

FIRST QUARTER

**2016**

Economic  
Outlook

**Spain**

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**The world economy will continue to grow,**  
but at a slower pace than in the past and with **more risks**

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Spain's economy has started **2016 with positive signs** pointing to a continuation of the trend set in 2015, at least for the time being

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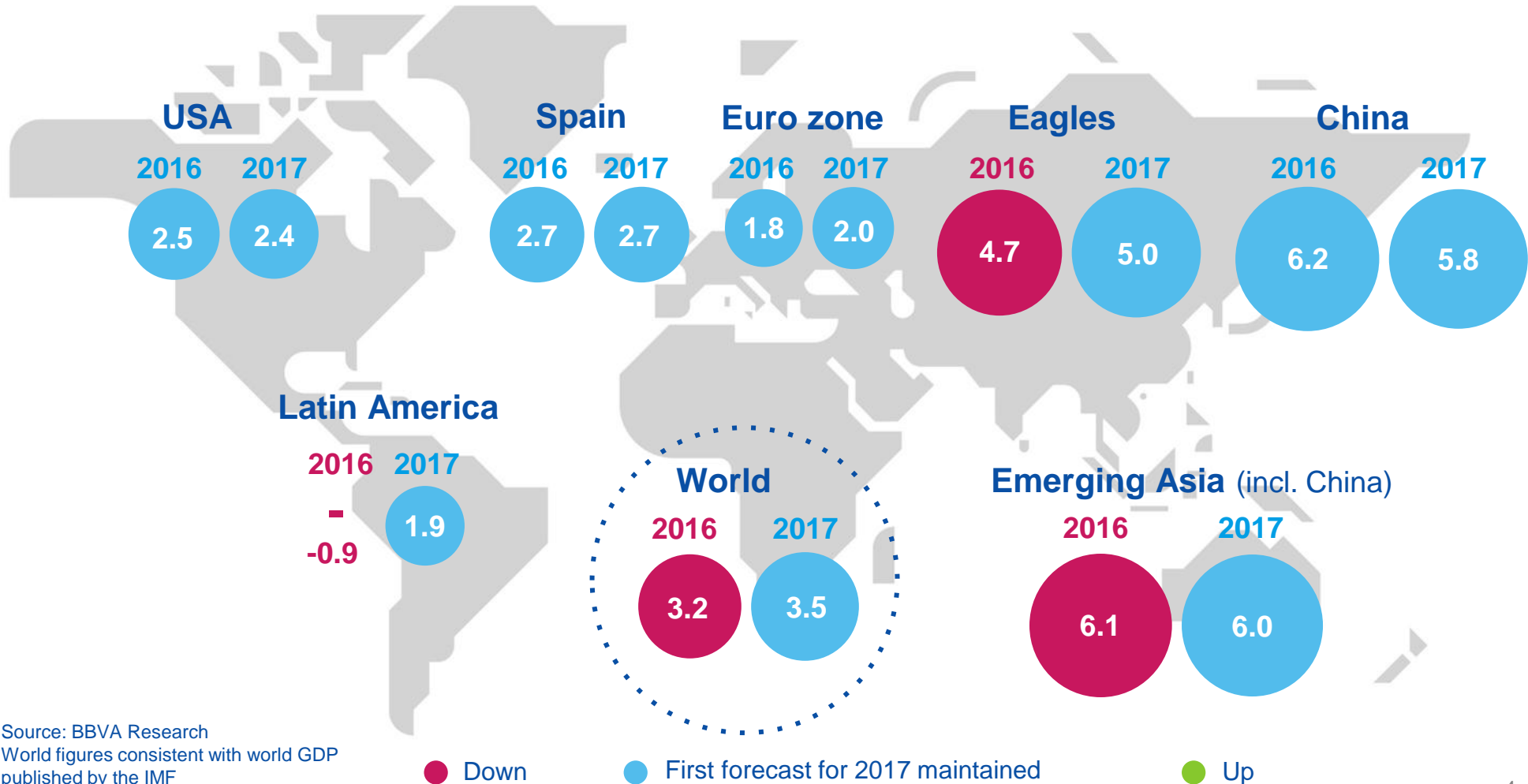
Due to uncertainties, internal and external, **we are maintaining our growth forecast at 2.7% for this year**



