BBVA | RESEARCH

Europe Economic Outlook

Second quarter 2015
Europe Unit

- The recovery strengthens in the eurozone thanks to the oil shock and ECB measures
- All large countries exit the recession, with stronger growth in Germany and Spain
- The depreciated exchange rate should boost net exports, despite a weaker external outlook
- The Greek situation remains unresolved, though eventual contagion risks should be manageable

Index

1 Editorial 3

2 World growth is suffering from the slowdown in the emerging economies 4

3 Eurozone: drivers of growth remain encouraging 6

4 Perspectives: growth will gather momentum in 2015 and 2016 12

Eurozone member states: detailed analysis 17

5 Tables 19

Closing date: 30 April 2015

1 Editorial

In the last few months the signs from the eurozone economy have in general continued to be bullish, which indicates that **the scenario of recovery is becoming more established**. In our previous set of forecasts we ventured that GDP growth this year would be 1.3%, though biased on the high side, as we did not quite manage to see any lift-off in the indicators for real activity, even though the fundamentals were sound. The fine economic confidence figures have continued to be confirmed and have spread to certain real indicators, the fundamentals are still hopeful and, although the risk factors are still present, they do not seem to be having any substantial effect on confidence and activity in the short term. For all these reasons **we have raised our forecast for this year to 1.6%, while we maintain our growth expectation of 2.2% for 2016.**

The positive factors which are underpinning recovery **have become even more conducive to growth**. On the one hand, **the oil price** is still at levels far below those of previous years and, although we think that it will gradually make a come-back in the coming months, it is still languishing at relatively low average annual readings. Within the eurozone, this slump in the price **is boosting the disposable income** of economic agents **and is largely responsible for the surge in consumption** during the first quarter which the retail price and auto indicators are pointing to.

On the other hand, **euro depreciation is proving more acute than forecast**, and we now estimate that the EUR/USD rate, despite the recent appreciation, could see out the year at around 1.02 and be at 1.12 by the end of 2016, which would mean an average additional depreciation of 7% in 2015 and 9% in 2016 relative to our estimates of three months ago, with a not negligible potential impact on growth via larger net exports.

A good deal of the responsibility for this bigger depreciation has been the **work of the ECB's quantitative easing programme**, which has begun in earnest and had a major effect on interest rates all along the curve and inflation expectations (which have recovered slightly). President Draghi made it clear in the latest meeting that, despite the fledgling recovery, stated policy to date will continue to be pursued, in principle up to September 2016, which appears to endorse the ECB's accommodative tone for at least a few more quarters, at the same time that the Fed begins its normalisation.

In terms of **fiscal policy**, there have been no significant changes: it **is likely to remain neutral during 2015**, and a relaxation of the demands on France and Italy (among others) to make adjustments in 2015 has already been confirmed, while the emphasis on the Juncker Plan has faded in recent months, probably because it is now seen as less pressing. We will have to wait until June before we see it set in train and start to glimpse whether it might have any substantial impact on activity.

It is not all good news in the eurozone however, and **although on balance the risk situation is now more neutral, this is still biased towards the downward side**: the influence of **the Russia/Ukraine crisis** on the European scenario is still there, even though it appears to have abated (and it is not affecting investment to the extent that we had predicted, in spite of the further decline in the Russian economy, yet it is harming exports); the risk has increased of **the external environment becoming less benign** than envisaged, particularly in the emerging markets; and above all **the Greek crisis has ground to a standstill**.

Following the agreement in late February between the Eurogroup and the newly-formed Greek government, talks to set out a specific list of structural reforms and further fiscal adjustments to reinforce the country's growth potential and ensure its financial capacity have thus far yielded nothing, in a context of increasing liquidity problems for the Greek government. A default on any of the sums due for debt held with the IMF or the ECB is a very real possibility, which could in a worst-case scenario prompt Grexit to finally happen, thereby stretching the ECB and the other European authorities to the limit in terms of their capacity to head off any spill-over into other countries and deliver on their commitment to monetary union.

2 World growth is suffering from the slowdown in the emerging economies

The available economic indicators point to **a gradual slowdown in world growth in the first quarter of 2015 towards a 3% annualised rate**[1], a few tenths below the figure in 2H14 (between 3.3% and 3.6%). The slowdown in the US economy, the lower dynamism of China, and the decline in activity in certain key emerging economies (such as Russia and Brazil, though not India) account for the bulk of the slowdown worldwide, which have not been offset by the relatively better performance of the eurozone and the United Kingdom.

The progressive rise in commodity prices, in line with BBVA Research forecasts, and the **reinforcement of loose monetary policies** have been two of the most remarkable elements in the economic global picture in recent months. The base effect of the former **has helped to contain the fall in inflation rates in certain geographical regions, mainly in developed countries, which, together with the change in the tone of monetary policies, has anchored the inflation expectations discounted by markets. Both of these, however, have failed to inhibit financial volatility indicators from continuing to tick upwards, although from very low levels and only gradually**.

The absence of short-term inflationary pressures (even though the oil price is converging to USD70/bbl at the end of the financial year) and long-term inflation expectations being contained at levels below those targeted by the central banks have served to justify a **greater degree of proactive moves by central banks, both in developed and emerging economies**. In the former case, by continuing at length with asset purchase programmes (ECB and in Japan) or by giving consideration to delaying reference rate hikes (the Fed and the Bank of England); in the latter case, taking further measures aimed at monetary loosening by cutting rates (although Brazil is the main exception here). There is no doubt that this **latter aspect represents one of the distinguishing factors of the present economic cycle**. Even if the Fed might have decided on a strategy of gradual monetary tightening, the beginning of which could come about in 2H15, the emerging economies have chosen to give priority to kick-starting their domestic demand by trying to cut real interest rates, in some cases at the cost of accepting greater exchange-rate volatility and running the risk of reduced incentives for foreign capital inflows. A sign of this is the slowdown of the short-term nominal interest rate for the world's major economies (excluding the United States), which stands at 3.2%, which is 20bp below the level a year ago.

The other side of the coin is the strengthening of the dollar at a global level and the **almost across-the-board depreciation of emerging economy currencies, which is more pronounced in those countries that have a greater reliance on foreign funding, a larger share of revenue from commodity exports or a higher reaction to the global liquidity scenario**. Moreover, those which decided to implement expansive monetary policies given such "fundamentals" have come off the worse for it. In the short term, the depreciation of emerging currencies can promote the external competitiveness of those countries and kick-start economic growth. That said, this can end up giving rise to adverse effects which are uneven among economies and institutional segments, by making it harder to refinance the debt taken on in foreign currency (in most cases dollars), thereby making the servicing of this more costly.

The contrast in the monetary strategies of the ECB and the Fed will continue to shape the direction taken by capital flows and, by extension, the behaviour of financial variables. The ECB's liquidity injection from buying-up government bonds has reinforced the correction in long-term interest rates among

1: Estimate based on BBVA Research's global activity indicator (GAIN). Details of the methodology can be found at: http://bit.ly/1nl5RIn

the developed nations and, to a greater extent, in the eurozone, and has magnified the euro's depreciation relative to its main exchange currencies (it stands at close to parity against the dollar).

This trend is likely to remain until the Fed implements the first increase in fed funds. Thus it will be its communication strategy regarding the pace of the forthcoming hikes which shapes the rally for yields in the bond market and the degree of financial volatility. The scale of any capital outflows from the emerging countries will therefore hinge on Fed monetary policy, though also on local factors associated with the point in the cycle and the vulnerabilities of each country, especially when the volatility from the first or first few hikes wears off. Thus, as in terms of growth, major divergences in the course taken by exchange and interest rates among the emerging countries are to be expected.

