

Spain

outlook



2nd quarter
2015

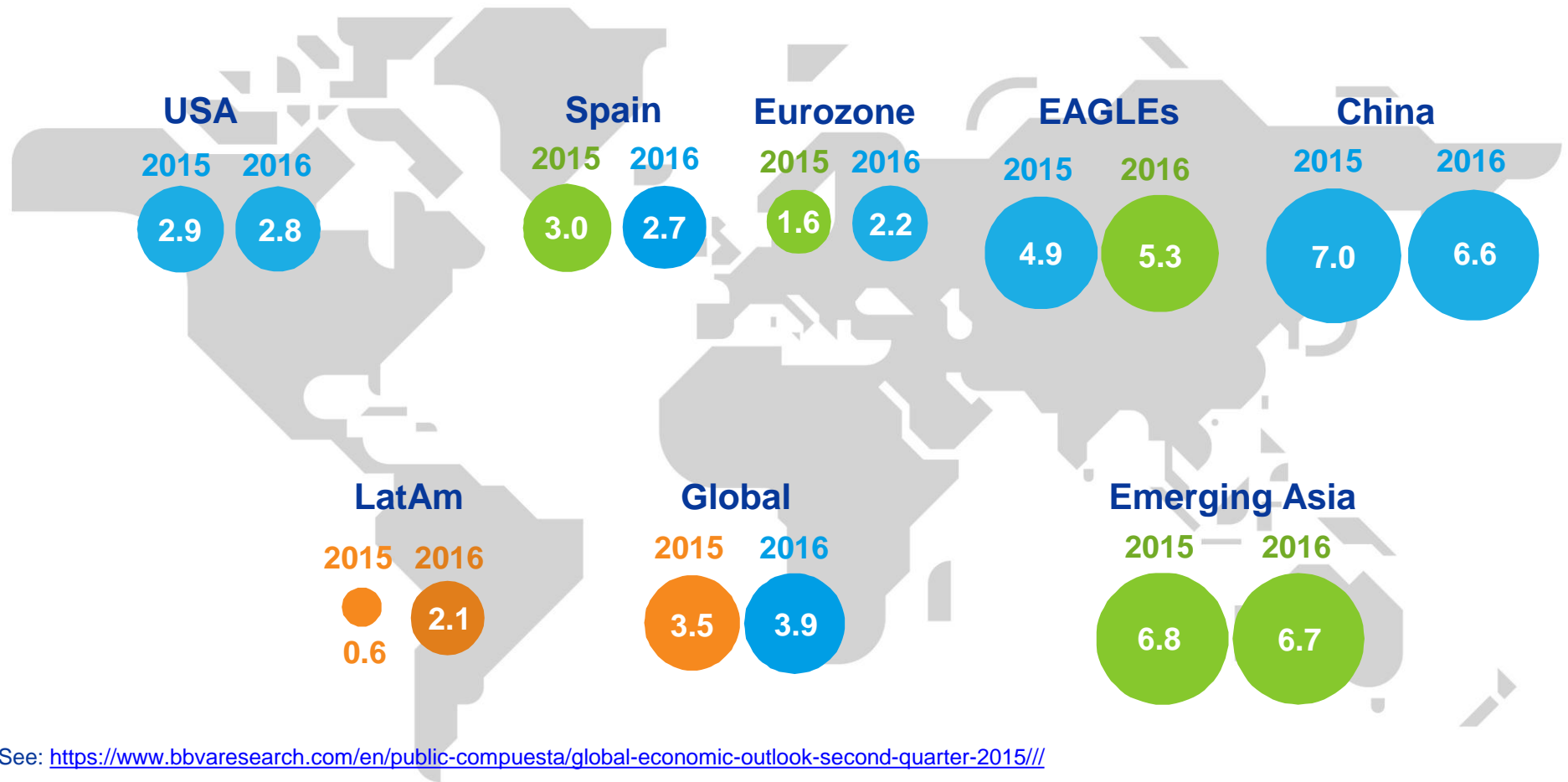
The **Spanish economy continues to accelerate** and face an improvement in its fundamentals, while the risks have still not materialised.

Spain should take advantage of this situation by making progress in reforms that enable it to continue growing, even in less promising scenarios



Global

A weaker and more uneven recovery



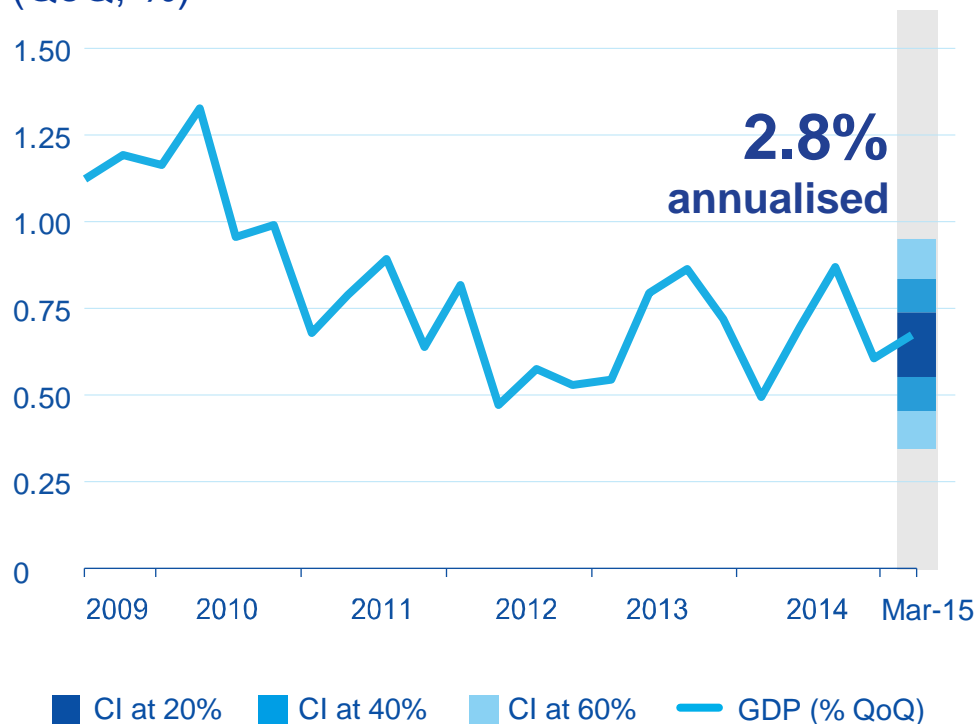
See: <https://www.bbva.com/en/public-compuesta/global-economic-outlook-second-quarter-2015/>