# Global

The world

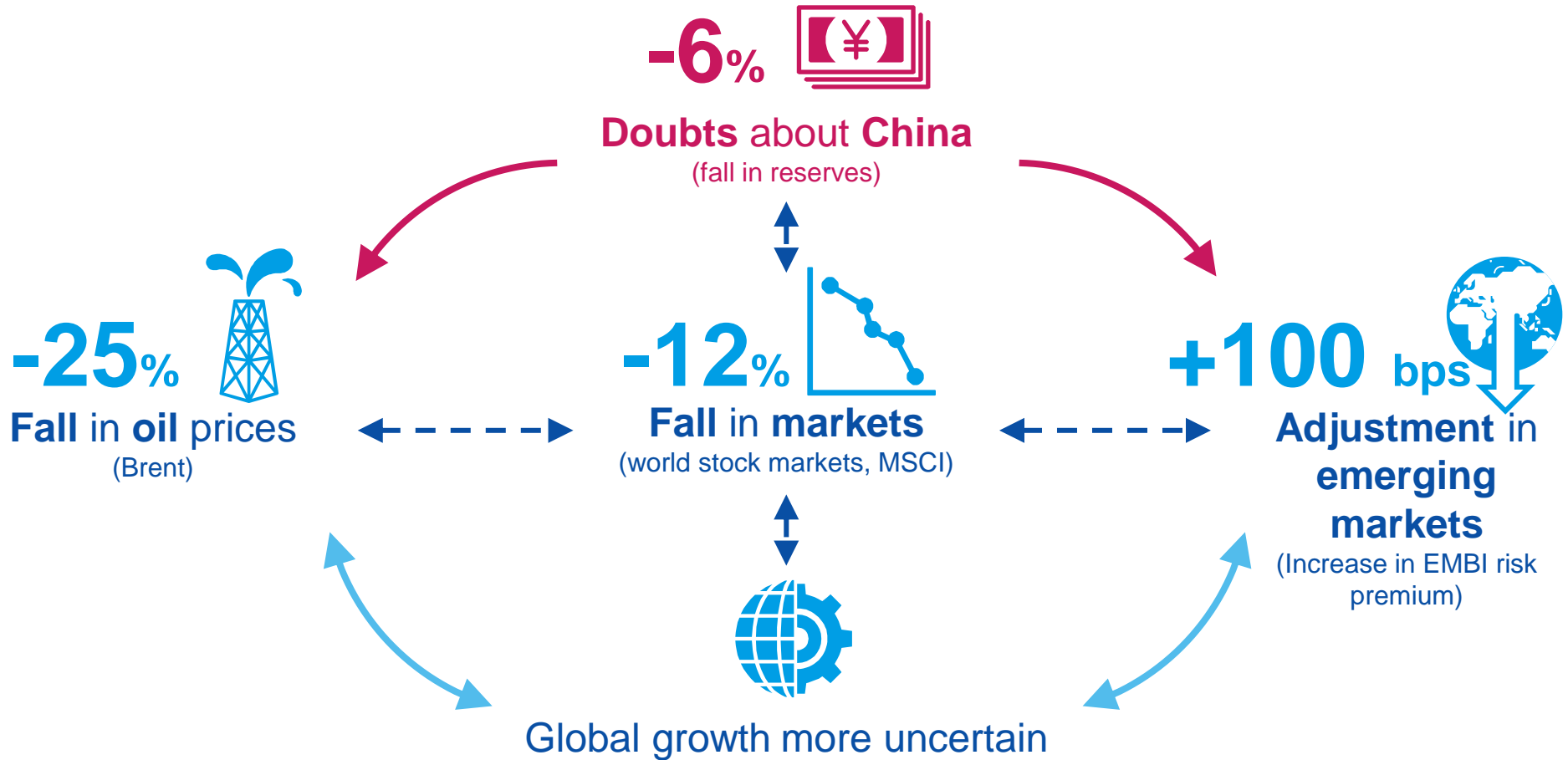
# Growth: weak and more vulnerable



Source: BBVA Research  
World figures consistent with world GDP published by the IMF

Economic scenario

# What's happening?



Fall in markets

# What are the markets seeing?

## Stresses in the financial markets

(BBVA Research Financial Stress Index)



### 1. Fed rate hike?

More gradual than expected by the market (and indeed by the Fed itself!)

### 2. Worse recent data?

There are some negative surprises, but they are (so far?) in the minority

### 3. Greater risks?

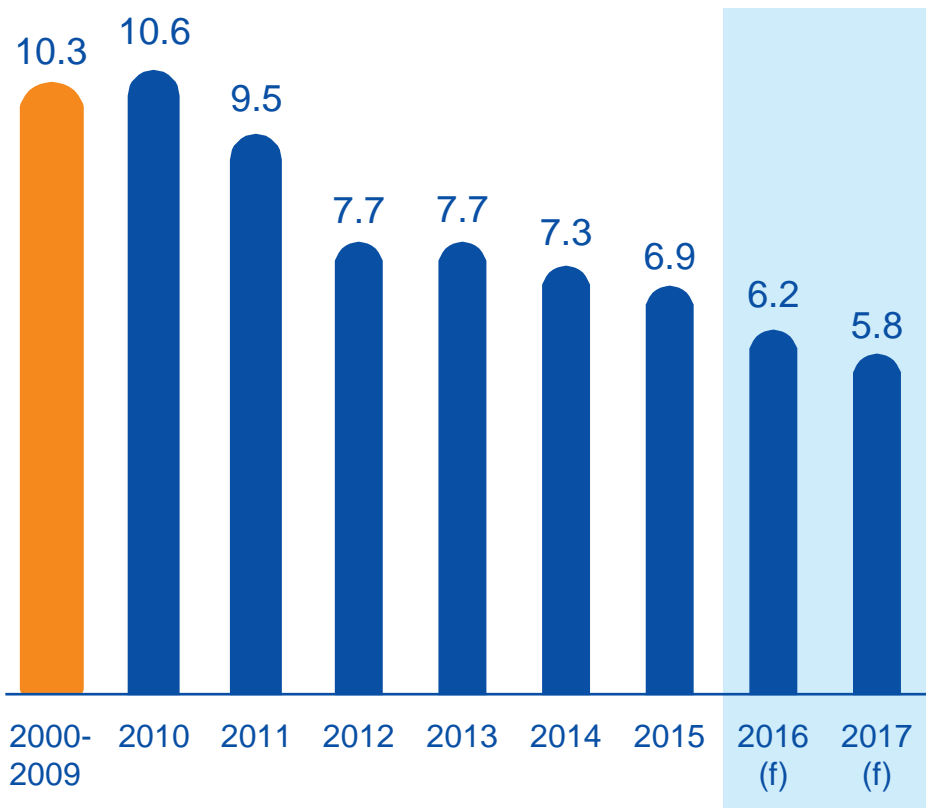
Expectations of a sharp adjustment in growth. Effects of falling markets (oil, emerging market exchange rates) remain to be seen in a world with the prospect of falling activity

Doubts about China

# The world's biggest economy is slowing down

## China, economic growth

(pp)



Source: BBVA Research and China National Bureau of Statistics

China is going through an unprecedented process of change:

- Correcting imbalances that were accumulated to avoid the crisis of 2008-09
- Directing its growth towards consumption
- Strengthening the role of the market relative to that of central planning

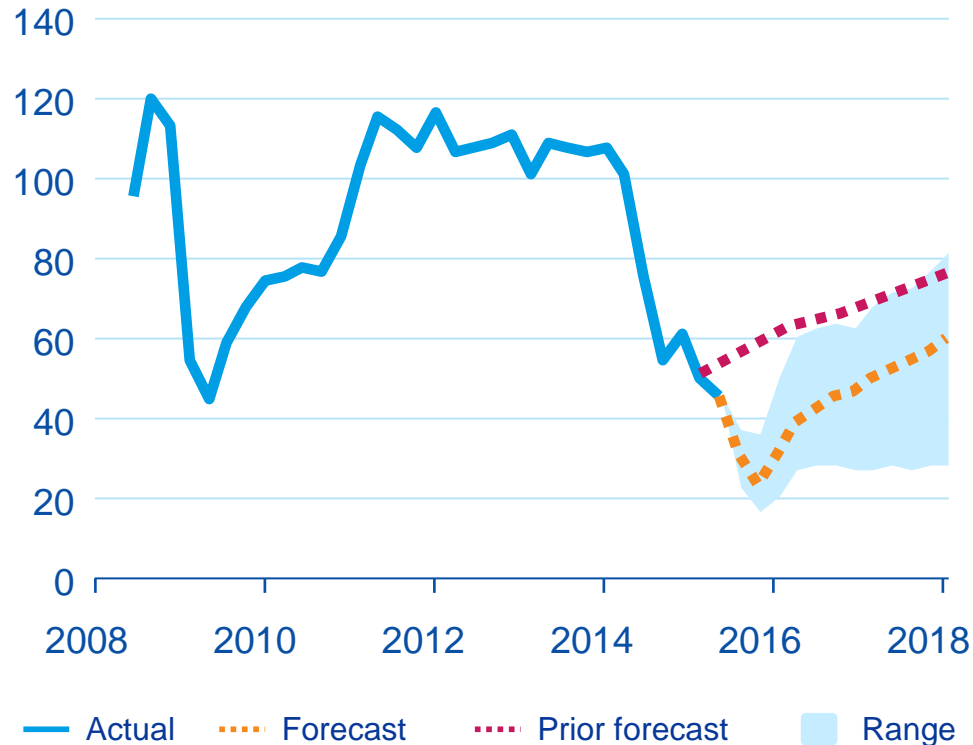
For all this to come about without financial volatility, with stable exchange rates and a “**soft**” **slowdown** would be quite a feat. And there are doubts it can happen

