BBVA | RESEARCH

Spain Economic Outlook

4TH QUARTER 2016 | SPAIN & PORTUGAL UNIT

01
The pace of recovery of the Spanish economy points to GDP growth of around 3.3% in 2016

02
Although the expectations of slowing-down in the short term remain in place, down to 2.5% in 2017, there are upward biases

03
The deficit target for 2016 is achievable but an additional adjustment of around 0.5pp will be required to meet the 2017 target

04
It is necessary to reduce economic policy uncertainty, as well as the implementation of ambitious reforms, in order to boost growth beyond 2017

Index

Closing date: 4 November 2016

1. Editorial

Although the prospects of a slowdown remain, growth is being more robust than expected. Accordingly, it is foreseen that the Spanish economy will grow, in the current biennium, slightly more than the expected three months ago. However, expectations of a less dynamic economic activity in the next few months remain unchanged and, consequently, GDP growth will decelerate from 3.3% in 2016 to 2.5% in 2017.Thus, internal and external factors will lead to a moderation of growth in domestic demand and exports, which could slow the rate at which the still large imbalances in the Spanish economy are absorbed. In order to reduce this vulnerability, it will be essential to dispel the economic policy uncertainty and to implement ambitious measures to boost growth beyond 2017.

The global economy is improving, although it is still affected by structural factors which are holding growth below the average of the past 20 years. The financial markets have recently seen a consolidation of a more confident mood and lower volatility, and this is reflected in the positive performance of certain risk assets. World GDP growth also seems to be asserting itself, driven by the increased dynamism observed in certain emerging economies. Nevertheless the recovery continues to be weak, partly because of the slowdown seen in the process of globalisation. This, together with an intense electoral calendar in developed economies and the absence of inflationary pressures, will lead central banks to continue to support growth with all-time low interest rates. Beyond the short-term cyclical situation, there is evidence to suggest that economic agents will have to learnhow to live with relatively low financing costs for an unusually long time. In this regard, while we are starting to see greater consensus on the policies that would be needed to boost global growth and escape from the low interest rate environment, the political support needed to implement them still seems to be lacking.

In Spain, GDP growth is holding at around 3% thanks to fiscal and monetary policies, current events and the impact of the reforms that have been implemented. During the third quarter, GDP increased by 0.7% relative to the previous quarter, confirming the strength of the recovery. This is in spite of Brexit (which effects on Spanish exports seem to be moderate, affecting goods more than services), and in spite of the increased uncertainty about Spain’s economic policy, the effect of which is apparently being less than it was expected. This apparent strength of the Spanish economy in the face of adverse conditions may be due to effects that have more than offset the expected deterioration. In the first place, the continuing positive impact of monetary policy on financial variables has prevented market volatility from being higher and longer lasting than it has actually been. Secondly, fiscal policy has been more expansive than anticipated. The public sector deficit remains at 5.0% of GDP and it is showing downward resistance due to the reduction of the tax burden for both households and companies. This overshoot of the target set at the beginning of the year (3.6%) has led to an unexpected and significant boost to activity. Thirdly, political uncertainty in some of Spain’s competitors in the tourism sector continues to have a positive effect on the flow of visitors. Lastly, the reforms implemented over the past few years might be having a greater effect than had been estimated, which would explain the positive performance of investment in machinery and equipment.

The prospects of a slowdown remain unchanged, although economic growth is so far proving somewhat more intense than expected. Information available at the closing date of this report points to a GDP growth rate which could be again between 0.7pp and 0.8pp in 4Q16. However, a slower growth pace is estimated for the first semester of 2017 as a result of several factors that could mean a less dynamic demand. In the private sector, the lower rate of growth could be explained by the exhaustion of some of the driving factors seen in the past few months. For example the upward trend in oil prices limits the impact that lower energy costs might have on households' and businesses' disposable income. Also, any further reduction in the cost of new borrowing transactions is limited by the zero lower bound and by Spain's sovereign risk premium. Apart from this, although there is so far no conclusive evidence of the impact of Brexit on the real economy, this does not necessarily mean that there will be none. The depreciation of the sterling pound has been intense, and the reduction in UK domestic demand will affect the activity of certain sectors and regions that are particularly exposed to this risk. Moreover, there is very little likelihood that we will continue to see Spain's tourism sector gaining additional comparative advantages from events of geopolitical nature. Lastly, the government has announced measures partly aimed at offsetting the overshoot of the year-end public sector deficit targets, and this will have a negative impact on domestic demand next year.

