BBVA | RESEARCH

Europe Economic Outlook

1ST QUARTER 2016 | EUROPE UNIT

01
In a weak and uncertain global environment, the eurozone continues to grow thanks to domestic demand

02
The commodity price shock is positive for Europe and will strengthen consumption, but investment will remain moderate

03
Inflation will weaken again because of oil price, and the ECB will respond with new stimulus measures

04
The risks are to the downside, with a preponderance of those of a political o geopolitical nature

Index

Closing date: 5 February 2016

1 Editorial

The episode of risk aversion that has affected the markets since the beginning of the year, unleashed by the **uncertainties regarding the situation in China and global growth, and the new drop in oil prices are the two new elements that have affected the world economy – and thus the European economy since our last publication**. Otherwise, Europe has continued to grow at the expected pace of around 1.5% in annualised terms.

The falls in asset prices at a global level have generated uncertainties regarding the world recovery and the capacity of the emerging markets to cope with the challenges that these imply for economic policy. In the US the Federal Reserve has started to raise interest rates, as expected, but the most recent activity indicators also generate certain doubts on the progress made in the last few months. All this implies that the external environment remains not favourable for European exports.

On the other hand, the fall in oil and other commodity prices implies an income boost for the eurozone economies, which are huge importers of commodities and energy, which will provide an additional stimulus for private consumption this year, after having been the most resilient component of demand in 2015 thanks to the previous oil shock at the end of 2014.

It is not easy to assess the impact on activity of these two opposing forces. If the signals of the economic weaknesses of China are temporary, as we project, **it is possible that the positive boost to private consumption more than offsets the negative impact of lower external demand**. However, **the uncertain environment linked to the situation in the markets and a complex political scenario appears to be having an effect on private investment plans** in the region. **Altogether, we maintain our GDP growth forecasts at 1.8% for 2016** compared to the 1.5% in 2015. **In 2017, if the tensions fade away, the region could continue to close the output gap and growth could reach around 2%**.

In spite of being net positive for Europe, **the new oil shock renews the disinflationary tensions in an already very low inflation environment, and thus makes monetary policy management more difficult for the ECB**. The recent declines in the price of oil and the new market equilibriums have led us to revise our forecasts for Brent downwards to an average of USD30/bbl in 2016 and USD46/bbl in 2017, 50% and 30% lower, respectively, than our previous forecasts. This, together with the declines to date, have prevented inflation from recovering as we expected and it remains at around 0.2% (January data), **leading us to revise our inflation forecast for 2016 from 1.1% to 0.2%, and from 1.7% to 1.4% for 2017**. **We are not expecting significant second-round effects** of these falls (just as there were none in the previous oil shock at the start of 2015), **in a context of relatively robust domestic consumption**, and thus we have revised our core inflation forecasts considerably less (by around 0.2pp over the forecasting horizon to 1% in 2016 and 1.6% in 2017).

Although we are not anticipating a scenario of deflationary pressures, it does appear that **the ECB is going to take additional stimulus measures to counteract inflation expectations that have reacted to the downside, and thus to do something more to ensure that its inflation target will be met in the medium term**. Thus President Draghi preannounced measures of some kind for March (when the ECB publishes its new forecasts), and we think it likely that the bank will increase the rate of asset purchases and possibly reduce the depo rate (currently at -0.3%) as well. All of the above are in a global context in which the other central banks in developed countries have adopted a slightly more relaxed tone recently in response to the global uncertainties.

If the market situation normalises and a soft landing is confirmed for China, as we expect, our forecasts could be overtaken by stronger growth data, as the potential effect of such low energy prices is considerable.

Nonetheless, **the risks to the downside have also increased. As well as the possibility of lower global growth and the market turmoil end up weighing on activity, Europe is facing a variety of domestic problems.** One of them refers to the doubts about the profitability of the banking system, which has been reflected in the recent falls in their stock prices or on problems of the Italian sector. Others this time are of a more political – or geopolitical – than economic nature.

The problems in Greece have not been resolved, and negotiations with the Troika are continuing longer than expected. Although Greece has much less influence on the rest of the region than before, it remains an issue of concern. Some European governments (such as the Italian or the new Portuguese administration) are arguing with the European Commission over the pace of deficit reduction, and there is a risk that they will slow or reverse the reforms. In Spain, a government has not yet been formed and the nature of the future legislature is still uncertain. Not only do the tensions between the governments of the periphery and those of the northern European countries persist, but there is the risk of a breach to the west – with a non-negligible risk that the UK will exit the EU, and to the east, with substantial discrepancies between the Eastern European countries and Germany on how to deal with the migrant crisis. The latter is probably the most diffuse but also the biggest internal risk in the eurozone: in spite of the steps taken in the right direction (welcoming refugees, plans to harness their economic potential in a continent with low growth potential, agreement with Turkey to limit the flows of immigrants), the arrivals continue to be at very high levels in 2016 and are generating political problems in the region, which could have an impact on the investment climate. All these factors have resulted in the uncertainty increasing, and along with future General Elections in the two biggest countries in the eurozone in 2017, is also hampering the process of changes towards a more integrated region, which has until recently been one of the key strategies for exiting the crisis.

2 A global outlook of anaemic and more fragile growth

The intensification during the last quarter of 2015 of some of the risk clusters with a global impact led to a further downward revision of world economic growth forecasts for this year. The transition to a lower growth pattern in China, with economic reforms and changes to key objectives such as the exchange rate, is being accompanied by bouts of intense financial volatility and falling commodity prices. All this leads to a much less favourable global panorama for large commodity-exporting economies such as Russia or Brazil, but also for those perceived as more vulnerable financially.

Although the level of activity seen in the second half of 2015 is consistent with quarterly growth of world GDP above those seen in the first half of the year, **advance business confidence indices and the increase in financial stresses point to more moderate growth in early 2016 than was foreseen three months ago**. If this trend is confirmed, **world GDP will grow by just 3.2% in 2016, repeating the advance of 2015 and postponing the recovery to 2017** when it should reach rates of around 3.5%. **This lower growth rate, still the lowest since 2009, reflects slackening demand in the emerging economies**, particularly those of Latin America, which look like contracting for two years in a row. **Recovery in the developed economies is still fragile** and highly dependent on the eventual impact of the slowdown in world trade and the increase in financial instability, **and will not be enough to offset emerging markets' expected relatively poor performance**.

The recent behaviour of the financial markets is largely explained by doubts about the strength of the world economic cycle. **Even leaving the extent of China's slowdown out of the equation**, the fact that **the major emerging economies are all being similarly affected by the persistent fall in commodity prices** has contributed to increasing risk aversion on a global scale. Moreover, a further source of uncertainty has arisen in the form of the Chinese yuan, a reserve currency with an exchange rate more subject to market forces since the summer of 2015 and on which the authorities do not seem to have a settled view. In this situation, **the capital outflows that the emerging economies have been suffering since the beginning of 2015 are rivalling those seen in 2013**, when the markets had factored in a rate hike by the US Federal Reserve which in the end did not take place. As shown by the persistent withdrawal of capital, across the board, with very little discrimination among economies, the nature of the current episode is such that it may have more serious consequences for access to financing and for the growth rate of those economies that are most reliant on external savings. China and the Latin American countries are together those with the biggest capital outflows and consequently those in which financial conditions are deteriorating most.

The depreciation of emerging market currencies, which in some cases has brought their exchange rates to similar or even higher levels than those seen in the crisis of 2008, is one of the most clear signs of the punishment suffered by emerging financial markets. In addition to doubts about the effects of the adjustments to China's economy on global trading channels and financing are growing external imbalances, renewed flare-ups of geopolitical tension and the **constraints faced by the authorities in managing the economic slowdown without compromising financial stability**. In cases where the cumulative depreciation of the currency is more intense and lasting, rates of inflation are starting to pick up and to diverge from the levels set by their central banks as monetary policy objectives. The change of regime in the pricing of the yuan constitutes, without doubt, an additional depreciation factor for most emerging currencies, in an environment of reduced external demand in which a significant deterioration in the terms of trade may exacerbate the correction of domestic demand.

The dilemma faced by emerging market central banks is heightened by the risks entailed by the accumulation of debt by the business sector over the past decade and, with greater intensity, from 2007. The abundant liquidity in the capital markets and the reduction of financial costs were triggers for the private sectors of quite a few emerging countries to opt for borrowings, in many cases denominated in foreign currency, as a means of financing. **An increase in financial costs** (and corporate credit spreads have come under significant stress in the past few months), **in a context of lower revenues and falling business profitability, may jeopardise debt servicing and lead to a sharp reduction in capital expenditure**. In this regard, the approach to monetary policy adopted by the developed economies' central banks will continue to be of decisive importance. However, with this price containment taking place within a context of weak growth in demand, persistently high indebtedness and key interest rates firmly anchored to the bottom, close to zero in Europe and Japan, **the margin for monetary policy to reactivate growth and dispel doubts about the effects of the adjustment in emerging markets is very limited**. This is particularly so when the downturn in emerging market activity is due not just to cyclical factors but also to a secular decline in key sources of revenue such as the export of commodities.

