Europe Economic Outlook

4TH QUARTER 2015 | EUROPE UNIT

01
The Eurozone's economy has weathered the past few months of uncertainty well and is growing at a steady rate

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Foreign demand is giving rise to doubts, although this is being offset by domestic demand

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The ECB pre-announcement assures looser monetary policy accompanied by neutral fiscal policy

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The negative risks remain focussed on certain internal factors beyond the Fed and the weakness of the emerging markets

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Closing date: 13 November 2015

1 Editorial

The eurozone has proved very resilient to the uncertainties regarding the global economy in recent months, and growth is steady around 1.5% annualised. The slowdown in world trade in the first half of the year, the jitters over China's economy this summer and their effects on other emerging economies (that have also been affected by idiosyncratic factors) have not had any significant impact on European growth, thanks to the strength of internal demand. Even so, doubts over the solidity of the recovery remain, as the risks are mainly to the downside.

On the external front, euro depreciation against the dollar and other currencies since the summer of 2014 **has resulted in some resilience to the slowdown in trade flows in the first half of this year.** In the second half of the year, exports are being affected by the economic deceleration and the change of model in China in favour of the services sector, which seems to be affecting Germany in particular. However, the sub-components of the forward confidence indicators for the external sector are not particularly negative, and international trade seems to be showing signs of recovery.

On the domestic front, internal demand has further benefited from the fall in oil prices in the middle of the year, particularly private consumption **but to a much lesser extent investment**, which is still not showing signs of the decisive recovery needed to make the growth sustainable. The credit indicators are also in line with this path, with a recovery in household credit and a recent weakness in the corporate segment. The tone of fiscal policy, neutral for the eurozone as a whole but moderately expansive in some countries, has also helped to support intrinsic demand.

In the coming quarters, **the factors supporting the recovery will remain on the domestic side,** as **lower commodity prices** will continue to support consumer demand **and the tone of fiscal policy** will continue to be either neutral or moderately expansive. **However, the external fundamentals will be slightly weaker than expected,** with a downwards revision of world growth of 0.3pp to 3.5% in 2016 which will reduce the forecast for foreign European demand. This time, the latter will not be completely offset, by an additional euro depreciation, even though the monetary policy of the US and Europe will soon start to diverge. While our expectation remains that the Federal Reserve's first rate hike will be in December, **the ECB has surprised us with its October pre-announcement of additional measures to be taken at the next meeting in December.** It is still not clear what these measures will be (probably an extension of the bond purchase programme beyond September 2016 and an additional cut in the depo rate), nor whether they will have a significant additional impact on inflation expectations or on growth in Europe. However it is clear that, irrespective of the tools employed, the bias of monetary policy in the next two years will be slightly looser than previously expected. All in all, we reiterate our forecast for eurozone growth of 1.5% this year, and reduce it marginally to 1.8% from 1.9% for 2016.

Meanwhile, inflation will remain low and we have revised our forecast downwards for this year (to 0.1% on average), due to the recent slide in energy prices. Nonetheless, core inflation has not suffered from second-round effects and has risen slightly in the past few months (to 0.9% in October), more or less in line with our previous forecasts. For 2016 we are expecting average inflation of 1.1%, still far away of 2%.

Beyond the Fed's exit process and demand in the emerging countries, which are continuing to put a downwards bias on global forecasts, **the downside risks continue to be mainly focused on internal factors.** Greece is in the process of approving the reforms on which the gradual disbursement of the funds from the third bailout depends. Although the capital needs of the banking system identified by the stress tests were smaller than expected, the Greek government's failure to introduce the programme of reforms continues to be a problem. In Portugal, there is also a new risk that the reform process will be paralysed after the elections, which could affect the future growth of the economy. A new element of uncertainty is linked to the refugee crisis in central and eastern Europe. Although the flow of immigrants could undoubtedly be positive for Europe, given the demographic deficiencies in the majority of countries, the uncertain magnitude of the flow of arrivals and its inadequate management could give rise to political tensions both in the worst-affected countries and between European governments, which could in turn affect both the confidence of economic agents and the continuation of the eurozone's integration process, which is so necessary to underpin growth.

2 Slower global growth in 2015 and a limited improvement in 2016

At a global level, activity has performed worse than expected in the past few months, mainly due to the ongoing deceleration in the principal emerging economies, in a context in which doubts over the strength of the economic cycle and the financial stability of China have triggered a significant spike in financial tensions and further corrections in commodity prices. According to our estimates[1], **global GDP has grown more slowly in the third quarter than we forecast and at a similar rate to that observed at the beginning of the year (+0.6% QoQ, +2.4% YoY),** making four consecutive quarters of growth below the 2010-14 average.

In contrast to other recent episodes, the intensity of the deceleration in the emerging block is the determining factor in the loss of momentum in world growth. For the time being, the recovery in domestic demand and the continuation of easing monetary conditions are limiting the impact of the correction in the emerging block on the principal developed economies, and in particular on the eurozone. However, **the moderation of the business sentiment indicators in recent months, together with the stabilisation of growth in the US at slightly lower levels than we anticipated, are evidence that the differentiation between the economic blocks is starting to narrow,** and that the risk of contagion could increase if the momentum of the recent deterioration in the emerging countries continues.

Since the end of 2014, the BBVA Financial Tensions Index of Emerging Markets has been at levels above the average of the last decade, retracing the all-time high for 2011 in October 2015, and its highest levels since the financial crisis in 2008-09. The correction, triggered by China, has eventually extended to the principal economies, and even more particularly to Latin America, with these two geographies accounting for the bulk of the net capital outflows from the block which, at the end of October, had reached a similar amount to the outflows in the early months of 2013 (Fed's taper tantrum). The most significant spikes have been in countries most exposed to the commodity cycle and with greater external vulnerability, in terms of both deficit on the current account and foreign currency-denominated private-sector financing. **Idiosyncratic factors, such as political uncertainty and the existence of geopolitical risks in Brazil and Turkey, have reinforced the lack of confidence and accentuated the increase in financial volatility.** As in other similar episodes of reallocation of capital flows and risk aversion, the financial assets of the developed economies have acted as safe havens, putting downward pressure on long-term public debt yields.

The slowdown of demand appears to be the principal justification against the increased supply in order to explain the fall in oil prices from USD65/bbl in the middle of the year to a level below USSD50/bbl in October. The oil price dynamic is similar to that of other commodities such as copper and aluminium, which is consistent with the existence of a common factor linked to the slowdown in demand. This is one of the elements that underlie the deterioration in the growth outlook for geographical areas such as Latin America, as well as for the energy and industrial sectors in the US, and which are obviously helping to maintain perceptions of financial risk at high levels in the whole emerging block. It is worth noting that the transition from a growth model based on the rising commodity cycle, the financial instability brought about by capital outflows and the potential impact of such substantial currency depreciation on inflation expectations constitute relevant sources of vulnerability.

The balance of the first half of the year and the negative bias in the available activity indicators for the third quarter in geographies such as the US, Latin America and Mexico have been accompanied by a **downward**

1: Estimate based on BBVA Research's global activity indicator. Methodology detailed at http://bit.ly/1nl5RIn

revision of the growth forecasts for the principal emerging economies for the full year. As a result, global GDP growth could close 2015 at an annualised 3.2% (0.2pp less than we forecast three months ago), the lowest since 2009. The gradual recovery of the developed block will not be sufficient to offset the moderation in the emerging, given that the latter will grow barely 4% compared with average growth in the five previous years of more than 5.5%.

The outlook for 2016 is slightly more favourable (global growth could recover to 3.5%, 0.3pp below our forecast three months ago), sustained by a better relative performance of both the developed and the emerging economies (See Global Economic Outlook 4Q15). Nevertheless, **the recent intensification of some of the risk spots with greater impact at a global level,** such as the deceleration of the manufacturing sector in China and its repercussions on the commodity cycle and world trade, **increases the uncertainty and accentuates the downside risks** for the recovery of those countries which are more dependent on external demand and savings. **The potential deterioration in the medium-term growth outlook of developed economies such as the US is another factor to take into account in the outlook for global growth.**

The context of lower global growth and moderating commodity prices has put further downward pressure on prices and inflationary expectations in the medium term in the developed block. This, together with the potential risks which would come hand in hand with a more pronounced correction of activity in China, has **altered the monetary policy strategy** expected of the principal central banks in the developed world. Specifically, the Fed did not raise its reference rate in September as had been expected, due to the financial instability observed during the summer months and the doubts about the cyclical strength of the emerging economies and the potential impact of this on the US recovery. Given the Fed's data-dependent strategy, the probability of a rate hike before the year-end depends on any new information and on what conclusions the central bank draws from it. The meeting on 27 October once again reinforced the prospect of a hike in December, which remains the most probable (although highly uncertain) outcome. The delayed start to the Fed's monetary policy normalisation has had an impact on monetary conditions in the eurozone via the exchange rate which, together with the concerns about the slow convergence of inflation towards 2%, has triggered the ECB's announcement of possible additional stimulus measures. Both the decline in inflation and the recent appreciation of the euro are restricting the improvement in financial conditions brought about by the quantitative easing programme.

