

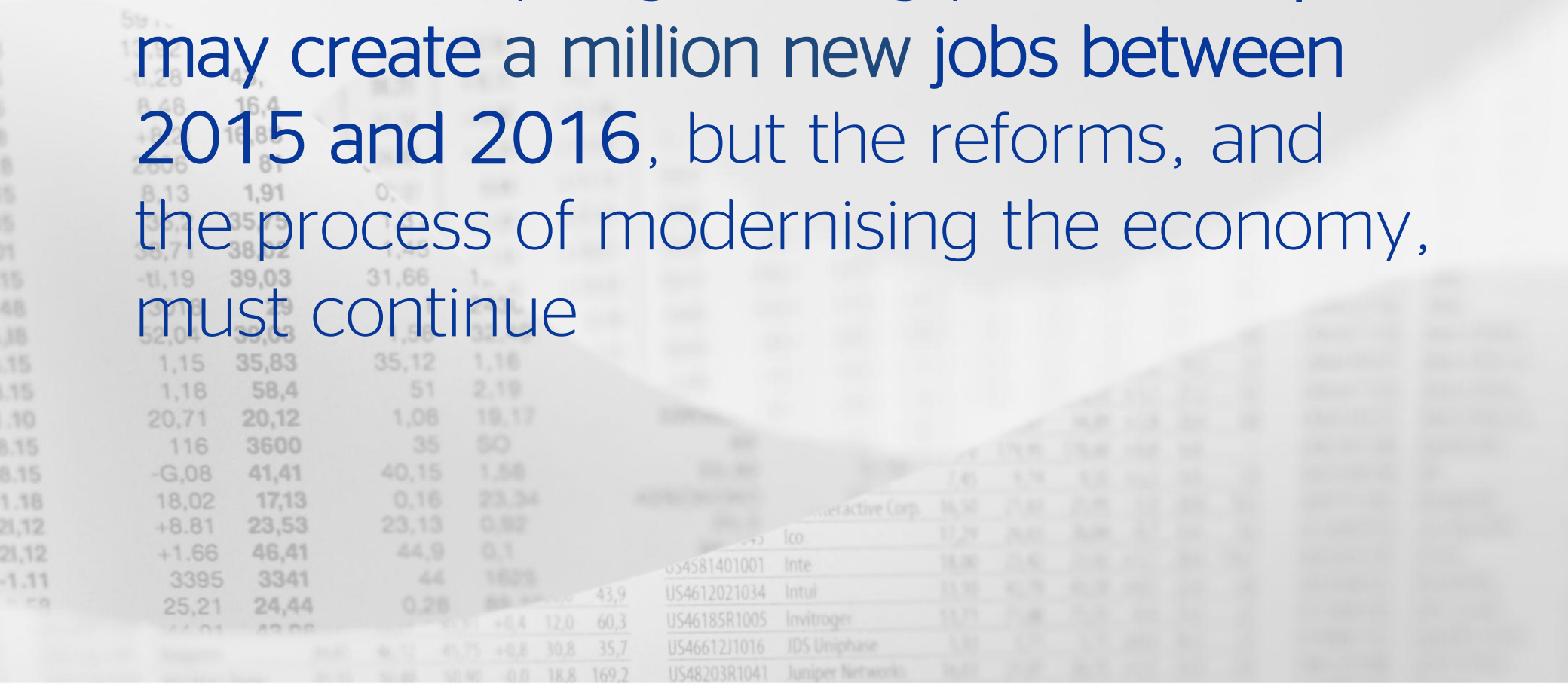
Spain

outlook

1st QUARTER
2015



The recovery is gathering pace and **Spain** may create a million new jobs between **2015 and 2016**, but the reforms, and the process of modernising the economy, must continue