All the same, **the world economy faces a 2016 of limited growth (3.2%), similar to that of 2015, and with a risk balance sheet showing a negative bias and concentrated in the emerging bloc**. How China's economy evolves, both as regards the degree of slowdown in activity and how the authorities manage the financial imbalances that exist, will continue to have a significant influence on financing flows and commodity prices in general, not just oil. The level of corporate indebtedness in those emerging countries most vulnerable to the circumstances described constitutes an additional source of instability, in a context of lower earnings and higher financing costs (bigger risk premiums). Allied to this, geopolitical tensions in certain parts of the world and the risk of a scenario of low growth and low inflation in the major developed economies complete the panorama expected for the world economy in 2016.

3 Eurozone: the recovery continues thanks to temporary factors, amidst intensifying risks

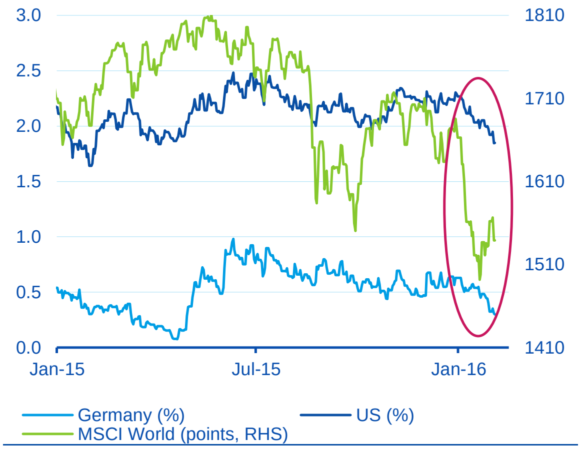
Over the past three months, in spite of the fact that growth in the eurozone gained some momentum and confidence has proved to be relatively resilient, there have been some events that in spite of some being expected (such as the gradual economic slowdown in China and the Fed raising interest rates) are weighing - or will weigh - on the performance of the global economy and will shape the European economy in the coming quarters, such as the significant increase in uncertainty and the fall in commodity prices.

In general, **the net effect of the change in the global factors (further slowdown in global demand and fall in oil prices) could be positive for the eurozone,** which could put a positive bias on our scenario. **Nonetheless, the effect of the increased uncertainty throughout the financial channels and on agents' confidence, which are more difficult to gauge, could more than offset that bias.** As a result, we maintain growth forecasts unchanged for 2016 and 2017 (at 1.8% and 2%, respectively, after the 1.5% in 2015). In spite of leaving our forecasts unchanged, these now reflect a slightly different composition from three months ago, with **growth biased more towards consumption (**both public and more particularly private), **which will underpin the progress of a recovery more based on temporary factors in the forecast horizon, with a parallel delay in the rebound expected in investment. The latter is necessary for growth to be enduring.**

More risk aversion and a brake on euro depreciation …

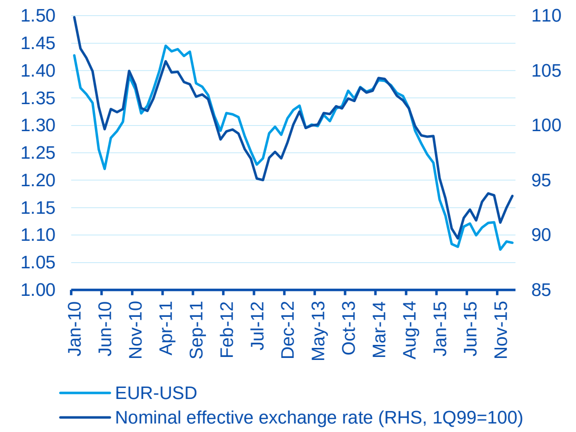
The evolution of the financial markets was not exempt from shocks in the last quarter of 2015 and the beginning of 2016. The start of the normalisation of US interest rates in December does not appear to be the cause of the significant increase in financial tensions, as this movement was widely discounted. **As in the summer, the principal focus of market concerns remains China;** in particular the uncertainty over the degree of cyclical deceleration and its exchange-rate policy. To a certain extent related to the above, **the ongoing falls in the price of oil,** which is at its lowest in more than a decade (USD32.50/bbl), **have helped to intensify the financial tensions in emerging markets** and to significantly raise the credit risk of the companies more closely linked to the commodity cycle. **Geopolitical risk** is another factor that contributes to this risk-aversion environment, where **outflows from emerging countries have intensified** and global stock markets have plunged. Meanwhile, higher-rated bonds have acted as a safe haven, leading to lower interest rates in the US, the UK and the eurozone (Figure 3.1). In this episode, and in contrast to the yen and the dollar, **the euro has not acted as a safe haven, but nor has its depreciation trend against the USD consolidated,** in spite of the divergence of monetary policies (the Fed raising rates and the ECB approving more stimulus measures). Thus, and taking into account the depreciation of the other currencies against the dollar, **the euro's nominal effective exchange rate has appreciated by slightly more than 1% in January and 3% since last summer** (Figure 3.2).

Figure 3.1
10Y Government Yields vs. MSCI World equity index



Source: Bloomberg

Figure 3.2
EMU: EUR-USD and effective nominal exchange rate



Source: ECB

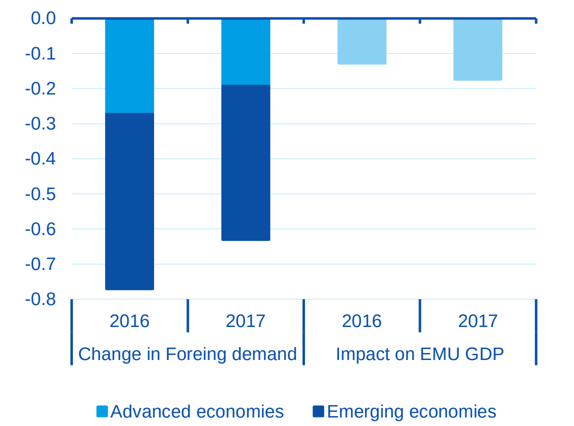
… with lower external demand for the eurozone in 2016-17

Additional factors weighing on external demand in the eurozone other than the soft landing of China's economy (whose change in growth model could weigh on its imports of products from the rest of the world) are now **the further deterioration of other emerging economies** since the increase in financial market turbulence, the collapse in commodity prices and the sharp depreciation of their currencies, which will eventually weigh on the countries' economic growth (and also on their imports, via the exchange rate), and finally on external demand in the eurozone.

And although the above is reflected in a further **downward revision in forecasts for world growth** (Section 2), **the arguments for thinking that the external impact should be limited remain.** First, the developed economies continue to recover gradually, and eurozone exports to these countries represent more than 60% of the total. Second, the data available to the end of 2015 are still not showing any sharp adjustment in world trade which, beyond the volatility, once again grew at an average rate of slightly more than 1% QoQ in the second half of 2015 after the contractions seen in the first half of the year. In addition, the performance of the emerging economies will differ by country, with the worst-affected being those that are more dependent on commodities (especially oil), particularly Latin America and Russia, and eurozone exports to those countries, together with exports to OPEC countries, represent less than 15% of the total.

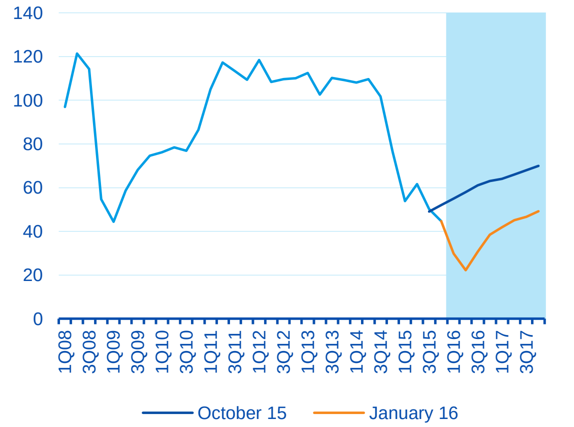
Thus, we are now expecting a **moderation of around 0.7pp in both 2016 and 2017 in external demand** (Figure 3.3), which has led us to revise our forecasts for the eurozone external sector (Section 4), **with a negative impact on GDP of around 0.1pp and 0.2pp in both years of our forecasting horizon.**

Figure 3.3
EMU: forecasts change on foreign demand and impact on GDP



Source: BBVA Research

Figure 3.4
Oil Brent price (USD per barrel)



Source: BBVA Research

The fall in oil prices will support the growth in consumption, but will once again take inflation to very low levels

The decline in the price of oil intensified at the end of last year, falling more than anticipated and accumulating a drop of slightly more than 50%. This, together with a limited correction in the supply and expectations of less demand, has led us to significantly revise our oil-price forecasts in the next two years. We are now expecting the price of oil to continue to fall during the first half of this year (to around USD22/bbl in the second quarter), and a much more gradual increase thereafter, which will result in average prices of around USE30/bbl and USD45/bbl in 2016 and 2017, respectively (Figure 3.4).