3 Euro area: deterioration of external factors and ECB reaction

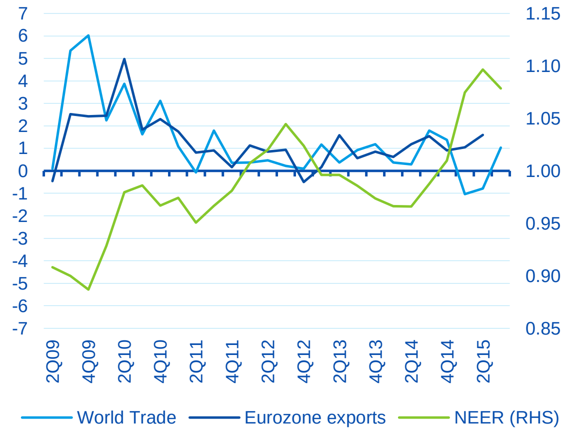
Although there has not been any deterioration of domestic fundamentals for the European economy since we published our last set of forecasts three months ago, **the fact that the emerging economies have taken a turn for the worse, as well as the financial turmoil over the summer, has accentuated the risks to the downside and** triggered **responses by the major central banks**.

These problems **are partly offset by certain positive factors,** such as lower oil prices, although these seem to have steadied at low levels and their effect will wear off over the coming quarters. On the other hand, in October **the ECB stated that there will be more measures towards the end of the year**, which has, for the moment, kept the lid on euro appreciation and lifted inflation expectations, while **fiscal policy in 2016 could be neutral or mildly expansive**.

Lower external demand for the euro area in 2015-16, despite signs of a pick-up in world trade

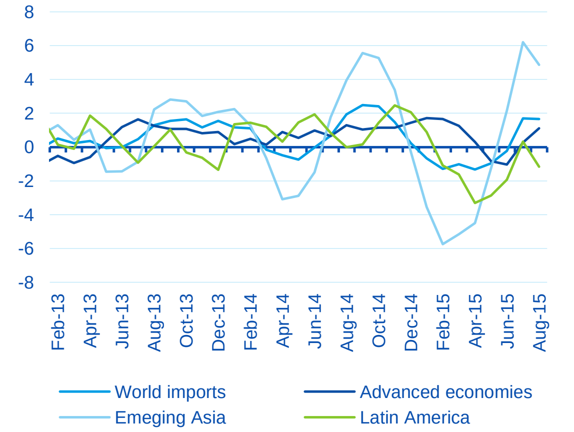
Euro area exports in 2Q15 **showed resilience to the slowdown in world growth and the drop-off in world trade** in the first half of the year, thanks to the 20% depreciation that the euro had built up since 2Q14, but **even so, the risk of the outside environment potentially managing to stymie the euro area's recovery still persists** (Figure 3.1). And these doubts reared their head again over summer with the news from China and possible spillover to the emerging economies.

Figure 3.1
World trade, EMU exports (% QoQ) and NEER



Source: CPB, Eurostat and BBVA Research

Figure 3.2
World imports (% 3m/3m)



Source: CPB and BBVA Research

There are, **nonetheless,** certain arguments for supposing that the impact from outside could be only limited. First, **the developed economies continue along the path of steady recovery** and euro area sales to such countries represent over **60% of their overall exports**. Second, **the latest figures suggest something of a recovery in world trade** in July and August, **as well as in imports by the developed countries** (Figure 3.2). According to the balance of trade figures, the value of exports in August showed a fall for the second straight month, but this could be partly because of a dip in prices (as occurred in June and July), meaning that in real terms sales abroad could have actually risen a shade as regards the 3Q15 data so far, given that sales to EU countries and the United States outweighed the slip in sales to the emerging markets. On the other hand, **October confidence surveys** (both the PMIs and those of the European Commission) continue to imply that the effect of the slowdown in China and other emerging markets on the Eurozone's recovery is only limited. Expectations concerning orders from abroad are holding virtually stable so far this year, according to the EC survey, while the PMIs showed a **rise in export orders** (Figure 3.3) which was moreover **widespread among the countries in the area.**

Even so, the moderation of growth in foreign demand leads us to revise down export forecast for the Eurozone as a whole (section 4) that, despite the slowdown in imports too, **could have a negative impact on GDP growth of about two tenth next year**.

Yet, although the latest figures allay fears somewhat, **this is still too early to ease misgivings altogether over the extent of the manufacturing sector slowdown in China and its repercussions on the commodities cycle and world trade**, so uncertainty is still riding high with respect to exports, particularly for those countries that are most reliant on external demand.

Higher risk aversion, lower inflation expectations and a less depreciated euro in the second half of 2015 …

Last summer's doubts over the correction to China's economy and its policy response unleashed a bout of unbridled upheaval in financial markets which, **to a large extent, they had reversed by the end of 3Q15**. The financial turmoil hit the emerging markets particularly hard (with sharp depreciations of their currencies, an upturn in their risk premiums and plummeting stock markets), although it also reverberated in the developed countries, including the euro area.

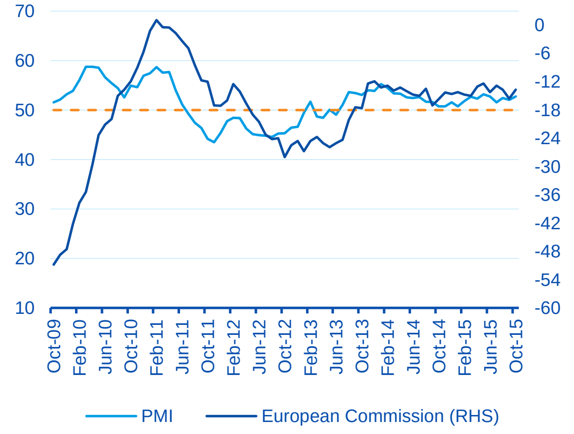
The climate of risk aversion led to tumbling stock markets in Europe, as it did in other geographies, though also to a certain flight to safety, which encouraged retreating interest rates, not just in core European countries but also among those on the periphery, whose risk premia narrowed, as well as a considerable appreciation of the euro's effective rate. On top of this, **the nose-dive taken by commodity prices and doubts over the global recovery again acted as a drag on medium and long term inflation expectations** in the Eurozone. Something akin to this happened in the US, which has **left its mark on the strategy of the Federal Reserve** (Fed) and, indirectly, the exchange rate. The Fed deferred an expected September rate hike (probably until December) and conveyed a message of a more gradual approach to rate hikes in the coming months. This greater downside bias in the US has held rate spreads between the US and Europe relatively anchored (in contrast to an expected widening) which has, in turn, **kept in check the depreciation of the euro against the dollar that might be anticipated** in a situation of money policy divergence on one side or the other.

… which have prompted a December reappraisal of its policy by the ECB, together with a probable stiffening of stimulus measures

In response to this new external scene, which poses a risk to achievement of its objective, the **ECB** has said that **it will re-examine monetary policy measures in December**. The ECB's statement was very clear in its reference to taking new measures, although the **range of possible options is wide open**.