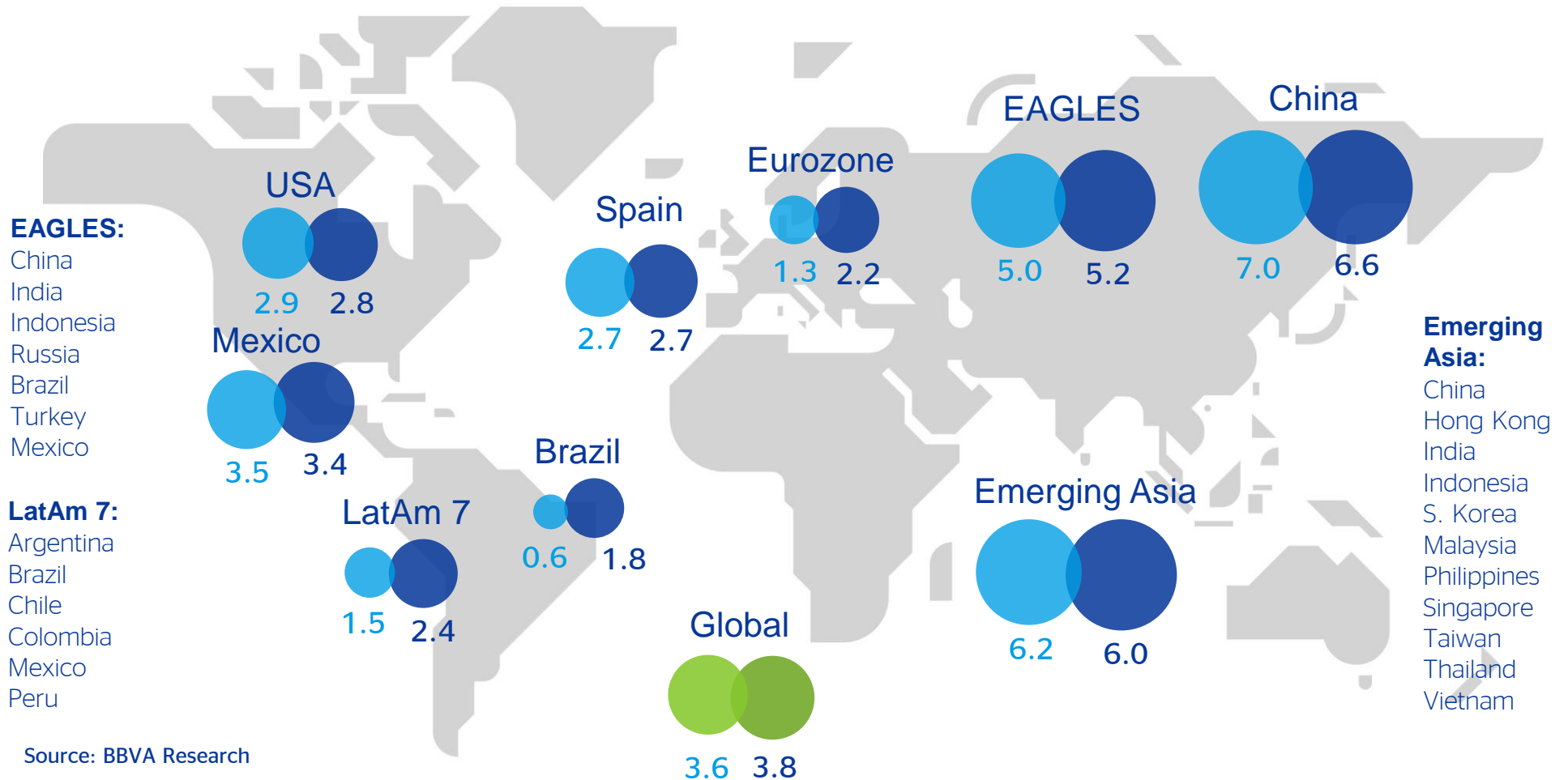




Global

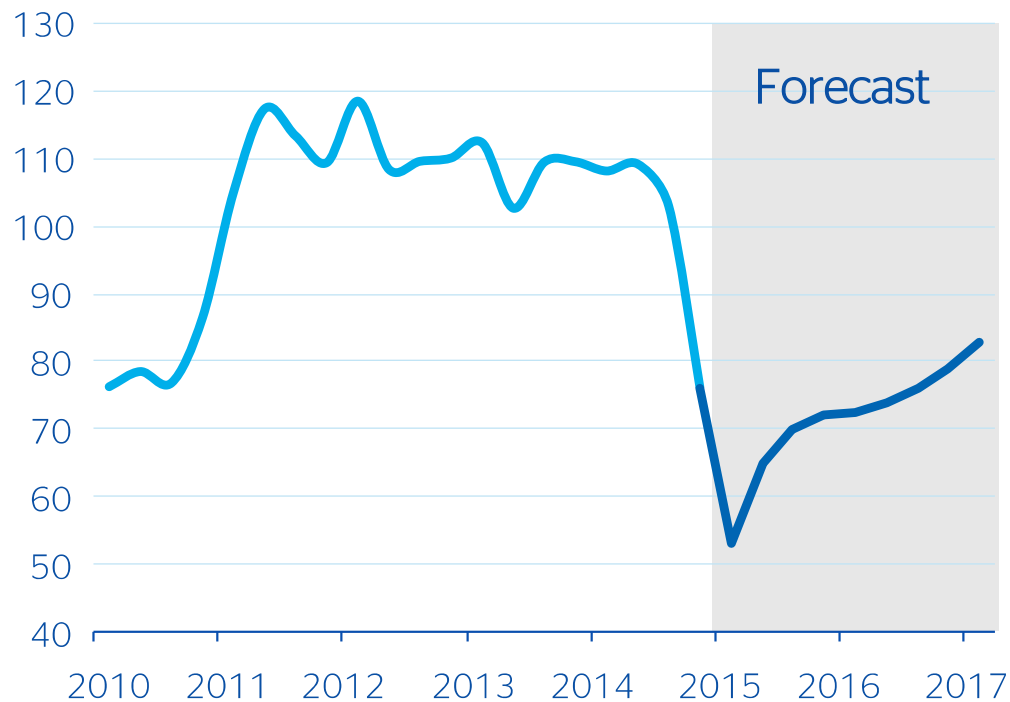
World growth: moderate and uneven acceleration

● 2015 ● 2016



The fall in the oil price is positive for world growth

Oil price (USD/bbl)



- **Heterogeneous impact** depending on geographies
- **Direct effect** on widespread fall in inflation

Divergent monetary policies

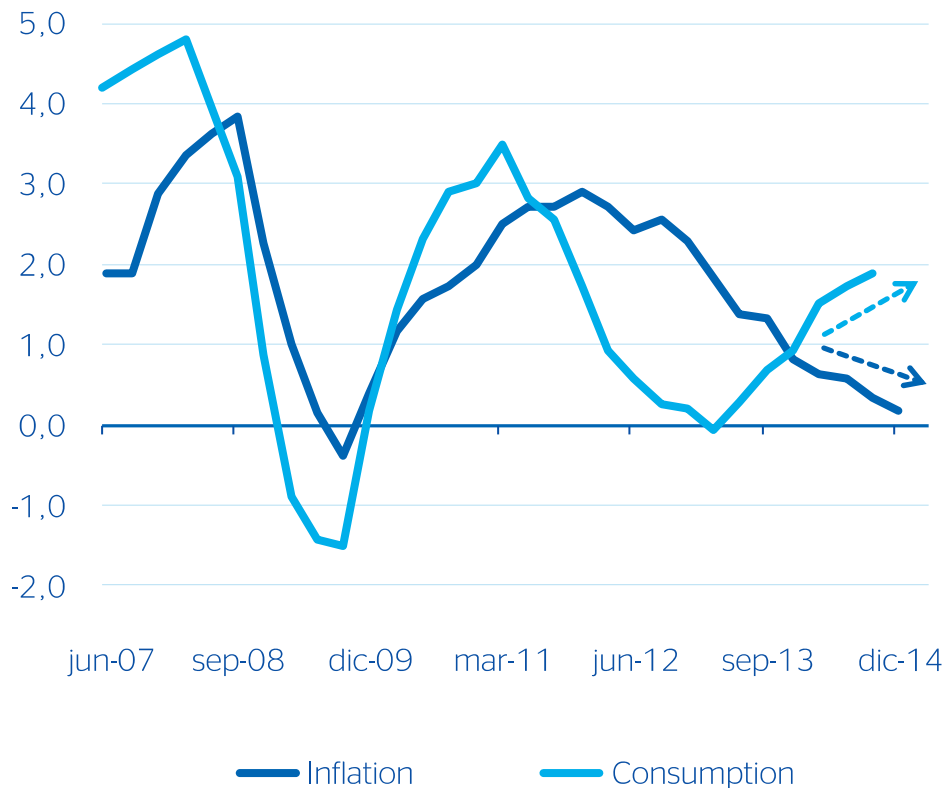
Liquidity injected by each central bank and medium-term expectations (% GDP)



- **These raise uncertainty in financial markets**
- **The Fed's normalisation will test emerging markets**

Consumption grows, despite the fall in prices

Eurozone: inflation and household consumption (% variation, YoY)



Source: BBVA Research

- Although the fall in the oil price heightens the risk of deflation, **private consumption is on the up**
- With QE, the ECB is looking to **raise inflation and drive growth**. The euro's depreciation is helping to achieve this

What are the risks?