A fall in the oil price of slightly more than 40% in the second half of 2015 and another 40% decline this year – and which are 50% lower in 2016 and 30% lower in 2017 than our previous forecasts – **imply an important stimulus for the growth of the eurozone,** through increasing disposable income and reducing companies' costs. We have already seen part of this stimulus in the second half of 2015 in the stronger growth in private consumption. Altogether, we estimate a positive impact of the new oil-price scenario on growth of **between 0.3pp and 0.5pp in 2016-17** (Figure 3.5).

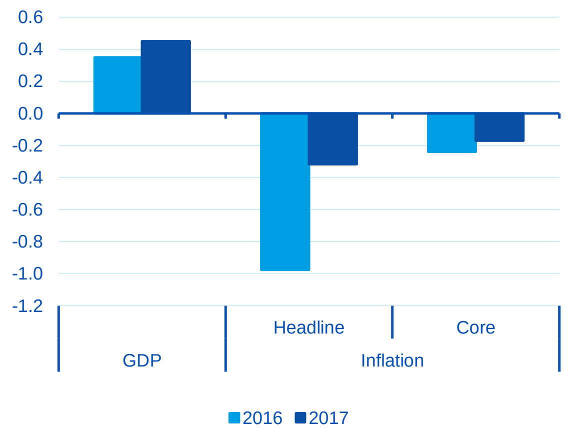
However, the other side of the coin is that this new oil-price trend **will reduce inflation,** already low, by around 1pp this year and 0.3pp in 2017, which has led us to significantly revises our forecasts, **which are now for inflation at close to zero for the second consecutive year, well below the ECB's target since 2013, which will not now be met until 2018** (Section 4). The strength of domestic demand and the gradual improvement in the labour market (with differences between the member states) should limit the second-round effects, which we estimate at between 0.2pp and 0.3pp in 2016-17.

The increased uncertainty in Europe could limit the resilience of domestic tailwinds

The political uncertainty after the elections at the end of the year in various member states (General Elections in Spain and Portugal, Regional Elections in France), and some ongoing problems pending resolution (such those in the Italian banking sector, the UK referendum and above all the refugee crisis) are going to have a difficult to assess impact on agents' confidence and will limit the benefit of the tailwinds and monetary policy stimulus.

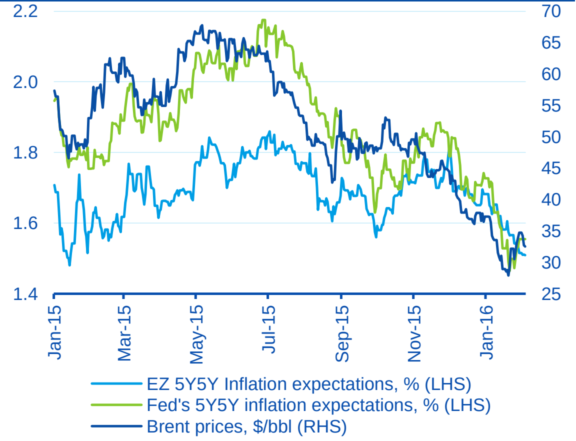
In particular, **the positive impact of the fall in oil prices could be slightly more limited than that of previous shocks, particularly through investment** (Section 4), due to the increased uncertainty in an environment of extraordinarily low interest rates and slim corporate margins. The effect on private consumption should be greater, in spite of the negative wealth effect derived from the plunging stock markets.

Figure 3.5
EMU: impact of lower oil prices on GDP and inflation (pp)



Source: BBVA Research

Figure 3.6
Long-term markets' inflation expectations and oil Brent prices



Source: Bloomberg

Faced with this outlook, the ECB is re-evaluating its policy and could take more stimulus measures in March

The renewed turmoil in the financial markets and the fall in inflation expectations (largely associated with the fall in oil prices – Figure 3.6) presented new challenges for the central banks, including the ECB. **In December, the European monetary authority adopted monetary relaxation measures,** cutting the depo rate by 10bp to -0.3% and extending its asset purchase programme by a further six months until at least March 2017 (among other measures[1]). Additionally, in January the central bank recognised that **the downside risks had increased for both inflation and for growth, clearly opening the door for new measures.**

Effectively, according to our forecasts and to the new trend in oil prices, the inflation forecasts will be revised significantly downwards in March, particularly those for 2016, once again pushing back the time horizon for inflation to converge with the target. We are thus expecting the ECB to recalibrate monetary policy **at its March meeting. The ECB could extend the asset purchase programme further in time, raise the monthly purchase target** (from the present EUR60bn) **and/or broaden the universe of assets that it buys. In addition, the central bank has also left the door open for further cuts in the depo rate,** and

1: For more details see our ECB Watch dated December 2015 made this explicit in the communiqué after its January meeting ("the ECB rates will remain at their current levels or lower for a considerable time"). Thus any of these measures or a combination thereof could be adopted at the March meeting.

On the other hand, **we are not expecting more liquidity injections via auctions beyond those already planned**, since, in an environment of already abundant liquidity, the sixth TLTRO (Targeted Longer-Term Refinancing Operation) auction held on 11 December recorded a scant demand (EUR18.3bn), which was less than expected.

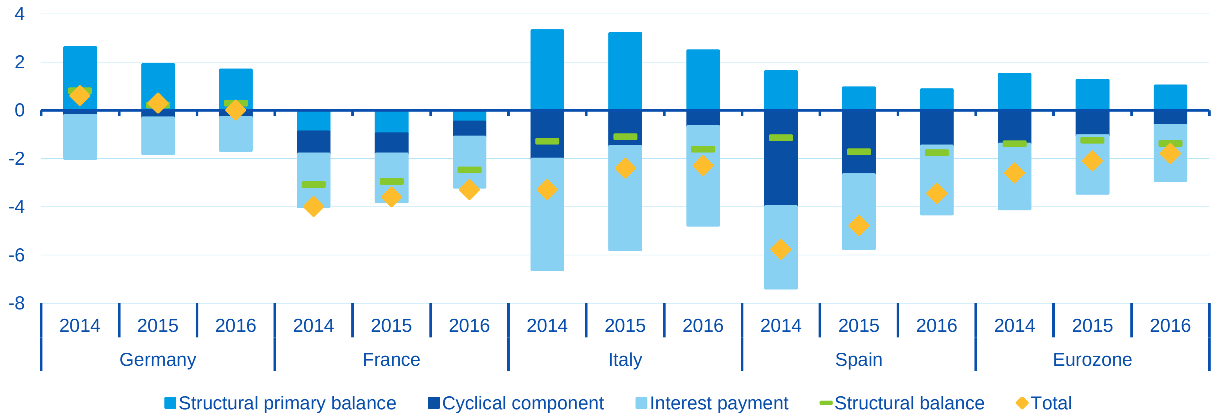
Fiscal policy ended 2015 on a slightly expansionary way, and this will continue in 2016

The principal motives for the slightly expansionary tone of fiscal policy in 2015 were **the increased public expenditure linked to the refugee crisis,** especially during the second half of the year, **and the slippages from targets,** in spite of the improvement in the cyclical component and the lower interest payments.

In Germany, according to the provisional data, the public accounts closed 2015 with a surplus of 0.5% of GDP, 0.5pp below the budget figure. This implies that, rather than implementing a fiscal adjustment of around 0.3pp of GDP, a fiscal stimulus of around 0.2pp of GDP was actually applied. In Spain, based on the data available to November, our estimates point to the public deficit having fallen by nearly 1pp to 4.8% of GDP, but with a new breach of the stability target of 4.2% of GDP. In the case of France and Italy, it does seem that they are going to meet their objectives, registering deficits of 3.8% and 2.6% of GDP, respectively, although given the relaxation of the fiscal objectives in March last year, France would have achieved this without having increased its fiscal adjustment, while Italy was able to implement a neutral or slightly expansive fiscal policy. As a result, **we estimate a fiscal stimulus of around 0.1pp for the eurozone as a whole.**

The budgets presented **for 2016** show that **fiscal policy will continue to provide some support for the recovery.** In Germany, in spite of the smaller surplus registered last year, the cyclical improvement in the public accounts and the reduction in interest payments should allow the introduction of a fiscal stimulus of 0.3pp or 0.4pp of GDP and maintain its public accounts in balance, although the initial forecast was 0.7pp to boost public infrastructure and to face the probable expenditure on the refugee crisis. In Italy, the fiscal stimulus contemplated in the budget is around 0.4pp of GDP, to which we can add a couple of tenths given the authorities' estimates for the increase in expenditure to manage the refugee crisis. And in Spain, the support of the improved economic environment will be used to continue the expansive fiscal policies introduced in 2015. The exception will be France which, after postponing the fiscal adjustment, should apply another of around 0.3pp this year if it is to meet the deficit target of 3.4% of GDP (Figure 3.7). As a result, for **the eurozone as a whole, we estimate a new fiscal impulse of around 0.2pp of GDP.** The member states have not submitted detailed budget measures for 2017 to assess their fiscal compliance, but should they do so, this would once again result in a slightly contractive fiscal policy.

