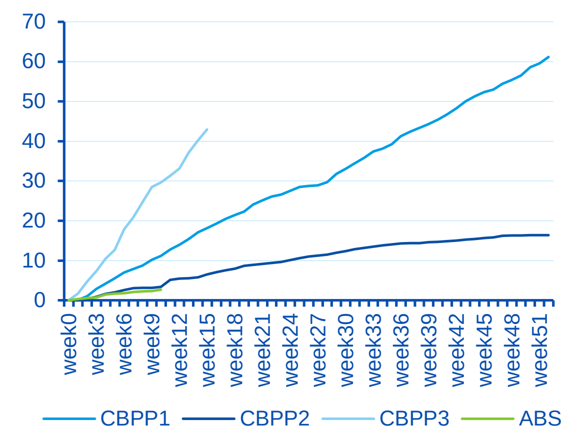
At its first meeting of the year on 22 January, the ECB announced that it would extend its asset purchase programme to include bonds issued by governments, state agencies and European institutions, a procedure known as QE (quantitative easing).

The ECB has adopted this measure in accordance with the contingency plans it had previously laid down, once a further deterioration in the medium-term inflation expectations had been confirmed (the bank revised its inflation forecast significantly downwards in December and the expectations discounted by the market continued to fall across the different maturities) and the question was asked whether the measures already taken were enough (particularly the taking of liquidity in the second *TLTRO* in December[4]).

4: The taking of liquidity by financial institutions in both targeted long-term refinancing operations (TLTRO) came to EUR212.6 bn (compared to a potential ceiling of EUR400bn).

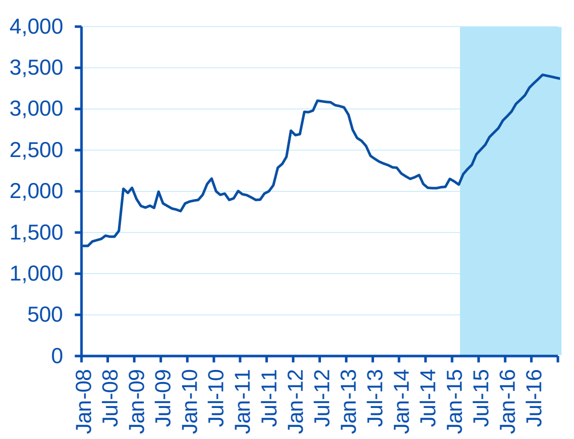
The bond-purchasing programme[5] is as follows: i) **a monthly purchase of assets for a sum of EUR60bn** (including private and public assets[6]) (see Figure 3.2); ii) **it is an open programme** (purchases are expected to be held at least until September 2016 or until a sustained trend of inflation converging towards its target can be seen) (see Figure 3.3); iii) sovereign bond purchases will be made **according to the capital key in every investment-grade country** (or under programme) **in the ECB** (basically based on each country's weighting in the eurozone's GDP, and not based on the weighting of each country in the debt stock) (see Table 3.1); iv) **the ECB waives its preferential status**, thus assuming the same status as private creditors; v) bond purchases will have **maturities of up to 30 years** (longer terms than originally might have been thought); and vi) just as importantly, **the risk taken on by the Eurosystem** in purchasing sovereign bonds **will be significantly contained** (20%[7]) . Finally, the ECB has set an upper limit for bond purchases,[8] so as to enable appropriate price formation. The details have not been published, but they may represent a limit on bond purchases for some countries.

Figure 3.2
ECB's private assets purchase (ABS, Covered Bonds) (EUR Bn cumulated)



Source: ECB, Bloomberg and national Treasuries

Figure 3.3
ECB balance, projections after QE announcement (EUR Bn)



Source: ECB, Bloomberg and national Treasuries

From the perspective of its use as a monetary policy instrument, **the programme is clearly a good thing**. The amounts involved are substantial and more than expected (the ECB's balance sheet will expand by at least EUR1.1trn), which is an essential condition in ensuring the efficiency of a QE programme. QE, in the final analysis, aims to stop expectations of falling inflation, to help to reduce real interest rates and, as such, to reactivate the economy. This impact needs to be felt through several channels, and three in particular:

- First, the signalling channel: the commitment to maintain a bond purchasing programme for a long period, which can also be interpreted as a forward guidance instrument (keeping rates unchanged for a long period, at least as long as the programme lasts). This not only adjusts monetary policy expectations to the downside, but is felt all along the yield curve (exerting downward pressure on the term premium, even in the longest parts of the curve).
- Second, the liquidity and credit channel. Injecting liquidity into the system reduces the risk premium overall and pushes agents to seek profitability in other assets (whether at home or abroad). Equally, by

5: See http://www.ecb.europa.eu/press/pr/date/2015/html/pr150122_1.en.html
6: Assuming that: i) the purchase of private assets is held at around EUR10bn a month, and ii) the maximum of 12% of bonds issued by European institutions is bought, i.e. EUR6bn, the purchase of sovereign bonds will represent a monthly figure of EUR44bn.
7: The Eurosystem assumes the risk of purchasing bonds from European institutions, which will account for 12% of the purchases; but only 8% of the purchases of sovereign bonds.
8: Issuer's exposure limit 33%; furthermore, the ECB will buy a maximum of 25% of each issue.

improving the economic outlook and anchoring yield expectations, QE helps to reinforce the banking channel.

- Third, the pure targeting channel: by generating a demand for sovereign bonds, the ECB contributes to raising their value and, as a result, access to credit for both issuers and bondholders (collateral). For as long as this demand is kept up, it generates downward pressure on bond yields. Finally, and indirectly, the exchange rate channel is also strengthened. The persistently low rates of interest in the eurozone vs. the United States, where the Fed is getting ever closer to starting to raise interest rates, has favoured the depreciation of the euro against the dollar, and will continue to do so for a time. This exchange rate channel adds another layer of support for the recovery of activity and inflation in the eurozone.

Having said this, **from a wider perspective of financial integration and banking union, the fact that the risk is not totally mutualised gives cause for concern**. Thus, we could have wished for a QE designed in such a way that the risk assumed by public debt purchasing operations was spread evenly over the Eurosystem. As it is, it runs the risk that the progress made in the last few years in terms of financial integration will slow down, stop or, even worse, go into reverse. This is a key feature to keep an eye on.