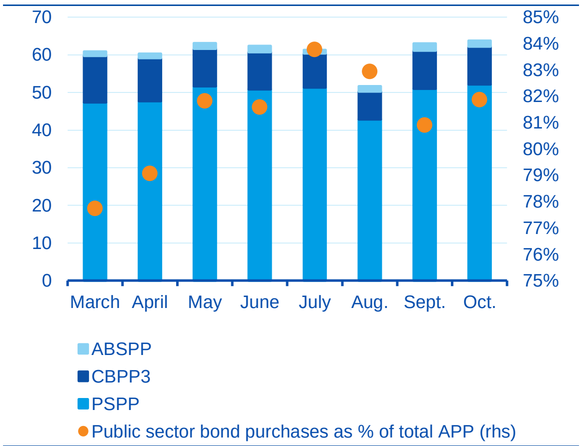
On the one hand, the ECB has stressed that the current asset purchase programme is flexible enough to do any fine-tuning that becomes necessary to achieve its ends. Specifically, the ECB could extend its programme a little longer, raise the monthly target for purchases (from the current level of EUR60bn) (Figure 3.4) and/or enlarge the constellation of assets which it can buy. Moreover, the central bank's president Mario Draghi has also left the door open to additional deposit facility rate cuts (this currently stands at -0.20%), which is something that appeared to have been ruled out until now. Thus any one or a mix of these measures might be taken at the December meeting. On the other hand, we do not foresee any more auction-led liquidity injections than were forecast, since, in the current environment awash with liquidity, the fifth TLTRO (*Targeted Longer-term Refinancing Operation*) auction held on 24 September resulted in very marginal take-up (EUR15bn), which fell a long way short of both expectations and the levels recorded at previous auctions.

Figure 3.3
EMU: export order books (level)



Source: CPB, Eurostat and BBVA Research

Figure 3.4
ECB asset purchase program (EUR Bn)



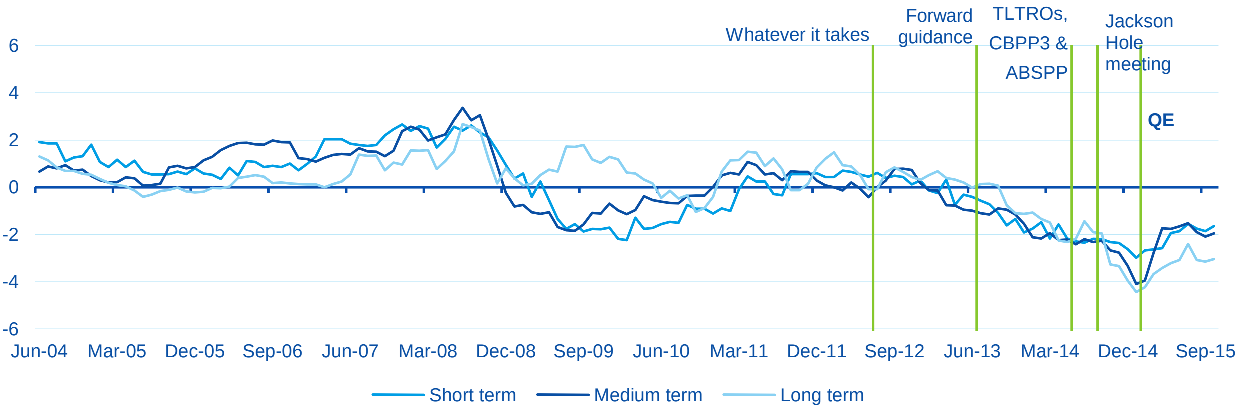
Source: CPB and BBVA Research

The signal has been given, but the instruments are yet to be decided. Assuming that the Fed raises rates in December (which would take pressure off a euro appreciation) and that in the final months of the year there is no significant deterioration in the European macroeconomic scenario, including from inflation indicators[2] (Figure 3.5), **we expect the ECB to announce a six-month extension of the bond purchase programme (i.e. up to March 2017)**. Nonetheless, given the recent statements from certain members of the ECB's Governing Council, the situation is tilted towards the monetary authority either taking or alluding to additional measures in the next few months.

For the time being, this announcement has buoyed inflation expectations and hemmed in the euro's rise and, now within a scenario of an extension of the purchase programme, we expect the euro to weaken a bit more in the coming months, which should lead to an exchange rate that is around 4% more depreciated in 2016 than we envisaged three months ago. This greater **euro depreciation** should be partly offset by the above-mentioned negative impact of lower external demand, as we estimate **a positive impact on GDP of a bit under 0.1pp in 2016**.

2: See ECB Watch
https://www.bbvaresearch.com/wp-content/uploads/2015/11/Monitor_Inflacion.pdf

Figure 3.5
Synthetic inflation-monitoring indicators. Standard deviations from the mean



Source: Bloomberg and BBVA Research

The lower oil price will pull down on inflation and continue to underpin the recovery of domestic demand, although this effect will gradually fade in 2016

The slowdown of demand seems to have been the main reason behind the drifting oil price over the summer, although it is still the increase in the supply of oil which is responsible for its low price at the moment and the creeping rise of this that we expect over the forecast horizon. **Our scenario now includes oil prices at** around USD50/bbl at the end of 2015, USD60/bbl in 2016 and USD66/bbl in 2017, which are a bit more than **12% lower over 2015-17 than they were expected to be three months ago**, although this is partly offset by a more depreciated euro (a fall in euros of around 8% in 2016-17). The greater oil price fall was already partly reflected in the negative surprise in relation to our 3Q15 headline inflation forecast (Section 4) and prompts us to **revise our forecast for the annual average inflation rate down by 0.2pp for 2015 and 2016**. This lower inflation will feed through to an **increase in household disposable income**, while the lower energy product prices **will boost corporate profit margins** via reduced intermediate product prices, **which we estimate could contribute about 0.1pp to growth both this year and the next** from the fillip for both private consumption and investment, although this effect will gradually peter out over the forecast horizon.

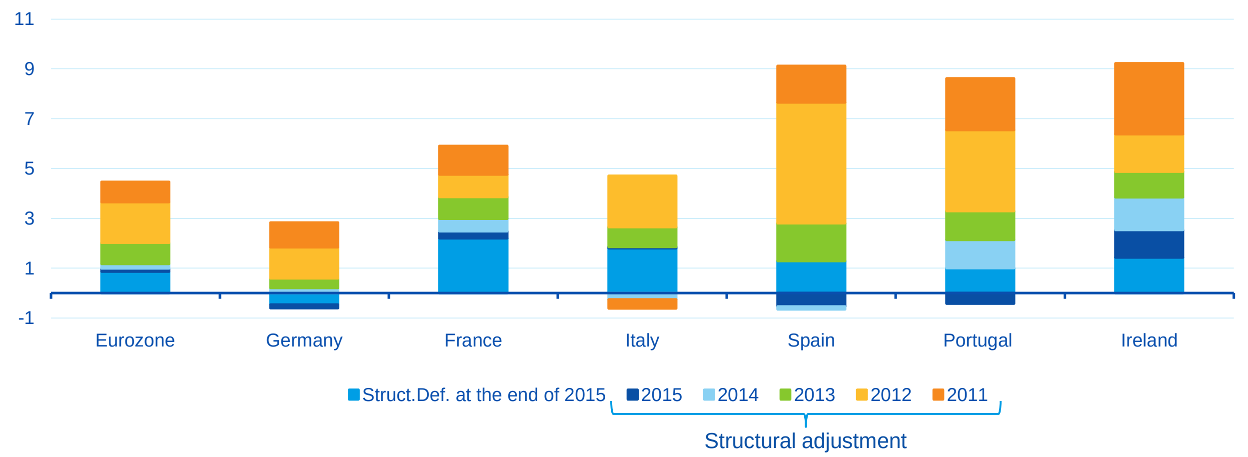
Neutral fiscal policy, although the handling of the refugee crisis and the flexibility negotiated with Brussels could turn it into expansionary in the short term

The available figures for budget execution this year, together with the budgets submitted by the member states in mid-October in accordance with the European semester schedule, are in line with our forecast that the **fiscal deficit for the Eurozone as a whole will continue to come down in 2015 and 2016, reaching 2.2% and 1.8% of GDP respectively,** after 2.6% in 2014. With respect to the official numbers submitted by countries for 2015, the forecasts for the fiscal deficit in France and Italy are being maintained at 3.8% and 2.6% respectively. On the other hand, the surplus expected for Germany is being revised upward to 1% of GDP (from 0.3%) on account of the healthy first half performance by tax revenues, which arose from both the cyclical improvement and the auctioning off of mobile telephone frequencies (0.25% of GDP) and more than make up for the unforeseen expenses associated with the refugee crisis. Looking to 2016, the biggest changes to budget projections can be seen in Italy, which should run up a deficit of 2.2% of GDP (2.4% if refugee crisis expenditure is included), up from the figure of 1.8% that was presented in the April stability programme.