All in all, **the context for global growth remains favourable**. In the most likely scenario, global GDP will grow at 3.5% in 2015 and accelerate to 3.9% in 2016 due to the support of the DMs, which will register their strongest growth since 2010. In the case of the EMs, given the downward trend in China, their brightest outlook for the next year lies in the support of the DMs on world trade, steadily rising commodity prices and a tightening up of financial conditions which, in line with the above, will be much more gradual than in previous Fed rate-hike cycles (see forecasts in Global Economic Outlook Second Quarter 2015).

The risks to the downside persist for world growth. The most significant of these rest with the extent of the slowdown in China and the spill-overs coming from the beginning of the Fed's rate normalisation process. The deflationary pressures associated with the oil price, geopolitical tensions and any failure of the ECB to reactivate inflation expectations in the eurozone are risks that, despite appearing less likely and less significant in terms of expected impact than some months ago, cannot be ruled out. Finally, a risk which still lurks in the wings is that of a failure to reach agreement between the Greek government and the European institutions and the IMF on how to refinance its debt servicing obligations.

3 Eurozone: drivers of growth remain encouraging

Growth in 4Q14 was somewhat greater than expected and the first quarter data indicate a pick-up to annualised rates of around 2% (see section 4), meaning that the prospects for consolidation of the recovery in Europe are taking a firmer grip in the wake of the danger of drifting back into (a third) recession which loomed in mid-2014. Since the end of last year the oil price slump (an exogenous shock) and the euro depreciation, which is largely endogenous and tied to expectations, as well as the ECB's subsequent announcement of the QE, have been the major factors underpinning activity. Three months after our previous forecasts, these factors seem to have been reinforced. Both monetary and fiscal policy are mildly more expansive (or rather less contractionary) than we were counting on just a short while ago and compared to how they have been in years gone by.

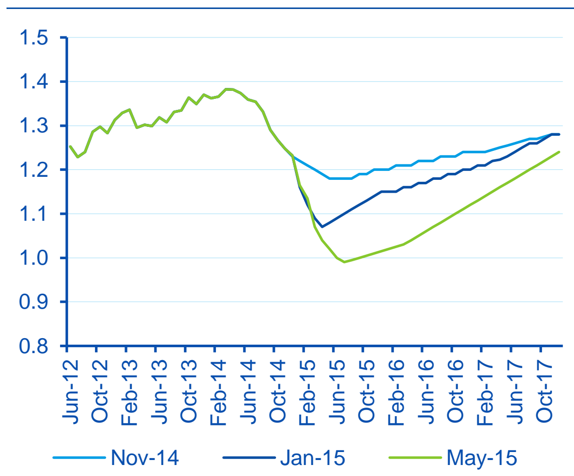
The negative factors weighing down on confidence and investment, which are in turn risk factors if the situation deteriorates, are still the Russia/Ukraine crisis and, above all, the Greek crisis, despite the country's relatively small size. Although the spill-over of a potential Grexit is likely to be contained, and could be reduced even further through preventive measures, it could place even greater stress on economic activity. A third risk still, which looms in these first few quarters of recovery, comes from external demand, particularly from the emerging markets, and might be smaller than expected.

The euro depreciation and the oil shock are a bit bigger than were foreseen

Our forecasts for the EUR/USD exchange rate for 2015 and 2016 have again been revised downwards, owing to a larger fall than was expected at the start of the year, a monetary policy which has proved rather more aggressive than we were factoring in, and the fact that we are standing by our forecast of a rate hike by the Federal Reserve in September this year. We now estimate that the exchange rate will stand at **1.02 at the end of this year, and 1.12 towards the close of 2016**, which means an average further depreciation of 7% in 2015 and 9% in 2016 relative to forecasts of three months ago, which **might represent additional cumulative growth of 0.2-0.3pp over both years taken together**, thanks to higher net exports.

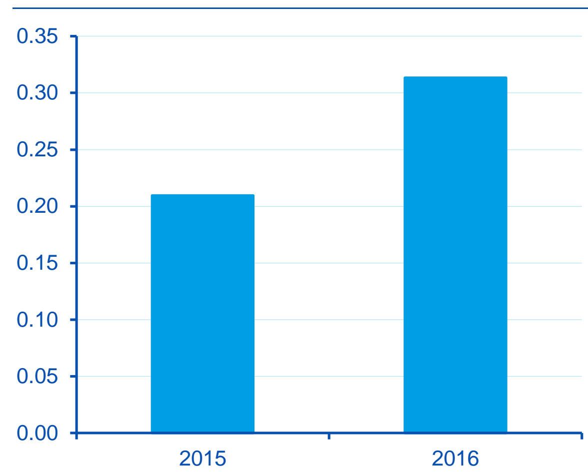
In the last three months **the oil price** has edged higher, but the course we expect it to follow in the next three is somewhat more gentle, with an average price per barrel for Brent of USD62 in 2015 and USD75 in 2016. In euro terms, and due to the added depreciation in the exchange rate, the drop in the average price in 2015 is 12% (compared to 15% three months ago), which **still represents a major windfall for the incomes of economic agents**. Although hard to pinpoint, the substantially improved private consumption indicators in the last few months are bound in with the income effect from this fall. Our estimates are that the contemporaneous effect of a negative oil price shock of 10% could translate into a boost for GDP of between 0.1pp and 0.2pp.

Figure 3.1
Exchange rate EUR-USD



Source: BBVA Research

Figure 3.2
EMU: Effect of the additonal euro depreciation on annual GDP growth (pp)



Source: BBVA Research

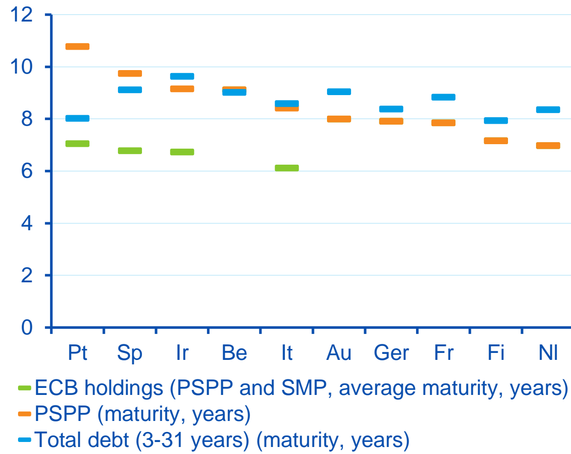
The ECB remains resolute in its quantitative easing policy, which is having a powerful impact on markets

The details of the QE measures announced by the ECB in January **have provided welcome surprises**. The pledged buying of an assortment of assets worth **EUR60bn each month up to September 2016**, and at least until a sustained adjustment in inflation becomes detectable, is rather more than what was initially expected. Moreover, the timing is **more loaded toward the longer term than was envisaged**. On the other hand, as might have been expected, **the ECB has the same seniority as other bond holders** (*pari passu*). How **buying** is divided will be handled **according to the capital key for each country at the ECB**, and certain buying limits have been set per issue and issuer (no more than 25% of an issue and no more than 33% from a single issuer). Even though some of these elements could place one or two restrictions on the buying programme, **the ECB has indicated its willingness to make it more flexible** if required for the sake of meeting its targets.

Nonetheless, there is one element in the programme's design which, in our opinion, cannot be seen in a positive light: **the Eurosystem does not assume responsibility for the whole of the risk in the purchasing of sovereign bonds**, doing so for a mere 20%, while the national central banks must shoulder the rest. Although this point has not caused any great reverberations in the short term, we think that **it does not send out the right signals from the standpoint of financial integration and banking union**.