In terms of **the impact of QE** on the outlook for interest rates and exchange rates, the announcement **helps to reinforce the scenario of low rates of interest**, for both core and periphery countries, **to keep the peripheral risk premia contained** (even with a degree of scope to the downside, in the absence of other types of risk) **and the sustained depreciation of the euro** (around USD1.15 on our forecast horizon). In fact, inasmuch as the announcement of QE was widely expected by the market, a good part of its effect on changes in these variables has already taken place.

Table 3.1
Estimated distrubution of ECB's bond purchasing programme (EUR Bn)

	S&P/ Moodys/ Fitch/ DBRS	ECB capital key adjusted	Bond purchase aplaying capital key and others (€ Bn)	2Y-30Y EUR-bonds outstanding (€ Bn)	ECB bond purchases as % of current 2Y-30Y EUR-bond outstanding*	Monthly Bond purchases aplaying capital key and others (€ Bn)	2015 Net Bond issuances (€Bn)
EFSF/ESM/EIB/EFSM			190			10.0	
Germany			114	424	26.9%	6.0	%
Luxemburg	(AAA/Aaa/AAA/AAA)	25.6%	214	799	26.8%	11.3	-8.0
Netherland	(AAA/Aaa/AAA/AAA)	0.3%	3	11	22.8%	0.1	0.2
Austria	(AA+/Aaa/AAA/AAA)	5.7%	48	254	18.8%	2.5	8.1
Finland	(AA+/Aaa/AAA/AAA)	2.8%	23	164	14.3%	1.2	6.0
France	(AA+/Aaa/AAA/AAA)	1.8%	15	67	22.5%	0.8	5.0
Belguim	(AA/Aa1/AA/AAA)	20.1%	168	1008	16.7%	8.8	71.0
Ireland	(AA/Aa3/AA/AAH)	3.5%	29	262	11.2%	1.5	11.5
Italy	(A/Baa1/A-/AL)	1.6%	13	93	14.4%	0.7	11.8
Spain	(BBB-/Baa2/BBB+(AL)	17.5%	146	1251	11.7%	7.7	62.8
Portugal	(BBB/Baa2/BBB+/AL)	12.6%	105	533	19.8%	5.5	50.0
Greece	(BB/Ba1/BB+/BBBL)	2.5%	21	80	26.1%	1.1	0.1
Others	(B/Caa1/B/B)	2.9%	24	64	37.9%	1.3	0.2
Total Eurozone soverign		3.1%	26	38	68.2%	1.4	4.2
Total Extendend QE Program		**100.0%**	**836**	**4624**	**18.1%**	**44.0**	**223**
EFSF/ESM/EIB/EFSM			**1140**	**5048**	**22.6%**	**60.0**	**223**

*ECB maximun limits for government bond purchases: 33% of the issuer debt and 25% of each issuance
Source: ECB, Bloomberg and Tesoros Nacionales

4 Perspectives: solid growth from the second half of 2015 onwards, although the challenges continue

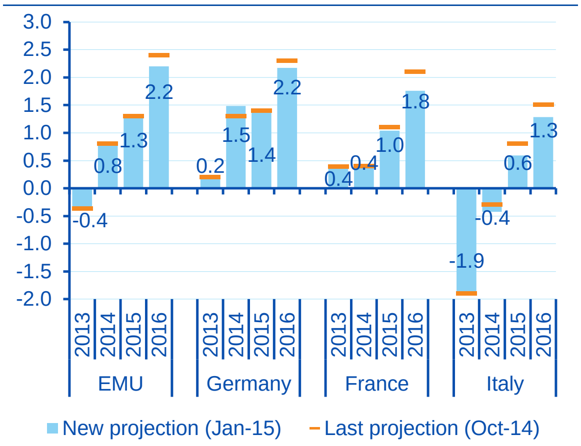
The eurozone's economy grew at an annualised rate of just over 1% in the last quarter of 2014...

The preliminary GDP figure for 4Q14 for the eurozone as a whole (0.3% QoQ after 0.2% QoQ in 3Q14) confirms that the economy has recovered in the last few months. Confidence and real indicator data suggest that this stronger growth stems from an increase in exports, boosted by the euro's depreciation, and by steady private spending (suggesting a certain improvement already in investment), encouraged by the fall in energy prices. This end-of-year spurt brings the average annual growth in the eurozone over 2014 as a whole to 0.9%.

By countries, Germany's GDP grew significantly, by 0.7% QoQ in the last quarter of 2014, bringing its rate to 1.6% for the year as a whole, while the French economy has moderated its growth (to 0.1% QoQ) and, as such, has for the third year in a row remained at an annual 0.4% in 2014. On the periphery, the rate of growth is uneven: on the one hand, in Spain the data are revealing intensification in growth (0.7% QoQ, up from 0.5% QoQ en 3Q14), bringing its rate up to 1.4% for 2014 as a whole (after -1.2% in 2013). In Italy, on the other hand, the economy remains stagnant, contracting by -0.4%, although this is better than the -1.9% and -2.3% results in 2013 and 2012 respectively (Figure 4.1).

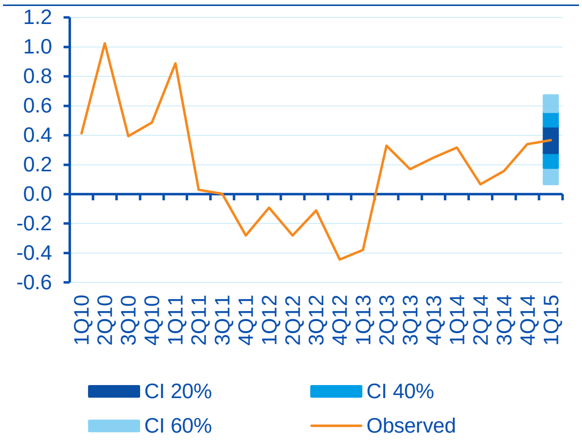
Although data available for the first quarter of 2015 are basically limited to the confidence indicators for January, our short-term MICA-BBVA model (Figure 4.2) estimates that the rate of expansion is holding at the beginning of the year, (at around 0.3-0.4% QoQ, with robust growth in Germany and Spain, which continues to contrast with the still-weak recovery in France and Italy.