Figure 3.7
General government balance and components (% GDP)



Source: European Commission and BBVA Research

The downside risks have intensified, both domestic and external

The most imminent global risk stems from the emerging economies, particularly in China, reflecting both a worse than expected base situation and an inappropriate economic policy and crisis management response to limit the impact of the recent increase in risk aversion. In this context, a hard landing for China in its transition towards a better-balanced economy, a rapid tightening of the Fed's monetary policy or a complete collapse in commodity prices that would drag down all the emerging economies, would all affect global activity which would also have an impact on the European economy. Beyond these external shocks, **a protracted uncertainty in markets and further falls in asset prices could have a wealth effect on consumption and trigger a negative loop between financial and real variables. And within Europe, recent doubts about the profitability of the banking system in general**, the hardest hit in the recent falls in stock markets, or on more specific problems (read the recent case of the Italian banking[2]), **could add further uncertainty**.

The geopolitical risks closer to home have also intensified. The conflict between Ukraine and Russia is still simmering, while the escalation of the war in Syria could continue to increase the number of refugees while the policy for receiving them into Europe has not yet been properly defined. All of this in a context of **increased political uncertainty** in the wake of the elections at the end of last year, with elections in 2017 in other countries, and the added uncertainty associated with the UK's imminent Brexit referendum. Finally, in a context of increased financial and economic policy uncertainty, there is a **risk of the reversal of the process of structural reforms and adjustment of imbalances, which is still not complete, and of paralysis of the process of eurozone integration**.

2: See the press article "The Italian bank snowball"

4 Outlook: Stronger growth and low inflation in 2016-17, but with increased uncertainties

The eurozone economy grew around 1.5% in 2015 …

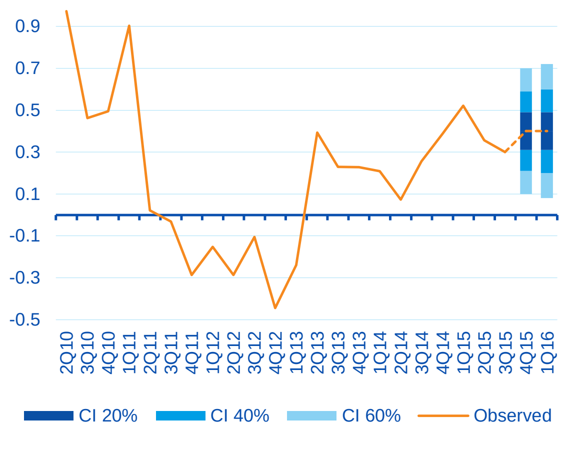
The latest available data indicate that **the recovery could have gained some traction during 4Q15 and, in spite of suffering from the sharp increase in uncertainty at the beginning of the year, growth will continue to be fairly resilient in 1Q16,** supported by domestic factors while also giving more optimistic signals for exports.

This increase in uncertainty has made its mark in a fall in the January confidence indicators, although after the improvement observed in 4Q15 these remain at high levels and similar to those of the first half of last year, when GDP was growing at an average of 0.5% QoQ. These levels are consistent with a relatively robust expansion in activity, particularly in the services sector – which is benefiting from the good momentum in domestic demand – and, to a slightly lesser extent, in the industrial sector, although fears of a collapse in eurozone export orders appear to have been somewhat dispelled.

Nonetheless, activity data to November do not reflect the relative optimism of the confidence surveys and remain rather feeble. On the one hand, industrial production improved in the last quarter of 2015 at a weak but stable rate (0.2% QoQ), while retail sales pointed to a certain moderation in private consumption. The slightly more positive news is the improvement in exports to November (in nominal terms and slightly more in real terms), which, together with less dynamic imports, is likely to be reflected in net exports not dragging growth in the eurozone as a whole (after the negative contribution of 0.3pp to growth in 3Q15).

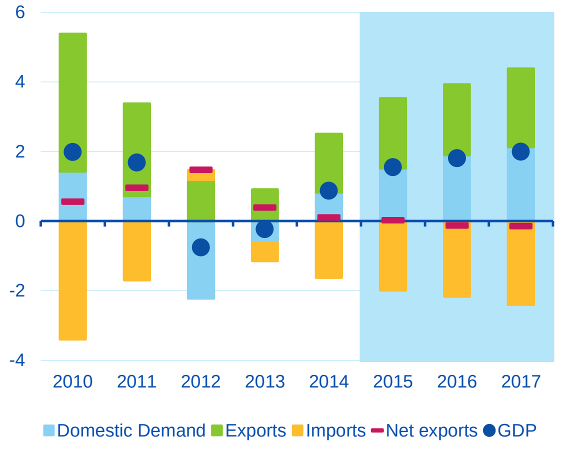
On the basis of all this information, **our MICA-BBVA model estimates GDP growth of around 0.4% QoQ in 4Q15** (Chart 4.1), consistent with the forecast of 1.5% for 2015 as a whole. **Although the available data for 1Q16 are basically limited to the confidence surveys for January, we estimate that the rate of expansion remains the same, or could even accelerate slightly at the beginning of the year (by around 0.5% QoQ)**, with an increasingly robust performance in Spain and Germany remaining in contrast with the still weak recovery in France and Italy.

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



Source: Eurostat and BBVA Research

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



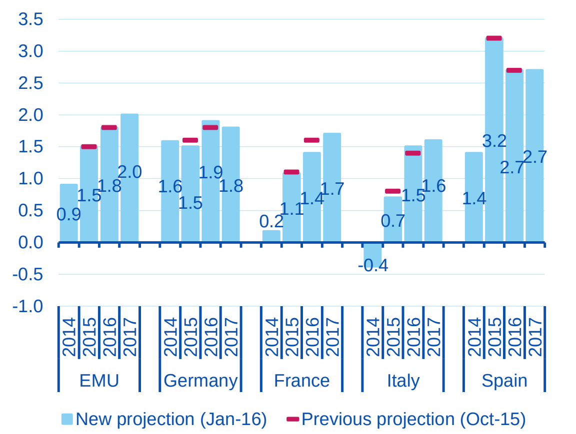
Source: Eurostat and BBVA Research

… and should gain some momentum in 2016 and 2017

Taking into account all the factors noted in Section 3, our scenario remains that **domestic demand will continue to be the principal driver of growth in 2016,** more so than last year and than in our previous forecasts, due to stronger growth in both public and private consumption, supported by further economic policy relaxation and low oil prices, and slightly less investment due to the increased uncertainty in a context of still high corporate leverage. In contrast, the deceleration in global demand, especially in the emerging economies, and the fading-out of the effect of the sharp euro depreciation last year will translate into net exports once again impeding the recovery. All in all, **we maintain our forecast for 1.8% growth for the eurozone** (Chart 4.2). For the first time, we are presenting **our forecasts for 2017, which include the economy gaining traction to 2%,** and which will continue to be principally driven by domestic factors.

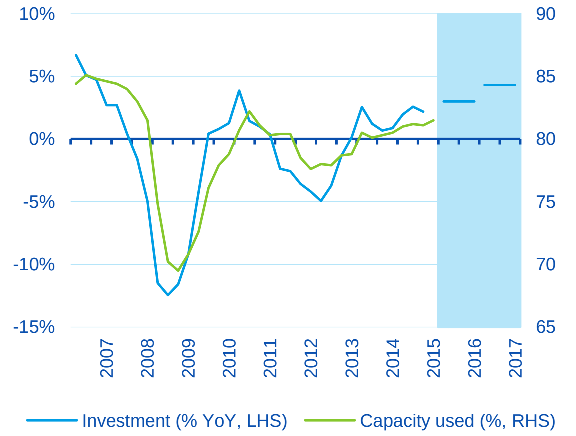
In terms of the large economies, our forecasts also remain practically unchanged. Growth should gain some traction in Germany, driven by expansionary fiscal policy – since the second half of 2015, which will continue for at least this year – which should offset the moderation in exports. Meanwhile, the recovery in France still looks hesitant, due to the lack of structural reforms, and although Italy continues to surprise slightly to the upside, progress is very slow, not enough to return to the same level of GDP as before the crisis in the forecasting horizon. Spain continues to outpace the other large economies, although growth will moderate this year and will remain relatively stable in 2017 (Chart 4.3 and eurozone Member States: detailed analysis).

Figure 4.3
EMU: growth forecasts by country (%)



Source: Eurostat and BBVA Research

Figure 4.4
EMU: investment and capacity utilisation



Source: Haver and BBVA Research

The recovery in private consumption will continue to be the principal driver of domestic demand in 2016 …

The growth in private consumption has remained broadly stable since mid-2013 (averaging 0.3% QoQ), and we estimate that it will have continued to grow at a similar rate at end-2015. Both the lower retail sales data available to November and the new car registration figures indicate that private consumption would have closed 2015 with growth of around 0.3% QoQ, slightly less than in 3Q15 (0.4% QoQ), in line with the moderation in consumer confidence observed at end-2015.