Increase in geopolitical tensions

BBVA World conflict map: January 2015
(number of conflicts/total events)





- Russia-Ukraine
- ISIS in Middle East




Spain

Revision to the upside of **growth** in Spain

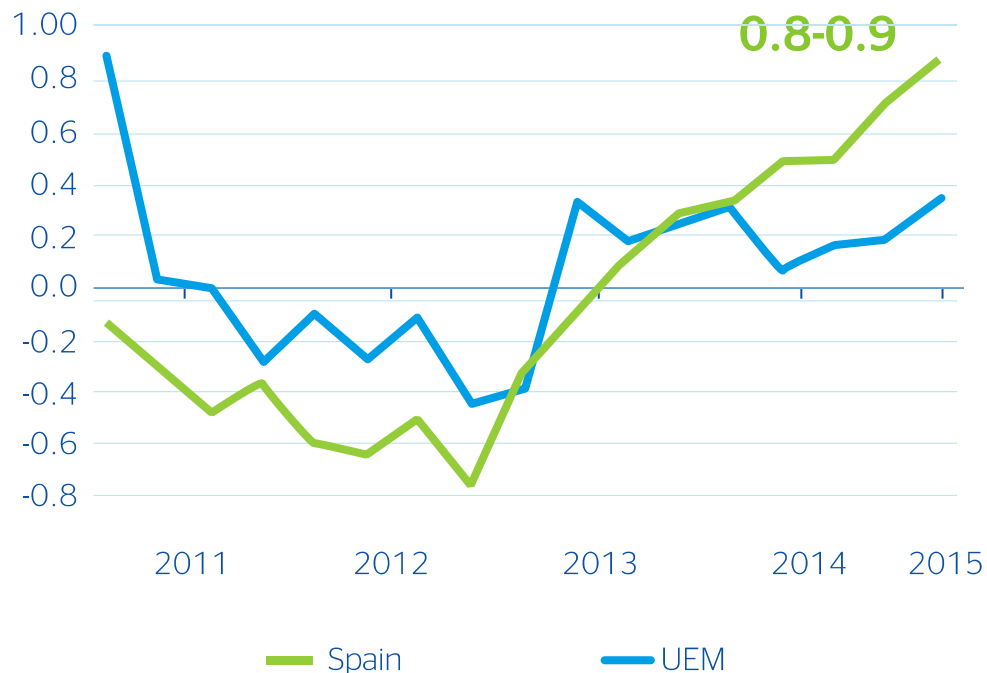
2.7%  in 2015

2.7%  in 2016

1.4%  in 2014

Revision to the upside of growth in Spain

GDP growth and MICA-BBVA forecasts 1st quarter 2015 (%)



- **Decoupling** from the eurozone
- **Spain** is the main beneficiary of improvements in external factors

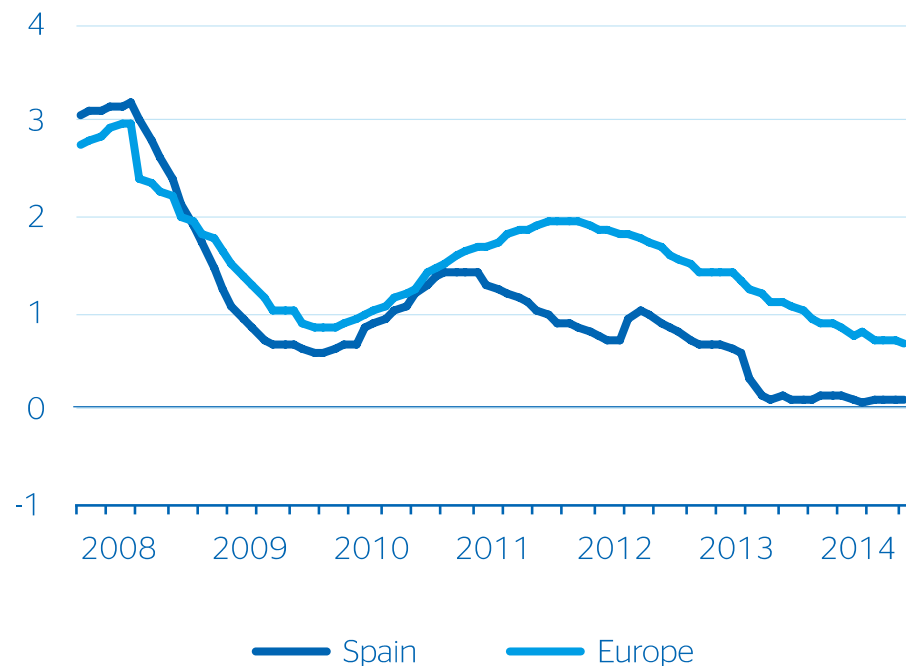
On the plus side: ECB's expansive monetary policy