Falling oil prices

# Cheaper oil is good news, but not for everyone

## Movements in the price of oil

(Brent, US\$ per barrel)



We have revised our forecast of oil prices significantly downwards

This increases buyers' disposable income and reduces that of oil producers

The fall began mainly as a result of **increased production.** **Uncertainties about economic growth have become more significant**

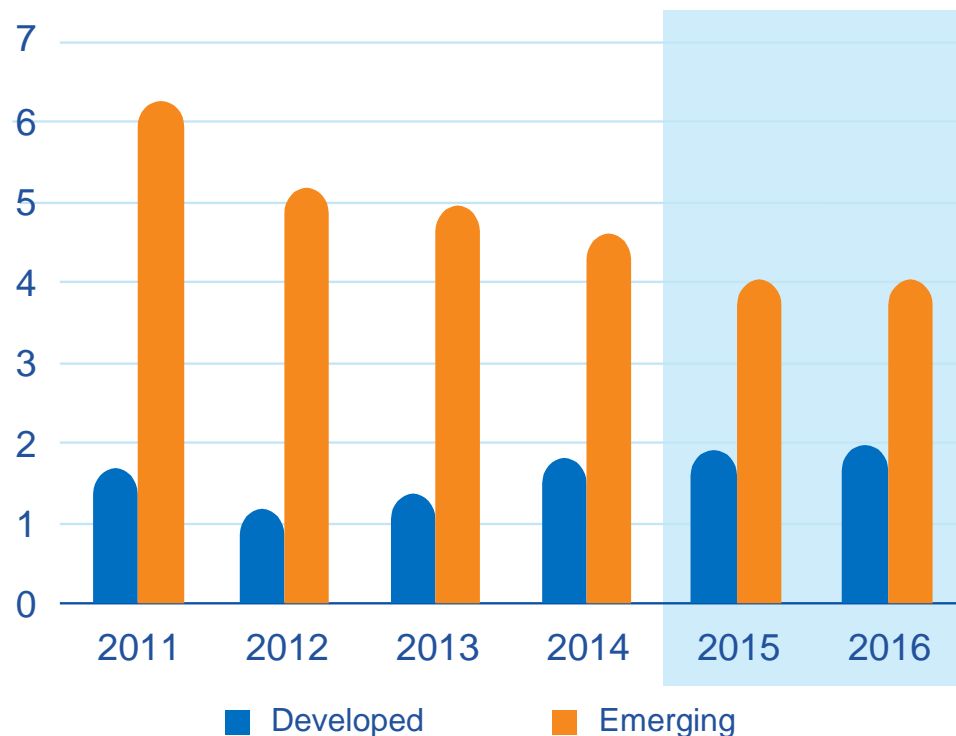


## Adjustment in emerging markets

# Will their adjustment drag the developed economies along with them?

## Growth in developed economies compared with that of emerging economies

(pp)



Source: BBVA Research and IMF

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The developed economies are favoured by **low commodity prices** and the support of their **central banks**

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But their medium-term growth capacity was reduced by the crisis of 2008-09

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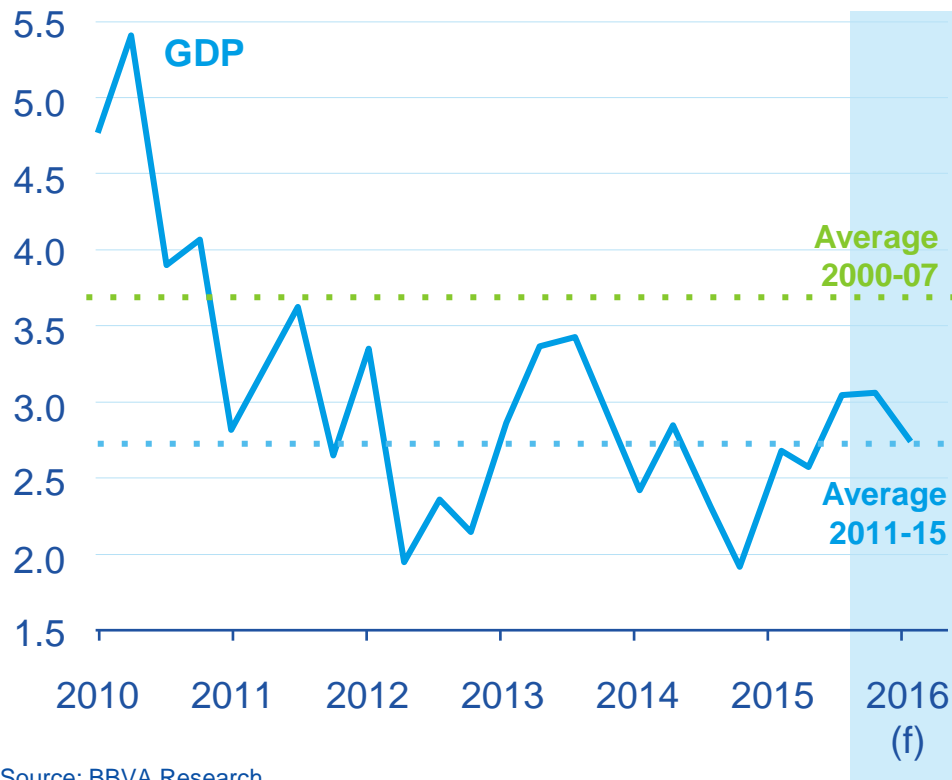
The key continues to be **improving productivity**, and that cannot be achieved with demand policies (fiscal and monetary)

More uncertain global growth

# Downward revision due to adjustment in emerging markets

## Global economic growth

(% YoY. Forecasts based on the BBVA GAIN Global Activity Index)