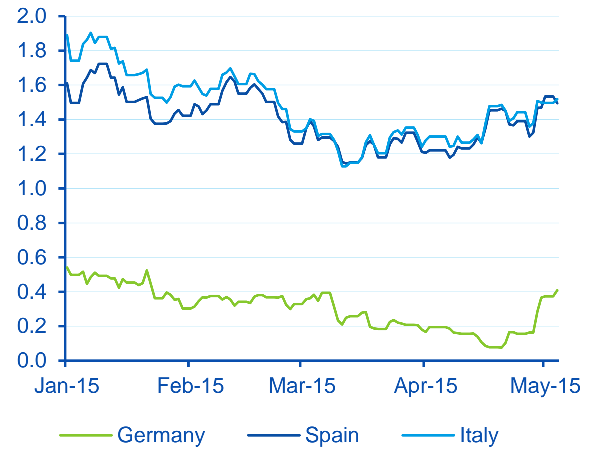
Two months into the programme, **the buying is going to plan**. In this time, sovereign bonds have been purchased worth EUR95bn which, in combination with the buying programmes for private assets (ABSs and CBs), have totalled EUR120bn. The purchasing has been divided as a virtual carbon copy of the share of countries according to the ECB's capital allocation key. With respect to the average maturity of the bonds, however, it should be pointed out that for certain of the countries on the periphery, particularly Spain, they are longer than in the case of the others.

Figure 3.3
Average maturity of purchased debt



Source: Bloomberg and BBVA Research

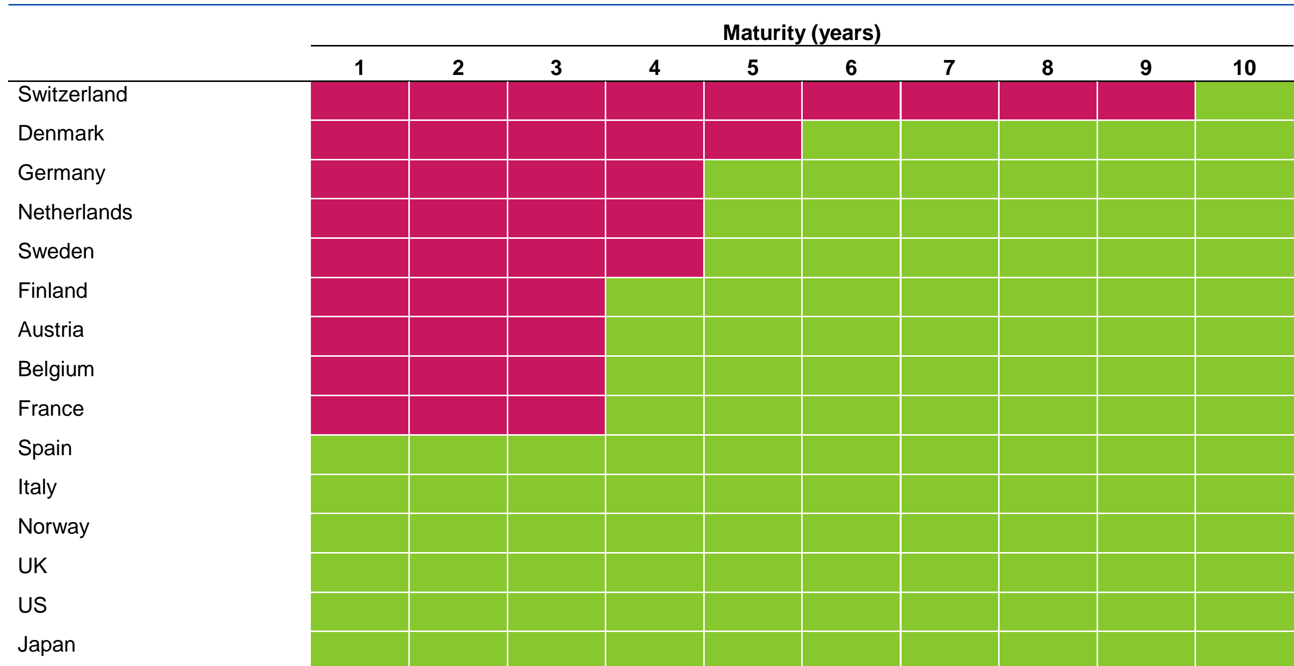
Figure 3.4
10 years interest rate bond



Source: Bloomberg

The convincing and forthright manner in which the ECB has initiated the buying, as well as the messages of commitment to the programme which the ECB has consistently reiterated, have produced **an extremely powerful impact** (which has been stronger than expected) **on the financial markets:** in the last few months there has been **a significant drop in interest rates in Europe and an exchange rate depreciation** which has accumulated in the months leading up to the programme's announcement. The interest rate fall has actually given rise to an unprecedented situation, whereby 30% of the stock of European sovereign bonds has been priced with negative rates, and in certain cases this phenomenon has even extended to the long end of the yield curve. Furthermore, it could be said that the consequences of the ECB programme have also been felt in other geographical areas, producing a bandwagon effect on interest rates in other countries (including the United States and the United Kingdom) and also encouraging a more expansive tone from other central banks (in the Nordic and emerging economies). On the other hand, **long-term inflation expectations have increased**, in part also due to the oil price recovery: since January, expected inflation over five years (inferred from inflation swaps) has climbed from 1.5% to 1.8%.

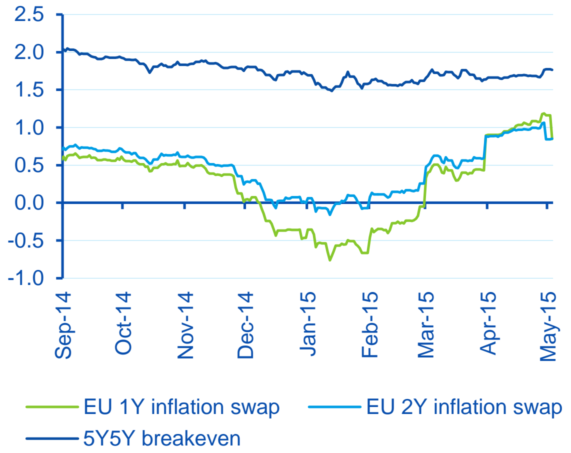
Figure 3.5
Negative interest rates by maturity



Source: BBVA Research

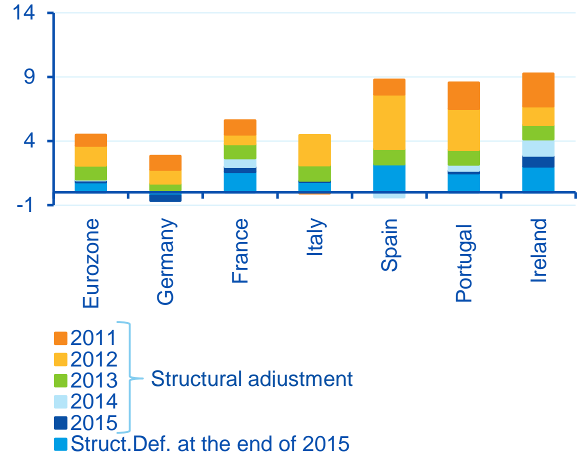
Despite the fact that the ECB's script when it comes to taking measures is tied by mandate to inflation (and the risks of deflation have clearly receded), **the effects on activity are also important**. Isolating the impact of QE on activity is very hard, given the shortage of historical precedents, but the analyses of measures of this type in the United States and the United Kingdom indicate that the level of cumulative additional GDP in two years ought to be around at least 1% from purchasing sovereign bonds worth the equivalent of 10% of GDP (which matches that intended by the ECB for the zone). Extrapolating these findings to the eurozone, we find that the purchasing of sovereign debt that is additional to what was planned three months ago would be 2% of GDP, which would lead us to revise our forecast upwards (purely from this effect) by 0.2%-0.4%, in line with the effect envisaged from the depreciation of the euro (the most high-profile transmission channel for monetary policy in the current eurozone context). The overall impact of the QE announced, on a scale of 10% of GDP, would be in excess of 1pp of GDP.