USD/EUR 1.1
2015 average

On the plus side: fall in the price of crude

Inflation trend
(trimmed means method, %)



- Core inflation is **zero**
- Negative inflation is a result of the fall in the **price of crude**
- The reduction in the cost of crude will boost GDP by **0.7%**

On the plus side: increase in credit in Spain

In 2014, the flow of new credit increased

Retail



+11.4%

=

Companies



(< EUR1mn)

+8.6%

Households



+18.7%

Risks: financial tensions and political uncertainty

BBVA Research financial tensions index vs. GDP

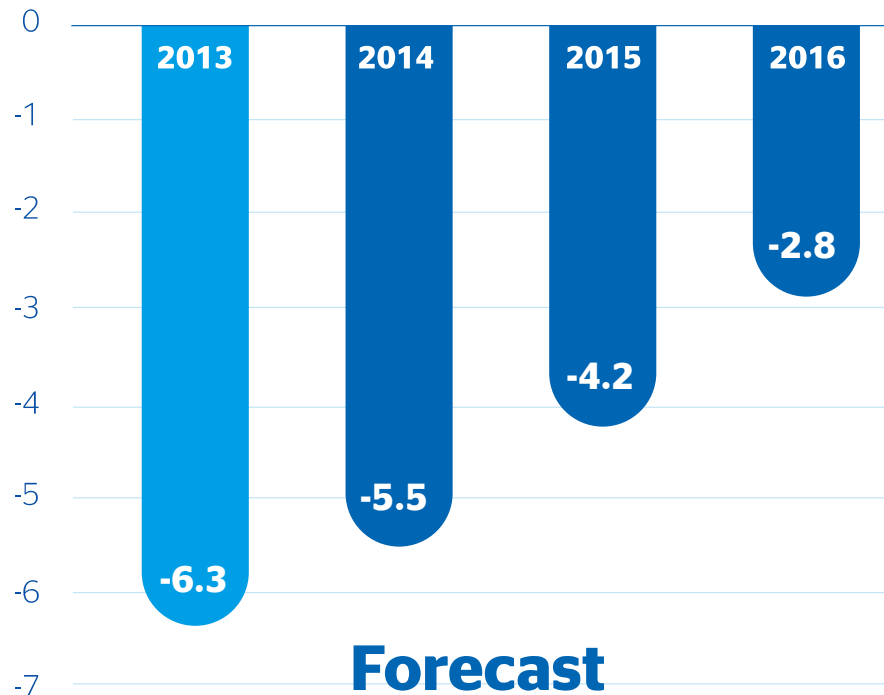


- **Greece: example of risk in an incomplete EMU**
- **Spain must prevent political uncertainty from holding back the recovery**

Risks:

2015, election year in Spain and Europe

Spain: public deficit excl. transfers to financial institutions (% of GDP)