All in all, **fiscal policy will not put a brake on growth this year, and might even be marginally expansionary in some countries next year**. In Germany, the reduction of the structural surplus entered in the budget would mean a stimulus of around 0.7% of GDP in 2016, which should be channelled into increasing public infrastructures and in receiving and hosting refugees (around 0.3/0.4% of GDP). In Italy, a slight expansionary and countercyclical fiscal policy will continue next year, as part of the cyclical improvement (0.8% of GDP) will not be consolidated in a deficit reduction (which fall only 0.4pp to 2.2% of GDP) but will be used to continue to boost the recovery (around 0.4% of GDP). This could be even larger if the costs associated with immigration were considered, but these are unaccounted under the Maastricht criteria (0.2pp resulting in a real deficit of 2.4% of GDP). By contrast, the delayed fiscal adjustment in France in previous years makes fiscal policy planned for 2016 will be slightly contractionary again and pro-cyclical (with an structural adjustment of 0.5% of GDP after 0.4% in 2015), which may be partly behind its lower growth compared to other countries.

At year-end 2015, our estimates suggest that the structural deficit in most countries will have been pared down considerably (to around 2% in France and Italy, and 1% in Spain and Portugal, and although it is still not in equilibrium (Figure 3.6), it will continue to fuel **debate over fiscal policy flexibility in exchange for implementing structural reforms**. This will firmly consolidate the economic recovery in the short term, since balance of risks remains tilted to the downside, while reforms bear fruit in a higher potential growth in the medium to long term.

Figure 3.6
Structural adjustment 2010-15 and structural deficit of 2015 (% GDP)



Source: IMF and BBVA Research

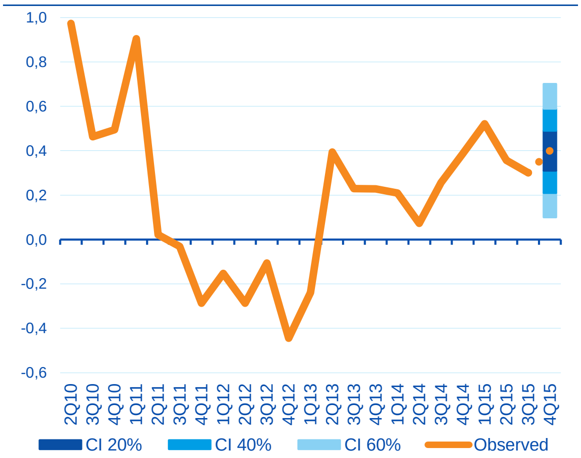
4 Outlook: the growth rate is stabilising

Growth has stabilised over the year to date, based on domestic factors, and is showing some resilience to the worsening external context

The revised 2Q15 National Accounts figures indicated higher growth for the Eurozone economy from the middle of 2014, which gained traction up to 1Q15, in line with our forecast of a gently accelerating European economy. In spite of this, **the Eurozone's recovery displayed symptoms of some degree of steadying** in 2Q15 (0.4% QoQ after 0.5% in 1Q15, following the last data revisions), **sustained by consumption and exports**. The improved labour market and low inflation are still buoying up consumer confidence above its historical average, and this was reflected in relatively robust and stable private consumption growth, which is much as expected, while public sector consumption growth eased off. On the other hand, investment was somewhat disappointing, contracting in the Eurozone as a whole (-0.5% QoQ after 1.4% QoQ in 1Q15), as well as generally among the larger countries (Germany -0.4% QoQ, France -0.4% QoQ, Italy -0.2% QoQ), and experiencing drag, mainly from the construction sector and the slowdown in machinery and equipment investment following the rebound coming into the year. Even so, this investment component is growing at relatively robust rates of around 1% QoQ on average since 2013, although the uncertainty over future demand, especially from outside now, is still stalling a more vigorous recovery. All of this meant that **the contribution from domestic demand fell back to 0.1pp,** having provided 0.6pp in the previous quarter. **External demand, on the other hand, contributed the remaining 0.3pp to growth**, with exports rising considerably, boosted by the euro's depreciation throughout the past year, in parallel with a decline in imports owing to lower investment and inventory reduction (these shaved 0.1pp from quarterly GDP growth).

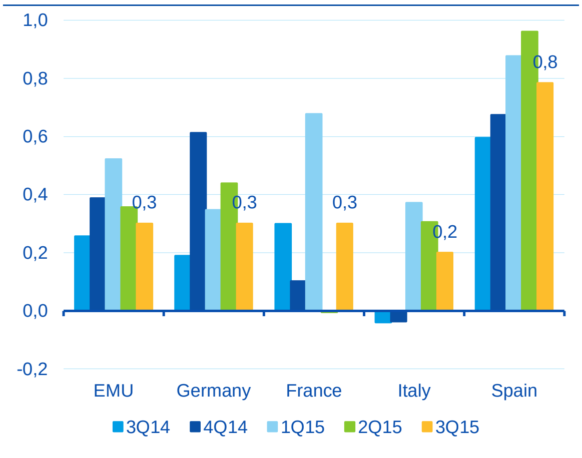
According to National Accounts preliminary estimate, GDP growth slowed a tenth to 0.3% QoQ in 3Q15. By country, there has been some convergence in the pace of growth. Spain should continue to lead the recovery (0.8% QoQ after 1% in 2Q15), while Germany and France grew 0.3% QoQ and Italy 0.2% QoQ. Data available for 4Q15 is limited to confidence for October and suggest that growth could be maintained or slightly increased**. Our short-term model MICA-BBVA** points to the same direction, and **estimates an improvement of GDP of 0.4% QoQ in 4Q15**

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



Source: Eurostat and BBVA Research

Figure 4.2
EMU: GDP growth by country (% QoQ)



Source: Eurostat and BBVA Research

Private consumption will be the key driver of recovery …

Private consumption growth has held steady since midway through last year, increasing at an average rate of around 0.5% QoQ, above its historical average and sustained by the gradual improvement in the labour market. Although household confidence has declined in recent months, it remains at a high level. Both retail sales, for which we have figures to August (+0.6%), and the rebound in vehicle registrations (+4.9%) indicate that private consumption is likely to have kept up growth rates of 0.4-0.5% QoQ in 3Q15, which are comparable to pre-crisis levels.

For the forecast horizon, we expect employment to go on picking up a little speed this year in a situation in which inflation is running at a low level, which should lead to a rise in household disposable income in 2015 and 2016, while credit continues to become both more accessible and cheaper. All in all, **private consumption could rise by around 1.8% in both 2015 and 2016**, which represents a small revision of +0.1pp for each year with respect to our previous estimates. There are therefore no significant changes concerning the factors underlying household spending compared to three months ago, and there is confirmation of the vigour of consumption activity this year, after having grown by 0.9% in 2014. This is the demand component behind almost all of the acceleration in activity that we expect for this year.

… thanks to the improvement in the labour market…

The steady progress made in the labour market since the final quarter of 2013 has mainly been attributable to employment growth (0.3% QoQ in 2Q15, after 0.2% QoQ in 1Q15 and 0.1% QoQ in 4Q14) which, combined with the comparatively stable labour force (+0.1% QoQ), led to a reduction in the unemployment rate of around 0.7pp to 10.8% in September. By country, this pick-up in job creation has focussed particularly sharply on Germany (+0.4% in the past 12 months) and Spain (+2.9%). The rate of economic growth used in our scenario implies that **modest job creation will continue into the next few quarters**, meaning that for 2015 as a whole it could increase by around 1% (0.6% in 2014) and this would be reflected in a reduction in the annual average unemployment rate of around 0.6pp down to 11% (Figure 4.3). For 2016, we forecast that the trend will continue and that the reading for the average unemployment rate will be 10.4%.

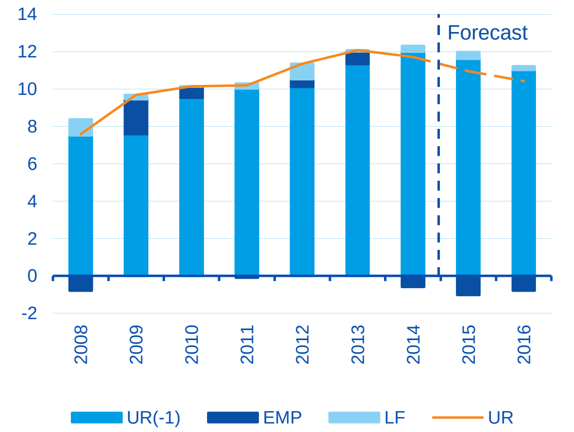
… and weak inflation, clearly below the ECB target rate over the forecast horizon

Headline inflation came down to 0.1% YoY over 3Q15 as a whole (after 0.2% in 2Q15 and -0.3% in 1Q15), which contrasts with our forecast of a slight rise. The surprise was basically brought about by a heavier fall in the oil price than we had been counting on three months ago, which was consequently the case for energy product prices as well. On the other hand, core inflation (ex-energy and fresh foods) held practically stable at 0.9% YoY from the halfway mark for the year, in line with our projections.