Over the forecast horizon, **we expect the supports for private consumption to continue to strengthen.** The reduced fiscal adjustment in various countries (e.g. Italy and Spain) will also lead to **lower taxes,** which **together with very low inflation and the gradual improvement of the labour market, should be reflected in an increase in disposable income. Altogether, this will drive growth in household consumption** slightly higher than we were expecting three months ago, unless there is a sharp deterioration in household confidence in the wake of the increased uncertainty at both a global and a European level, which leads to increased precautionary savings. Thus, **private consumption should close 2015 with growth of around 1.6%, and then accelerate in 2016 and 2017** to around 1.9% and 2.0% respectively, similar to the growth registered before the crisis (an average of 1.9% in 1995-2008).

… while investment will be hit by the uncertainty this year, but will remain the key to stronger growth in 2017

In spite of the sustained recovery in consumption and the high levels of business confidence, **investment still remains grounded.** Beyond the volatility in this variable, investment remained stagnant in 2Q15 and 3Q15 after growing by around 0.5% QoQ on average since the middle of 2013 (although rather unevenly, and still a long way from its pre-crisis level of 0.9% QoQ). The driver in this respect could have been the increased uncertainty regarding global demand, particularly as regards China and the possible contagion to emerging markets, as well the political situation in Europe and the unresolved problems, in a context of still high corporate leverage and pressure on corporate margins, which could have limited the positive effect of very favourable financial conditions. On the other hand, in spite of the fact that corporate capacity utilisation has been practically at its historical average since the beginning of 2015 (Figure 4.4), it appears that corporates have been more inclined to increase employment than investment, which is reflected in the slightly better than expected performance of the labour market than in recent quarters.

For 2016 and 2017, **we are now expecting more moderate growth in investment** than in our forecasts three months ago (now 0.5pp in both years), given that the numerous uncertainty factors will continue to weigh on confidence and this will result in companies continuing to delay some of their investment plans, in spite of the strength of their fundamentals and the support of some tailwinds, such as cost reductions after the fall in commodity prices and the strengthening of domestic demand. Altogether, we estimate that investment will **continue to recover in 2016 (3%) after growing by around 2.2% the previous year, and this improvement should be maintained in 2017 with growth of around 4.3%,** although without reaching the same rates of growth as in 2006 and 2007 (around 5.2%).

Slightly expansionary fiscal policy in 2016 will boost the increase in public consumption

After several years of fiscal adjustment and a significant reduction in the structural deficit, **the European authorities have shown more tolerance towards temporary deviations in the paths established for the deficit** for each country in the Medium-Term Objectives, **in exchange for the implementation of structural reforms** (Italy and France) or **expenditure associated with public investment or the refugee crisis** (Germany). This is already reflected **in higher public expenditure in 2015, which will continue in 2016** and will help to underpin the recovery in domestic demand.

Thus we are now expecting public consumption to have increased by 1.4% in 2015 in the eurozone (0.3pp more than we forecast three months ago), and that growth will remain practically stable in 2016 (+0.4pp), gradually falling to 1% in 2017. As a result, public consumption will contribute around 0.1pp more to GDP growth than reflected in our previous forecasts in both 2015 and 2016 (contribution of 0.3pp in both years). This performance will be common to several countries, especially Germany (with 0.2pp and 0.3pp more in 2015 and 2016, to 0.5pp in both years), but also Italy and France (with a 0.1pp increase in contribution in 2016 to 0.1pp and 0.3pp respectively), and in spite of the fact that the French government now has to make the adjustment postponed in previous years.

Net exports will make a negative contribution on our forecast horizon, due to the moderation in global demand

Since mid-2014, exports maintained a robust level of growth (1.4% QoQ on average), driven by euro depreciation and low inflation, but they decelerated sharply in 3Q15 due to the slower growth in global demand (Figure 4.5), together with the fading-out of the support from the exchange rate. In the latter months of 2015 we saw a slight improvement in exports, such that we estimate that they will grow by around 0.7% QoQ in 4Q15. Incorporating these data, **exports would have grown by 4.8% on average in 2015, but the notable correction in demand in the emerging markets has led us to revise downwards** our forecast for export growth **by approximately 1pp in both 2016 and 2017, to 3.5% and 3.8%** respectively.

During 2015, we estimate that imports expanded by 5%, and for the forecast horizon the improved momentum in private consumption, together with the gradual improvement in purchases associated with investment, will lead to **imports maintaining a solid pace of growth at 4.3% and 4.7% in 2016 and 2017 respectively.**

All in all, we estimate that **external demand made a positive contribution to GDP growth in 2015 (0.1pp), but will make a slightly negative contribution in 2016 and 2017 (-0.2pp in both years).**

The improvement in the labour market continues

The labour market continued to improve last year and the signals became more optimistic as the quarters progressed. Thus employment has recovered since the end of 2014 (at an annualised average of 0.9% to 3Q15), accelerating towards the end of 2015, which together with a very moderate rise in the active population resulted in a YoY fall in the unemployment rate of 1pp to 10.4% in December. All in all, our scenario reflects that **this trend will continue throughout this year, although at a slightly slower rate, with employment expanding by around 1% and a further fall in the average unemployment rate for the year to 10.2%**, **vs. 10.9% in 2015.** For 2017, we expect that the trend will continue, with an average unemployment rate of 9.5%.

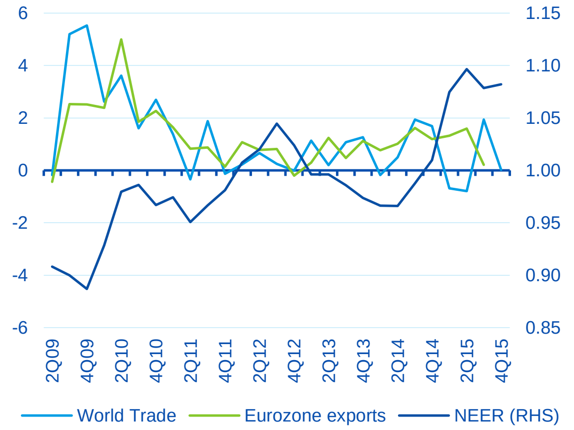
Very low inflation in 2016-17 due to the fall in oil prices, but limited second-round effects

Inflation did not recover as expected in the last quarter of 2015, and only accelerated by 0.1pp to 0.2pp YoY vs. 3Q15. The driver of this failure to recover was the fall in oil prices, which limited the expected base effect on the inflation of the energy component, while core inflation remained stable at 0.9% YoY.

Oil prices will continue to be the main driver in the coming months. Our forecasts now include an oil price that is around 50% lower in 2016 (with an additional reduction during the first half of the year vs. the current levels), and 30% lower in 2017 (Section 3), which **has led us to revise our forecast for headline inflation downwards by 0.9pp to 0.2% in 2016 and by 0.3pp to 1.4% in 2017,** well below what had been the ECB's objective for a long time (since the second quarter of 2013). With regard to the dynamics, we are now expecting that, after the recovery in January to 0.4% YoY, headline inflation will start to moderate in February and be in slightly negative territory from March onwards (around -0.2% YoY). This trend could extend into the second quarter (when we expect oil prices to find their floor), with a mild recovery in the second half of the year, to around 0.8% YoY in the last quarter (Figure 4.6). This gradual increase in annual headline inflation should continue throughout 2017, although we are not expecting it to reach the ECB's objective until 2018.

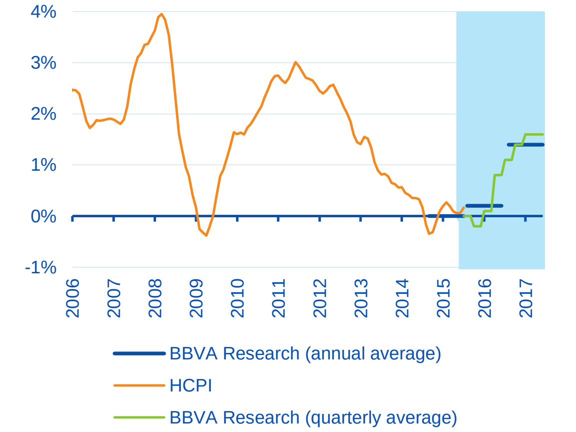
We have also revised downwards our forecasts for core inflation for 2016-17 by 0.3pp and 0.1pp to 1.0% and 1.6%, respectively. This is principally a reflection of the second-round effects of the fall in the oil price, although we expect these effects to be limited given the strength of domestic demand, which companies might take advantage of to increase their margins, although with differences by country.

Figure 4.5
World trade, EMU exports (% QoQ) and effective euro exchange rate



Source: CPB, Eurostat and BBVA Research

Figure 4.6
EMU: observed and forecast inflation



Source: Eurostat and BBVA Research

Eurozone member states: detailed analysis

Germany: oil and fiscal policy should offset the impact of weaker global demand and support the rate of growth

GDP: +1.5% in 2015, +1.9% in 2016, +1.8% in 2017)

Recent data: after a rather disappointing third quarter – due to its vulnerability to the global slowdown – the most recent data suggest that growth gained some traction in 4Q15 (+0.4% QoQ, after +0.3% QoQ), supported by the increase in public consumption and a smaller negative contribution from net exports. This would have been in response to a loss of momentum in imports linked to a somewhat moderation in private consumption (after the recovery in 3Q15) and the third consecutive quarter of stagnation in investment, constrained by the fall in exports during 2H15, above all to the emerging economies. Altogether, GDP should have grown by 1.5% in 2015, relatively stable compared to the previous year (1.6%), although the significant increase in consumption, both private and public, would have taken the reins of the strength of domestic demand, after the moderation in investment, and would have offset the smaller contribution from net exports.