Source: BBVA Research

● Downward
 ● Maintained
 ● Upward

A weaker and more uneven recovery

Global GDP growth and BBVA-GAIN forecasts
(QoQ, %)



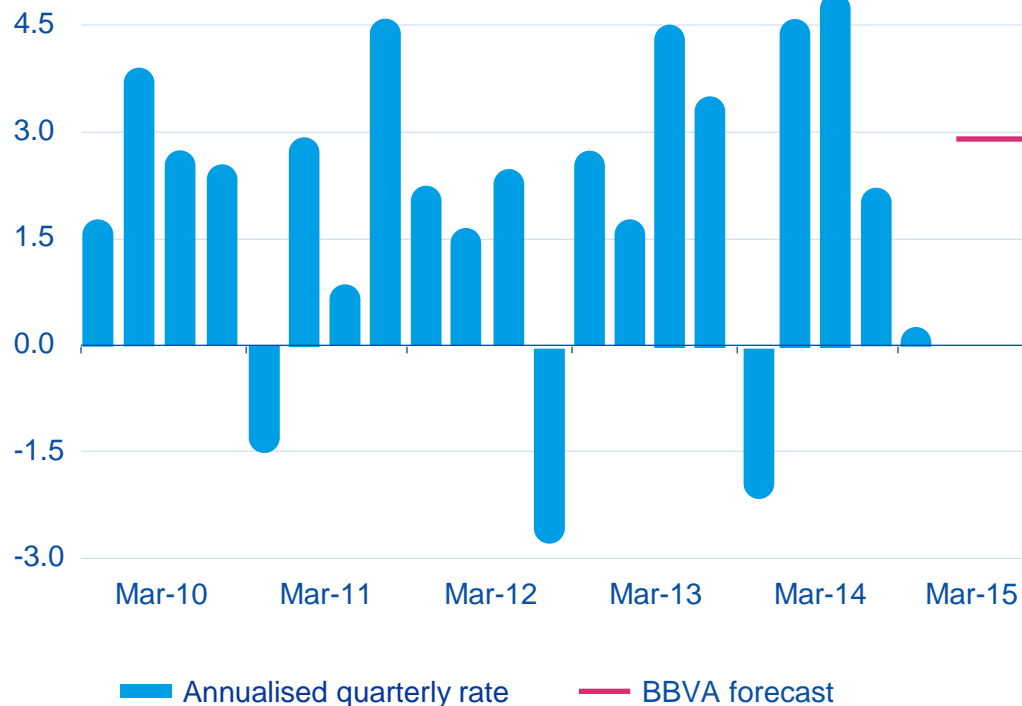
Source: BBVA Research

- In **Europe** the upturn in activity is escalating
- In **Latin America and Asia** growth is losing momentum
- The slowdown in the **United States** will be temporary

USA: a temporary slowdown

USA

GDP growth (%)

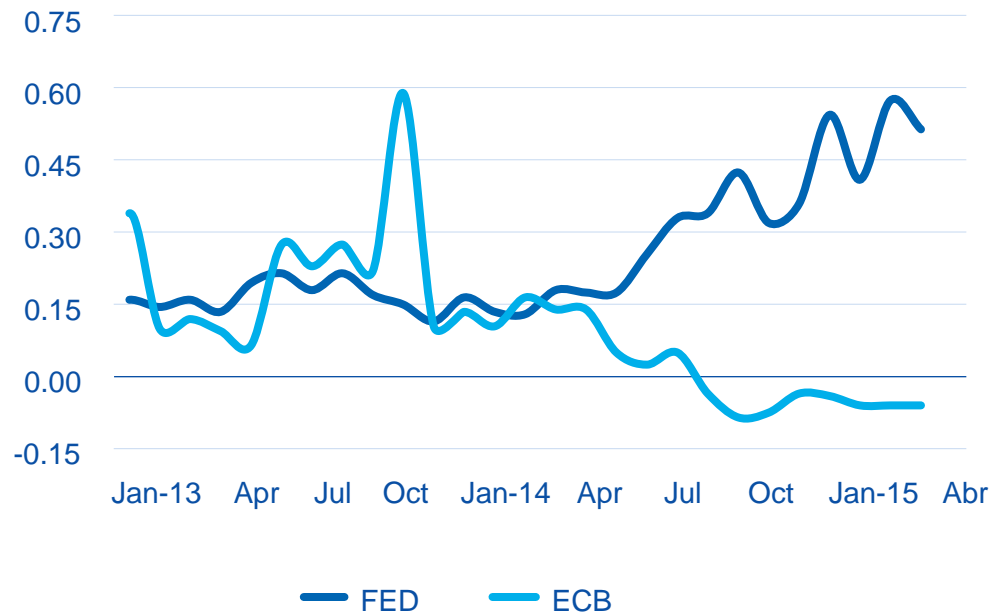


- **Rising employment and low inflation** are underpinning household income and consumption
- This will offset the **dollar appreciation** and the **halting of external demand**