Figure 4.1
EMU: growth forecast by country (%)



Source: Eurostat and BBVA Research

Figure 4.2
EMU: MICA-BBVA and observed GDP (% QoQ)



Source: Eurostat and BBVA Research

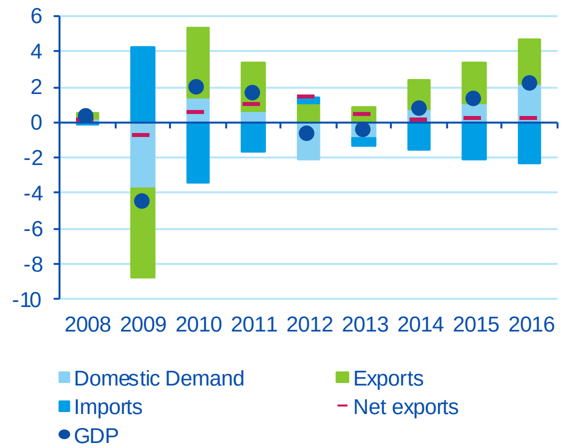
… and will be boosted in 2015 and 2016

Bearing in mind all the factors mentioned in Section 3, our scenario still sees domestic demand as the main driver of growth **in 2015**, although now due to a greater expansion in private consumption and slightly less in investment, so **we maintain our forecast for 1.3% growth in the eurozone** (Figure 4.3). We are presenting

our 2016 forecasts for the first time here, namely, that **the economy will gain traction, growing at 2.2%,** mainly boosted by a significant increase in investment. These forecasts imply that, by the end of this year, GDP will have returned to pre-crisis levels (first quarter of 2008).

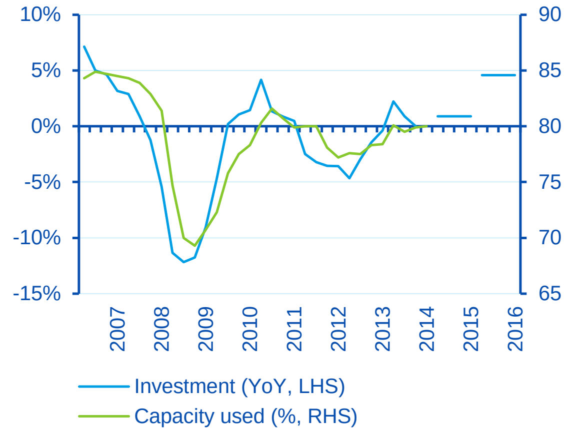
Periphery economies will emerge from the recession, with Spain taking over from Germany as the fastest growing economy between 2015 and 2016. Italy, meanwhile, should start to grow in 2015 while the French economy ought to accelerate its growth from this year onwards (see eurozone member states: detailed analysis at the end of this section).

Figure 4.3
EMU: Contribution to anual GDP growth (pp)



Source: Eurostat and BBVA Research

Figure 4.4
EMU: Investment and capacity used



Source: Haver and BBVA Research

The recovery of private consumption will be the main driver of domestic demand in 2015…

Private consumption has been steadily recovering since the middle of 2013 (average growth of 0.2% QoQ), surprising with growth which is slightly higher than our forecast in 3Q14 and which we estimate will remain relatively stable at the end of 2014. This is in line with the recovery in consumer confidence at the end of the year, and supported by the gradual improvement in the labour market which began at the end of 2013. Both retail sales, available to November, and the uptick in new vehicle registration, suggest that private consumption will have closed 2014 with around 0.5 % QoQ growth.

Over the forecast horizon, **we expect the supports of private consumption will continue to reinforce**. **To the expectations of a gradual improvement in the labour market join the fall in the oil price, which will contribute to driving private consumption,** through greater disposable income and a reduction in the precautionary savings rate. With all these factors, after two years of falls, private consumption should close 2014 with growth of around 0.9%, before accelerating in 2015 and 2016, to 1.4% and 1.7% respectively. Nevertheless, this rate of growth is lower than that posted before the crisis (an average of 1.9% between 1995 and 2008), reflecting the fact that the process of correcting household indebtedness is still weighing on consumer decisions.

… while investment will be weighed down by uncertainty, both external and domestic

Despite the sustained recovery of consumption, the return of business confidence is still a key missing factor in driving investment. The negative surprise of second and third quarter 2014 investment was mainly caused by geopolitical events, which intensified and seem to have returned weighed on 4Q14 figures. Furthermore, there is increased uncertainty about maintaining and continuing reforms in several member states, so for now **we expect a much more moderate growth in investment in 2015**. Inasmuch as growth is gaining momentum this year, and doubts as to its sustainability are waning, **the improved financial conditions associated with the more expansive and long-lasting monetary policy, together with the stimulus of the Junker plan, ought to be mirrored in a sustained and robust recovery in investment throughout 2016**.

In short, we estimate that investment will have recovered a little in 2014 after two years of heavy falls (0.7%, up from -2.4% in 2013 and -3,2% in 2012) and that this timid recovery will steady this year (0.9%) before gaining traction in 2016 (4.6%), although not reaching the lofty rates of 2006 and 2007 (around 5.2%) (Figure 4.4).

After four years of adjustment, fiscal policy will be neutral in the forecast horizon

After several years of fiscal tightening, especially in the periphery, and after that the European Commission has been showed something more tolerant with the expected adjustment pace (especially in Italy and France, in exchange with implementing structural reforms) the political stance will be neutral in the forecast horizon. The fiscal deficit in 2015 and 2016 will continue to fall, reaching 2,5% and 2% of GDP, respectively, after 2,7% in 2014; approximately 4pp less than the deficit recorded in 2010 (6,1%). Much of this adjustment has been through structural measures, what allowed reducing the structural deficit from about 4.4% in 2010 to 1.1% in 2014, an average adjustment 1pp of GDP per year. Nevertheless, **the improvement of public accounts, this year and next, will be determined by cyclical factors, while the structural deficit will remain around 1% of GDP in both years**. Overall, these figures are consistent with a public consumption growth of about 0.9% in 2014, after 0.2% in 2013, and with a growth of 0.5% in 2015 and 0.9% in 2016.