Outlook for 2016 and 2017: in the coming quarters the strength of domestic factors will continue (labour market), together with the more favourable economic policies (fiscal stimulus and more monetary policy measures), and the positive impact of falling oil prices (through disposable income and companies' lower costs). These factors will more than offset the negative impact of the deceleration in global demand on exports (together with certain exhaustion in the euro's depreciation) and investment. Thus, private and public consumption should accelerate slightly in 2016, while the stronger growth in investment is likely to be supported by improved financing conditions as well as infrastructure investment. The contribution made by domestic demand could increase by nearly 1pp to 2.1pp, offsetting the negative contribution of exports (-0.3pp). As some of this stimulus will disappear in 2017, we expect that growth will moderate to 1.8%; in addition, investment will take over as the engine of growth.

Fiscal policy: according to the National Accounts data, the fiscal surplus increased by 0.2pp in 2015 to 0.5% of GDP, fundamentally due to lower interest payments (by around 0.4pp), which offset the rise in expenditure caused by management of the refugee crisis and which would represent a fiscal impulse of around 0.2pp of GDP. For 2016, the balanced public accounts will once again allow further fiscal stimulus of around 0.3pp of GDP.

France: slow recovery due to the weakness of the domestic factors, which limit the benefits of economic policy stimulus

(GDP: +1.1% in 2015, +1.4% in 2016, +1.7% in 2017)

Recent data: growth moderated by 0.1pp to 0.2% QoQ in 4Q15, fundamentally due to the impact of the terrorist attacks on private consumption (0.3% QoQ vs. average growth of 0.4% QoQ since 2Q14), although beyond this temporary effect, it is clear that the momentum of the economic recovery remains disappointing (0.3% QoQ on average in 2015). The slightly more positive news was the increase in exports and particularly investment, which indicate that the factors underpinning this moderate recovery remain in place. In 2015 as a whole, GDP growth accelerated to 1.1% from 0.2% in 2014, supported by increased private consumption and the moderation in the fall in investment, together with a less negative contribution from net exports.

Outlook for 2016 and 2017: the negative effect of slower growth in 4Q15, together with the increased uncertainty both global and domestic (political situation, delay in the implementation of reforms) has led us to revise our growth forecast for 2016 slightly downwards (-0.2pp) to 1.4%. In spite of this, we expect the economy to gain some traction, sustained by the acceleration in the growth of investment (tax credits, some reforms under way and favourable financial conditions), although still limited by companies' high leverage and idle capacity utilisation. Private consumption should grow at a slightly more moderate rate, as the benefit of low inflation will offset wage moderation due to the persistently high level of unemployment and the reform of wage negotiations. And the contribution from domestic demand will remain stable after the disappearance of the process of rebuilding inventories. The external sector has been gaining weight since the crisis (with the weight of exports and imports over GDP rising by 8pp to slightly more than 60%), and will suffer from the fall in global demand, such that we are now forecasting that net exports will drain slightly more growth. In 2017, growth should accelerate to 1.7%, driven by the reforms planned during 1H16 (second Macron law, reform of the labour market and of unemployment subsidies).

Fiscal policy: according to our forecasts, the 2015 deficit could reach 3.8% of GDP, slightly bettering the 4% target (that the EC relaxed by slightly more than 1pp in March 2015). The 0.1pp reduction vs. the 2014 deficit reflects the improvement in the cyclical component and the lower interest payments, without any increase in fiscal adjustment. The delay in making adjustments in previous years indicates that (in contrast to other countries) to reduce the deficit again this year to 3.4% of GDP would require a fiscal adjustment of around 0.3pp; and a similar adjustment will be needed next year to achieve the objective of 2.8% of GDP.

Italy: a weak recovery consolidated by reforms and fiscal stimulus

(GDP: +0.7% in 2015, +1.5% in 2016, +1.6% in 2017)

Recent data: economic growth could have continued at a stable rate in 4Q15 (+0.3% QoQ), thus consolidating a weak recovery in 2015 (+0.7%), supported by the stimulus resulting from the relaxation of both monetary and fiscal policy, as well as the reforms of the labour market in March last year. The latter, together the tax incentives for job-creation, resulted in an increase in employment of around 0.8% to 3Q15 and a 1pp reduction in the unemployment rate to 11.4% in 2015. Thanks to both the improvement in confidence and low inflation, the increase in private consumption was a positive surprise, and is the principal driver of the recovery (0.9% in 2015). Nonetheless, the fragility of the growth continues to influence companies' decisions, and investment has practically stalled (0.4%). The above should result in a positive contribution of 0.9pp to domestic demand for the year as a whole, partly offset by the negative contribution from net exports (-0.2pp).

Outlook for 2016 and 2017: we have revised our forecast for GDP growth upwards slightly, by 0.1pp to 1.5% in 2016, as we are now expecting a larger contribution from domestic demand (1.4pp), driven by the reinforcement of some cyclical support (falling oil prices, low interest rates, slightly expansive fiscal policy), and the continuation of some fiscal incentives (to hire this year) which should result in a fresh increase in private consumption (1.5%) and investment (2.1%). On the other hand, the exposure of exports to the evolution of the emerging economies is less than that of other member states, such that we expect a smaller impact from the deceleration of global demand. Even so, we are now expecting a smaller contribution of net exports to growth this year (0.1pp). For 2017, the growth could accelerate marginally to 1.6%, remaining behind the eurozone average and confirming the need to continue deepening the reforms that would lead to increased productivity, lower labour costs and greater competitiveness.

Fiscal policy: the reduction in the deficit expected in 2015 (-0.4pp to 2.6% of GDP) and in 2016 (-0.3pp to 2.3%, vs. the 2.2% budget target) are principally a reflection of the improvement in the cyclical component and the lower interest payments (around 0.8pp in 2015 and 1pp in 2016), which allowed a neutral or slightly expansive fiscal policy last year (discounting one-off effects), and should allow an increase of around 0.4pp in discretionary expenditure this year. After three years of reduced fiscal effort, Italy needs to make a sharp fiscal adjustment (around 0.5pp of GDP) if it is to reach the 2017 objective (1.1% of GDP), and this adjustment has yet to be defined.

Spain: the recovery continues, in spite of the uncertainty

(GDP: +3.2% in 2015, +2.7% in 2016, +2.7% in 2017)

Recent data: the rate of recovery remained stable throughout the fourth quarter of 2015, with GDP growth of 0.8% QoQ (0.8% in 3Q15). As regards the composition of growth, activity would once again have found support in domestic demand (0.8pp), principally private demand, with household consumption and investment in machinery and equipment increasing slightly less than in 3Q15, while real public consumption would have closed the year with slightly stronger growth than in the previous quarter. The deceleration in both exports and imports suggests a nil contribution to growth from net external demand in 4Q15.

Outlook for 2016 and 2017: activity will grow by 2.7% in both 2016 and 2017, underpinned by both internal and external factors: at the domestic level, the continuing recovery of fundamentals, the progress made in the correction of imbalances and the moderately expansive fiscal policy will contribute to the increase in domestic demand, while the deceleration of the emerging economies implies a slightly less favourable context for Spanish exports, although they will remain robust. The increase in domestic demand will lead to a notable recovery in imports, which will probably be reflected in a negative contribution to growth from net external demand. Altogether, the uncertainty regarding economic policy in Spain has increased, which could have important consequences for the decisions taken regarding consumption and investment by households and companies.

Fiscal policy: the public deficit will have closed 2015 at 4.8%, which implies an adjustment of nearly 1pp of GDP compared with 2014, favoured by the recovery of the economic cycle. Altogether, this adjustment was not sufficient and 2015 will have closed with another failure to comply with the stability target. In a scenario of unchanged economic policy, the tone of fiscal policy will continue to be slightly expansive for the next two years. This year we expect the economic cycle to reduce the deficit again, due both to the effect of the automatic stabilisers and to a lower interest and social security burden, and that in 2016, the deficit will contract to 3.4%, above the stability objective (-2.8%). In 2017, we forecast that the cycle will continue to correct the deterioration in the public accounts, such that in a scenario of unchanged fiscal policy, the deficit will contract again, to around 2.3% of GDP.