Our scenario assumes oil prices at around the USD50/bbl mark at the end of 2015, USD60/bbl in 2016 and USD66/bbl in 2017 (a little more than 12% lower than three months ago), for which reason we now foresee a smaller upturn in inflation from the base effect of energy prices at the end of the year (to around 0.8% YoY in December, following the dive they registered in 4Q14). As a result, **we are revising down our inflation forecasts by about 0.2pp for both 2015 and 2016, to 0.1% and 1.1% respectively** (Figure 4.4). Our estimates for core inflation suggest that this will stay fairly steady at around 0.9% YoY for the rest of the year and then tick upwards over the next year to rates in the region of 1.3% YoY. That said, recent movements in commodity prices, especially that of oil, as well as in the exchange rate (associated with central banks' decisions) **impart a downward tilt to** the path of inflation in the **short term**. **In the medium term, the slowdown of global demand** might also check the rise in oil prices that is built into our scenario, as is hinted at by the prices of oil futures, while a potential further **delay to the lift-off of the Fed's rate hike**

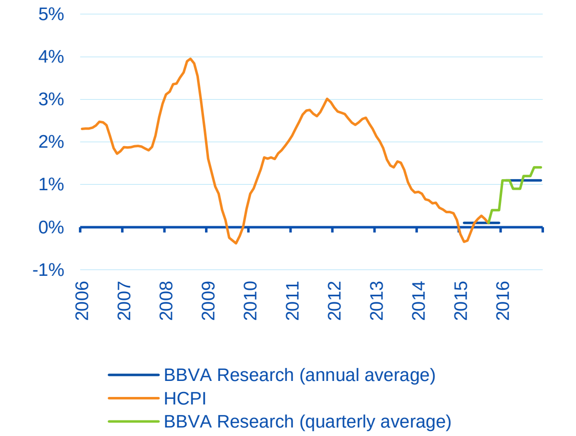
process could also give rise to a firmer euro. This would contribute to a smaller rise in energy product prices and lower import prices, which **might delay inflation's return to the ECB's target level beyond 2017**.

Figure 4.3
EMU: unemployment and decomposition by components (%)



Source: Eurostat and BBVA Research

Figure 4.4
EMU: observed and forecast inflation



Source: Haver analytics and BBVA Research

Uncertainty will continue to influence a modest recovery of investment

Despite investment's volatility in the past few quarters, which could have been partly affected by the uncertainty attaching to events of a geo-political hue (Russia, Greece, the general political climate), **investment growth, especially regarding machinery and equipment, should continue at a relatively robust pace**. In spite of the aforementioned headwinds and those which have emerged in recent months (the slowdown of China and other emerging economies), business confidence does not seem to have been substantially affected. The mixture of low oil prices, favourable borrowing conditions and the drop in idle capacity at companies ought to translate into a pick-up in the pace of investment expansion, leaving average growth at around **2.3% in 2015** (0.4pp more than in our last forecast, which mainly arises from the upward revision of the data for previous quarters), **thereafter rising to 3.5% in 2016, (**which is 0.4pp less than was being suggested three months ago), owing to the adverse impact of lower external demand. On the other hand, trends in new lending transactions and the latest ECB surveys continue to suggest that there are no supply problems in the banking system, for which reason there ought not to be any trouble in meeting any step-up in the demand for credit associated with investment over the next year.

The slowdown in global demand will limit the contribution to growth from net external demand

The rebound in exports in 2Q15 came as a positive surprise, although we expect such growth rates to let up over the rest of the year (around 0.6-0.7% QoQ after 1.6% for 2Q15), due to the global slowdown and the somewhat less favourable euro exchange rate than was anticipated three months ago. However, sales to developed countries (particularly the US and the UK) have made a significant contribution to the fine performance by exports and managed to partly counteract the adverse effect of the easing up of gloal demand (Figure 4.5), and we expect this trend to hold over the forecast horizon, in line with our scenario (see section 2).

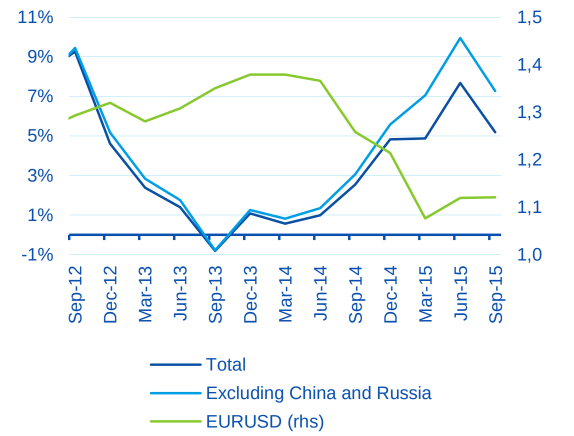
Thus, the slowdown of China's growth rate, together with the lower growth expected now for the emerging economies and a rather more gradual recovery in the United States, ought to show through in a drop in demand from outside for the euro area as a whole. Consistent with October IMF import forecasts, we estimate that external demand growth could fall back to 2.4% in 2015 from 3.5% in 2014, and then speed up in 2016 to a little under 4%, sustained by better relative growth for both the emerging and developed economies. This new estimate thus represents a downward revision of almost 1pp for external demand growth, which leads us to **revise down export forecasts for the euro area as a whole by** a little over 0.5pp **in 2016**, while we are keeping those for this year practically unchanged as the adverse impact should be offset by the upward revision of the figures for previous quarters and the positive surprise in 2Q15. These less vigorous sales abroad, in combination with a slightly more moderate rise in investment next year, have also led us to revise import growth in 2016 downwards. This all means that **the contribution to GDP growth for the euro area overall from net exports will be non-existent this year and slightly negative (-0.1pp) in 2016**.

Widespread recovery over across countries

Many of the factors underlying the state of Europe's economy have not been altered (relative strength of domestic aspects, the expansive orientation of monetary policy and the more neutral tone of fiscal policy) and find their echo in the resilience of the confidence of economic agents in spite of external developments (China and emerging economies) and uncertainty over some internal elements (Greece, the refugee crisis, implementation of structural reforms, q.v. section 3). However, the slower world growth that is forecast leads us to revise our growth estimates for the coming quarters a shade downwards. We therefore now expect the pace of recovery to consolidate, in contrast to the mild acceleration that we were predicting three months ago. On the other hand, given the upwards revision of growth for previous quarters, **we are standing by our forecast of a 1.5% rise in euro area GDP in 2015**. **For 2016, we expect annual average GDP growth of 1.8%** (-0.1pp with respect to our previous note), **mainly due to export growth that will be more moderate than previously expected.** Thanks to the resilience of private consumption, the absence of fiscal tightening and a modest recovery in investment, internal demand will continue to be the main driver of growth (Figure 4.6).

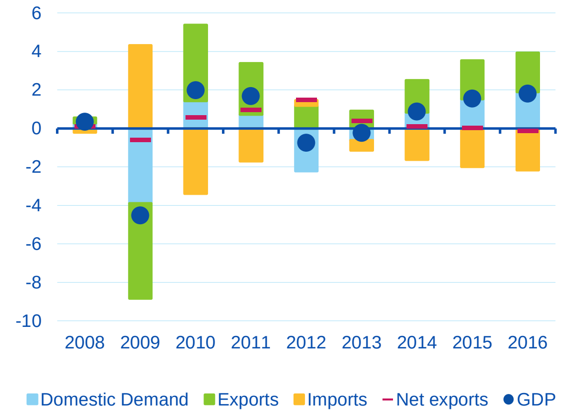
Among the member states, Spain will take up the baton from Germany as the country that grows the most over the forecast horizon, while the recovery will be somewhat less robust in France, and Italy will mark a return to growth after three years of recession. For a more in-depth analysis, see the table of country specifics below.