Source: BBVA Research  
Growth rates consistent with 90% of world GDP

**Global growth has moderated in the early part of 2016...**

**...but will continue at around 3% in the most likely scenario**

**Medium-term growth prospects are lower than before the crisis**

# What are the risks?



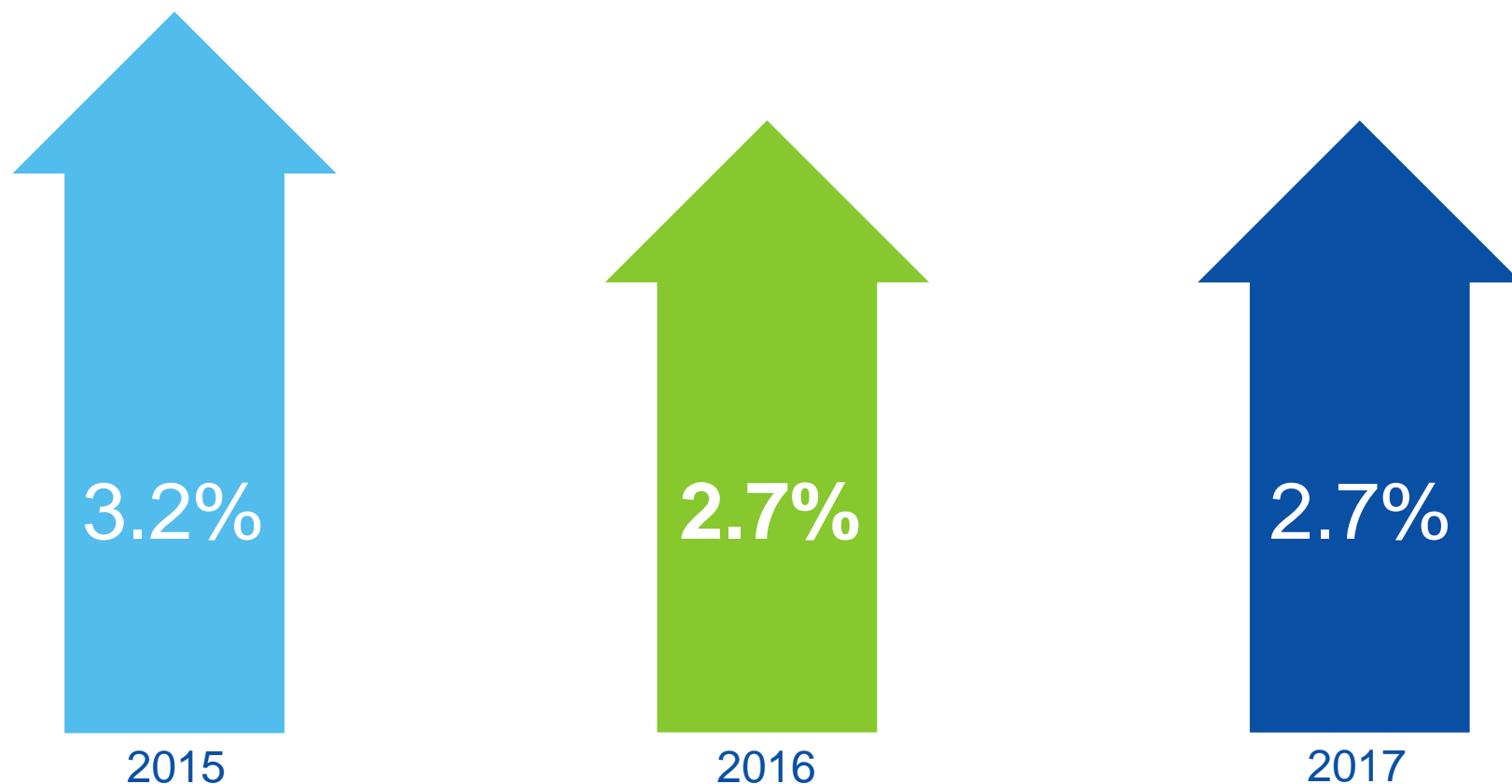
Source: BBVA Research

A satellite night view of Spain, showing the country's outline and its coastline. The landmass is covered in a dense network of yellow and orange lights, representing city lights and urban areas. The surrounding waters are dark blue, and the Mediterranean Sea is visible to the east. The word "Spain" is overlaid in large white text at the bottom center of the image.

# Spain

Growth

# We are maintaining our growth forecast for 2016



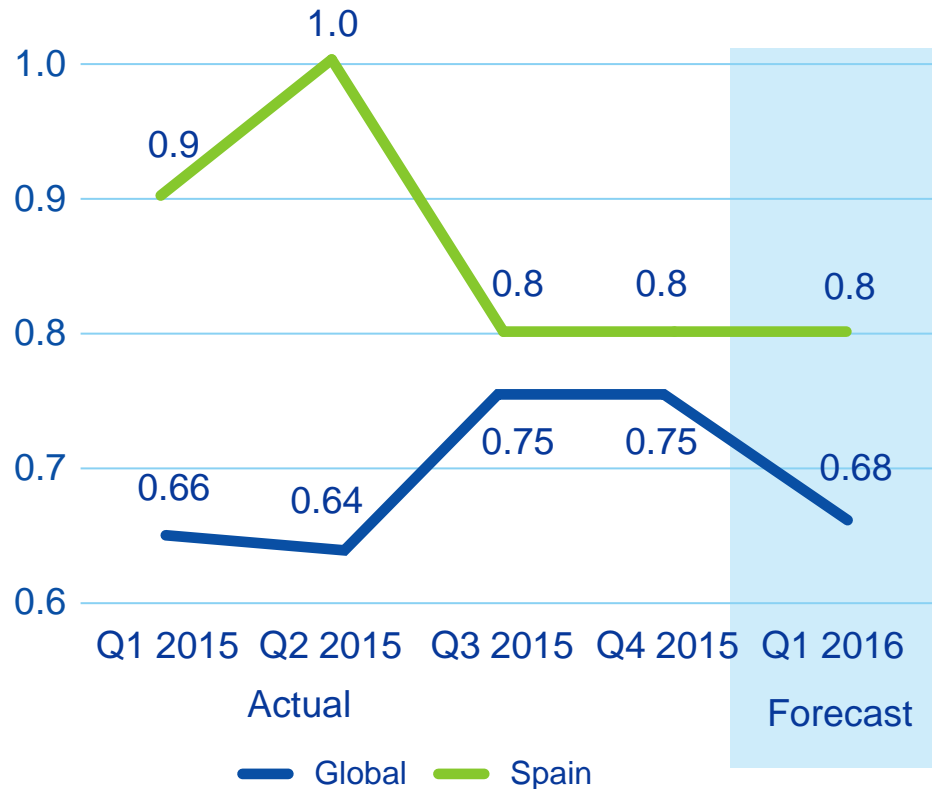


Growth

# We are maintaining our growth forecast for 2016

## GDP growth

(pp QoQ)