There is a need for a credible multi-year plan with specific measures to help dispel the uncertainty surrounding the process of fiscal consolidation. The latest change in the way corporation tax is paid will help to reduce the imbalance in the public accounts to around 4.6% of GDP by the end of this year. In meeting the new target set by the European Council for 2016, the actions taken help to close the credibility gap that had opened up between the government as a whole and the EU institutions. However, the measure will have negative effects. In the short term, the effects on activity may be limited, since the changes made to corporation tax mainly affect large corporations' cash management. The costs should therefore be limited, both because these types of companies have access to financing and because the cost of financing is at a historically low level. There is also evidence that major corporations have appreciably increased their savings over the past year, and this would generally allow them to meet these obligations without any dramatic cost impact on their growth plans. Nevertheless in the longer term when interest rates rise, the cost of this measure may increase. More particularly, the main negative effect of the changes made may be the unnecessary increase in uncertainty about tax policy, which would reduce the level of long-term investment. The best way to offset this would be to announce a plan detailing specific and realistic measures for the next four years (minimising the impact on annual growth) to bring public finances to a situation of structural surplus.

The main problem of the Spanish economy continues to be unemployment. There is a need for a consensus on a programme designed to cut structural unemployment and temporary work and boost productivity. The various different interpretations of the ruling of the Court of Justice of the European Union of 14th September[1] on severance payment for temporary replacement workers have introduced uncertainty as to its possible application to temporary contracts. This may have a negative effect on companies' hiring decisions, and particularly on the employment of less qualified workers. One would therefore wish this ruling

1: The details of the ruling of the Court of Justice of the European Union could be found in https://goo.gl/QpaQ8U to be seen as an opportunity to move forward towards a less segmented and more efficient labour market. A good starting point would be an agreement between the social agents and the Ministry of Employment and Social Security aimed at taking the necessary measures to provide certainty to businesses and workers while at the same time making progress in reducing the high incidence of temporary employment.

2. External outlook

Calm in financial markets thanks to the stabilisation of the cycle and the ongoing support from monetary policy

Recent months have brought few new developments regarding the performance of the world economy. **Financial tensions have remained relatively moderate** and the prices of the main financial assets have recovered their levels prior to the Brexit referendum. At the same time, **global activity appears to show signs of a slight improvement** after a weak first half of the year, and international trade is stabilising. All this with the ongoing support of the central banks.

The impacts of monetary policy could be reaching their limits

On the one hand, **fiscal and monetary impulses launched in China** earlier this year to stabilise growth have paid off and will allow its economy to achieve the short-term growth target set by the authorities, although at the expense of accumulating growing imbalances. On the other, **the more cautious tone of the US Fed confirms a very gradual normalisation of interest rates**, which will continue after the second rate hike is made, probably in December. For its part, **the ECB will most likely extend the programme of bond purchases beyond March 2017, after stepping up it before the summer**. However, the appearance in the discussion of a possible tapering (moderation in the pace of asset purchases) is generating some uncertainty and recalls that monetary policy may be close to reaching the limit of its expansion. Finally, Japan is experimenting with long-term rate targets and statements that point to a higher tolerance for inflation rates above the target in the coming years. This can be something widespread (though perhaps not as explicit in other central banks), especially in an environment of rising oil prices which, due to the base effect, will boost inflation in the short term.