Figure 4.5
EMU: exports (% YoY) and Exchange rate



Source: Eurostat and BBVA Research

Figure 4.6
EMU: contribution to annual GDP growth (pp)



Source: Eurostat and BBVA Research

Risks around these growth forecasts remain clearly bearish

On the one hand, some **external risks** mentioned in the past are still present, as those related to **geopolitical factors and the Russian-Ukrainian crisis**, which could give rise to a sharp decline in the Russian economy, although the deep recession this year (linked to low oil prices and sanctions) has no impact on the eurozone beyond the fall in exports of countries with trade ties with it (including Germany). The **normalization of the Fed rates** may have higher effects on global financial volatility than projected, though the effect is already highly anticipated.

It is in the domestic risks which are still novelties. In **Greece**, the third bailout deal in August of three years and EUR86bn calmed tensions and the risk of Grexit. The Greek government has approved a budget for 2016 in line with the requirements of the agreement, together with numerous structural reforms required by the Eurogroup. At the same time, the Greek banking system has passed its review of assets quality and stress test in which capital needs have been identified (EUR14bn) below projections (EUR25bn), which will be covered with private capital injections and part of the financial aid. However, **program conditions required for the disbursement of the first tranche have not been totally approved, and above all there is no ownership of the program of structural reforms by the government**, which often refers to them as conditions imposed by Europe, rather than reforms to increase potential growth. Furthermore, in addition to completing the recapitalization of the banking system, the first program review should be passed before starting negotiations for a further easing of debt repayment conditions (once ruled out an additional nominal haircut to 2012) and establishing the possible involvement of the IMF in the third program.

In **Portugal**, doubts about the continuation of reforms arise after the **October elections**, which **have not led – at the closing date of this publication – to a stable government** committed to the measures adopted so far, and there are even risks of reversal of some of them and break with the deficit reduction commitments in a country with high debt.

In **Spain**, the **uncertainty** around the **political environment** may begin to have a greater impact on the decisions of firms and households. So far, the deterioration observed in financial variables has been moderate.

Beyond the risk in the periphery, which could lead to local problems and eventually episodes of contagion to other countries, **there is a risk at European level: the slowing of institutional reform process towards greater integration of the euro countries, or the UK exit from the EU**. In both cases the impact on economic activity would not be palpable in the short term, and would be felt mainly through an effect on confidence, but also make Europe more vulnerable to future shocks. And, in this connection, a dynamic that can lead to less cooperation between European countries is the problems related to the **refugee crisis** caused by wars in Syria and Iraq, which can provide an opportunity to mitigate the demographic crisis in several Europeans countries, but in the short term it is generating some political tensions within countries and between governments, which can thin the climate of cooperation in the region. This certainly could slow down the integration processes, as well as affect the confidence of economic agents even more.

Eurozone member states: detailed analysis

Germany: domestic factors are proving resilient to the emerging economies slowdown, the impact from which will be offset by a moderately expansive fiscal policy

(GDP: 1.6% in 2015, 1.8% in 2016)

Recent data: growth picked up a bit in 2Q15, advancing at a sound annualised rate of 1.6% in 1H15 and driven by the fine performance of exports, which managed to overcome the rocky patch experienced by domestic demand. Euro depreciation helped to soften the blow of the slowdown among the emerging economies and Russia's contraction with an upsurge in sales to the United States and the EU. Despite this, lower global demand is probably already being felt in the shape of exports that were virtually at a standstill to August (after 3.3% QoQ in 2Q15) and a drop in orders, although this contrasts with the upturn in export orders in October according to the PMIs, which slightly allays fears of crippling drag from abroad. Meanwhile, domestic demand seems to be on the mend, with a significant increase in retail sales in 3Q15, modest progress in investment goods production and less hindrance from construction. According to preliminary estimates, GDP moved ahead by 0.3% QoQ in 3Q15 and October confidence indicators point to a relatively stable growth in 4Q15.

Outlook for 2015 and 2016: we are standing by our forecast for 2015, since the robustness of the domestic fundamentals will bring about a bigger contribution from domestic demand in 2H15 which ought to make up for the loss of export momentum. A brighter labour market in a setting of low prices will continue to fuel private consumption this year and the next, while public sector consumption will provide a little more support for growth (than was predicted three months ago) as a result of fiscal policy that will become fairly expansive with the spending arising from both arrangements for immigration and the improvement of public infrastructure. Notwithstanding this, we are revising 2016 growth down by 0.1pp to 1.8% on the impact of lower global demand: i) the uncertainty from this will delay some investment decisions with expectations of a more moderate rise, and ii) the slowdown in exports (more substantial than in imports) will lead to a negative contribution from net exports. Overall, the waves from the emerging economies should be mitigated by the increased share of the developed economies in sales abroad, while the plunge in sales to Russia has come to a halt.

Fiscal policy: The good progress made in domestic demand and in the labour market in Germany was reflected in better-than-expected tax revenues, including extraordinary revenues (mobile phone frequency sales, 0.25% of GDP). All of this leads us to revise the forecast fiscal surplus for 2015 up from 0.3% to 0.6% of GDP (Government: 1%), and for 2016 we still foresee a balanced budget, 0% of GDP (Government: 0%).

France: a sluggish and mildly disappointing recovery, which should spur the implementation of reforms

(GDP: 1.1% in 2015, 1.6% in 2016)

Recent data: apart from GDP's bumpy growth in the first half, the recovery has advanced at a languid and rather disappointing pace (0.2% QoQ on average since 2Q14), which probably continued into 3Q15 (0.3% QoQ). Following the stagnation of private consumption in 2Q15, increasing confidence and consumer spending to August suggested that it would have again taken up the reins in terms of growth (0.3% QoQ). Despite the improvement in industrial confidence, sector production is still unconvincing and does not point to any upturn in investment in the short run. Meanwhile, the strong contribution from net exports did not continue in 3Q15, despite the fact that sales abroad are still reaping the benefits of a weak euro, as imports picked up a head of steam following the moderation in 2Q15, which could be linked to the evolution of inventories.

Outlook for 2015 and 2016: a slower recovery than we were expecting so far this year means that we are revising our 2015 growth forecast down by 0.2pp to 1.1%. Despite this, the gradual trend of improvement in the past few months, together with the fact that certain drivers are still in place (low oil prices, euro depreciation, improved borrowing conditions), suggests that the recovery could steadily gather pace from 4Q15. Consequently, growth could speed up to 1.6% in 2016 (revised down by 0.1pp) on the back of private consumption (even though it would be a bit more modest), as could the recovery of investment in particular, buoyed by the tax credit scheme, some of the reforms underway and helpful borrowing conditions, together with the smaller drag from construction investment. The impact of the slowdown among the emerging economies ought to be milder via the direct channel in France, but exports will ease up next year, due to both the indirect effects (Germany and the core countries) and the wearing off of the effect of the euro's depreciation, while the liveliness of imports to meet domestic demand could result in a marginally negative contribution from net exports.

Fiscal policy: the latest budget execution figures show a government deficit of 3.7% of GDP in 2015, which is 0.1pp more than we were expecting three months ago and in line with the government's 3.8% target. The structural adjustment for this year (0.4pp) is primarily based on strong saving, which will manage to outweigh the tax cuts and reductions in employer contributions for companies that were enshrined in last year's responsibility pact. For 2016, the deficit should continue to narrow to 3.2% (Government: 3.3%), which is a little less than previously estimated due to a smaller cyclical improvement (0.2pp), while the structural fiscal adjustment should remain at around 0.3pp.

Italy: the fruits of the reforms should consolidate the beginnings of cyclical recovery

(GDP: 0.8% in 2015, 1.4% in 2016)

Recent data: : the recovery consolidated in 1H15, supported by lower oil prices, the euro depreciation, low interest rates, a healthier labour market and neutral fiscal policy, with growth relatively stable at around 0.3% QoQ. Moreover, the available indicator figures show that growth would have been at a comparable rate in 3Q15. And, according to the preliminary estimate, it would have moderated slightly in 3Q15 to 0.2% QoQ. Consumer confidence improved significantly, while retail sales rose at a stable pace (0.3% QoQ) and indicate a similar increase for private consumption (0.4% QoQ). Industrial production growth is also holding (0.5% QoQ) and, together with the improved outlook for the economy, suggests that investment could grow again. Nonetheless, the contribution of domestic demand in 1H15 is likely to diminish (0.7pp in 1Q15 and 0.5pp in 2Q15), given that the strong investment swell in 1Q15 and the considerable contribution from inventories in 2Q15 are unsustainable. Imports thus ought to ease off, so that contribution from net exports should be somewhat less negative.