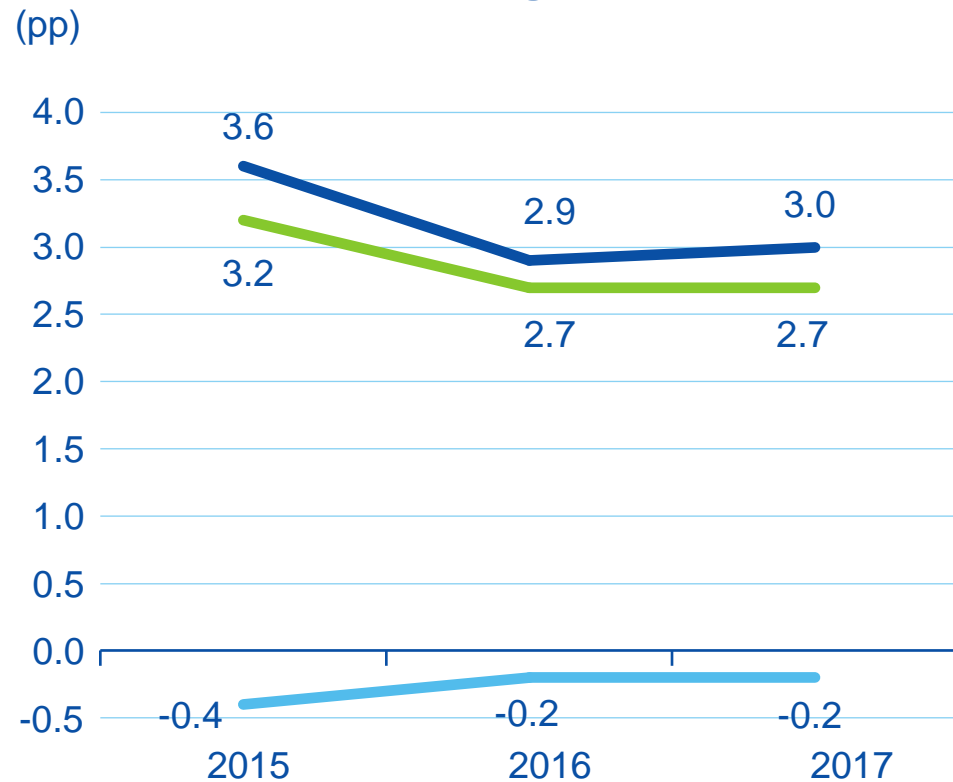
The **positive trend of 2015** has carried over into early 2016

**Despite the uncertainties**, both national and international, the economy is keeping up a high rate of growth, albeit lower than in the first half of 2015

Source: BBVA Research, INE and IMF

In favour  
**Domestic demand**

**Contributions to GDP growth**



— Domestic demand    — GDP    — External demand

Source: BBVA Research and INE (Spain's National Statistics Institute)

The growth is explained by:

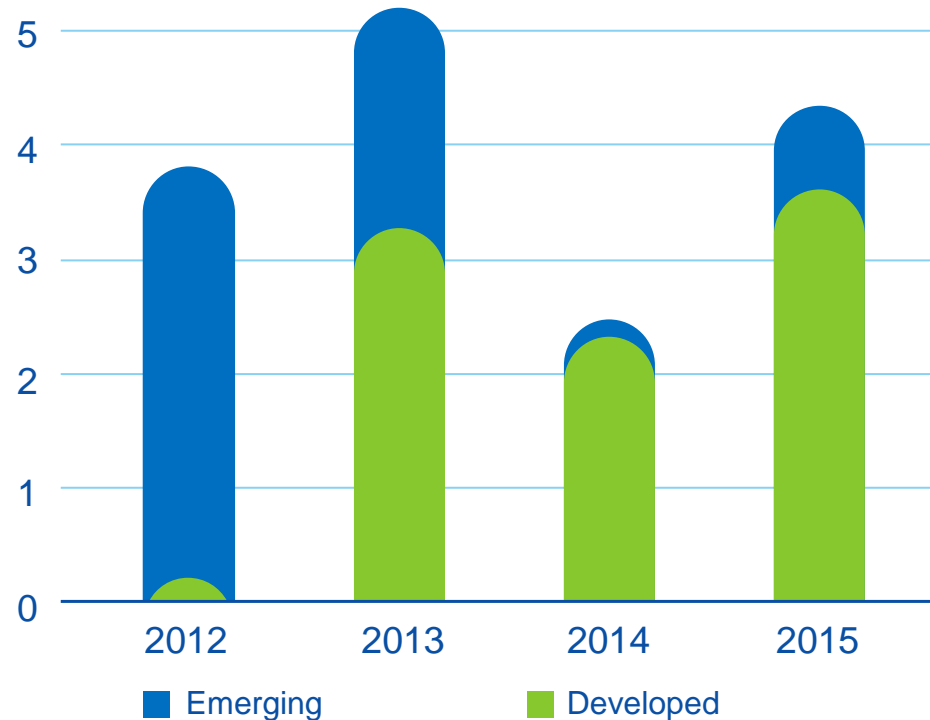
- **increased consumption**
- **increased capital investment in machinery and equipment and**
- **a dynamic export sector...**

...but is tempered by the **weak housing market** and **increased imports**

In favour  
**Exports**

**Contributions to nominal growth  
in exports of goods**

(pp)



Exports to EU countries  
offset the slowdown seen in  
sales to emerging markets