5 Tables

Table 5.1
Eurozone forecasts (% YoY)

	2010	2011	2012	2013	2014	2015	2016	2017
GDP at constant prices	**2.0**	**1.6**	**-0.8**	**-0.3**	**0.9**	**1.5**	**1.8**	**2.0**
Private consumption	0.7	-0.1	-1.3	-0.6	0.8	1.6	1.9	2.0
Public consumption	0.8	-0.1	-0.2	0.2	0.8	1.4	1.3	1.0
Gross Fixed Capital Formation	-0.5	1.7	-3.2	-2.5	1.3	2.2	3.0	4.3
Inventories (*)	1.0	0.4	-0.9	0.1	0.0	-0.2	0.0	0.0
Domestic Demand (*)	**1.5**	**0.7**	**-2.3**	**-0.7**	**0.9**	**1.4**	**2.0**	**2.2**
Exports (goods and services)	11.1	6.7	2.8	2.2	4.1	4.8	3.5	3.8
Imports (goods and services)	9.8	4.4	-0.9	1.3	4.5	5.1	4.3	4.7
External Demand (*)	**0.5**	**0.9**	**1.5**	**0.4**	**0.0**	**0.1**	**-0.2**	**-0.2**
Prices and Costs								
CPI	1.6	2.7	2.5	1.4	0.4	0.0	0.2	1.4
CPI Core	1.0	1.7	1.8	1.3	0.9	0.8	1.0	1.6
Labour Market								
Employment	-0.5	0.2	-0.5	-0.6	0.7	1.2	1.1	1.1
Unemployment rate (% of labour force)	10.0	10.1	11.3	12.0	11.6	10.9	10.2	9.5
Public Sector								
Surplus (+) / Deficit (-) (% GDP)	-6.2	-4.2	-3.7	-3.0	-2.6	-2.0	-1.8	-1.5
Public debt (% GDP)	84.0	86.7	91.3	93.4	94.5	94.1	92.7	91.0
External Sector								
Current Account Balance (% GDP)	0.3	0.2	1.2	1.9	2.4	3.0	3.3	2.8

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

Table 5.2
Macroeconomic Forecasts: Gross Domestic Product

(Annual average, %)	2012	2013	2014	2015	2016	2017
United States	2.2	1.5	2.4	2.5	2.5	2.4
Eurozone	-0.8	-0.3	0.9	1.5	1.8	2.0
Germany	0.6	0.4	1.6	1.5	1.9	1.8
France	0.2	0.7	0.2	1.1	1.4	1.7
Italy	-2.8	-1.8	-0.4	0.7	1.5	1.6
Spain	-2.1	-1.7	1.4	3.2	2.7	2.7
United Kingdom	0.7	2.2	2.9	2.2	2.0	2.0
Latam *	2.9	2.7	0.8	-0.5	-0.9	1.9
Mexico	4.0	1.4	2.1	2.5	2.2	2.6
Brazil	1.9	3.0	0.1	-3.8	-3.0	1.3
Eagles **	5.8	5.6	5.2	4.6	4.7	5.0
Turkey	2.1	4.1	2.9	3.6	3.9	3.9
Asia Pacific	5.7	5.8	5.7	5.5	5.2	5.2
Japan	1.7	1.5	0.0	0.6	1.0	0.7
China	7.7	7.7	7.4	6.9	6.2	5.8
Asia (ex. China)	4.1	4.3	4.2	4.3	4.4	4.6
World	3.4	3.3	3.4	3.2	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: 5 February 2016.
Source: BBVA Research and IMF

Table 5.3

Macroeconomic Forecasts: Inflation

(Annual average, %)	2012	2013	2014	2015	2016	2017
United States	2.1	1.5	1.6	0.1	1.3	2.0
Eurozone	2.5	1.4	0.4	0.0	0.2	1.4
Germany	2.1	1.6	0.8	0.1	0.1	1.3
France	2.2	1.0	0.6	0.1	0.2	1.4
Italy	3.3	1.3	0.2	0.1	0.0	1.4
Spain	2.4	1.4	-0.2	-0.5	-0.1	1.7
United Kingdom	2.8	2.6	1.5	0.0	0.8	1.6
Latam *	7.8	9.2	12.6	15.5	32.6	32.7
Mexico	4.1	3.8	4.0	2.7	2.7	3.2
Brazil	5.4	6.2	6.3	9.0	8.2	5.1
**Eagles ** **	5.2	5.2	4.6	4.4	4.1	4.0
Turkey	8.9	7.6	8.9	7.7	9.5	7.9
Asia Pacific	3.8	4.0	3.3	2.3	2.6	3.1
Japan	0.0	1.6	2.7	1.0	1.0	1.6
China	2.6	2.6	2.1	1.4	1.7	2.5
Asia (ex. China)	4.8	5.2	4.4	3.0	3.4	3.6
World	4.5	4.2	3.9	3.7	5.0	5.3

* 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: 5 February 2016.
Source: BBVA Research and IMF

Table 5.4

Macroeconomic Forecasts: Current Account

(Annual average, % GDP)	2012	2013	2014	2015	2016	2017
United States	-2.8	-2.3	-2.9	-2.7	-3.1	-3.4
Eurozone	1.2	1.9	2.4	3.0	3.3	2.8
Germany	7.0	6.5	7.4	8.5	8.0	7.1
France	-1.2	-0.8	-0.9	0.0	0.3	0.1
Italy	-0.4	1.0	1.9	2.1	2.6	2.1
Spain	-0.2	1.5	1.0	1.8	2.8	3.2
United Kingdom	-3.3	-4.5	-5.1	-4.2	-3.8	-3.2
Latam *	-1.9	-2.5	-2.9	-3.5	-3.9	-2.4
Mexico	-1.3	-2.4	-1.9	-3.1	-3.2	-3.2
Brazil	-3.1	-3.2	-4.4	-3.4	-2.7	-1.1
**Eagles ** **	0.9	0.5	0.6	0.6	0.5	0.7
Turkey	-6.1	-7.9	-5.7	-4.5	-4.2	-4.8
Asia Pacific	1.1	1.3	1.7	2.4	2.2	1.9
Japan	1.0	0.7	0.5	2.5	3.0	3.0
China	2.6	2.0	2.1	2.7	2.7	2.5
Asia (ex. China)	-0.1	0.7	1.4	2.2	1.8	1.4

* 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: 5 February 2016.
Source: BBVA Research and IMF

Table 5.5

Macroeconomic Forecasts: Government Balance

(Annual average, % GDP)	2012	2013	2014	2015	2016	2017
United States	-6.8	-4.1	-2.8	-2.5	-2.4	-2.3
Eurozone	-3.7	-3.0	-2.6	-2.0	-1.8	-1.5
Germany	-0.1	-0.1	0.3	0.5	0.0	0.3
France	-4.8	-4.1	-3.9	-3.8	-3.4	-2.7
Italy	-3.0	-2.9	-3.0	-2.6	-2.3	-1.1
Spain	-6.7	-6.6	-5.8	-4.8	-3.4	-2.3
United Kingdom	-8.4	-5.7	-5.6	-4.3	-3.4	-2.2
Latam *	-2.3	-2.3	-4.2	-6.0	-5.2	-4.5
Mexico	-2.6	-2.3	-3.2	-3.5	-3.0	-2.5
Brazil	-2.5	-3.1	-6.7	-9.7	-8.6	-7.2
Eagles **	-1.4	-2.0	-2.7	-4.3	-4.5	-3.8
Turkey	-2.1	-1.2	-1.6	-1.2	-1.4	-1.4
Asia Pacific	-2.6	-2.9	-2.8	-3.0	-3.6	-3.2
Japan	-7.6	-9.2	-7.9	-7.2	-6.5	-6.0
China	-1.1	-1.5	-1.8	-2.3	-4.0	-3.5
Asia (ex. China)	-3.8	-4.1	-3.7	-3.7	-3.3	-2.9

* 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: 5 February 2016.
Source: BBVA Research and IMF

Table 5.6

Financial variables

Macroeconomic Forecasts: Official Interest Rates (End of period)	2012	2013	2014	2015	2016	2017
United States	0.25	0.25	0.25	0.50	1.00	2.00
Eurozone	0.75	0.25	0.05	0.05	0.05	0.05
China	6.00	6.00	5.60	4.35	3.85	3.85
Macroeconomic Forecasts: 10-year government bond yield (Annual average)						
United States	1.79	2.34	2.53	2.13	2.19	2.62
Germany	1.57	1.63	1.25	0.54	0.54	0.75
Macroeconomic Forecasts: Exchange Rates (Annual average)						
USD-EUR	0.78	0.75	0.75	0.90	0.93	0.89
EUR-USD	1.29	1.33	1.33	1.11	1.07	1.12
GBP-USD	1.59	1.56	1.65	1.53	1.54	1.65
USD-JPY	79.77	97.45	105.82	121.07	127.89	129.92
USD-CNY	6.31	6.20	6.14	6.30	6.70	6.70

Forecast closing date: 5 February 2016.
Source: BBVA Research and IMF

Table 5.7

Germany: GDP growth and inflation forecasts (% YoY)