Differentiation among monetary policies

Interest rate expectations

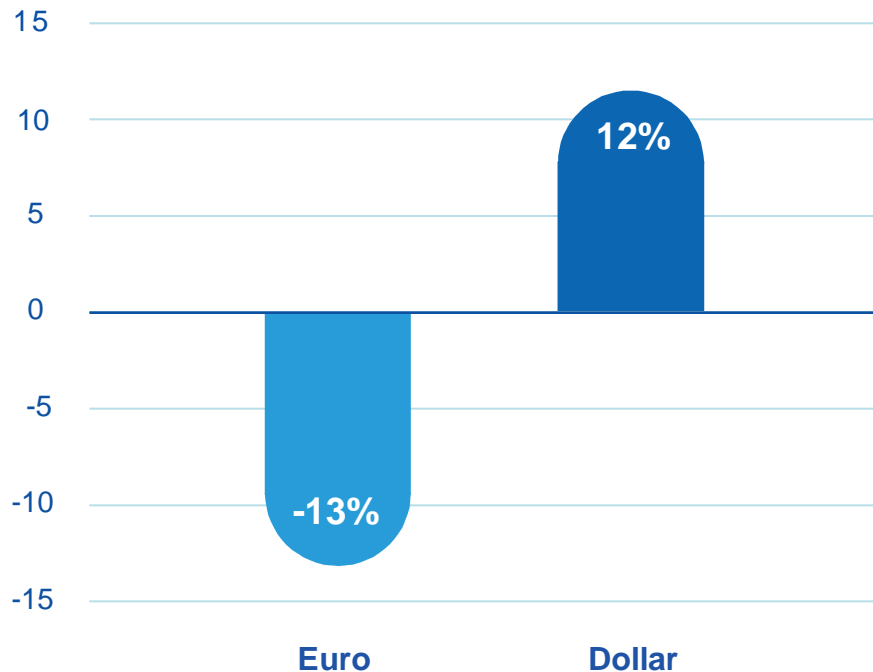
(%, outlook one year ahead of interest rates by the Fed and the ECB)



- Since January 2015 the central banks have taken:
 - ✓ **27 decisions to lower** interest rates
 - ✓ **2 decisions to raise** them

QE is depreciating the euro and lower rates

Real effective exchange rate (YoY %, March-15)

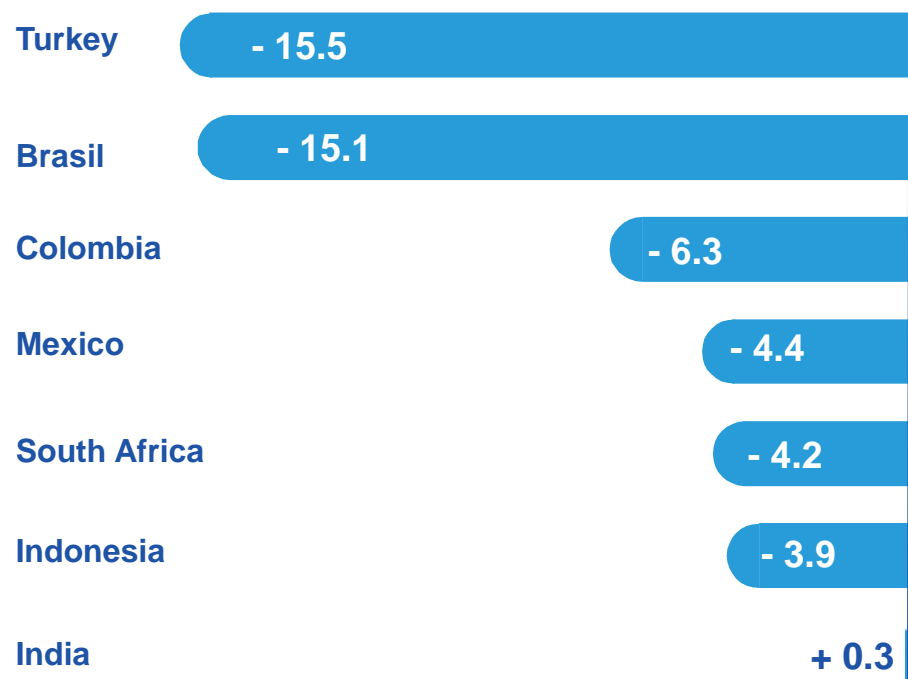


- The cost of new loans to businesses **has fallen within the Eurozone** by 67 basis points in the last year to 2%