Figure 3.6
EMU: Inflation expectations



Source: Bloomberg

Figure 3.7
Fiscal adjustment and structural deficit



Source: BBVA Research

Fiscal policy confirms its neutral tone

The main news regarding fiscal policy in the eurozone is that the European Commission has approved the fiscal consolidation plans submitted by France and Italy, and which had been awaiting final endorsement in March. In the case of France, the target of achieving a deficit of 3% up to 2017 has been delayed yet again, with intermediate targets of 3.8% and 3.3% respectively in 2015 and 2016. This implies measures involving structural adjustment (i.e. a reduction of the primary structural deficit) of 0.4pp and 0.5pp. The argument for slowing down the adjustment centres on the plans for structural reform presented by the French government (even though they are not effectively approved reforms, which clashes with the wording of the European accords), and in practice this means a relaxation of the deficit criteria.

In the case of Italy, the deficit reduction of 0.4pp to 2.6% in 2015 and 1.8% in 2016 reflects the improvement in the cycle without any need for further structural adjustments. For the eurozone overall, as can be seen from figure 3.7, fiscal policy will be restrictive to the extent of barely 0.1pp of GDP, which is similar to 2014 and far less than in the highly concerted efforts made to consolidate in the previous three years.

The situation outside is taking something of a turn for the worse

As is mentioned in section 2, **global growth has slowed down lately**, yet more than anything, it appears to exhibit risks to the downside, which is primarily true of the emerging economies, as the first quarter's loss of pace in the United States is above all a temporary phenomenon. **The direct impact of lower growth is negligible, but the risk scenario is not and it has a downside bias in its external component**, particularly if the Chinese economy's growth does not live up to expectations.

Nevertheless, **the principal external factor** which directly affects the European economy **is the crisis between Russia and Ukraine**. The reciprocal sanctions imposed by Russian and the EU are still in place, despite the Minsk agreement, and growth in Russia seems likely to be more negative than forecast in 2015 (-4%, compared with a figure of -1% estimated three months ago). Despite this, the direct impact on the eurozone economy is essentially happening through trade, as the much-feared impact on investment (in those countries with more ties with Russia, such as Germany) appears to have dissipated to some extent.

The situation in Greece remains unresolved

After the January elections, the Greek government reached a draft agreement with the Eurogroup on submitting a detailed list of reforms, in line with those in the current programme, which might enable the institutions (the European Commission, the ECB and the IMF) to pay out the final tranche of the loan and possibly renegotiate repayment of the debt, which is for the most part in official hands. Up until now, the talks on specific measures have not ended, which, given a situation of serious liquidity problems in government finances, could lead to a situation of default in servicing the debt and a possible Grexit, although the most logical scenario is for an agreement to be reached which might make it possible to maintain funding and implement the reforms needed to consolidate the growth potential and the financial position of Greece as a sovereign state. **The situation should be resolved**, in one way or another, **in May or, at the latest, in June, as the repayments the Greek government is facing in the summer are considerable and will require fresh funds**.

Although a situation of default and a possible Grexit is still not the baseline scenario, Grexit would have a certain short-term spill-over effect on the other eurozone countries, which means there is a risk for European growth. Whatever the outcome, the impact should be restrained, as the macro-economic situation of the other countries is more on-track and in better shape than in 2012 (positive growth, and smaller public and external imbalances), the process of banking union is more consolidated, and the ECB's instruments are still functional (the Outright Monetary Transaction programme), having been recently bolstered by the QE programme.

4 Perspectives: growth will gather momentum in 2015 and 2016

The lower oil price and improved confidence following the QE announcement have boosted growth at the beginning of the year

After the improvement in domestic demand in 2014, both for private consumption and investment, the most recent evidence suggests that this pattern has continued going into 2015. The confidence surveys and the real indicators in the first quarter of 2015 are consistent with a slight pick-up in growth which, besides consumption and investment, is likely to have been accompanied by a rise in exports, helped along by the weaker euro.

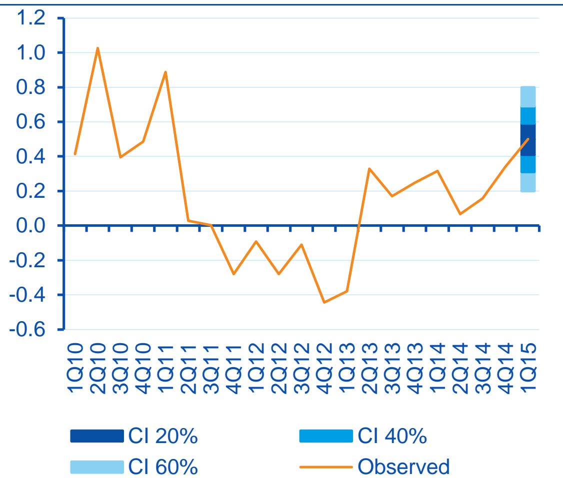
Using all the confidence figures and two-thirds of the real data, **our short term MICA-BBVA model estimates quarterly GDP growth of around 0.5% in 1Q15 in the eurozone** (Figure 4.1), speeding up by 0.2pp with respect to the previous quarter (0.3% in 4Q14). By country, Spain would have headed up the recovery, growing at 0.9% QoQ, followed by Germany, which should have held its growth rate in the region of 0.6/0.7% QoQ, while France and Italy would have grown at around 0.3% QoQ.

The rally in private consumption is taking hold as the key driver for domestic demand…

Private consumption has held its growth steady since mid-2013 (averaging 0.2% QoQ), and surprised by accelerating towards the end of 2014 (to around 0.5% QoQ), a pick-up which, according to our forecasts, should have remained relatively stable at the start of 2015. This is in line with the strongly resurgent consumer confidence that was observed at the beginning of the year and is being supported by the gradual improvement in the labour market, which began at the end of 2013. Both retail sales (available to February) and the upturn in vehicles registrations should be a sign that private consumption has held at growth rates of close to 0.5% QoQ at the beginning of 2015.

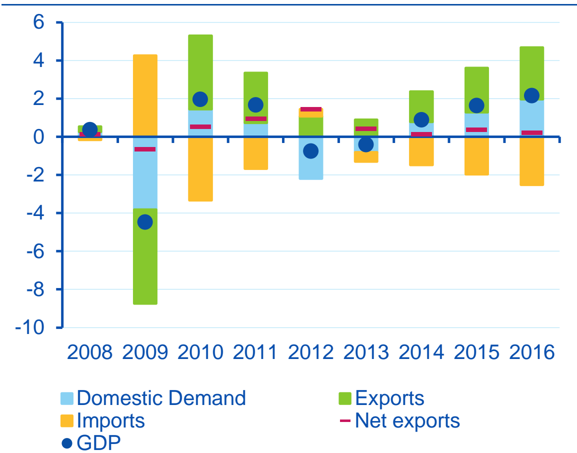
Over the forecast horizon, **we expect the factors supporting private consumption to continue to gain in strength. Added to the expectations of a gradual improvement in the labour market there is the low oil price, and these factors should both help to boost private consumption** via higher disposable income and a drop in the component of the savings rate that is attributable to precautionary reasons. All told, consumption should gather pace in 2015 (at around 1.7%) and stay at roughly those growth rates in 2016 (1.6%). Within this growth pace, however, there should still remain some element that reflects the process of household deleveraging, which would therefore hamper a stronger recovery for this component.