Exports will continue to be robust and crucial for growth, although their contribution will fade because of the recovery in imports

Last year, up to 3Q14, according to the national accounts, **exports continued their robust growth rate** (YoY average of 3.6%), while the data from surveys at the end of the year indicate that exports will have accelerated a little at the end of the year**, driven by the euro's depreciation and low inflation**. After factoring in this data, we estimate that exports will have returned to growth of 3.7% in 2014 **and will continue to gain traction in 2015 and 2016**, growing by around 5%.

Imports have grown more than expected in 2014 (3.5% on average between 1Q and 3Q), and we expect an increase of 3.7% for the year as a whole. Over the forecast horizon, greater momentum in private consumption, together with the gradual improvement in purchases linked to investment, will mean that in 2015 and 2016 imports will continue to gain traction, growing by 4.8% and 5% respectively.

All in all, external demand will have made a positive contribution to GDP growth in 2014 (0.2pp) and in 2015 these rates will be maintained before edging down slightly in 2016 to 0.1pp.

The slow but steady improvement in the labour market will continue in 2015, with more employment growth in 2016

The upturn in the labour market over the last year, with almost half a percentage point less unemployment than in 2013, has continued, with more optimistic signs with each passing quarter. Thus, employment has made a hesitant recovery since the beginning of 2014 (at an annualized rate of 0.4% up to 3Q14) which had gradually gained traction at the end of 2014, averaging annual growth of 0.5%. On the labour front, the latest labour force figure available suggests that it is beginning to grow (0.1% in 3Q14) after a year of negative rates. All in all, **our scenario contemplates this trend continuing throughout this year**, **with employment growing at around 0.8%** and the active population increasing by 0.4%, **which will be reflected in another drop in the average of unemployment rate to 11.2% for the year as a whole, against 11.6% in 2014**. **By 2016**, the acceleration in growth and domestic demand, together with the significant reduction in uncertainty, ought to encourage companies to hire workers: **we expect a 1.1% growth in employment and that the unemployment rate will fall to 10.6%** (Figure 4.5).

The fall in the oil price will pass through into negative inflation in the next few quarters and will be below 2% in 2015-16

Inflation slowed significantly, and more than expected, **in the final quarter of 2014** to -0.2% YoY, from the 0.3% YoY rate in 3Q14. **The fall in energy prices was responsible for this deceleration** (which accounts for around 0.5pp of the slowdown), but also a slight moderation in the increased prices of services and processed food (which accounts for 0.1pp), leaving core inflation at 0.7% YoY in 4Q14.

Our oil scenario now considers that Brent crude will cost on average between USD65 and USD75 a barrel in 2015 and 2016, compared to the scenario three months ago of USD105 and USD104 respectively, which means a slash in the oil price of nearly 40% in 2015 and 30% in 2016 from the earlier scenario. **We estimate that the impact of 10% lower oil prices on inflation is between 0.2pp and 0.3pp, and less than 0.1pp on core inflation** (see our Inflation Watch[9]). All in all, we now expect the fall in headline inflation to intensify over the next few months, to around -0.6% to -0.7% YoY in February and March, while the negative rates will be somewhat more moderate in the second quarter and will start to recover gradually in the second half of the year (reaching around 0.8% YoY by December).

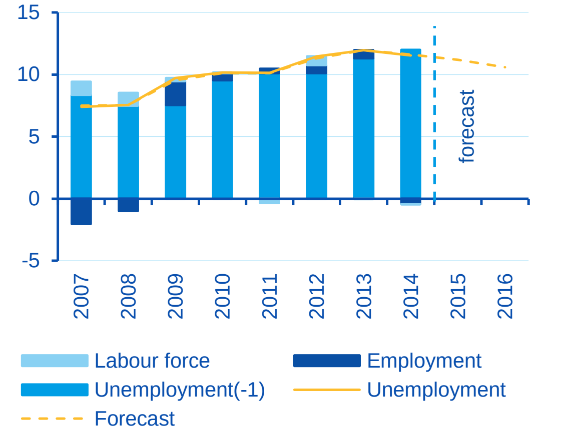
Therefore, **the new oil scenario has led us to adjust average headline inflation in 2015 downwards by 0.9pp to 0.1% in 2015. In 2016, headline inflation will be 1%**, **still a long way off the ECB's target**. Core inflation, according to our scenario, will be 0.8% YoY in 2015 and will tick up slightly to 1.1% in 2016.

Nevertheless, so far this year the variation in oil prices has continued to surprise, with further falls after OPEC's decision to maintain its production volumes, and could result in prices close to their current levels (below USD50/bbl) for a long period. **We** therefore **cannot rule out the possibility of the change in oil price leading to even more negative headline inflation rates and/or over more quarters, and even indirect second-round effects rather greater than previously estimated**. In particular, an oil price that hovers around USD50/bbl or USD40/bbl over our forecast horizon could lead to negative average inflation rates of between -0.3% and -0.6% in 2015. On the other hand, there are also risks to the upside as a result of greater euro depreciation.

This scenario of very low inflation rates for a prolonged period increases the risk of de-anchoring inflation expectations in the medium term, and led the ECB to act in January. T**he market's inflation expectations (5yr-5yr swaps) are now at 1.6%**, well below their peak values, and shrinking again after the ECB's announcement, when they ticked upwards to around 1.7% (Figure 4.6).