The exchange rate as a variable for adjustment

Changes in exchange rates against the dollar

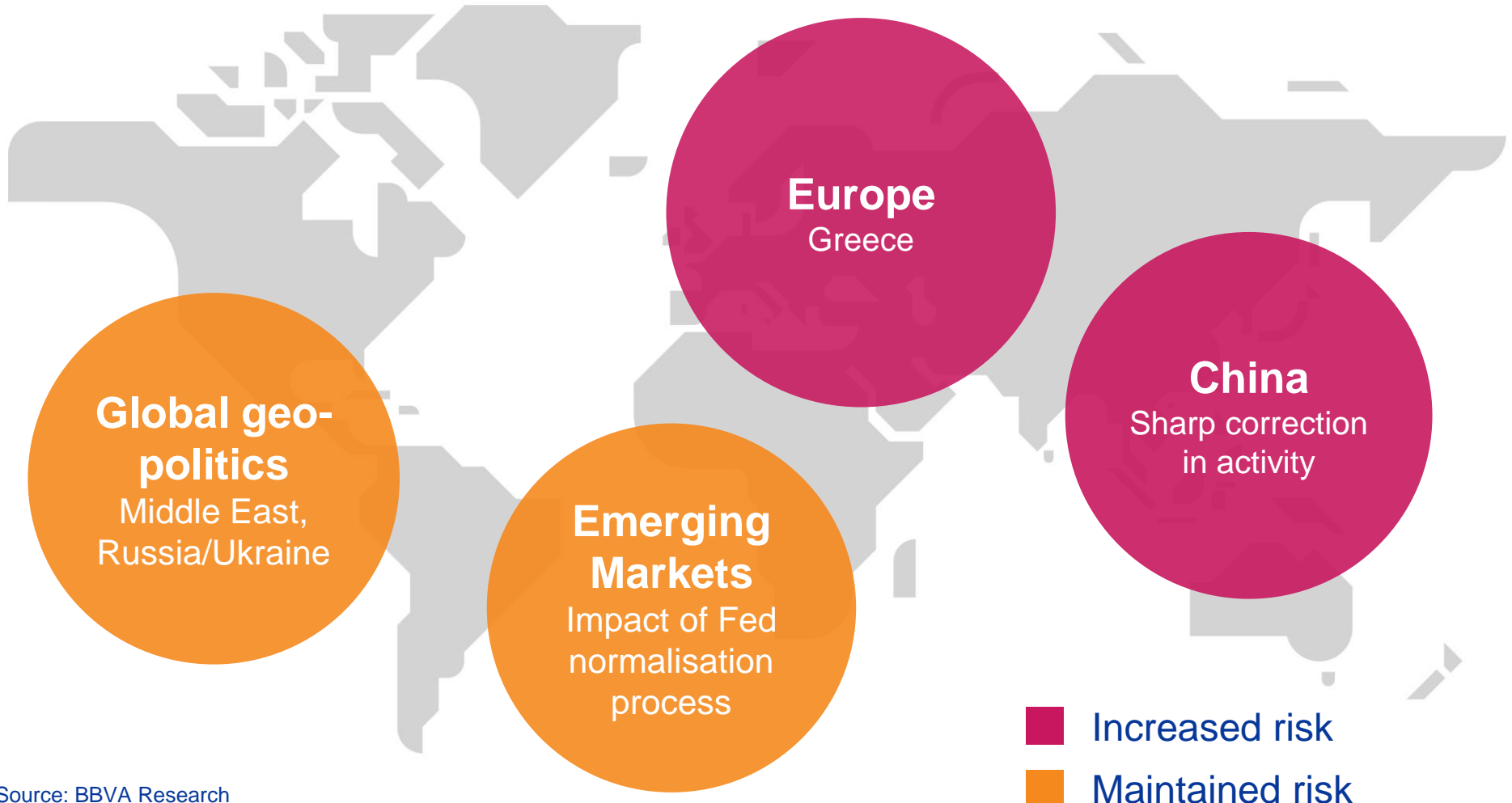
Dec14-April15



Source: BBVA Research, Bloomberg

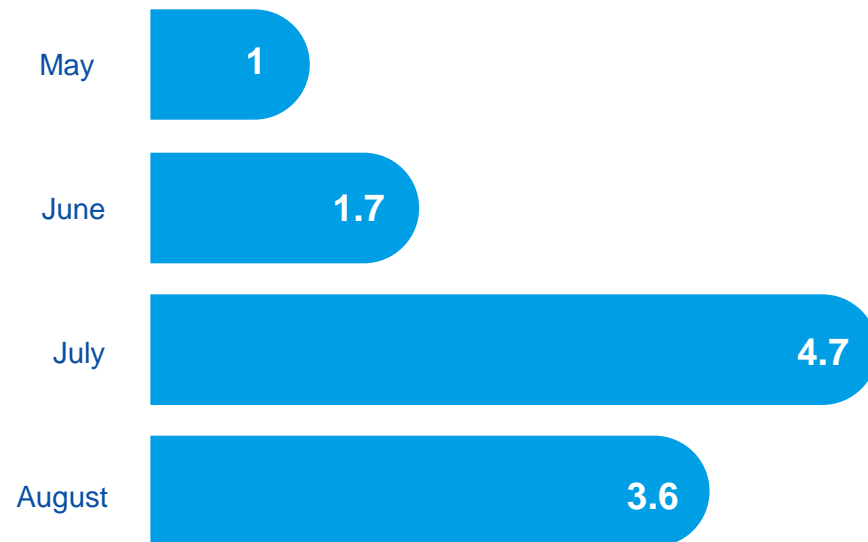
- The **depreciation in the currencies of the emerging economies** reflects their reliance on funding from outside

What are the risks?