Figure 4.1
EMU: MICA-BBVA and observed GDP (% QoQ)



Source: Eurostat and BBVA Research

Figure 4.2
EMU: contribution to annual GDP growth (pp)

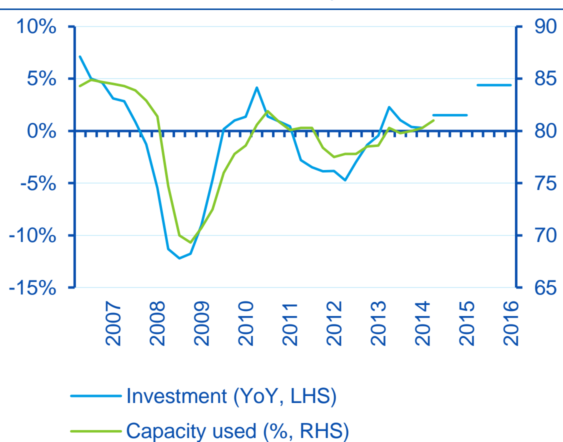


Source: Eurostat and BBVA Research

… whereas uncertainty could still choke investment in 2015, with a clear rebound in 2016

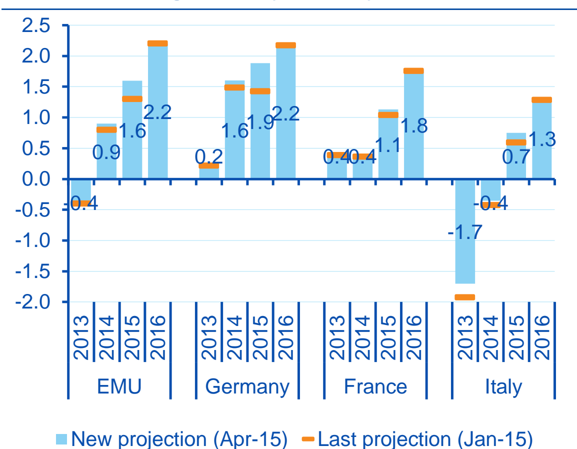
After a highly volatile first half of 2014, which partly related to geo-political events, investment rallied at the end of the year, closing the final quarter with growth of 0.4% QoQ (surprising by 0.3pp on the high side). The base effect of this surprise at the end of 2014, still robust demand from abroad (above all from the developed economies) and improved domestic consumption prospects all lead us to lift our investment growth forecasts for 2015 by 0.6pp to 1.5%. For 2016, we are practically keeping to our forecast of sustained growth (at 4.4%), encouraged by the **better financial conditions associated with the more expansive and longer-lasting monetary policy, together with a mild stimulus effect from the Juncker plan** (Figure 4.3).

Figure 4.3
EMU: investment and capacity utilisation



Source: Eurostat and BBVA Research

Figure 4.4
EMU: forecast growth by country (%)



Source: Haver and BBVA Research

Public consumption could provide marginal support for growth given a practically neutral fiscal policy

After several years of sharp fiscal consolidation, above all on the periphery, and after the European commission showing itself somewhat more tolerant concerning the planned pace of adjustment (above all with regard to Italy and France), 2014 closed with positive surprises in terms of the fiscal balance. Germany posted a larger surplus than was initially expected, whereas France and Portugal closed with smaller deficits than their last targets. Italy, on the other hand, was in line and Spain a fraction worse. According to our estimates, the **fiscal deficits for the eurozone as a whole in 2015 and 2016 will continue to narrow to 2.1% and 1.6% of GDP respectively** (some 0.4pp less for each year than in our previous forecast), after 2.4% in 2014; approximately 4pp below the high observed in 2010 (6.1%). A large part of this adjustment has been through permanent measures, which has allowed the structural deficit to come down from roughly 4.4% in 2010 to 1.1% in 2014, which is an average adjustment of 1pp of GDP a year. **Any progress in terms of the public accounts this year and the next, however, will be determined by the cyclical improvement in the economy, while the structural deficit will remain at close to 1% of GDP in both years**. Bearing in mind this neutral aspect of fiscal policy, public consumption should grow at around 0.5% in 2015 (after 0.7% in 2014) and 0.9% in 2016.

Exports should accelerate in 2015, despite the slowdown in the emerging markets

Last year, exports kept up solid growth (3.7%) on the depreciation of the euro and lower domestic prices. In 2015, the latest goods export figures still fail to reflect the rise in manufacturing orders from abroad, but over **the course of the year we predict that the lower exchange rate and the surge in private consumption in the developed economies will be mirrored in exports that should gain traction in 2015 and 2016,** rising by around 5.5%.

Imports grew by slightly more than was expected in 2014 (3.8%), in line with a decent performance by domestic demand. For the forecast horizon, **livelier private consumption, together with the steady improvement in procurement associated with investment, will mean that in 2015 and 2016 imports will continue to gather pace,** growing by 4.9% and 6.1% respectively.

Overall, external demand should make a positive contribution to GDP growth in 2015 (0.3pp), after 0.1pp in 2014 (Figure 4.2).

As a whole, the eurozone economy should consolidate in the first half 2015, gathering momentum in 2016

Taking into account all of the factors mentioned in section 3, **we are slightly revising upwards (+0.3pp) our central scenario to 1.6% in 2015**. This is chiefly due to a more generous contribution from domestic demand (+0.2pp to 1.3pp) that stems from the lower oil price, which will produce cost-savings for businesses and low inflation, and the improvement in financial conditions, which ought to encourage decisions by economic agents to consume and invest. Yet this is also attributable to developments in the external sector which, following the euro's depreciation, should also contribute slightly more to growth (0.1pp, taking this up to 0.3pp) relative to our forecast of three months ago. **For 2016 we are standing by our forecast that the economy will gain traction and grow by 2.2%**, mainly driven by a substantial increase in investment, which would lead to domestic demand having even greater input into growth in 2016 (+2pp, see Figure 4.2). The external sector should continue to make a positive contribution, though a shade less than in 2015 (a contribution of 0.2pp), due to imports forging ahead to satisfy investment and consumption, while exports will

carry on growing at a brisk pace. Under our new forecasts, pre-crisis levels (1Q08) could be reached earlier, with a full recovery at the end of this year or going into 2016.

After the fine performance in most of the eurozone economies at the end of 2014, we foresee the economies on the periphery posting strong growth in 2015, with Spain taking up the baton from Germany as the economy which will grow the most in 2015-16. On the other hand, Italy seems to have emerged from recession at the start of the year and should grow in 2015 after three years of recording negative rates, while the French economy should grow faster from this year onwards (Figure 4.4). In both cases the speed of recovery should be a little bit higher than in our previous forecast (for a more in-depth analysis, see the countries box below).

Gradual reduction in the unemployment rate of around 1pp to roughly 10.5%

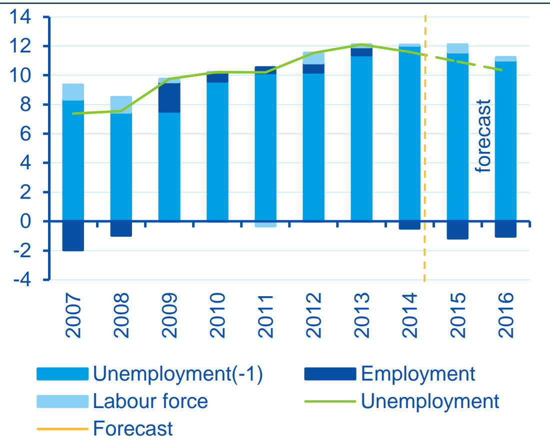
The brighter employment market in 2014, with almost half a point less of the unemployment rate compared to 2013, has gone from strength to strength in recent months. Employment has been steadily reviving since early 2014 (at an average annualised rate of 0.4%) and picked up speed towards the end of 2014, posting an annual average growth rate of 0.6%. The labour force grew a little in 2014 (up 0.1%). In our central scenario we expect this **improvement to continue throughout 2015, with employment growth of 1%**, which will be reflected in a **further fall in the unemployment rate to 11% on average for the year, after 11.6% in 2014**. For 2016, the gathering pace of growth and domestic demand, together with significantly dispelled uncertainty, could lead to sustained employment growth (0.9%) and a drop in the unemployment rate to 10.3% (Figure 4.5).

The oil price will hold inflation down at a very low level until 4Q15

Over 2014 as a whole, inflation took a clearly downward course, surprising on the low side in 4Q, mainly on the unexpected developments in energy prices; a trend which was also noted, though to a lesser extent, in core inflation. Notwithstanding this, the change in trend seems to have taken place in February this year, and since that time inflation has been coming down more gently, in line with expectations, reaching 0% YoY in April. Still underlying this pattern has been the trend in energy product prices, which accounts for a considerable portion of the moderation, though there was also a slight upturn in food prices. Core inflation, on the other hand, held at around 0.6% in the opening quarter of the year.