In favour

# The tailwinds hold



Low oil prices

Expansionary  
monetary  
policy

Fiscal policy  
from  
neutral to  
expansionary

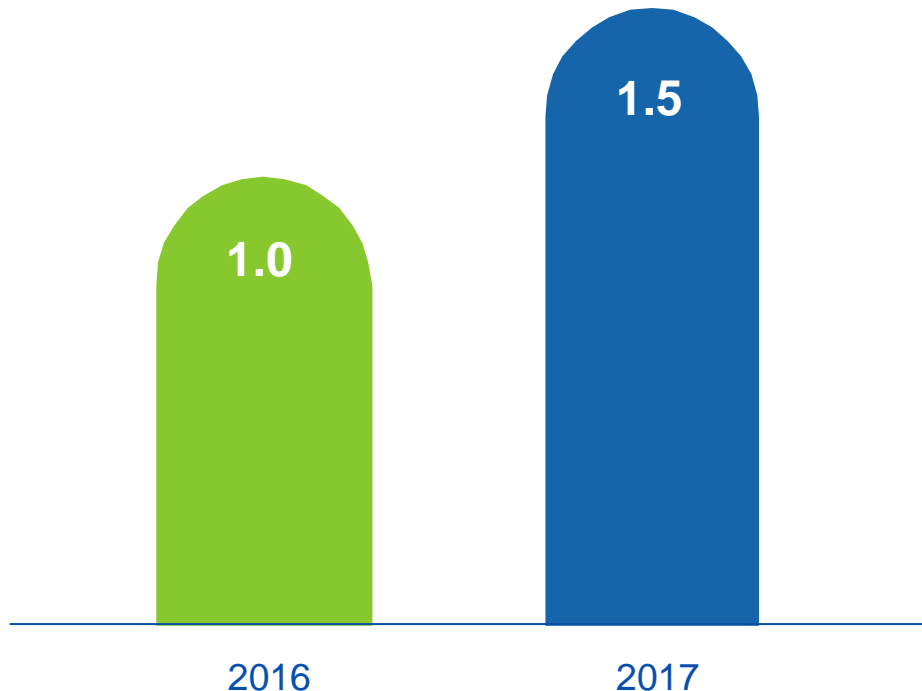
Accelerating  
growth in  
Europe

Tailwinds

# Price of crude oil

## Impact of the oil price revision on GDP

(pp of annual growth rates)



Source: BBVA Research

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The fall in energy prices has a **positive impact on the Spanish economy**, with Spain being a net oil importer

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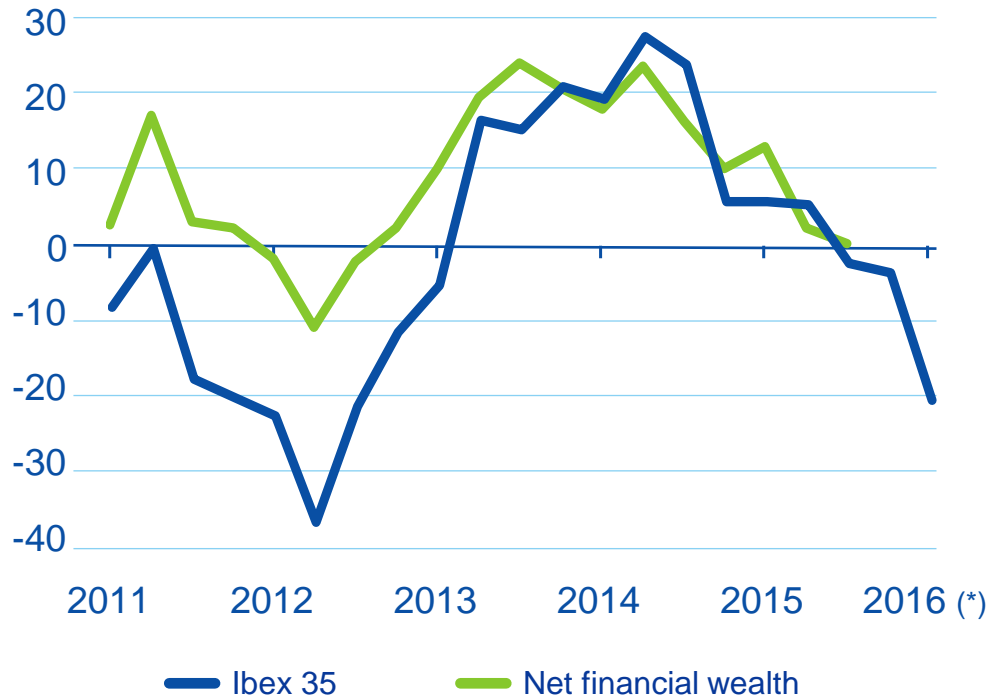
Oil alone could account for just over one percentage point of additional growth

# Risk

## Impact of reduced financial wealth

### Ibex 35 and net financial wealth

(Quarterly averages, pp YoY)



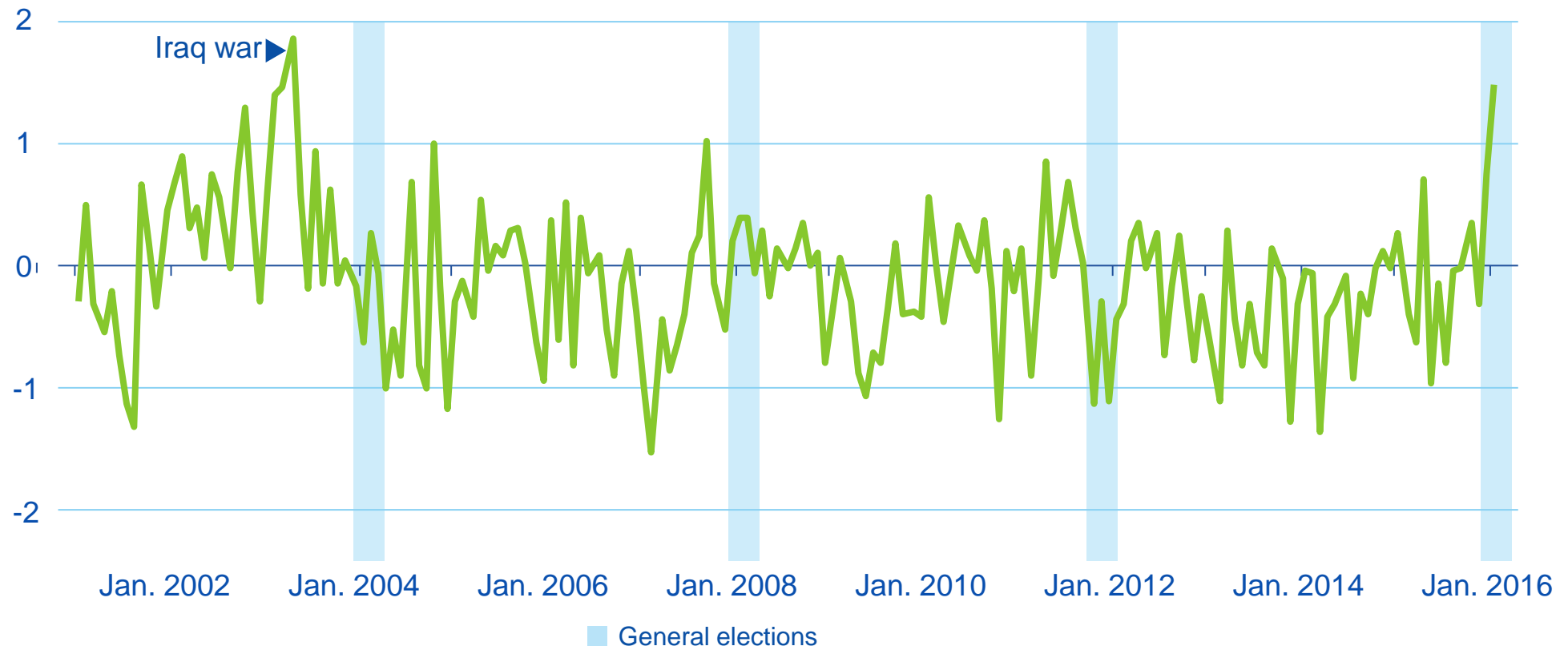
The improvement in net financial wealth was a key factor explaining the initial phases of the **recovery in consumption and investment**