Greece in the spotlight

Upcoming maturities of sovereign debt (EUR mM)

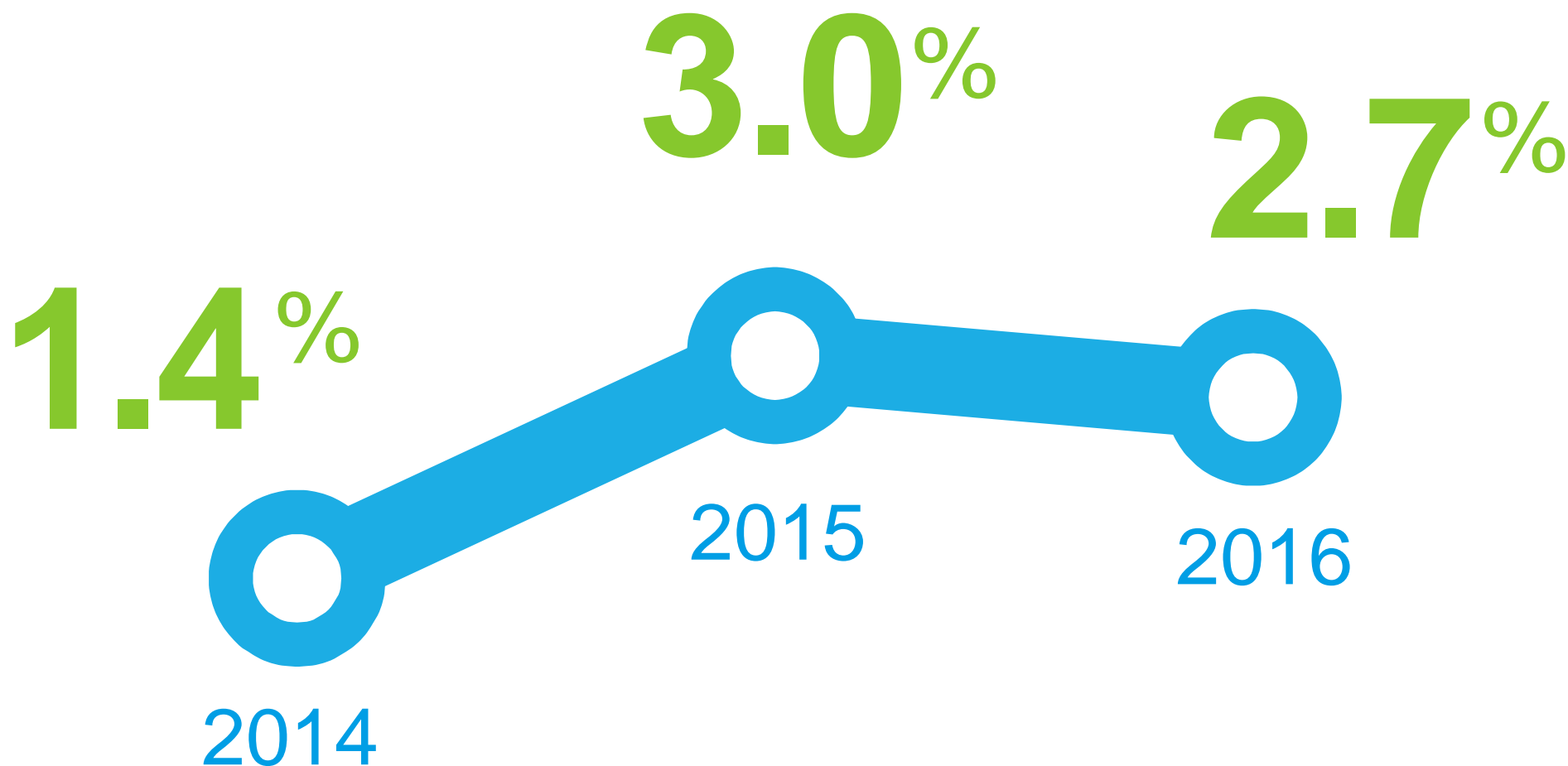


- **Little progress in the negotiations** and strong liquidity pressures
- The scenario of a **default and/or Grexit** is not in Greece's interests
- Given a scenario of risk, **the impact in Europe would be more limited**

Spain

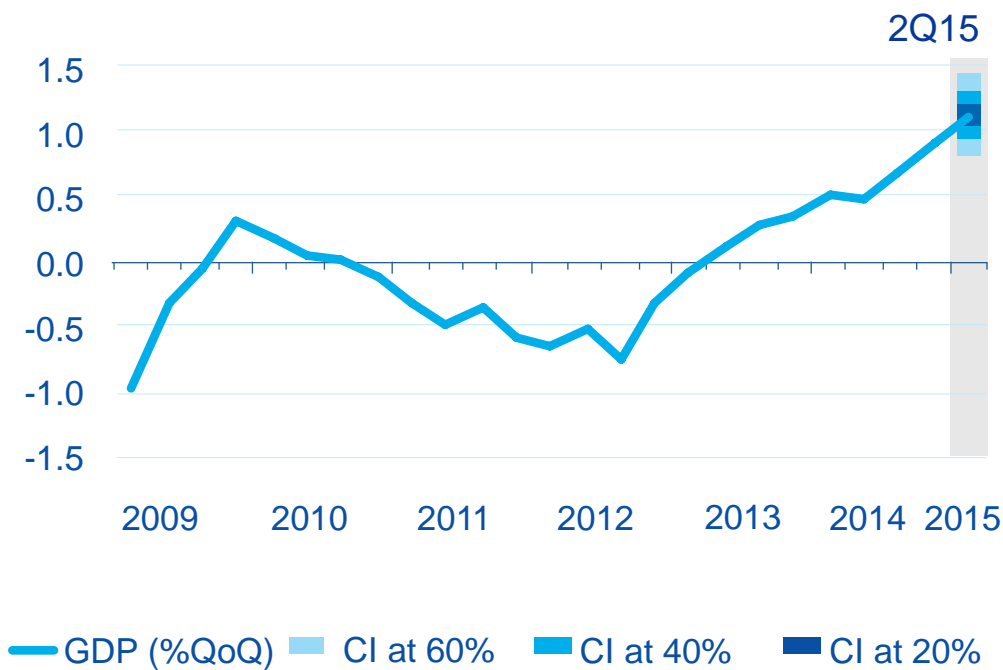


Revision to the upside of growth in Spain



Revision to the upside of growth in Spain

GDP growth and MICA-BBVA forecasts 2nd quarter 2015 (%)