Outlook for 2015 and 2016: we are keeping our GDP growth forecasts practically unchanged at 0.8% for 2015 and 1.4% for 2016, 0.1pp more than three months ago in both cases (due to a slight upward revision of the figures), which is prompted by the cyclical tailwinds that will remain for the forecast horizon and the effects of the reforms underway. Growth will be driven by domestic demand, from both private consumption and investment, while the scant room for fiscal manoeuvre will be used to the full so as not to impede the recovery. Even though sales to emerging markets represent a low proportion of total exports and their direct impact is limited, we expect them to slow down next year, also due to the indirect effects on trade (Germany and the United States), although this could be partly offset in the short term by the weaker euro. The biggest conundrum, however, is still low potential growth, which means that the government ought to go further down the road of reforms that enable increased productivity, labour cost reduction and gains in competitiveness.

Fiscal policy: So far this year, the fiscal data are still encouraging and we continue to forecast a deficit of 3% for 2015, which is 0.4pp more than is officially being envisaged by the government (2.6%), mainly due to the negative effect of the declaration that certain measures are unconstitutional. For 2016, we still estimate a deficit of 2.4%, in line with the new government forecasts (2.2%, or 2.4% if the greater expenditure arising from the refugee crisis is included). The main concern, though, is still the high volume of government debt (132.1% of GDP in 2014), which should peak in 2015 (135% of GDP) and then start to drift back to 133% in 2016. These forecasts take into account the programme of privatisation of public companies which the government has been pursuing, albeit with a greater-than-expected delay, since the end of 2013, with the intention of complying with the debt reduction rule under the Fiscal Compact from 2018.

Spain: the recovery continues, in spite of the short-term deceleration

(GDP: 3.2% in 2015, 2.7% in 2016)

Recent data: the Spanish economy closed 3Q15 with a slight moderation of quarterly growth (0.8% QoQ) which is likely to be running on into 4Q15 (0.7% QoQ). The deterioration in the outlook for global growth (principally in the emerging markets), the drying up of certain cyclical drivers, and the deferring of certain spending decisions appear to underlie this slowdown. With respect to how this breaks down, short-run indicators show that domestic demand is likely to have wholly accounted for quarterly GDP growth, while external demand probably made a non-existent contribution. Both household spending and machinery and equipment investment seem to have grown again in 3Q15, though less vigorously than in 2Q15. Likewise, public sector consumption should have closed positively, but growth for this would have been marginal. Even though net external demand probably failed to contribute to quarterly growth, both exports and imports should have grown, albeit at a slower pace.

Outlook for 2015 and 2016: activity will move ahead by 3.2% in 2015 and drop back to 2.7% in 2016, in line with what was suggested in the previous edition of this note. The recovery should continue to be based on both external and domestic factors. The downward revision of expected growth for the world economy will be balanced out by slightly more expansive monetary policy and the greater predicted restraint shown by oil prices. On the domestic front, the support from economic policy, together with the structural improvement of the fundamentals, will produce a well-grounded expansion of domestic demand. The increase in final demand will trigger an import spike, which will probably lead to a practically negligible contribution to growth from net external demand in both years (see Spain Economic Outlook).

Fiscal policy: for 2015 the economic cycle is expected to continue to contribute to reducing the fiscal deficit, due to both the impact of automatic stabilisers kicking in and reduced pressure from the interest and pensions burden. On top of this, the impact of the expansionary policies implemented will leave the 2015 deficit at around 4.5% of GDP, above the 4.2% target decided for the year. Turning to 2016, the economic recovery is expected to continue to correct the public administrations' deficit, which means that, in a scenario of unchanged fiscal policy, this ought to come down by 1.5pp to 3.0% of GDP.

5 Tables

Table 5.1
Eurozone forecasts (% YoY)

	2012	2013	2014	2015	2016
GDP at constant prices	**-0.8**	**-0.2**	**0.9**	**1.5**	**1.8**
Private consumption	-1.2	-0.6	0.9	1.8	1.8
Public consumption	-0.1	0.2	0.8	1.1	0.9
Gross Fixed Capital Formation	-3.4	-2.6	1.3	2.3	3.5
Inventories (*)	-0.8	0.2	-0.1	-0.2	0.0
Domestic Demand (*)	**-2.2**	**-0.6**	**0.8**	**1.5**	**1.9**
Exports (goods and services)	2.9	2.2	3.9	4.5	4.4
Imports (goods and services)	-0.7	1.4	4.2	4.9	5.2
External Demand (*)	**1.5**	**0.4**	**0.1**	**0.0**	**-0.1**
Prices and Costs					
CPI	2.5	1.4	0.4	0.1	1.1
CPI Core	1.8	1.3	0.9	0.8	1.3
Labour Market					
Employment	-0.4	-0.7	0.6	1.0	0.8
Unemployment rate (% of labour force)	11.3	12.0	11.6	11.0	10.4
Public Sector					
Surplus (+) / Deficit (-) (% GDP)	-3.7	-3.0	-2.6	-2.2	-1.8
Public debt (% GDP)	89.3	91.1	92.1	93.2	92.9
External Sector					
Current Account Balance (% GDP)	1.2	1.8	2.1	2.6	2.4

(*) 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	2.2	2.2	2.4	2.5	2.5
Eurozone	-0.8	-0.3	0.9	1.5	1.8
Germany	0.6	0.2	1.6	1.6	1.8
France	0.2	0.7	0.2	1.1	1.6
Italy	-2.8	-1.7	-0.4	0.8	1.4
Spain	-2.1	-1.2	1.4	3.2	2.7
UK	0.7	1.7	2.9	2.4	2.2
Latin America *	2.8	2.5	0.8	-0.3	0.5
Mexico	4.0	1.4	2.1	2.2	2.5
Brazil	1.8	2.7	0.2	-2.5	-0.5
EAGLES **	5.8	5.6	5.2	4.7	5.0
Turkey	2.1	4.1	2.9	2.8	3.3
Asia Pacific	5.7	5.9	5.7	5.6	5.4
Japan	1.7	1.5	-0.1	0.8	1.0
China	7.7	7.7	7.3	6.9	6.2
Asia (exc. China)	4.1	4.5	4.3	4.4	4.8
World	3.4	3.4	3.4	3.2	3.5

* 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: 10 November 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	0.2	1.8
Eurozone	2.5	1.4	0.4	0.1	1.1
Germany	2.1	1.6	0.8	0.2	1.3
France	2.2	1.0	0.6	0.1	1.0
Italy	3.3	1.3	0.2	0.2	1.0
Spain	2.4	1.4	-0.2	-0.4	1.2
UK	2.8	2.6	1.5	0.1	1.3
Latin America *	7.8	9.2	12.6	16.4	26.6
Mexico	4.1	3.8	4.0	2.8	3.3
Brazil	5.4	6.2	6.3	8.9	6.8
EAGLES **	5.2	5.2	4.6	4.5	4.1
Turkey	8.9	7.6	8.9	7.7	8.5
Asia Pacific	3.8	4.0	3.3	2.3	2.8
Japan	0.0	1.6	2.7	0.4	1.2
China	2.6	2.6	2.1	1.6	2.0
Asia (exc. China)	4.8	5.2	4.4	2.9	3.5
World	4.5	4.2	3.9	3.8	4.8

* 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: 10 November 2015.
Source: BBVA Research and IMF

Table 5.4
Macroeconomic forecasts: Current Account

(Annual average, % GDP)	2012	2013	2014	2015	2016
United States	-2.8	-2.3	-2.9	-2.8	-2.8
Eurozone	1.2	1.8	2.1	2.6	2.4
Germany	6.8	6.5	7.6	7.6	7.1
France	-1.5	-1.4	-0.8	-0.9	-1.0
Italy	-0.5	0.9	1.9	1.4	2.2
Spain	-0.3	1.4	0.8	1.5	1.9
UK	-3.7	-4.5	-5.9	-5.2	-5.0
Latin America *	-1.6	-1.1	-2.8	-3.2	-2.5
Mexico	-1.3	-2.1	-2.1	-2.9	-3.0
Brazil	-2.4	0.0	-4.5	-3.9	-2.5
EAGLES **	0.9	0.7	0.5	0.4	0.4
Turkey	-6.1	-7.9	-5.7	-5.0	-5.3
Asia Pacific	1.1	1.3	1.7	2.2	1.9
Japan	1.0	0.7	0.5	1.6	1.3
China	2.6	2.0	2.1	2.5	2.4
Asia (exc. China)	-0.1	0.7	1.4	1.9	1.5