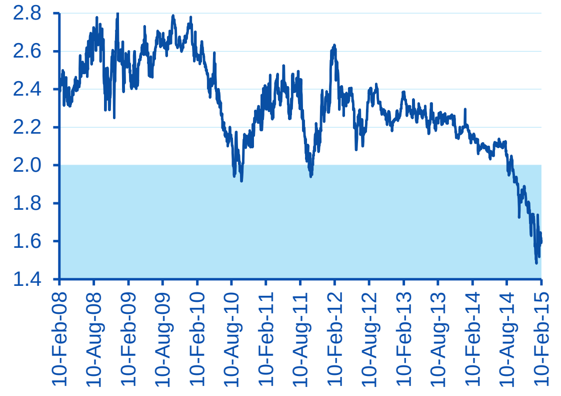
9: For more details, see our "Inflation in Europe: explanatory drivers and perspectives"

Figure 4.5
EMU: Unemployment and breakdown by components (%)



Source: Eurostat and BBVA Research

Figure 4.6
EMU: Forward inflations swap 5y/5y (%)



Source: Bloomberg and BBVA Research

Eurozone member states: detailed analysis

Germany: the domestic fundamentals, helped by the euro depreciation and the fall in oil prices, are supporting the recovery, but uncertainty in Europe may hold back investment

(GDP: +1.5% in 2014, +1.4% in 2015, +2.2% in 2016)

Latest figures: the German economy continued to recover in the fourth quarter of 2014, with a definite uptick in activity (0.7% QoQ after 0.1% QoQ in 3Q14). Investment has risen again, after having fallen in the two previous quarters, underpinned by an increase in industrial production (particularly in the construction sector) and exports. In addition, the slight improvement in business confidence and the rise in foreign orders at the end of the year suggest that this trend could continue in the coming quarters, although at a more moderate pace. Meanwhile, positive changes in the labour market, with an unemployment rate at record lows, have passed through into greater consumer confidence and an increase in retail trade, which accounts for the solid performance of private consumption in the last quarter. Imports have increased on a par with the domestic demand components, so the final contribution of net exports to growth should be practically zero, after the +0.2pp contribution in 3Q14.

Outlook for 2015 and 2016: in both 2015 and 2016, growth will continue to be driven by internal demand. The strong labour market, together with very low inflation rates (after the oil shock) will help private consumption to increase gradually. However, uncertainty caused by geopolitical conflicts, added to developments in Greece, could weigh down on confidence in 2015 and lead companies to continue delaying their investment plans to 2016. Net exports will play a minor role in contributing to growth, given that the increase in imports, encouraged by the momentum in domestic demand, will offset the solid export sector, which will benefit from the euro depreciation.

Fiscal policy: after the slight fiscal surplus in 2014, we forecast that federal accounts will remain balanced in 2015 and 2016. As such, public debt ought to continue its downward curve, falling to around 72.2% of GDP in 2015 and to 69.4% in 2016.

France: gradual and more balanced recovery throughout 2015

(GDP: +0.4% in 2014, +1.0% in 2015, +1.8% in 2016)

Latest figures: private consumption has grown again in 4Q14, but at a slower rate, as the slight increase in retail sales and household spending had led us to expect. The industrial sector has continued to show some weakness, signalling another disappointing set of quarterly investment figures (-0.5%, after -0.6% QoQ), while public expenditure moderated at the end of the year after strong growth in earlier quarters. The confidence indicators were not good, but orders from abroad have improved. There was a positive contribution from net external demand after three consecutive quarters of waning growth, given that 4Q14 reported a robust increase in the goods exports and a smaller one in imports. All in all, GDP growth in 4Q14 was 0.1% QoQ, slowing from 0.3% QoQ the previous quarter.

Outlook for 2015 and 2016: Our scenario for 2015 and 2016 contains a recovery based on the contribution of domestic factors. On the horizon forecast, the contribution of public consumption will moderate and will give way to an increase in private spending: on the one hand the stabilising labour market and low inflation should help private consumption to rise gradually (1.3% and 1.4% respectively). On the other, investment will stop falling in 2015 before subsequently recovering next year, at the same time as economic agents' confidence will increase and the construction sector will recover; prolonging corporate fiscal credit is just one of the measures taken with this aim. From the side of external demand, the increase in exports (3% in 2015 and 5% in 2016), will be offset by the increase in imports (3% in 2015 and 5.3% in 2016) encouraged by the improvement in domestic demand, for which reason we expect no contribution to growth from the foreign sector.

Fiscal policy: in 2014 there will be another deviation from the deficit target, in line with our forecasts three months ago (-4.4% of GDP). In 2015 the deficit reduction will be minimal, after the softening of fiscal policy, leading to a greater adjustment in 2016 and coming in below 3% of GDP in 2017, in the expectation that the government will approve additional structural measures and that these are accepted by the Commission in March. Meanwhile, public debt is likely to continue to rise and to reach 98.3% and 99.2% of GDP in 2015 and 2016, respectively**.**

Italy: slow recovery in 2015 supported mainly by exports, while the reforms underway and the fall in prices should begin to encourage household spending

(GDP: -0.4% in 2014, +0.6% in 2015, +1.3% in 2016)

Latest figures: as the confidence and activity figures had suggested, GDP stagnated in the final quarter of 2014 (0.0% QoQ, after -0.1% QoQ in 3Q14). The deterioration in the labour market and resulting slump in household confidence will have put the brakes on private consumption, despite the stimulus measures taken by the government. The industrial production index has fallen again, increasing corporate uncertainty, which will continue dragging on investment in 4Q14. With public consumption limited by budgetary restrictions, the only component with a positive contribution to growth was, once again, external demand, given that there is robust growth in exports, combined with a drop in imports**.**

Outlook for 2015 and 2016: we continue to expect a slow recovery in 2015, when we forecast that GDP will grow by 0.6%, accelerating in 2016 to 1.3%, rather less than forecast three months ago. The recovery will be driven by exports on the forecast horizon, whereas public consumption will continue to be fettered by the fiscal correction, and investment will still be affected by uncertainty linked to reforms. Private consumption should increase gradually, also helped by the reduction in fiscal pressure and low inflation, which will increase households' available income.