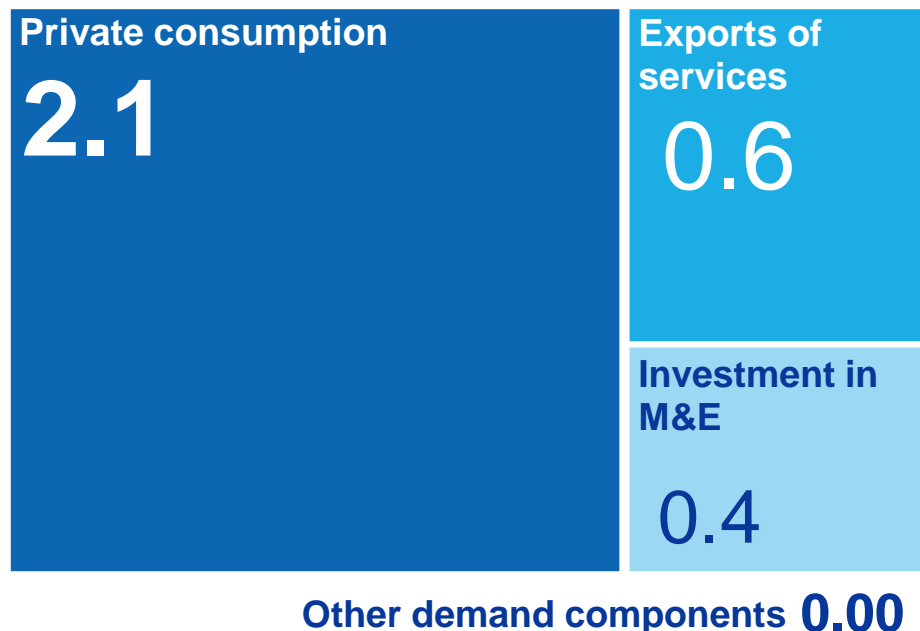


- **Growth is accelerating** at around an annualised 4%
- **A local maximum since 2008** and in line with the 2001-07 average growth

Domestic demand and exports of services are driving growth

Average contribution to GDP growth in the last quarter

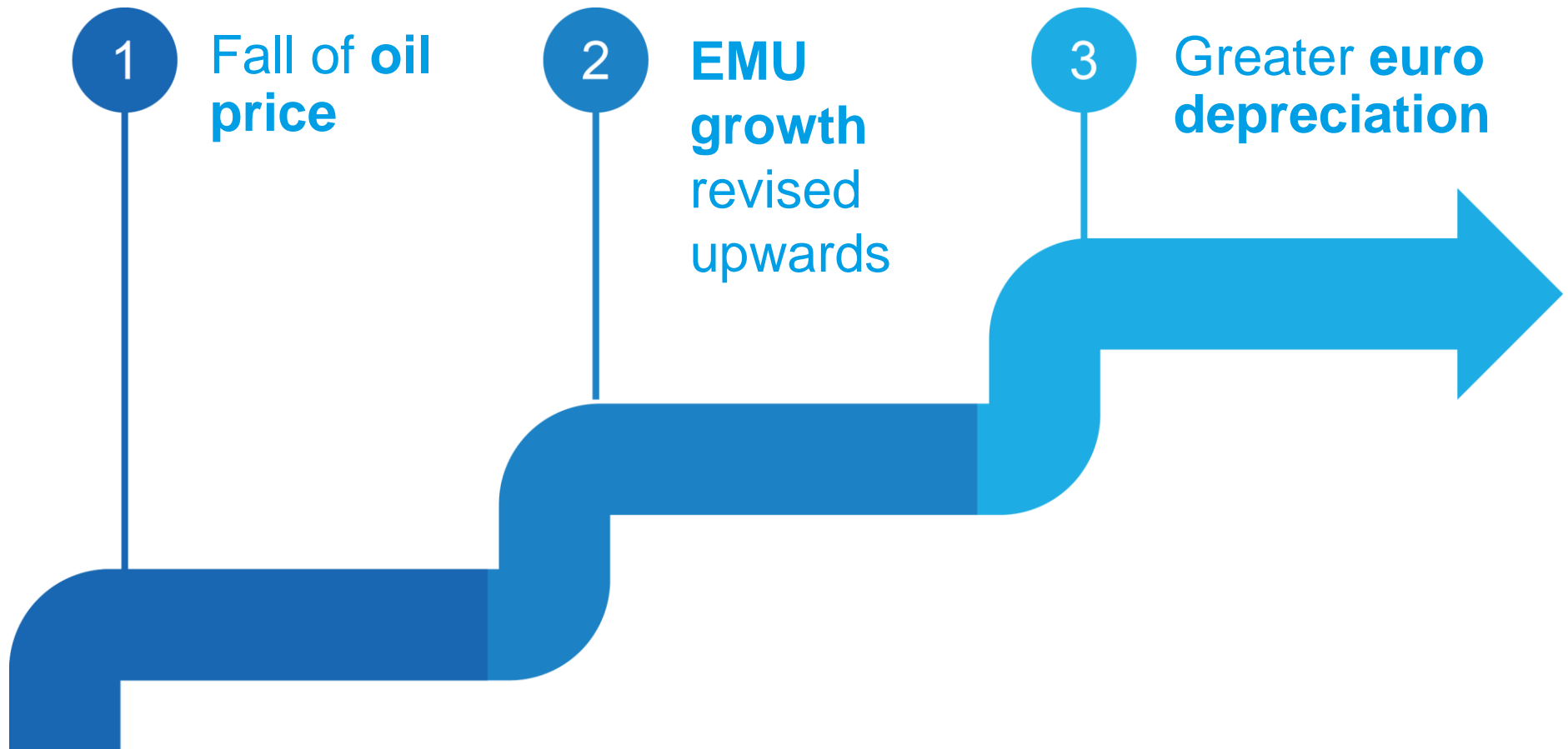
(Annualised quarterly growth rate)