Meanwhile, **in emerging economies capital inflows continue**, driven by the pursuit of profitability and low volatility, **which is attached to the recovery of oil prices and other raw materials**. Regarding currencies, the expected increase in interest rates by the Fed before the end of the year is favouring the general appreciation of the dollar.

The global recovery is progressing at a steady pace, but no signs of acceleration in the short term

Our estimates based on the BBVA-GAIN indicator suggests that **global growth will remain moderate in the second half of this year** (0.7% QoQ in 3Q16 and 0.8% QoQ in 4Q16), which is an increase similar to that of the last two years (about 3% YoY). Although the indicators available so far do not anticipate signs of clear acceleration in the short term, they do clear some doubts about the moderation of growth in some **emerging economies** during the second half of the year, mainly China, and also seem to confirm the **resistance by developed economies** to the shocks observed before the summer and the increase in political uncertainty. Still, the recovery in advanced countries continues to be based on private consumption and not on investment, while there are early signs of a slight improvement in global trade.

Global growth will remain around 3%

With everything, **we have revised slightly downwards our forecast for global growth**, partly because of the worse-than-expected results in the first half of the year in some areas, such as the US. In any case, global growth will remain around 3% and with an acceleration of growth in the second half of the year (Figure 2.2).

Despite the stabilisation of growth, it is still at rates that are too weak. In this context, the debate has intensified on the role of different economic policies. **Monetary policy is already near its limits**, as doubts have increased about the marginal effectiveness of the new measures and the negative impact they might have on financial stability. Therefore, **calls have increased to complement it with other fiscal and structural policies which** in a coordinated manner could ensure more dynamic growth rates, underpinning the long-term potential instead of overburdening monetary policy. Some countries, such as the US or Germany, have some leeway to implement expansionary fiscal measures (which are not likely to be used, especially in Europe), while many others could act on the composition of public expenditure, so that it is more growth-oriented but does not involve an increase in fiscal imbalances.

The risks have a downside bias

The risk downside outlook is broad, and in some cases highly political in nature, as it has been common in recent quarters. Although Brexit has been far from being a systemic event, negotiations have not started yet (they will when the UK invokes Article 50 of the European Treaty, probably in March 2017) and, so far, do not seem likely to be focused on a status that will keep UK within the single European market, which could weigh on confidence from next year on. In the rest of Europe there is a danger of stagnation or reversal of reforms achieved in some countries on the periphery, with the constitutional referendum in Italy being the most imminent appointment, and in recent months there have been increased concerns in the market about the situation in the banking system. This is joined by other risks of a geopolitical nature, such as the return of the refugee crisis.

In the US, the political landscape will be clarified after the elections, to know whether it will lead to a process of measures which will address the risks of lower potential growth in the long term. But beyond this, it is important that the strategy of **interest rate hikes by the Fed** is carried out in a calibrated manner to minimise the collateral impact, which could otherwise be especially disruptive in the emerging world.

In the medium and long term, **the biggest risk to the global economy is linked to imbalances in the Chinese economy**, which show no signs of abating, but rather the contrary, which could lead to abrupt adjustments later.

The US surprise on the downside in the first half and uncertainty is growing about the potential of the economy in the long term

In the US, the most recent data point to weaker growth in the second half of the year than we expected three months ago, after a shaky first half, which **leads us to revise growth downward for this year by 0.4pp to 1.6%**. This is a clear slowdown in activity compared to the average increase of close to 2.5% in the 2014-15 biennium.

US economic growth is downward revised for 2016

The composition of growth continues to encourage concerns about its potential in the medium term by showing **a two-speed economy** with a strong private consumption and the investment that could fall back slightly throughout 2016. This would be after rising slightly below 1% on average over the past five years. **Expectations of a lower potential for long-term growth** could be weighing on investment decisions, and in turn feeding back into a lower increase in productivity in the future, with a labour market at virtually full employment. However, we still expect **moderate growth of around 2% in 2017**.

Doubts about the strength of domestic demand, also conditioned so far by the uncertainty of the results of the presidential elections to be held in November, and the slow global recovery are supporting a **very gradual normalisation of monetary policy**. We are continuing to see a rise in interest rates by the Fed in December and two more hikes of 25 bps in 2017.