A quarterly fall of 10% in net financial wealth would lead to a cumulative reduction in consumption of 1% during the following four quarters

# Risk

## Economic policy uncertainty

**Economic Policy Uncertainty (EPU) Index: Spain's idiosyncratic component**



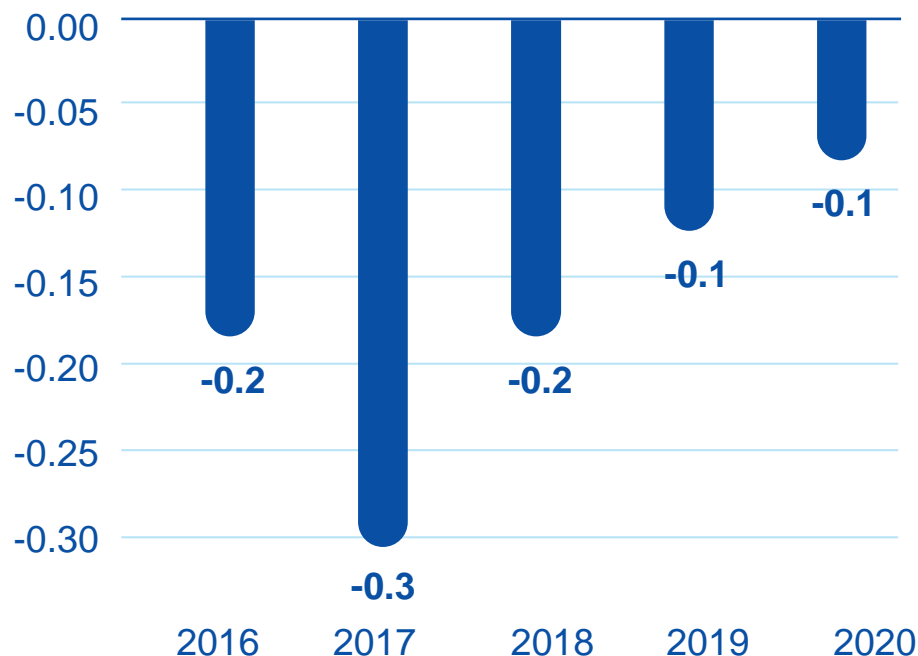
Source: BBVA Research based on EPU of Baker *et al.* (2015)

# Risk

## Economic policy uncertainty

### GDP reaction to the economic policy uncertainty shock observed in January 2016

(Deviation from base scenario growth rates)



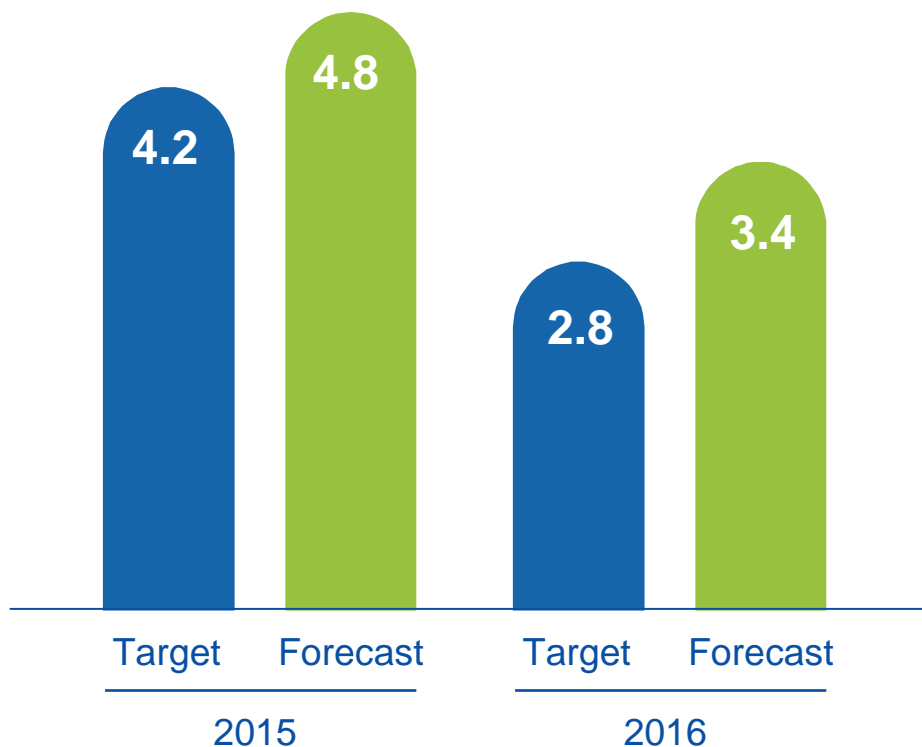
The increase in uncertainty seen in January could cut growth by between 0.2 and 0.3 percentage points in the next two years

If uncertainty remains at these levels over the next six months, the impact on GDP could reach 0.5 percentage points in 2016 and 1.3 percentage points in 2017