Fiscal policy: the most recent budget execution data show a deficit close to the target of 3% of GDP for 2014. For 2015, the deficit will fall to 2.7%, that is, 0.5pp higher than the April forecast. The Commission will accept this deviation in exchange for the commitment to introduce "efficiently" a series of structural measures. These reforms, which are underway and will be assessed by Brussels in March, include a significant reduction in the fiscal pressure on jobs, which will be financed to a large degree by the fight against fraud and by reducing public spending. In 2016, deficit reduction should proceed at the same rate, putting it at 2.4% of GDP. However, the greatest concern continues to be the high volume of public debt, which we forecast will increase in 2015 to a peak of 134% of GDP, before moderating slightly in in 2016 to 133%**.**

Spain: The recovery accelerates and is underpinned in domestic and external factors

(GDP: +1.4% in 2014, +2.7% in 2015, +2.7% in 2016)

Latest figures: the recovery gathered momentum again in the fourth quarter, with GDP growth of 0.7% QoQ (0.5% in 3Q14). In terms of the composition of growth, activity was again supported by domestic demand (+0.6pp), mainly private demand, with household consumption increasing slightly less than in 3Q14, although with investment in machinery and equipment growing at a swifter rate. Real public consumption prolonged the stagnation of the two previous quarters into the end of the year, and the deceleration of both exports and imports suggests a marginal contribution of net external demand to growth in 4Q14.

Outlook for 2015 and 2016: both in 2015 and in 2016, activity will grow by 2.7%, supported by internal and external factors: domestically, the recovery in the fundamentals, progress in correcting imbalances, and the change in tone of fiscal policy will contribute to the sustained recovery in domestic demand, while the acceleration of the global economy, together with the euro depreciation, the fall in the price of oil and gains in internal competition, will all support a healthy increase in exports. The increase in the final demand will have a positive impact on the imports of goods and services, with the result that the contribution of net external demand to growth will be virtually nil.

Fiscal policy: the recovery in activity has helped to meet the 2014 stability target, with a public deficit of around 5.5% of GDP by the end of the year. For 2015 we forecast that the tax cuts will provoke a fall in the public administrations' structural revenues which, in the short term, will be offset by the cyclical boost of tax resources. Similarly, the economic cycle will continue to help the reduction in public spending (above all, spending on interest payments and social benefits). Thus, with the policies announced to date, the 2015 deficit should come in at around the stability target (4.2% of GDP). When it comes to 2016, the economic cycle is forecast to continue correcting the deterioration in public accounts, so that in a scenario without changes in fiscal policy the deficit for 2016 will fall to 2.8% of GDP, reaching the target set for the year in question (see Spain Economic Outlook First quarter 2015).

5 Tables

Table 5.1
Eurozone forecasts (% YoY)

	2012	2013	2014	2015	2016
GDP at constant prices	**-0.7**	**-0.4**	**0.8**	**1.3**	**2.2**
Private consumption	-1.3	-0.6	0.9	1.4	1.7
Public consumption	-0.2	0.2	0.9	0.5	0.9
Gross Fixed Capital Formation	-3.2	-2.4	0.7	0.9	4.6
Inventories (*)	-0.6	-0.1	-0.1	0.0	0.0
Domestic Demand (*)	**-2.1**	**-0.9**	**0.7**	**1.1**	**2.0**
Exports (goods and services)	2.6	2.1	3.7	4.8	4.9
Imports (goods and services)	-1.0	1.2	3.7	4.8	5.0
External Demand (*)	**1.4**	**0.4**	**0.2**	**0.2**	**0.1**
Prices and Costs					
CPI	2.5	1.4	0.4	0.1	1.0
CPI Core	1.8	1.3	0.9	0.8	1.1
Labour Market					
Employment	0.1	-0.5	-0.8	0.5	0.8
Unemployment rate (% of labour force)	10.1	11.3	12.0	11.6	11.2
Public Sector					
Surplus (+) / Deficit (-) (% GDP)	-4.1	-3.6	-2.9	-2.7	-2.5
Public debt (% GDP)	85.8	89.0	90.9	94.3	95.2
External Sector					
Current Account Balance (% GDP)	0.1	1.4	2.4	2.5	2.7

(*) Contribution to GDP growth.
Source: BBVA Research

Table 5.2
Macroeconomic Forecasts: Gross Domestic Product

(End of period, YoY rate)	2012	2013	2014	2015	2016
United States	2.3	2.2	2.4	2.9	2.8
Eurozone	-0.7	-0.4	0.8	1.3	2.2
Germany	0.6	0.2	1.5	1.4	2.2
France	0.4	0.4	0.4	1.0	1.8
Italy	-2.3	-1.9	-0.4	0.6	1.3
Spain	-2.1	-1.2	1.4	2.7	2.7
UK	0.7	1.7	2.6	2.8	2.5
Latin America *	2.5	2.5	0.8	1.5	2.4
Mexico	3.8	1.7	2.1	3.5	3.4
Brazil	1.0	2.5	0.1	0.6	1.8
EAGLES **	5.5	5.4	5.1	5.0	5.2
Turkey	2.1	4.1	2.5	3.7	4.5
Asia Pacific	5.5	5.4	5.4	5.5	5.4
Japan	1.5	1.5	0.7	1.3	1.2
China	7.7	7.7	7.4	7.0	6.6
Asia (exc. China)	3.9	3.7	3.7	4.3	4.4
World	3.3	3.2	3.3	3.6	3.8

* Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
** Brazil, China, India, Indonesia, Mexico, Russia and Turkey.
Forecast closing date: 6 February 2015.
Source: BBVA Research and IMF

Table 5.3

Macroeconomic forecasts: Inflation

(Annual average, YoY rate)	2012	2013	2014	2015	2016
United States	2.1	1.5	1.7	1.5	2.1
Eurozone	2.5	1.4	0.4	0.1	1.0
Germany	2.1	1.6	0.8	0.3	1.1
France	2.2	1.0	0.6	0.1	0.9
Italy	3.3	1.3	0.2	-0.2	0.6
Spain	2.4	1.4	-0.2	-0.4	1.4
UK	2.8	2.6	1.5	0.4	1.5
Latin America *	7.8	9.3	12.7	13.7	14.0
Mexico	4.2	3.8	4.0	3.4	3.5
Brazil	5.4	6.2	6.3	6.7	5.7
EAGLES **	5.0	5.3	4.6	4.3	4.1
Turkey	8.7	7.5	8.8	6.4	6.6
Asia Pacific	3.7	4.0	3.5	3.2	3.3
Japan	-0.1	1.6	3.0	1.3	1.6
China	2.7	2.6	2.1	2.2	2.5
Asia (exc. China)	4.5	5.1	4.5	4.0	4.0
World	2.1	1.5	1.7	1.5	2.1

* Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
** Brazil, China, India, Indonesia, Mexico, Russia and Turkey.
Forecast closing date: 6 February 2015.
Source: BBVA Research and IMF

Table 5.4

Macroeconomic forecasts: Current Account

(End of period, % GDP)	2012	2013	2014	2015	2016
United States	-2.8	-2.4	-2.6	-2.8	-2.8
Eurozone	1.4	2.4	2.5	2.7	2.7
Germany	7.1	6.7	7.1	7.2	6.9
France	-1.5	-1.4	-1.6	-1.5	-1.5
Italy	-0.5	1.0	1.1	1.3	1.9
Spain	-0.3	1.4	-0.2	0.9	1.0
UK	-3.7	-4.5	-4.5	-4.1	-3.8
Latin America *	-1.6	-2.5	-2.6	-2.7	-2.4
Mexico	-1.3	-2.1	-1.9	-1.8	-2.0
Brazil	-2.4	-3.7	-4.1	-3.9	-3.4
EAGLES **	-0.1	-0.3	0.4	0.4	0.2
Turkey	-6.1	-7.9	-5.7	-4.5	-4.9
Asia Pacific	1.0	1.3	1.8	1.6	1.4
Japan	1.0	0.7	0.8	1.4	1.5
China	2.6	2.0	3.0	2.8	2.5
Asia (exc. China)	-0.2	0.8	0.9	0.7	0.5

* Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
** Brazil, China, India, Indonesia, Mexico, Russia and Turkey.
Forecast closing date 6 February 2015.
Source: BBVA Research and IMF

Table 5.5

Macroeconomic Forecasts: Government Balance

End of period, % GDP	2012	2013	2014	2015	2016
United States	-6.8	-4.1	-3.1	-2.7	-3.0
EMU	-3.6	-2.9	-2.7	-2.5	-2.0
Germany	0.1	0.1	0.2	0.0	0.0
France	-4.9	-4.1	-4.4	-4.3	-3.7
Italy	-3.0	-2.8	-3.0	-2.7	-2.4
Spain *	-6.6	-6.3	-5.5	-4.2	-2.8
UK **	-8.3	-5.8	-5.6	-4.4	-3.4
Latin America ***	-2.3	-2.4	-4.1	-3.5	-3.1
Mexico	-2.6	-2.3	-3.5	-3.5	-3.0
Brazil	-2.5	-3.3	-5.7	-4.4	-3.6
EAGLES *****	-2.0	-2.3	-2.9	-2.9	-2.7
Turkey	-2.1	-1.2	-2.2	-1.5	-1.5
Asia Pacific	-2.7	-3.0	-3.2	-3.1	-2.9
Japan	-7.6	-9.2	-7.9	-7.0	-6.5
China	-1.1	-1.5	-2.1	-2.5	-2.5
Asia (exc. China)	-3.9	-4.2	-4.1	-3.6	-3.3

* Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
** Brazil, China, India, Indonesia, Mexico, Russia and Turkey.
Forecast closing date 6 February 2015.
Source: BBVA Research and IMF

Table 5.6

Financial variables

Macroeconomic Forecasts: Official Interest Rates (End of period)	2012	2013	2014	2015	2016
United States	0.25	0.25	0.25	0.50	1.50
Eurozone	0.75	0.25	0.05	0.05	0.05
China	6.00	6.00	5.60	5.10	5.10
Macroeconomic Forecasts: 10-year government bond yield (Annual average)					
United States	1.8	2.3	2.5	2.2	2.9
Germany	1.6	1.6	1.2	0.6	1.2
Macroeconomic Forecasts: Exchange Rates (Annual average)					
EUR-USD	0.78	0.75	0.75	0.90	0.85
USD-EUR	1.29	1.33	1.33	1.11	1.18
GBP-USD	1.58	1.56	1.65	1.48	1.60
JPY-USD	79.8	97.6	105.9	125.0	131.7
CNY-USD	6.31	6.20	6.14	6.17	6.04

Forecast closing date: 6 February 2015.
Source: BBVA Research and IMF

Table 5.7

Germany: GDP growth and inflation forecasts (% YoY)

	2009	2010	2011	2012	2013	2014	2015	2016
Private consumption	0.2	0.5	2.3	0.6	0.9	1.1	1.5	1.8
Public consumption	3.0	1.3	0.7	1.2	0.7	1.0	1.2	0.9
Gross Fixed Capital Formation	-9.9	4.6	7.5	0.0	-0.4	3.1	2.0	4.0
Inventories (*)	-1.6	1.4	0.1	-1.4	0.1	-0.3	0.0	0.0
Domestic Demand (*)	-3.0	2.8	2.9	-0.8	0.7	1.1	1.4	1.9
Exports	-14.3	14.2	8.2	3.5	1.7	3.7	4.2	5.5
Imports	-9.6	12.6	7.3	0.4	3.2	3.3	4.9	5.8
Net exports (*)	-2.6	1.1	0.7	1.4	-0.5	0.4	0.0	0.2
GDP	**-5.6**	**3.9**	**3.7**	**0.6**	**0.2**	**1.5**	**1.4**	**2.2**
Inflation	0.2	1.2	2.5	2.1	1.6	0.8	0.3	1.1

(*) Contribution to growth.
Source: BBVA Research

Table 5.8

France: GDP growth and inflation forecasts (% YoY)

	2009	2010	2011	2012	2013	2014	2015	2016
Private consumption	0.3	1.8	0.4	-0.4	0.3	0.4	1.3	1.4
Public consumption	2.5	1.2	1.0	1.7	2.0	2.0	1.0	1.0
Gross Fixed Capital Formation	-9.0	1.9	2.1	0.3	-0.8	-1.5	0.0	3.5
Inventories (*)	-1.1	0.3	1.1	-0.6	-0.2	0.0	0.0	0.0
Domestic Demand (*)	-2.5	2.0	2.1	-0.3	0.3	0.4	0.9	1.7
Exports	-11.0	8.6	7.1	1.2	2.4	2.5	3.5	5.3
Imports	-9.2	8.5	6.5	-1.2	1.9	2.5	3.0	5.0
Net exports (*)	-0.3	-0.1	0.0	0.7	0.1	0.0	0.1	0.0
GDP	**-2.9**	**1.9**	**2.1**	**0.4**	**0.4**	**0.4**	**1.0**	**1.8**
Inflation	0.1	1.7	2.3	2.2	1.0	0.6	0.1	0.9