The measures by the Chinese authorities are stabilising growth, but it will continue to slowing down, while the long-term risks continue

Growth stabilised at 6.7% YoY in the third quarter supported by strong consumption and credit rise, all **thanks to the measures of monetary and** especially **fiscal expansion**. The latter was also reflected in the slight increase in total investment, while private investment continues to slow down, suggesting that **the process of deleveraging in the private sector is continuing. This scenario and the recent rise in housing prices will lead the central bank to delay interest rate decreases** until next year, or at least until it sees how effective the macroprudential measures implemented really are.

However, the authorities have managed to stabilise the economy and dispel doubts about a sharp slowdown, so we have reviewed the growth forecast for 2016 upward by 0.2pp to 6.6% (after 6.9% in 2015). Notwithstanding, the scenario remains one of gradual slowdown with growth of 5.8% in 2017. Meanwhile, the short-term risks are increasing, especially of overheating in the housing sector and its impact on financial stability, in addition to both the depreciation of the renminbi and capital outflows, as well as increased corporate indebtedness. In the long term, doubts about growth prospects continue with the slow progress of structural reforms in some key areas, particularly in public companies.

The euro zone is growing at a steady pace despite the Brexit and increased political uncertainty

The available data for the third quarter suggest that the **euro zone economy is withstanding relatively well the increasing uncertainty**, above all political, since the middle of the year. In fact, the advance estimate shows that growth **have remained stable** (0.3% QoQ as in 2Q16) driven again, according to our forecasts, by private consumption, but also by the improvement in exports and a rather more positive outlook for investment. However, we remain cautious, as the outcome of some events later this year (constitutional referendum in Italy, linked to the stability of its government) and early next year (the start of Brexit negotiations) make it difficult to consider an acceleration of growth in the coming quarters.

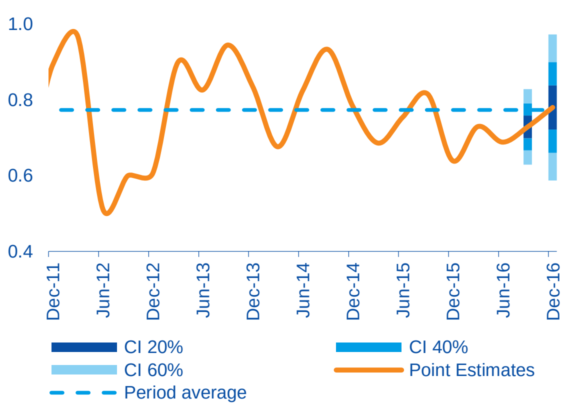
Growth forecast is maintained for the euro zone in 2016 and 2017

Moving forward, **domestic supports for growth continue in line with expectations and policies will continue to support the recovery**. On the one hand, fiscal policy will be somewhat expansionary in the whole euro zone this year and next, although decisions are still pending on the adjustment to be demanded for Spain or the relaxation of requirements on Italy. On the other hand, the ECB remains committed to maintaining a highly expansionary monetary policy until there are clear signs that the trend of inflation to the target is sustainable. We therefore hope that it will address in December an adjustment to the parameters of the asset purchase programme and extend it beyond March 2017.

In this context, **we maintain our forecast of growth of 1.6% in 2016 and 1.5% in 2017, with a balance of downside risks**.