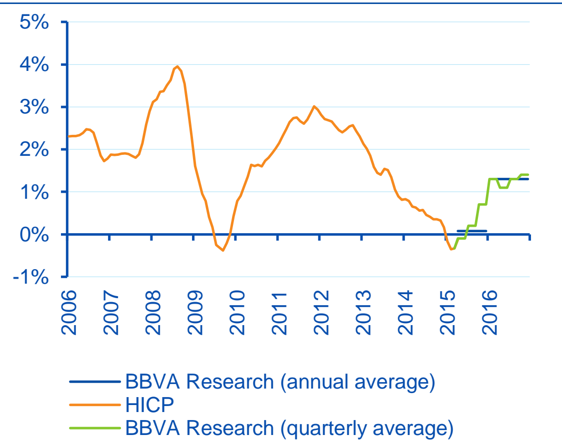
For the remainder of this year, inflation is likely to record negative or else very low annual rates in the second and third quarters, and it will not be until the final quarter when an uptick is noted in the region of 0.8%/0.9% in December, due to base effects and the path taken by energy prices. On the other hand, core inflation is likely to remain relatively stable in the coming months. Overall, **we continue to foresee inflation of 0.1% in 2015 with an upturn in 2016 to 1.3%, which has been revised upwards a little bit (+0.3pp) after the ECB announced somewhat more drastic measures than were expected three months ago.** These forecasts are, however, still a long way below the ECB target, although the low should be behind us and the risk of deflation has quite diminished (Figure 4.6).

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



Source: Eurostat and BBVA Research

Figure 4.6
EMU: observed and forecast inflation



Source: BBVA Research

Eurozone member states: detailed analysis

Germany: strengthening domestic fundamentals speeds up recovery, but it remains vulnerable to external uncertainty

(GDP: +1.9% in 2015, +2.2% in 2016)

Recent data: the most recent figures suggest that the surge in GDP growth has been maintained at the beginning of the year (0.6% QoQ after 0.7% QoQ in 4Q14), which was fed by improved domestic demand. On the one hand, investment should have been boosted by the vigour of industrial production and exports. On the other hand, the good progress in the labour market, which is showing an unemployment rate at a historical low, could incentivise wage rises (after the increase in the minimum wage), which should have led to improved household confidence and increased consumption in line with the retail sales figures. Given this rise in domestic demand, imports will increase, meaning that the final contribution of net exports to growth should be less substantial. Nonetheless, the small slip in business confidence and the growth rate of foreign orders indicate a slowdown in growth in the next few quarters.

Outlook for 2015 and 2016: growth will continue to be driven by domestic demand and exports. The modest inflation rate, together with positive progress in the labour market, will contribute to a significant increase in private consumption in 2015. Despite this, the situation in Greece and unresolved geo-political conflicts could give rise to increased uncertainty and condition business confidence in 2015, for which reason companies could put off investment plans until 2016. Despite the fact that the sound export sector will continue to reap the benefits from the depreciation of the euro, the weakness in the world economy could dampen the sector's prospects. Imports will rise at a faster rate than exports thanks to consumption patterns, with the result that net exports will play a marginal role in contributing to growth.

Fiscal policy: after the larger-than-expected fiscal surplus in 2014, we foresee the federal accounts also recording surpluses in 2015 and 2016 of 0.5% and 0.3% of GDP respectively. Public debt should therefore continue its falling trend and reach around 70.9% of GDP in 2015 and 69.5% in 2016, and then return to below 60% in 2023.

France: the oil price fall is buoying private consumption that could be the key driver for growth in 2015, added to which there should be a recovery in investment in 2016

(GDP: +1.1% in 2015, +1.8% in 2016)

Recent data: the most important confidence indicators suggest a very gradual recovery at the start of the year. Despite the fact that the Commission's economic sentiment survey indicates progress only in the manufacturing sector and the PMIs show a positive performance limited to services, the activity data seem more bullish: industrial production to February bodes well for a recovery in investment and the improvement for retail sales and the increase in family spending could herald higher private consumption on better household confidence. The contribution of the foreign sector seen in 4Q14 is likely to have come down given that exports have fallen by more than imports. Overall we forecast an acceleration in growth in 1Q15 of 0.3% QoQ after 0.1% the previous quarter.

Outlook for 2015 and 2016: our scenario envisages a gradual recovery which is more moderate than for the eurozone as a whole, since we expect GDP to grow by 1.1% in 2015 (0.1pp more than in our February estimates), thence to pick up in 2016 to 1.8%. With inflation still low throughout this year, private consumption should rise and become the principal source of growth in 2015, despite the mildly worse situation in the labour market, while investment should stop falling and then grow again in 2016, further driven by the improvement in borrowing conditions following the ECB measures. The increase in exports will be offset by the rise in imports boosted by improved domestic demand, so we expect a marginal contribution to growth to come from the foreign sector in both years. Finally the fiscal adjustment underway (somewhat bigger than that expected for the eurozone as a whole, where it will be practically non-existent) will mean a reduction in the level of support from public consumption.

Fiscal policy: the public administration deficit was 4% of GDP in 2014, some 0.4pp less than the government estimate, though it showed a deviation of 0.2pp from the target set with the European Commission in its stability programme assessment (3.8% of GDP). For 2015 we predict that the deficit will be reduced to 3.6%, mainly due to the structural adjustment (0.4pp) based particularly on strong saving, which will more than compensate for the reduction in taxes and employment-related charges for companies, which measures were established last year in the responsibility pact. In 2016 the deficit should continue to come down to 3%, and this will be equally contributed to by the improvement in the economic cycle (0.3pp) and a further fiscal adjustment (0.3pp). On the other hand, the latest official figures suggest that the ceiling for public debt will be reached in 2016, when it will be around 97.5% of GDP.

Italy: more tailwind support for the return to growth, although this will be moderate and depend on implementation of the reforms announced

(GDP: +0.7% in 2015, +1.3% in 2016)

Recent data: the powerful contribution to growth from net exports seen in late 2014 could have slowed down in 1Q15, since exports have decreased while imports should have begun to increase again. We could nonetheless be seeing signs of a recovery in private consumption. The timid progress in the labour market, the fall in the oil price and the relaxing of tax pressure on the lower income segment are being reflected in the rebound in household confidence and the rise in the propensity to consume, although at the moment the effect on retail trade is limited. Moreover, the notable improvement in business confidence and the rising export orders could have encouraged investment, for which reason we forecast growth of 0.2-0.3% QoQ in the first quarter after the stagnation of 4Q14.

Outlook for 2015 and 2016: on the forecast front, recovery is likely to be driven by exports in 2015, although the weight of the foreign sector in growth should become less significant as domestic demand rallies and imports take off. Such solidity in exports, buoyed by the weaker euro and the gradual implementation of reforms aimed at improving the business environment, together with an improvement in financial conditions after the ECB measures, should spur new investment. On the other hand, the reduction of the tax wedge and low inflation will encourage the recovery of private consumption, while the public counterpart will continue to decrease to hit fiscal targets. We are revising 2015 growth upwards by 0.1pp to 0.7% and are standing by our forecast for 2016 (1.3%).