* 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: 10 November 2015.
Source: BBVA Research and IMF

Table 5.5
Macroeconomic Forecasts: Government Balance

Annual average, % GDP	2012	2013	2014	2015	2016
United States	-6.8	-4.1	-2.8	-2.5	-2.4
EMU	-3.6	-2.9	-2.4	-2.2	-1.8
Germany	0.1	0.1	0.7	0.6	0.0
France	-4.8	-4.1	-4.0	-3.7	-3.2
Italy	-3.0	-2.9	-3.0	-3.0	-2.4
Spain	-6.6	-6.3	-5.7	-4.5	-3.0
UK	-8.3	-5.7	-5.7	-4.2	-3.6
Latin America *	-2.5	-2.5	-4.2	-5.2	-4.8
Mexico	-2.6	-2.3	-3.2	-3.5	-3.0
Brazil	-2.5	-3.1	-6.7	-7.8	-7.5
EAGLES **	-1.4	-2.0	-2.7	-4.3	-3.8
Turkey	-2.1	-1.2	-1.6	-1.2	-1.4
Asia Pacific	-2.6	-2.9	-2.8	-3.0	-2.9
Japan	-7.6	-9.2	-7.9	-6.5	-6.0
China	-1.1	-1.5	-1.8	-2.5	-2.5
Asia (exc. China)	-3.8	-4.1	-3.7	-3.5	-3.2

* Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
** Brazil, China, India, Indonesia, Mexico, Russia and Turkey.
Forecast closing date: 10 November 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	1.00
Eurozone	0.75	0.25	0.05	0.05	0.05
China	6.00	6.00	5.60	4.35	4.35
Macroeconomic Forecasts: 10-year government bond yield (Annual average)					
United States	1.8	2.3	2.5	2.1	2.4
Germany	1.6	1.6	1.2	0.5	0.7
Macroeconomic Forecasts: Exchange Rates (Annual average)					
USD-EUR	0.78	0.75	0.75	0.90	0.92
EUR-USD	1.29	1.33	1.33	1.11	1.09
GBP-USD	1.59	1.56	1.65	1.53	1.64
USD-JPY	79.8	97.5	105.8	121.44	130.92
USD-CNY	6.31	6.20	6.14	6.30	6.70

Forecast closing date: 10 November 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	0.3	0.3	1.3	0.9	0.8	1.0	1.8	1.7
Public consumption	3.0	1.3	0.9	1.3	0.8	1.7	1.8	1.2
Gross Fixed Capital Formation	-10.0	5.1	7.4	0.2	-1.3	3.5	1.9	3.2
Inventories (*)	-1.7	1.4	0.5	-1.6	0.5	-0.3	-0.2	0.0
Domestic Demand (*)	-3.0	2.8	2.8	-0.8	0.8	1.2	1.4	1.8
Exports	-14.3	14.2	8.4	3.4	1.8	3.9	4.9	4.0
Imports	-9.6	12.6	7.1	0.1	3.2	3.7	5.4	4.8
Net exports (*)	-2.6	1.1	0.9	1.5	-0.4	0.4	0.1	-0.1
GDP	-5.6	3.9	3.7	0.6	0.4	1.6	1.6	1.8
Inflation	0.2	1.2	2.5	2.1	1.6	0.8	0.2	1.3

(*) 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	-0.2	0.5	0.7	1.6	1.4
Public consumption	2.5	1.2	1.1	1.6	1.7	1.5	1.7	1.0
Gross Fixed Capital Formation	-9.0	1.9	2.1	0.3	-0.4	-1.2	-0.6	2.8
Inventories (*)	-1.1	0.3	1.1	-0.6	0.2	0.2	-0.1	0.0
Domestic Demand (*)	-2.5	2.0	2.1	-0.3	0.8	0.7	1.0	1.6
Exports	-11.0	8.6	7.1	2.6	1.8	2.4	6.3	4.5
Imports	-9.3	8.5	6.5	0.8	1.8	3.9	5.7	4.5
Net exports (*)	-0.3	-0.1	0.0	0.5	0.0	-0.5	0.1	-0.1
GDP	-2.9	1.9	2.1	0.2	0.7	0.2	1.1	1.6
Inflation	0.1	1.7	2.3	2.2	1.0	0.6	0.1	1.0

(*) 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	-2.6	0.4	0.7	1.1
Public consumption	0.4	0.6	-1.8	-1.4	-0.3	-0.7	0.1	-0.1
Gross Fixed Capital Formation	-10.0	-0.6	-1.7	-9.4	-6.6	-3.4	1.0	2.5
Inventories (*)	-1.2	1.3	0.2	-1.1	0.2	0.0	0.2	0.0
Domestic Demand (*)	-4.2	2.1	-0.5	-5.6	-2.7	-0.5	0.9	1.1
Exports	-17.9	11.3	6.1	2.0	1.0	2.8	4.1	3.5
Imports	-12.8	12.1	1.2	-8.3	-2.4	2.7	5.0	3.0
Net exports (*)	-1.3	-0.4	1.2	2.8	0.9	0.1	-0.1	0.2
GDP	-5.5	1.7	0.7	-2.9	-1.8	-0.4	0.8	1.4
Inflation	0.8	1.6	2.9	3.3	1.3	0.2	0.2	1.0

(*) Contribution to growth.
Source: BBVA Research

Table 5.10

Spain: GDP growth and inflation forecasts (% YoY)

	2009	2010	2011	2012	2013	2014	2015	2016
Private consumption	-3.6	0.3	-2.4	-3.5	-3.1	1.2	2.9	2.5
Public consumption	4.1	1.5	-0.3	-3.7	-2.9	0.0	1.8	0.4
Gross Fixed Capital Formation	-16.9	-4.9	-6.3	-8.1	-3.8	3.5	6.1	5.5
Equipment and other products	-23.5	5.1	0.8	-8.4	3.9	10.5	8.9	6.3
Construction	-16.1	-10.1	-11.7	-8.3	-7.1	-0.2	5.6	5.0
Housing	-20.3	-11.6	-13.3	-5.4	-7.2	-1.4	3.4	7.5
Other construction	-11.4	-8.5	-10.2	-10.7	-7.1	0.8	7.3	3.2
Inventories (*)	-0.2	-0.1	-0.1	-0.3	-0.2	0.3	0.1	0.0
Domestic Demand (*)	-6.4	-0.5	-2.7	-4.3	-2.7	1.6	3.3	2.6
Exports	-11.0	9.4	7.4	1.2	4.3	5.1	5.2	5.2
Imports	-18.3	6.9	-0.8	-6.3	-0.5	6.4	6.1	5.2
Net exports (*)	2.8	0.5	2.1	2.2	1.4	-0.2	-0.1	0.1
GDP	-3.6	0.0	-0.6	-2.1	-1.2	1.4	3.2	2.7
Inflation	-0.3	1.8	3.2	2.4	1.4	-0.2	-0.4	1.2

(*) Contribution to growth.
Source: BBVA Research

Table 5.11

UK: GDP growth and inflation forecasts (% YoY)

	2009	2010	2011	2012	2013	2014	2015	2016
Private consumption	-3.2	0.0	0.1	1.8	1.9	2.6	2.9	2.3
Public consumption	1.0	0.2	0.1	1.8	0.5	1.9	1.6	0.2
Gross Fixed Capital Formation	-14.4	5.0	2.0	1.5	2.6	7.5	4.0	5.1
Inventories (*)	-0.5	1.4	-0.6	0.5	0.9	0.0	-0.5	0.1
Domestic Demand (*)	-4.5	2.4	0.4	1.9	2.7	3.3	2.3	2.5
Exports	-8.8	5.8	5.8	0.7	1.2	1.8	1.7	3.1
Imports	-9.2	8.3	0.6	2.9	2.8	2.8	1.3	3.6
Net exports (*)	0.3	-0.9	1.5	-0.7	-0.5	-0.4	0.1	-0.3
GDP	-4.2	1.5	2.0	1.2	2.2	2.9	2.4	2.2
Inflation	2.2	3.3	4.5	2.8	2.6	1.5	0.1	1.3

(*) Contribution to growth.
Source: BBVA Research

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