(*) Contribution to growth.
Source: BBVA Research

Table 5.9

Italy: GDP growth and inflation forecasts (% YoY)

	2009	2010	2011	2012	2013	2014	2015	2016
Private consumption	-1.5	1.2	0.0	-4.1	-2.7	0.2	0.5	0.8
Public consumption	0.4	0.6	-1.8	-1.5	-0.7	-0.4	-0.5	0.0
Gross Fixed Capital Formation	-10.0	-0.6	-1.7	-7.5	-5.4	-2.6	-0.5	2.7
Inventories (*)	-1.2	1.3	0.2	-0.7	-0.1	-0.4	0.0	0.0
Domestic Demand (*)	-4.2	2.0	-0.5	-5.0	-2.8	-0.8	0.1	0.9
Exports	-17.9	11.3	6.1	1.6	0.9	1.8	4.0	4.9
Imports	-12.7	12.1	1.2	-8.2	-2.6	0.3	2.5	4.0
Net exports (*)	-1.3	-0.4	1.2	2.6	0.9	0.4	0.5	0.4
GDP	**-5.5**	**1.7**	**0.7**	**-2.3**	**-1.9**	**-0.4**	**0.6**	**1.3**
Inflation	0.8	1.6	2.9	3.3	1.3	0.2	-0.2	0.6

(*) Contribution to growth.
Source: BBVA Research

Table 5.10
Portugal: GDP growth and inflation forecasts (% YoY)

Rate YoY	2009	2010	2011	2012	2013	2014	2015	2016
Private consumption	-2.3	2.4	-3.6	-5.2	-1.4	2.2	1.9	1.5
Public consumption	2.6	-1.3	-3.8	-4.3	-1.9	-0.5	-0.8	0.4
Gross Fixed Capital Formation	-7.6	-0.9	-12.5	-15.0	-6.3	2.3	3.2	3.5
Inventories (*)	-1.1	1.0	-0.6	0.1	0.0	0.4	0.0	0.0
Domestic Demand (*)	-3.8	2.1	-6.4	-6.9	-2.4	2.0	1.6	1.7
Exports	-10.2	9.5	7.0	3.1	6.4	2.6	4.6	5.4
Imports	-9.9	7.8	-5.8	-6.6	3.6	5.6	4.7	5.1
Net exports (*)	0.8	-0.2	4.6	3.6	1.0	-1.1	0.0	0.1
GDP	**-3.0**	**1.9**	**-1.8**	**-3.3**	**-1.4**	**0.9**	**1.5**	**1.8**
Inflation	-0.9	1.4	3.6	2.8	0.4	-0.2	-0.1	0.6

(*) Contribution to growth.
Source: BBVA Research

Table 5.11
Spain: GDP growth and inflation forecasts (% YoY)

	2009	2010	2011	2012	2013	2014	2015	2016
Private consumption	-3.6	0.3	-2.0	-2.9	-2.3	2.3	2.5	1.7
Public consumption	4.1	1.5	-0.3	-3.7	-2.9	0.8	1.5	1.4
Gross Fixed Capital Formation	-16.9	-4.9	-6.3	-8.1	-3.8	2.8	5.2	6.4
Equipment and other products	-23.5	5.1	0.8	-9.0	5.6	11.7	7.2	6.3
Construction	-16.5	-10.1	-10.6	-9.3	-9.2	-2.8	3.2	5.6
Housing	-20.6	-11.6	-12.8	-9.0	-7.6	-2.8	5.1	9.5
Other construction	-11.8	-8.5	-8.6	-9.6	-10.5	-2.9	1.8	2.6
Inventories (*)	-0.2	-0.1	0.0	-0.1	0.1	0.2	0.0	0.0
Domestic Demand (*)	-6.4	-0.5	-2.7	-4.3	-2.7	2.1	2.7	2.4
Exports	-11.0	9.4	7.4	1.2	4.3	4.4	6.1	7.2
Imports	-18.3	6.9	-0.8	-6.3	-0.5	7.6	6.8	7.1
Net exports (*)	2.8	0.5	2.1	2.2	1.4	-0.7	0.0	0.2
GDP	**-3.6**	**0.0**	**-0.6**	**-2.1**	**-1.2**	**1.4**	**2.7**	**2.7**
Inflation	-0.3	1.8	3.2	2.4	1.4	-0.2	-0.4	1.4

(*) Contribution to growth.
Source: BBVA Research

Table 5.12
UK: GDP growth and inflation forecasts (% YoY)

	2009	2010	2011	2012	2013	2014	2015	2016
Private consumption	-3.1	0.4	0.1	1.1	1.7	2.3	2.6	2.2
Public consumption	1.0	0.0	0.0	2.3	-0.3	1.4	0.5	-0.4
Gross Fixed Capital Formation	-14.4	5.9	2.3	0.7	3.4	6.9	5.2	5.8
Inventories (*)	-0.6	1.5	-0.2	0.1	0.2	0.2	0.0	0.0
Domestic Demand (*)	-5.0	2.8	0.3	1.5	1.7	3.1	2.6	2.4
Exports	-8.2	6.2	5.6	0.7	1.5	-1.1	3.5	5.2
Imports	-9.8	8.7	1.0	3.1	1.4	0.6	2.7	4.4
Net exports (*)	0.7	-0.9	1.4	-0.8	0.0	-0.5	0.2	0.1
GDP	**-4.3**	**1.9**	**1.6**	**0.7**	**1.7**	**2.6**	**2.8**	**2.5**
Inflation	2.2	3.3	4.5	2.8	2.6	1.5	0.4	1.5

(*) Contribution to growth.
Source: BBVA Research

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