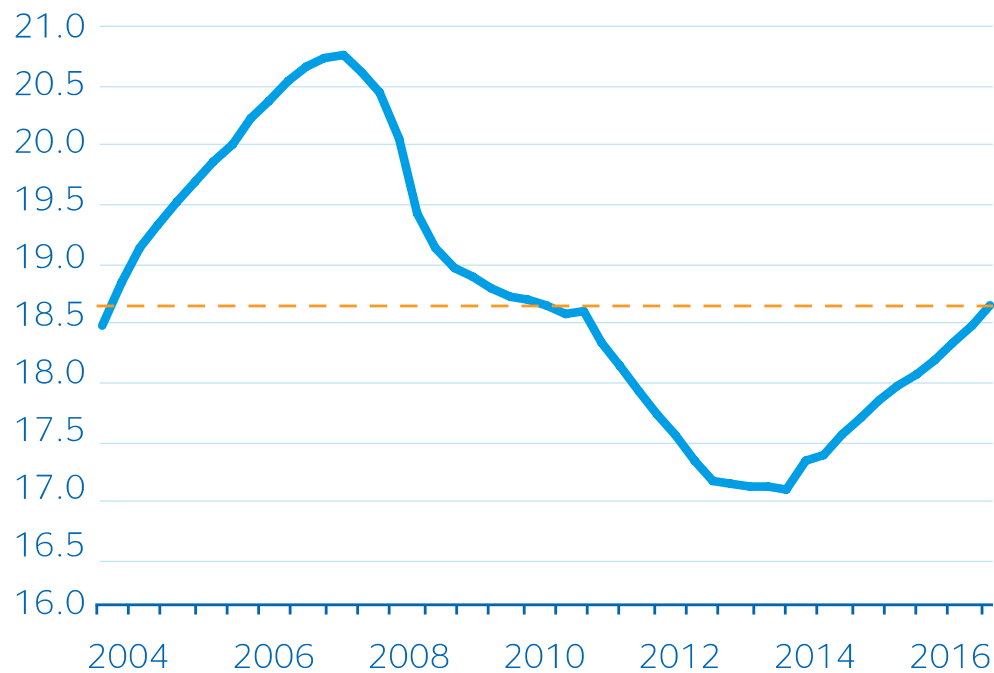


Source: BBVA Research

- The recovery of revenues and the improvement in spending is **cyclical**
- But we must stick to the budgets in order to **achieve the deficit target**

The **labour market** is improving, but challenges remain

LFS employment (in work, mn)



- Between 2015 and 2016 **1,000,000** jobs will be created
- By 2016, **employment could be back to 2004 levels**

Labour market and productivity: the challenges for the Spanish economy

Spain's deviation from the EU8 in 2013

-23%

**GDP
per capita**

-20%

**Employment
rate**

-4%

**Participation
rate**

-11%

**GDP per
worked hour**

- Spain faces the challenge of raising its employment rate and its productivity
- A return to the road of convergence