Fiscal policy: after taking out extraordinary spending that does not count towards the excessive deficit procedure, the Italian fiscal accounts showed a deficit of 3% in 2014 after 2.9% in 2013. For 2015 and 2016 we forecast that it will shrink to 2.6% and 2% respectively. The deficit reduction in 2015 reflects an improvement in the cyclical component (0.3pp) and a small structural adjustment of 0.1pp, if Brussels should finally approve the government’s plan of reforms and accept the flexibility clause. Among these reforms is the implementation of measures to review public spending where savings would be used to fund lowering taxes for workers and businesses. The main concern, however, is still the high volume of public debt (132.1% of GDP in 2014), which, according to our estimates, should reach its ceiling in 2015, at around 134.8% of GDP, and thereafter begin to come down to 134.4% in 2016. These forecasts take into account the scheme to privatise public companies which the government has been carrying out, though with some delay relative to the expected timing, since the end of 2013, with the intention of complying with the rule on debt reduction under the Fiscal Compact from 2018.

Spain: the recovery is consolidating and relying on both domestic and external factors

(GDP: +3.0% in 2015, +2.7% in 2016)

Recent data: Recent data: The preliminary estimate for GDP confirms the consolidation of the economy in 1Q15 (0.9% QoQ compared to 0.7% QoQ in 4Q14). Domestic demand and, more specifically, the private item of this, again underpinned the growth, with household consumption and machinery and equipment investment keeping up growth on a par with 4Q14. On the other hand, real public consumption appears to have regained a bit of dynamism in the first quarter of the year, thus making a break from the stagnation observed in the middle quarters of 2014 and the fall at the close of 4Q14. The modest growth of both exports, basically in the goods category, and imports, suggests a practically non-existent contribution from net external demand to growth between January and March (For more information, see Spain Economic Outlook Second Quarter 2015).

Outlook for 2015 and 2016: our scenario for the next two years features growth of 3.0% in 2015 and 2.7% in 2016, which should be sufficient to bring about cumulative creation of one million jobs at the end of the period and bring down the unemployment rate to around 20% at the end of 2016. Activity expansion will rest on both domestic and external factors. Notable within the domestic sphere are the recovery of fundamentals, progress in correcting imbalances, and the greater support from fiscal policy and gains in competitiveness. In the external sector, there will be contributions from the gradual take-off of the global economy, ECB monetary policy (with lower borrowing costs and substantial euro depreciation) and the fall in the oil price. These factors will foment a robust recovery both of domestic demand and Spanish exports. Nonetheless, the increase in final demand will feed through positively to goods and services imports, which will result in a virtually non-existent contribution of net external demand to growth.

Fiscal policy: the general government closed 2014 with a deficit of 5.7% of GDP (0.2pp above estimates), but slightly below the deficit figure of 5.8% agreed with the European Commission to comply with the protocol for excessive deficit. For 2015 we forecast that the tax cuts will cause a fall in structural revenues from income tax which will in the short term be offset by the cyclical boost with respect to tax bases. Similarly, the economic cycle will continue to work in favour of reducing public expenditure (above all as regards spending on interest and welfare benefits, given the improvement envisaged in the labour market). Thus, given the stated policy measures to date, the 2015 deficit should be around 4.4% of GDP, slightly above the stability target of 4.2%. As for 2016, the economic cycle is expected to continue to correct the impairment to the public accounts, meaning that in a scenario of unchanged fiscal policy the deficit for that year should come down to 3% of GDP.

5 Tables

Table 5.1
Eurozone forecasts (% YoY)

	2012	2013	2014	2015	2016
GDP at constant prices	**-0.8**	**-0.4**	**0.9**	**1.6**	**2.2**
Private consumption	-1.3	-0.6	1.0	1.7	1.6
Public consumption	-0.1	0.2	0.7	0.5	0.9
Gross Fixed Capital Formation	-3.5	-2.4	1.0	1.5	4.4
Inventories (*)	-0.7	-0.1	-0.1	0.0	0.0
Domestic Demand (*)	**-2.2**	**-0.8**	**0.8**	**1.3**	**2.0**
Exports (goods and services)	2.6	2.1	3.7	5.2	5.9
Imports (goods and services)	-1.0	1.3	3.8	4.9	6.1
External Demand (*)	**1.4**	**0.4**	**0.1**	**0.3**	**0.2**
Prices and Costs					
CPI	2.5	1.4	0.4	0.1	1.3
CPI Core	1.8	1.3	0.9	0.8	1.2
Labour Market					
Employment	-0.5	-0.7	0.6	1.0	0.9
Unemployment rate (% of labour force)	11.3	12.0	11.6	11.0	10.3
Public Sector					
Surplus (+) / Deficit (-) (% GDP)	-3.6	-2.9	-2.4	-2.1	-1.6
Public debt (% GDP)	89.1	90.9	91.9	92.4	91.9
External Sector					
Current Account Balance (% GDP)	1.5	2.2	2.3	3.2	3.2

(*) 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	-0.8	-0.4	0.9	1.6	2.2
Germany	0.6	0.2	1.6	1.9	2.2
France	0.4	0.4	0.4	1.1	1.8
Italy	-2.8	-1.7	-0.4	0.7	1.3
Spain	-2.1	-1.2	1.4	3.0	2.7
UK	0.7	1.7	2.8	2.5	2.3
Latin America *	2.8	2.5	0.8	0.6	2.1
EAGLES **	5.8	5.6	5.3	4.9	5.3
Asia Pacific	5.7	5.9	5.7	5.8	5.8
Japan	1.8	1.5	0.0	1.3	1.2
China	7.8	7.7	7.4	7.0	6.6
Asia (exc. China)	4.1	4.5	4.3	4.9	5.0
World	3.4	3.4	3.4	3.5	3.9

* Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
** Bangladesh, Brazil, China, India, Indonesia, Iraq, Mexico, Nigeria, Pakistan, Philippines, Russia, Saudi Arabia, Thailand and Turkey.
Forecast closing date: 30 April 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	1.6	0.6	1.9
Eurozone	2.5	1.4	0.4	0.1	1.3
Germany	2.1	1.6	0.8	0.3	1.4
France	2.2	1.0	0.6	0.1	1.1
Italy	3.3	1.3	0.2	0.0	0.9
Spain	2.4	1.4	-0.2	-0.2	1.4
UK	2.8	2.6	1.5	0.3	1.7
Latin America *	7.8	9.2	12.6	13.5	13.5
EAGLES **	5.2	5.2	4.6	4.8	4.5
Turkey	8.9	7.6	8.9	7.3	7.2
Asia Pacific	3.9	4.1	3.3	2.7	3.3
Japan	0.0	1.6	2.7	1.0	1.6
China	2.6	2.6	2.0	1.7	2.5
Asia (exc. China)	4.8	5.2	4.4	3.5	3.9
World	4.5	4.2	3.9	3.8	4.1

* Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
** Bangladesh, Brazil, China, India, Indonesia, Iraq, Mexico, Nigeria, Pakistan, Philippines, Russia, Saudi Arabia, Thailand and Turkey.
Forecast closing date: 30 April 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	-2.4	-2.9	-2.9
Eurozone	1.5	2.2	2.3	3.2	3.2
Germany	6.8	6.5	7.6	7.7	7.4
France	-1.5	-1.4	-1.0	-0.9	-0.9
Italy	-0.5	0.9	1.9	2.1	2.7
Spain	-0.3	1.4	0.8	0.9	1.0
UK	-3.7	-4.5	-5.5	-5.1	-4.8
Latin America *	-1.6	-2.4	-2.5	-2.7	-2.3
EAGLES **	0.9	0.5	0.7	0.7	0.9
Turkey	-6.1	-7.9	-5.7	-4.2	-4.6
Asia Pacific	1.1	1.3	1.9	2.3	1.9
Japan	1.0	0.7	1.4	1.4	1.4
China	2.6	2.0	2.1	2.8	2.8
Asia (exc. China)	-0.1	0.8	1.7	1.8	1.2

* Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
** Bangladesh, Brazil, China, India, Indonesia, Iraq, Mexico, Nigeria, Pakistan, Philippines, Russia, Saudi Arabia, Thailand and Turkey.
Forecast closing date: 30 April 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	-2.8	-2.8	-2.5
EMU	-3.6	-2.9	-2.4	-2.1	-1.6
Germany	0.1	0.1	0.7	0.5	0.3
France	-4.8	-4.1	-4.0	-3.6	-3.0
Italy	-3.0	-2.9	-3.0	-2.6	-2.0
Spain *	-6.6	-6.3	-5.7	-4.4	-3.0
UK **	-8.3	-5.7	-5.7	-4.4	-3.4
Latin America ***	-2.3	-2.4	-4.3	-4.2	-3.2
EAGLES ****	-1.3	-2.0	-2.6	-3.4	-3.0
Turkey	-2.1	-1.2	-1.6	-1.5	-1.5
Asia Pacific	-2.7	-3.0	-2.9	-3.0	-2.9
Japan	-7.6	-9.2	-7.9	-7.0	-6.5
China	-1.1	-1.5	-1.8	-2.3	-2.5
Asia (exc. China)	-3.9	-4.1	-3.7	-3.6	-3.2

* 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	4.60	4.60
Macroeconomic Forecasts: 10-year government bond yield (Annual average)					
United States	1.8	2.3	2.5	2.1	2.7
Germany	1.6	1.6	1.2	0.3	1.0
Macroeconomic Forecasts: Exchange Rates (Annual average)					
USD-EUR	0.78	0.75	0.75	0.96	0.94
EUR-USD	1.29	1.33	1.33	1.04	1.07
GBP-USD	1.59	1.56	1.65	1.47	1.60
JPY-USD	79.8	97.5	105.8	124.3	131.7
CNY-USD	6.31	6.20	6.14	6.19	6.09

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	1.2	1.9	1.8
Public consumption	3.0	1.3	0.7	1.2	0.7	1.1	1.2	0.9
Gross Fixed Capital Formation	-9.9	4.6	7.5	0.0	-0.4	3.4	2.2	4.0
Inventories (*)	-1.6	1.4	0.1	-1.4	0.1	-0.4	0.0	0.0
Domestic Demand (*)	**-3.0**	**2.8**	**2.9**	**-0.8**	**0.7**	**1.2**	**1.7**	**1.9**
Exports	-14.3	14.2	8.2	3.5	1.7	3.8	4.6	5.6
Imports	-9.6	12.6	7.3	0.4	3.2	3.3	4.9	6.0
Net exports (*)	**-2.6**	**1.1**	**0.7**	**1.4**	**-0.5**	**0.4**	**0.2**	**0.2**
GDP	**-5.6**	**3.9**	**3.7**	**0.6**	**0.2**	**1.6**	**1.9**	**2.2**
Inflation	0.2	1.2	2.5	2.1	1.6	0.8	0.3	1.4

(*) 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	0.6	1.5	1.4
Public consumption	2.5	1.2	1.0	1.7	2.0	1.9	1.0	1.0
Gross Fixed Capital Formation	-9.0	1.9	2.1	0.3	-0.8	-1.6	0.0	3.5
Inventories (*)	-1.2	0.3	1.1	-0.6	-0.2	0.3	0.0	0.0
Domestic Demand (*)	**-2.5**	**2.0**	**2.0**	**-0.3**	**0.3**	**0.7**	**1.0**	**1.7**
Exports	-11.0	8.6	7.1	1.2	2.4	2.7	4.4	5.5
Imports	-9.2	8.5	6.5	-1.2	1.9	3.8	3.8	5.1
Net exports (*)	**-0.3**	**-0.1**	**0.0**	**0.7**	**0.1**	**-0.3**	**0.1**	**0.1**
GDP	**-2.9**	**1.9**	**2.1**	**0.4**	**0.4**	**0.4**	**1.1**	**1.8**
Inflation	0.1	1.7	2.3	2.2	1.0	0.6	0.1	1.1

(*) 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	-4.0	-2.8	0.3	0.6	0.8
Public consumption	0.4	0.6	-1.8	-1.2	-0.3	-0.9	-0.5	0.0
Gross Fixed Capital Formation	-10.0	-0.6	-1.7	-9.4	-5.8	-3.2	-0.2	3.0
Inventories (*)	-1.2	1.3	0.2	-1.1	0.3	-0.1	0.0	0.0
Domestic Demand (*)	**-4.2**	**2.1**	**-0.5**	**-5.6**	**-2.5**	**-0.6**	**0.1**	**0.9**
Exports	-17.9	11.3	6.1	2.0	0.7	2.4	4.5	4.9
Imports	-12.7	12.1	1.2	-8.3	-2.2	1.6	2.7	4.0
Net exports (*)	**-1.3**	**-0.4**	**1.2**	**2.8**	**0.8**	**0.3**	**0.6**	**0.4**
GDP	**-5.5**	**1.7**	**0.7**	**-2.8**	**-1.7**	**-0.4**	**0.7**	**1.3**
Inflation	0.8	1.6	2.9	3.3	1.3	0.2	0.0	0.9

(*) 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	-5.5	-1.5	2.1	2.2	1.7
Public consumption	2.6	-1.3	-3.8	-3.3	-2.4	-0.3	-0.8	0.4
Gross Fixed Capital Formation	-7.6	-0.9	-12.5	-16.6	-6.7	2.5	3.9	4.2
Inventories (*)	-1.1	1.0	-0.6	-0.3	0.0	0.4	0.0	0.0
Domestic Demand (*)	-3.8	2.1	-6.4	-7.6	-2.5	2.1	1.9	1.8
Exports	-10.2	9.5	7.0	3.4	6.4	3.4	5.9	5.0
Imports	-9.9	7.8	-5.8	-6.3	3.9	6.4	5.2	4.8
Net exports (*)	**0.8**	**-0.2**	**4.6**	**3.6**	**0.9**	**-1.2**	**0.2**	**0.1**
GDP	**-3.0**	**1.9**	**-1.8**	**-4.0**	**-1.6**	**0.9**	**2.1**	**1.9**
Inflation	-0.9	1.4	3.6	2.8	0.4	-0.2	0.2	1.0

(*) 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	2.4	3.1	2.4
Public consumption	4.1	1.5	-0.3	-3.7	-2.9	0.1	0.8	0.6
Gross Fixed Capital Formation	-16.9	-4.9	-6.3	-8.1	-3.8	3.4	5.7	6.4
Equipment and other products	-23.5	5.1	0.8	-9.0	5.6	12.2	7.8	6.7
Construction	-16.5	-10.1	-10.6	-9.3	-9.2	-1.5	4.3	5.4
Housing	-20.6	-11.6	-12.8	-9.0	-7.6	-1.8	4.5	9.0
Other construction	-11.8	-8.5	-8.6	-9.6	-10.5	-1.3	4.1	2.7
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**	**2.2**	**3.0**	**2.7**
Exports	-11.0	9.4	7.4	1.2	4.3	4.2	6.1	7.5
Imports	-18.3	6.9	-0.8	-6.3	-0.5	7.6	6.5	7.8
Net exports (*)	**2.8**	**0.5**	**2.1**	**2.2**	**1.4**	**-0.8**	**0.0**	**0.1**
GDP	**-3.6**	**0.0**	**-0.6**	**-2.1**	**-1.2**	**1.4**	**3.0**	**2.7**
Inflation	-0.3	1.8	3.2	2.4	1.4	-0.2	-0.2	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	2.5	2.4	2.2
Public consumption	1.0	0.0	0.0	2.3	-0.3	1.7	0.2	-0.4
Gross Fixed Capital Formation	-14.4	5.9	2.3	0.7	3.4	7.8	4.5	5.6
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**	**3.3**	**2.3**	**2.3**
Exports	-8.2	6.2	5.6	0.7	1.5	0.6	4.9	5.0
Imports	-9.8	8.7	1.0	3.1	1.4	2.2	4.0	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**	**2.8**	**2.5**	**2.3**
Inflation	2.2	3.3	4.5	2.8	2.6	1.5	0.3	1.7

(*) Contribution to growth.
Source: BBVA Research

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