# Risk

## Deviation from public administrations' deficit target

### Public Administrations deficit (pp GDP)



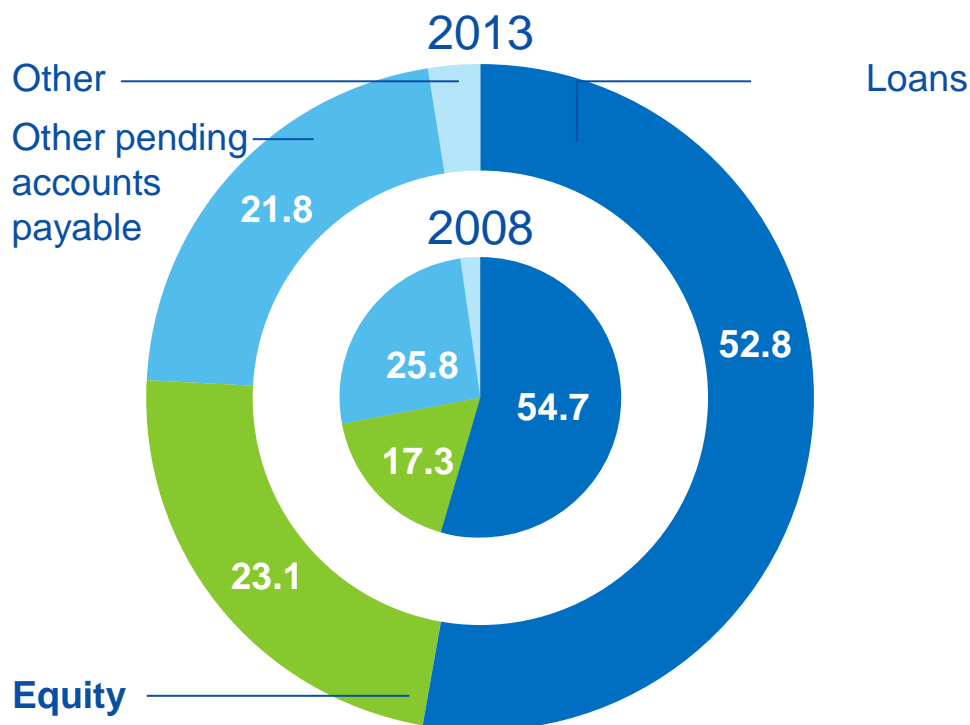
**In the absence of stimulus measures** (tax cuts and increased expenditure) **Public Administrations would have attained their deficit target** in 2015

Failure to do so **may be a drag on recovery** during the coming years

## Box 2: Savings and financing of firms during the crisis

# Changes in the structure of financing

**Companies: balance sheet structure**  
(total pp of financial liabilities)



Following the crisis, equity started to play a greater role in companies' balance sheets...

...at the expense of loans and, above all, other pending accounts payable

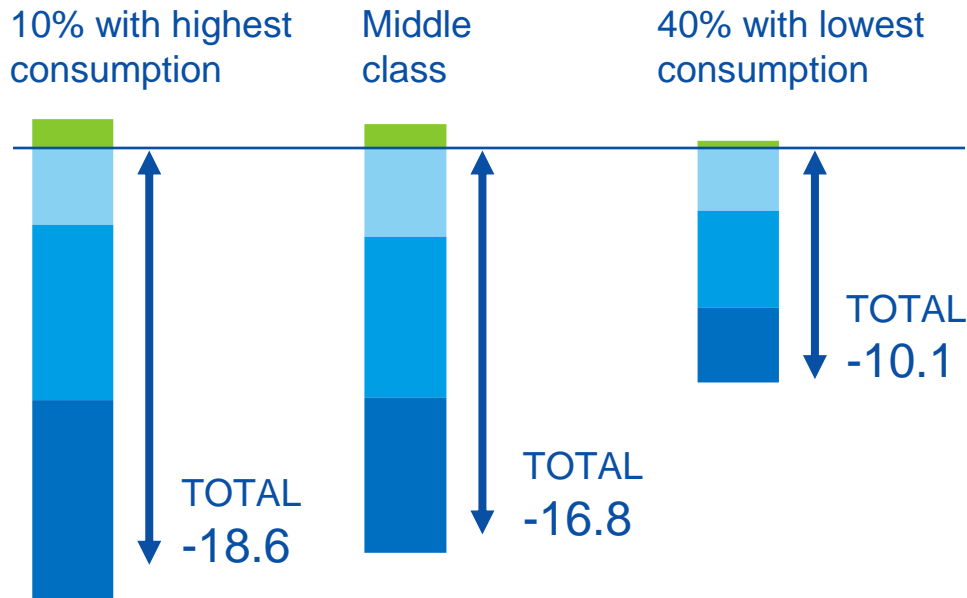
Even so, loans continue to be the main source of financing

Box 3: Inequality in household consumption during the crisis

# Greater adjustment in households consuming most

## Change in household consumption

(% Chge. 2007-2014 and contribution to the change in pp)



■ Non-adjustable      ■ Non-durable essentials  
■ Non-durable non-essentials      ■ Durable and semi-durable

The greater decline in households that consume most is probably explained by their cutting down on the more dispensable items

Regrouping of families, key to the adjustment of households with the lowest consumption

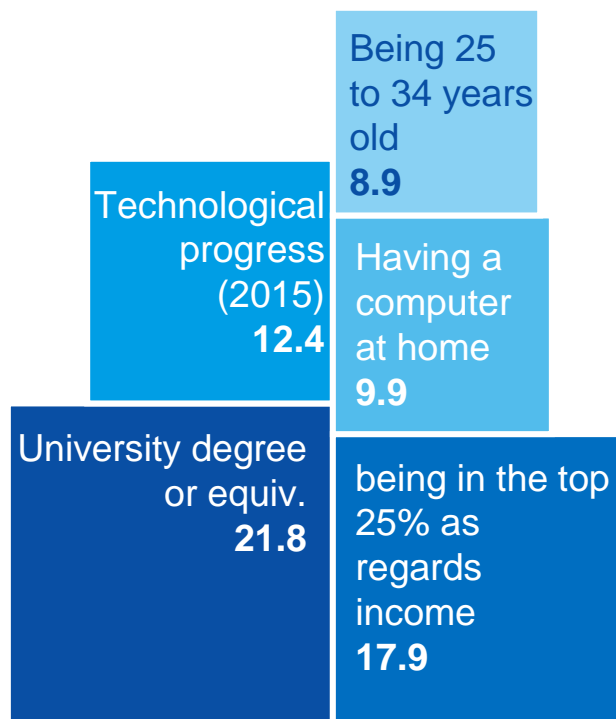


## Box 4: Digital banking in Spain

# Types of user

### Determining factors for the probability of accessing internet banking

(Marginal effects in pp 2008-2015)



Reference categories: individual between 16 and 24 years old, basic schooling, no computer at home, first quartile of net monthly income, 2008

Source: BBVA Research

Although the use of online banking in Spain has doubled since 2008 to reach nearly 40% of the population in 2015...

...it is far from being evenly spread among demographic groups

Education, computer literacy, income and the banks' commitment to digitalization, are the key factors

A hand holding a tablet computer against a city skyline background. The image is dominated by blue tones, with a bright light source in the upper right corner creating a lens flare effect. The background shows a blurred cityscape with several tall buildings. The overall composition is clean and modern, suggesting a focus on technology and business.

# Conclusions

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