Labour market and productivity: the issues for the Spanish economy

Raising the
participation
rate



Increasing and
improving
hiring



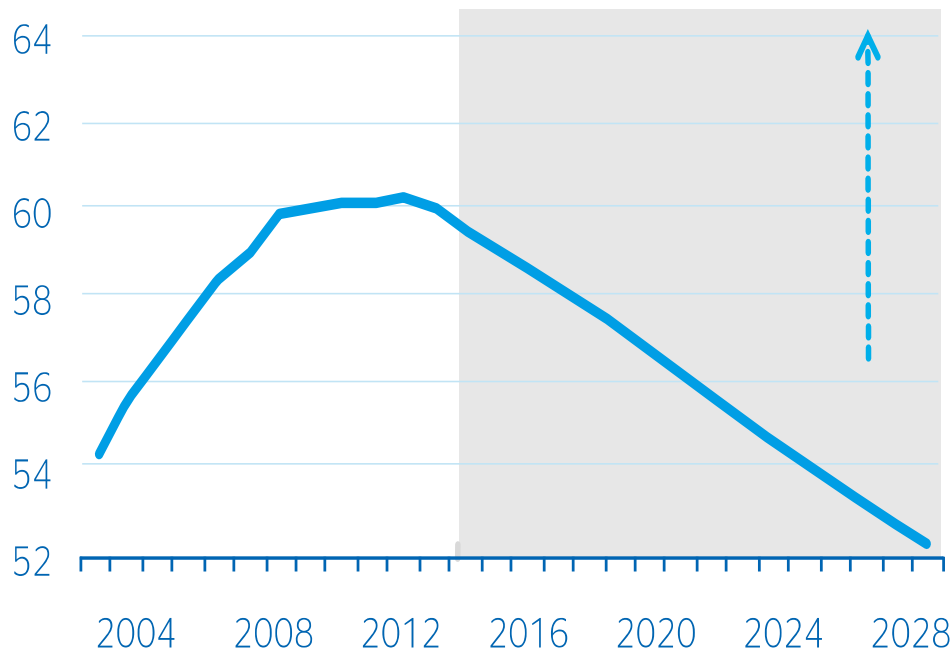
Lifting
productivity



The challenge: raising the participation rate

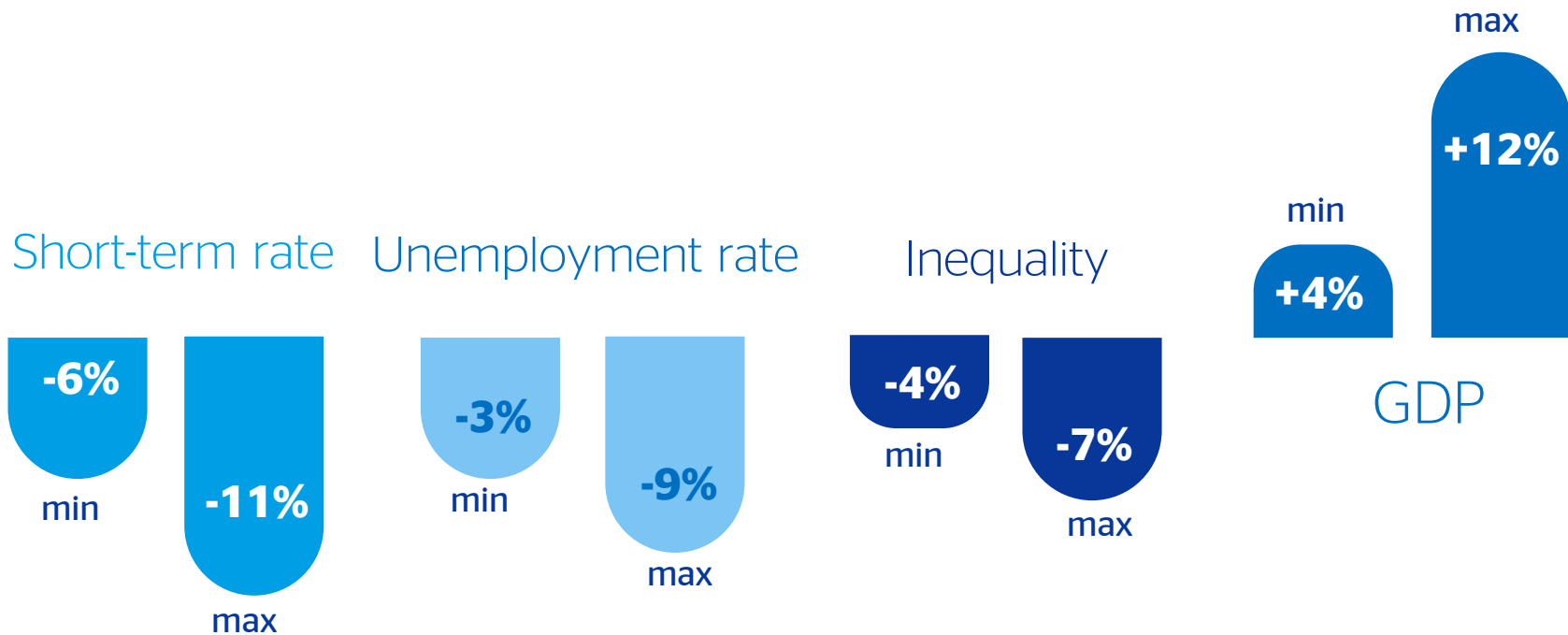


Participation rate in Spain, projection (%)



- **Unfavourable demography is an obstacle to convergence**
- **Challenge: increasing the participation of young people and the over-55s**