- **Private consumption** accounts for most of the growth
- **Services exports and M&E investment** continue to boost internationalisation

Forward

The tailwinds are picking up



On the plus side:

Flows of new credit in 1Q15

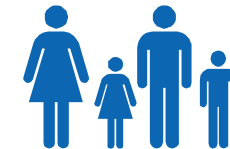
The flow of new credit has surged ahead
YoY % in 1Q15



SMEs*
9.9%



Retail
11.6%



Households
15.8%

Risks

Tensions and policy uncertainty

UK
General
elections

Ukraine
Conflict with Russia
continues

Spain
Election year

Portugal
General
elections

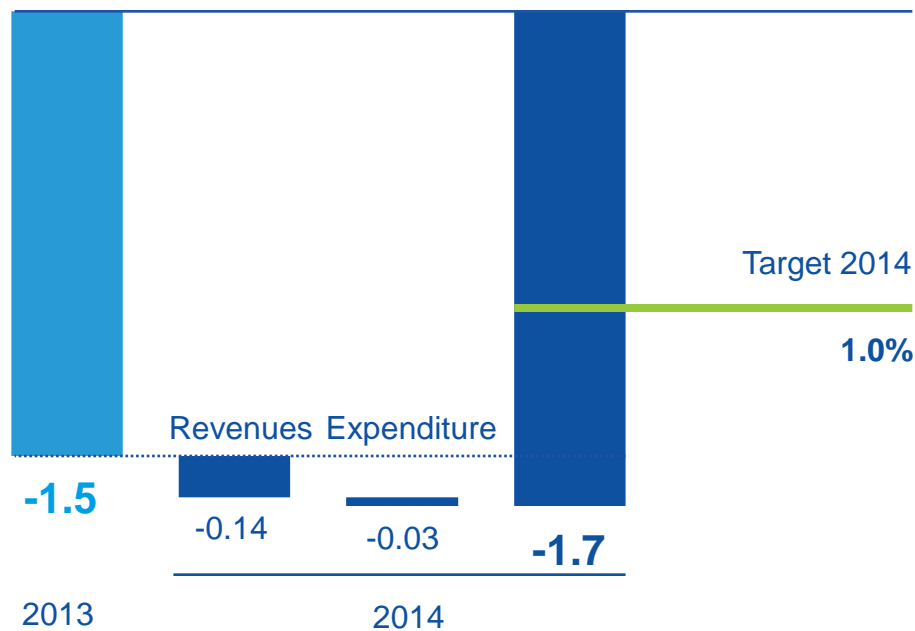
Italy
Undergoing
reform process

Greece
Still in the
spotlight

Risks

Delay in reducing imbalances

Autonomous Communities public deficit
(% GDP)



- The deficit for the regions widened in 2014
- Rigorous budget implementation and credible plans are key

Risks

Less vigour in exports

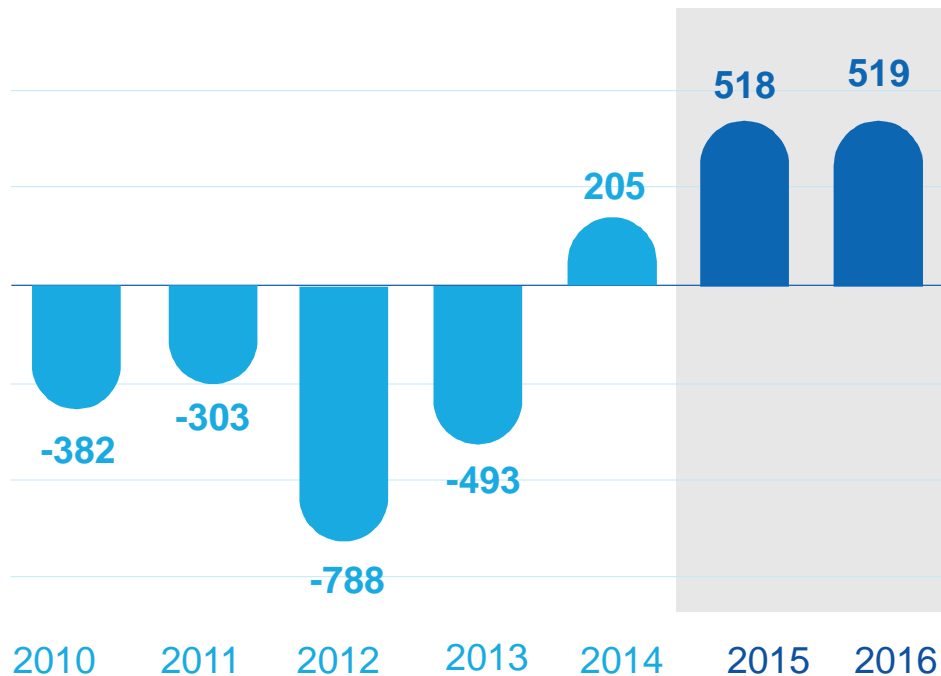
Contribution to YoY GDP growth



- Even though the internationalisation process is unlikely to be reversed, **the increase in domestic demand might slow it down**