Figure 2.1

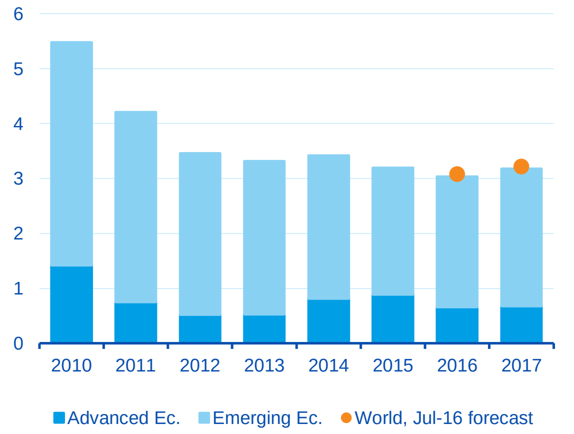
BBVA-GAIN Model
Growth of global GDP (% QoQ)*



Source: BBVA Research

Figure 2.2

Forecast of growth in global GDP (% YoY)



Source: IMF and BBVA Research

3. Growth outlook for the Spanish economy

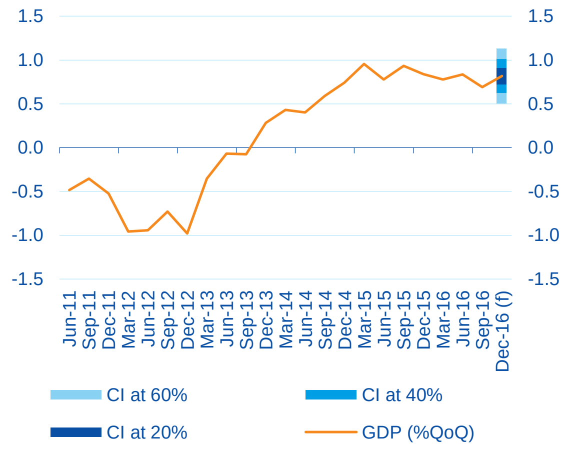
Stable growth, but with expectations of short-term deceleration

The GDP flash estimates published by the National Statistics Institute (INE) indicated that **in 3Q16, the Spanish economy grew by 0.7% QoQ (3.2% YoY)**[2]. If this estimate is confirmed, the increase in activity between July and August would have been slightly lower than during the last year, as indicated in real-time estimates by BBVA Research[3] (between 0.7% and 0.8% QoQ).

Looking to the fourth quarter, the information known at the closing date of this report suggests that the **recovery is continuing at a similar pace, or even slightly higher, to that recorded in 3Q16 (forecast from the MICA-BBVA model: between 0.7% and 0.8% QoQ)** (see Figure 3.1). This growth pace would be in line with the results of the BBVA Economic Activity Survey (BBVA-EAE), which shows an improvement in growth expectations compared to the last quarter. However, during the first half of 2017, more moderate growth rates can occur as a result of different factors that could lead to less dynamic demand (see Figure 3.2).

Figure 3.1

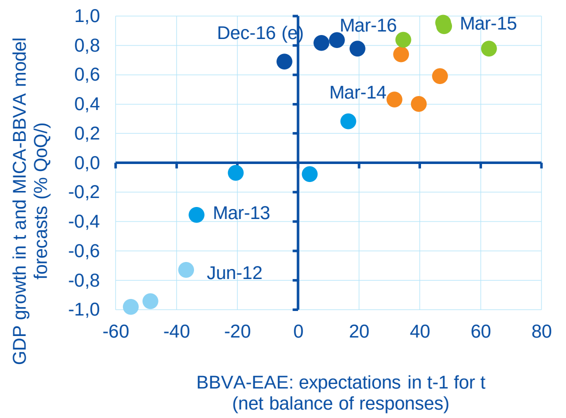
Spain: observed growth in GDP and forecasts of the MICA-BBVA Model (% QoQ)



(e): estimated.
Source: BBVA Research based on INE

Figure 3.2

Spain: economic growth and expectations of participants in the EAE-BBVA in the previous quarter



(e): estimated.
Source: BBVA Research based on INE

2: The Quarterly National Accounts (CNTR from its Spanish initials) for 3Q16 will be published on 25 November, possibly with a revision of the advance estimate.
3: See Spain Economic Watch, October 2016, available at: https://goo.gl/msY2V7

Private domestic demand moderated its growth, while public demand returned to positive territory in 3Q16

In line with the positive performance of income and household credit during the third quarter, the signals shown by some of the partial indicators of spending[4] and household expectations suggest a stabilization of the private consumption growth . Thus, **household spending would have increased around 0.6% QoQ (3.0% YoY) in the third quarter, the same as in 2Q16** (see Figure 3.3), and could record similar rates during the fourth quarter.