The challenge: increasing permanent employment

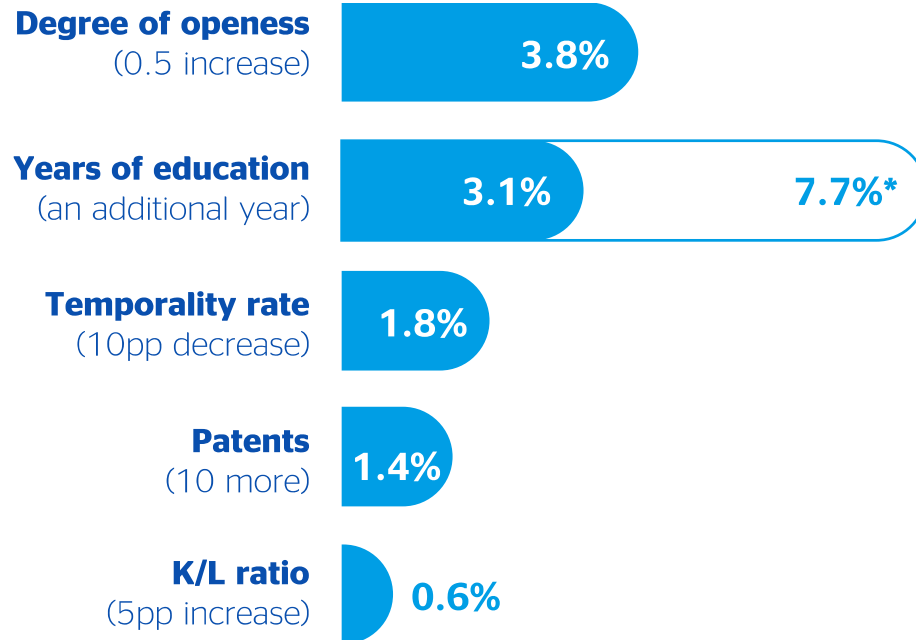


Long-term impact of the permanent employment proposal made by BBVA Research and the Sagardoy Foundation

Challenge: increasing productivity



Productivity by employee: determinants in manufacturing,
average effect 1991-2010 (%)



* En 2010

- There has been a significant **change in the composition of employment**
- Increases in **productivity** are inextricably linked to those in **human capital**



Conclusions

- The **recovery in the Spanish economy** is accelerating, supported by domestic and external factors
- Between 2015 and 2016 **more than a million jobs will be created**, but the imbalances in the labour market remain considerable
- A **reform which encourages permanent employment** would have positive effects on activity, employment, the unemployment rate and equality
- To **boost productivity** we need to make a real bid to improve innovation and human capital

2015-16 forecasts

Spain and Europe: Macroeconomic Forecast

Source: BBVA Research based on INE, Eurostat, BCE and Banco de España

(% YoY)	2013		2014 (f)		2015 (f)		2015 (f)	
	Spain	EMU	Spain	EMU	Spain	EMU	Spain	EMU
Households final consumption expenditure	-2,3	-0,6	2,3	0,9	2,5	1,4	1,7	1,7
General government final consumption exp.	-2,9	0,2	0,8	0,9	1,5	0,5	1,4	0,9
Gross fixed capital formation (G.F.C.F.)	-3,8	-2,4	2,8	0,7	5,2	0,9	6,4	4,6
Equipment and cultivated assets	5,6	-1,9	8,0	3,2	6,5	6,4	6,3	6,8
Equipment and machinery	5,3	-1,9	11,8	3,3	7,2	6,4	6,3	6,8
Housing	-7,6	-3,4	-2,8	1,7	5,1	3,3	9,5	3,5
Other constructions	-10,5	-4,1	-2,9	0,9	1,8	2,5	2,6	3,1
Changes in inventories (*)	0,1	-0,1	0,2	-0,1	0,0	0,0	0,0	0,0
Domestic Demand (*)	-2,7	-0,9	2,1	0,7	2,7	1,1	2,4	2,0
Exports	4,3	2,1	4,4	3,7	6,1	4,8	7,2	4,9
Imports	-0,5	1,2	7,6	3,7	6,8	4,8	7,1	5,0
External Demand (*)	1,4	0,4	-0,7	0,2	0,0	0,2	0,2	0,1
GDP mp	-1,2	-0,4	1,4	0,8	2,7	1,3	2,7	2,2
Pro-memoria								
GDP excluding housing	-0,9	-0,2	1,6	1,0	2,6	1,9	2,4	2,1
GDP excluding construction	-0,2	0,0	1,9	1,0	2,6	1,8	2,4	2,0
Total employment (LFS)	-2,8	-0,8	1,2	0,5	3,2	0,8	2,9	1,1
Unemployment rate (% Active pop.)	26,1	12,0	24,4	11,6	22,5	11,2	20,9	10,6
Current account balance (% GDP)	1,4	2,4	-0,3	2,5	0,9	2,7	1,0	2,7
Public debt (% GDP) (**)	92,1	90,9	97,7	94,3	100,3	95,2	99,3	94,7
Public deficit (% GDP)	-6,3	-2,9	-5,5	-2,7	-4,2	-2,5	-2,8	-2,0
CPI (average)	1,4	1,4	-0,2	0,4	-0,4	0,1	1,4	1,0
CPI (end of period)	0,3	0,8	-0,5	-0,2	0,7	0,8	1,5	1,1

(*) Contribution to GDP Growth

(**) Excluding aid to the banking sector in Spain

(f): forecast