One million more jobs over 2015 and 2016

Jobs creation (thousands)

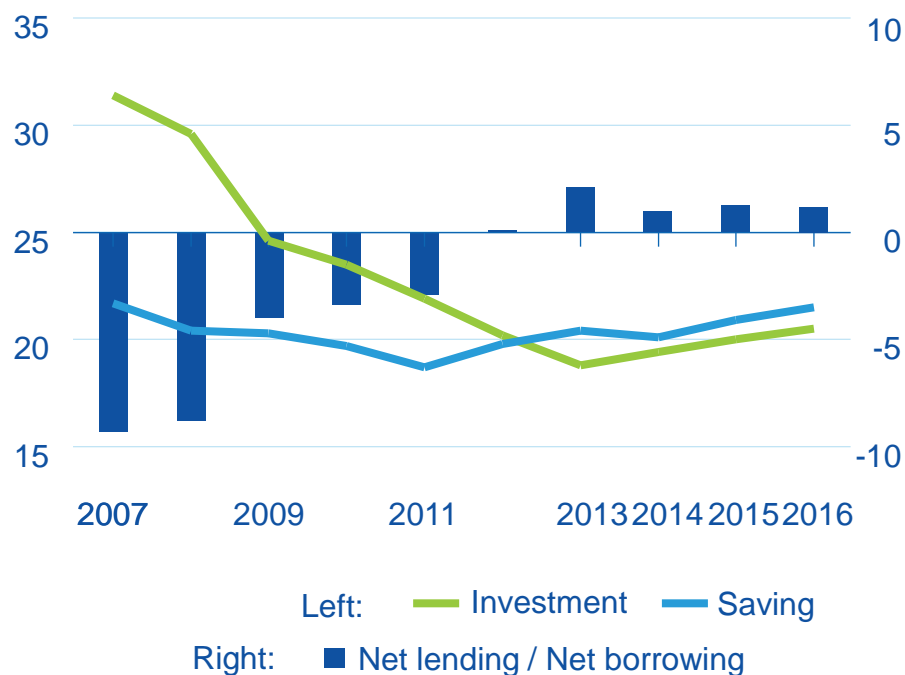


- **The unemployment rate** will come down to around 20% by the end of 2016
- The reforms must be continued to carry on reducing unemployment

Challenge

Investing and bringing down borrowing

Net lending / net borrowing
(% GDP)



- **The investment recovery** should not be accompanied by a drop in saving
- Progress in **public saving** will be key in the upcoming years

Reform

Law of second chance

Appropriate
regulation



Improve credit for
new projects



Monitoring and
evaluation



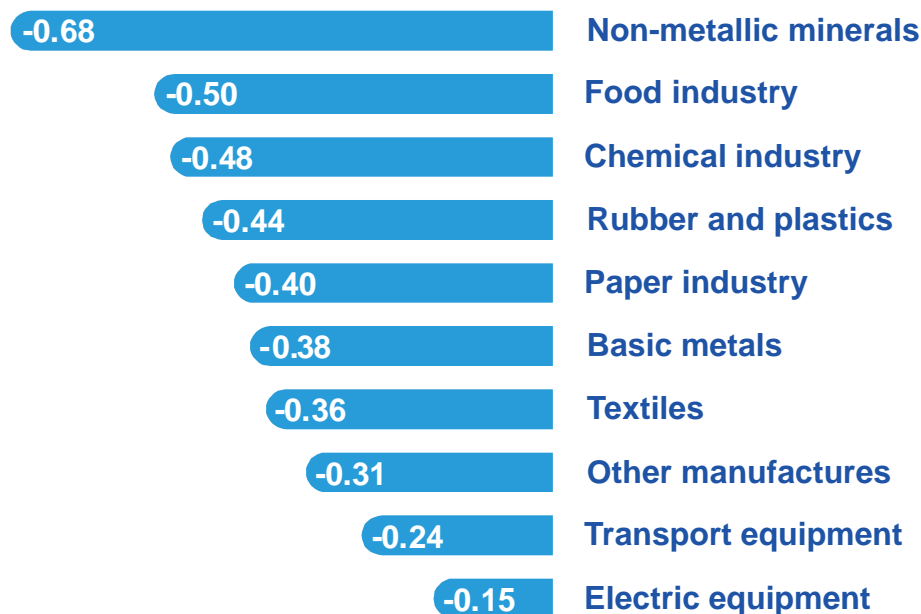
See Box 3 of Spain Economic Outlook

Challenge

Greater competition in the services sector

Regulation in services and inflation of intermediate consumption in manufacturing

Deregulation vs. no deregulation, average



- In the past, reforms have helped to **enhance competitiveness**
- Reforms such as the **Professional Services Act** are necessary



Conclusions

- The economy will create around **1 million jobs** in 2015 and 2016
- Advantage should be taken of this environment to **make progress in reforms** which make it possible to continue to grow, even in less favourable scenarios
- **Increasing domestic saving and improving regulation** to increase investment and reduce external borrowing, a challenge for the Spanish economy

The **Spanish economy continues to accelerate** and face an improvement in its fundamentals, while the risks have still not materialised.

Spain should take advantage of this situation by making progress in reforms that enable it to continue growing, even in less promising scenarios