	2010	2011	2012	2013	2014	2015	2016	2017
Private consumption	0.3	1.3	0.9	0.8	1.0	1.9	2.0	1.8
Public consumption	1.3	0.9	1.3	0.8	1.7	2.6	2.7	1.7
Gross Fixed Capital Formation	5.1	7.4	0.2	-1.3	3.5	1.5	2.9	3.3
Inventories (*)	1.4	0.5	-1.6	0.5	-0.3	-0.6	0.0	0.0
Domestic Demand (*)	**2.8**	**2.8**	**-0.8**	**0.8**	**1.2**	**1.2**	**2.1**	**2.0**
Exports	14.2	8.4	3.4	1.8	3.9	5.2	3.0	3.5
Imports	12.6	7.1	0.1	3.2	3.7	5.5	4.2	4.5
Net exports (*)	**1.1**	**0.9**	**1.5**	**-0.4**	**0.4**	**0.2**	**-0.3**	**-0.2**
GDP	**3.9**	**3.7**	**0.6**	**0.4**	**1.6**	**1.5**	**1.9**	**1.8**
Inflation	1.2	2.5	2.1	1.6	0.8	0.1	0.1	1.3

(*) Contribution to growth.
Source: BBVA Research

Table 5.8

France: GDP growth and inflation forecasts (% YoY)

	2010	2011	2012	2013	2014	2015	2016	2017
Private consumption	1.8	0.4	-0.2	0.5	0.7	1.4	1.3	1.7
Public consumption	1.2	1.1	1.6	1.7	1.5	1.5	1.6	1.2
Gross Fixed Capital Formation	1.9	2.1	0.3	-0.4	-1.2	-0.1	2.4	2.8
Inventories (*)	0.3	1.1	-0.6	0.2	0.2	0.2	0.0	0.0
Domestic Demand (*)	**2.0**	**2.1**	**-0.3**	**0.8**	**0.7**	**1.3**	**1.6**	**1.9**
Exports	8.6	7.1	2.6	1.8	2.4	5.9	3.5	4.1
Imports	8.5	6.5	0.8	1.8	3.9	6.1	3.8	4.2
Net exports (*)	**-0.1**	**0.0**	**0.5**	**0.0**	**-0.5**	**-0.2**	**-0.2**	**-0.1**
GDP	**1.9**	**2.1**	**0.2**	**0.7**	**0.2**	**1.1**	**1.4**	**1.7**
Inflation	1.7	2.3	2.2	1.0	0.6	0.1	0.2	1.4

(*) Contribution to growth.
Source: BBVA Research

Table 5.9

Italy: GDP growth and inflation forecasts (% YoY)

	2010	2011	2012	2013	2014	2015	2016	2017
Private consumption	1.2	0.0	-4.0	-2.6	0.4	0.9	1.5	1.5
Public consumption	0.6	-1.8	-1.4	-0.3	-0.7	0.3	0.3	0.7
Gross Fixed Capital Formation	-0.6	-1.7	-9.4	-6.6	-3.4	0.4	2.1	2.8
Inventories (*)	1.3	0.2	-1.1	0.2	0.0	0.2	0.0	0.0
Domestic Demand (*)	**2.1**	**-0.5**	**-5.6**	**-2.7**	**-0.5**	**0.9**	**1.4**	**1.5**
Exports	11.3	6.1	2.0	1.0	2.8	3.9	3.0	3.3
Imports	12.1	1.2	-8.3	-2.4	2.7	5.3	3.0	3.5
Net exports (*)	**-0.4**	**1.2**	**2.8**	**0.9**	**0.1**	**-0.2**	**0.1**	**0.0**
GDP	**1.7**	**0.7**	**-2.9**	**-1.8**	**-0.4**	**0.7**	**1.5**	**1.6**
Inflation	1.6	2.9	3.3	1.3	0.2	0.1	0.0	1.4

(*) Contribution to growth.
Source: BBVA Research

Table 5.10

Spain: GDP growth and inflation forecasts (% YoY)

	2010	2011	2012	2013	2014	2015	2016	2017
Private consumption	0.3	-2.4	-3.5	-3.1	1.2	3.1	2.8	2.5
Public consumption	1.5	-0.3	-3.7	-2.9	0.0	2.7	2.5	1.9
Gross Fixed Capital Formation	-4.9	-6.3	-8.1	-3.8	3.5	6.2	4.2	5.6
Equipment and other products	5.1	0.8	-8.4	3.9	10.5	9.6	4.9	5.0
Construction	-10.1	-11.7	-8.3	-7.1	-0.2	5.6	3.8	5.9
Housing	-11.6	-13.3	-5.4	-7.2	-1.4	2.9	4.2	8.2
Other construction	-8.5	-10.2	-10.7	-7.1	0.8	7.6	3.5	4.2
Inventories (*)	-0.1	-0.1	-0.3	-0.2	0.3	0.1	0.0	0.0
Domestic Demand (*)	**-0.5**	**-2.7**	**-4.3**	**-2.7**	**1.6**	**3.6**	**2.9**	**3.0**
Exports	9.4	7.4	1.2	4.3	5.1	5.9	4.8	5.7
Imports	6.9	-0.8	-6.3	-0.5	6.4	7.7	5.8	6.8
Net exports (*)	**0.5**	**2.1**	**2.2**	**1.4**	**-0.2**	**-0.4**	**-0.2**	**-0.2**
GDP	**0.0**	**-0.6**	**-2.1**	**-1.2**	**1.4**	**3.2**	**2.7**	**2.7**
Inflation	**1.8**	**3.2**	**2.4**	**1.4**	**-0.2**	**-0.5**	**-0.1**	**1.7**

(*) Contribution to growth.
Source: BBVA Research

Table 5.11

UK: GDP growth and inflation forecasts (% YoY)

	2010	2011	2012	2013	2014	2015	2016	2017
Private consumption	0.0	0.1	1.8	1.9	2.5	2.7	2.1	1.8
Public consumption	0.2	0.1	1.8	0.5	2.5	1.6	0.7	0.3
Gross Fixed Capital Formation	5.0	2.0	1.5	2.6	7.3	4.5	4.1	4.5
Inventories (*)	1.4	-0.6	0.5	0.9	0.0	-0.4	0.0	0.0
Domestic Demand (*)	**2.4**	**0.4**	**1.9**	**2.7**	**3.3**	**2.5**	**2.2**	**2.0**
Exports	5.8	5.8	0.7	1.2	1.2	5.5	3.4	4.1
Imports	8.3	0.6	2.9	2.8	2.4	6.0	3.7	3.8
Net exports (*)	**-0.9**	**1.5**	**-0.7**	**-0.5**	**-0.4**	**-0.3**	**-0.2**	**0.0**
GDP	**1.5**	**2.0**	**1.2**	**2.2**	**2.9**	**2.2**	**2.0**	**2.0**
Inflation	**3.3**	**4.5**	**2.8**	**2.6**	**1.5**	**0.0**	**0.8**	**1.6**

(*) Contribution to growth.
Source: BBVA Research

DISCLAIMER

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

This report has been produced by the Europe Unit:

Chief Economist for Developed Economies
Rafael Doménech
+34 91 537 36 72
r.domenech@bbva.com

Europe
Miguel Jiménez
mjimenezg@bbva.com
+34 91 537 37 76

Agustín García-Serrador
agustin.garcia@bbva.com
+34 91 374 79 38

Massimo Trento
massimo.trento@bbva.com
+34 91 374 73 42

Josep Amer
josep.amer@bbva.com

Sonsoles Castillo
s.castillo@bbva.com
+34 91 374 44 32

BBVA Research

Group Chief Economist
Jorge Sicilia Serrano

Developed Economies Area
Rafael Doménech
r.domenech@bbva.com

Spain
Miguel Cardoso
miguel.cardoso@bbva.com

Europe
Miguel Jiménez
mjimenezg@bbva.com

US
Nathaniel Karp
Nathaniel.Karp@bbva.com

Emerging Markets Area

Cross-Country Emerging Markets Analysis
Alvaro Ortiz
alvaro.ortiz@bbva.com

Asia
Le Xia
le.xia@bbva.com

Mexico
Carlos Serrano
carlos.serranoh@bbva.com

Turkey
Alvaro Ortiz
alvaro.ortiz@bbva.com

LATAM Coordination
Juan Manuel Ruiz
juan.ruiz@bbva.com

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Jorge Selaive
jselaive@bbva.com

Colombia
Juana Téllez
juana.tellez@bbva.com

Peru
Hugo Perea
hperea@bbva.com

Venezuela
Julio Pineda
juliocesar.pineda@bbva.com

Financial Systems and Regulation Area
Santiago Fernández de Lis
sfernandezdelis@bbva.com

Financial Systems
Ana Rubio
arubiog@bbva.com

Financial Inclusion
David Tuesta
david.tuesta@bbva.com

Regulation and Public Policy
María Abascal
maria.abascal@bbva.com

Digital Regulation
Álvaro Martín
alvaro.martin@bbva.com

Global Areas

Economic Scenarios
Julián Cubero
juan.cubero@bbva.com

Financial Scenarios
Sonsoles Castillo
s.castillo@bbva.com

Innovation & Processes
Oscar de las Peñas
oscar.delaspenas@bbva.com

Contact details:

BBVA Research
Azul Street, 4
La Vela Building - 4 and 5 floor
28050 Madrid (Spain)
Tel.: +34 91 374 60 00 and +34 91 537 70 00
Fax: +34 91 374 30 25
bbvaresearch@bbva.com
www.bbvaresearch.com