Regarding public demand, it is estimated that it has returned to positive territory at the beginning of the second half, after being corrected downward more than expected at the end of the first half. In particular, the available budget execution data suggest that **spending in real final consumption of public administrations could have closed the third quarter growing at around 0.7% QoQ** (1.0% YoY), an increase that could be repeated in the last quarter of the year.

On the side of **investment in machinery and equipment**, partial economic indicators[5] point to a **moderation of growth to 1.1% QoQ (5.9% YoY) in 3Q16**, resuming the slowdown in the trend, which was observed until the first quarter and could continue at the end of the year.

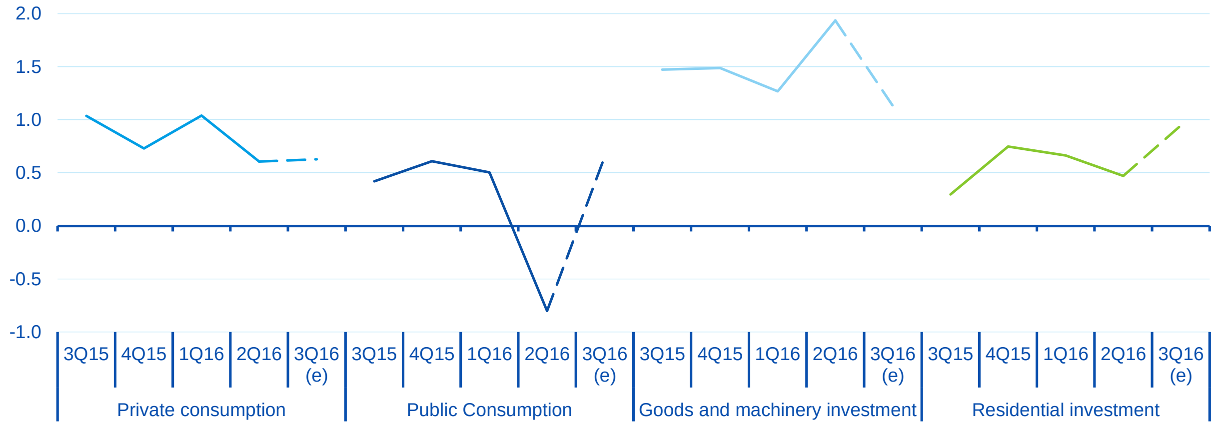
Growth seems to once again rely on domestic spending

For its part, the available information[6] indicates that **housing investment would have grown around 0.9% QoQ (2.9% YoY) in the third quarter**, a pace that could be maintained during the last months of the year and which would **confirm the temporary nature of the slowdown recorded in 2Q16**. However, not all construction investment seems to have accelerated in 3Q16. In this regard, BBVA Research estimates that **investment in other construction would have moderated its growth to 0.5% QoQ (2.3% YoY)** in the third quarter.

4: Retail trade and consumption of services continue to show a strong impetus, while domestic sales by large enterprises and card spending have hardly changed and car registrations have declined.
5: While business confidence rebounded in the quarter, both the sale of industrial vehicles and the index of industrial production and imports of capital goods grew less. On the other hand, the order books for capital goods declined with respect to the previous quarter.
6: It is worth highlighting social security affiliation in the construction sector and housing starts, which have performed better than in the previous quarter.

Figure 3.3

Spain: growth observed and forecasts of the main components of domestic demand (% QoQ)



(e): estimated.
Source: BBVA Research based on INE

External demand moderated its impetus, although only temporarily

After a second exceptional quarter, external demand would have slowed down to almost zero growth during the third quarter. Thus, available indicators for external trade point to a **stagnation in goods exports in 3Q16 (0.0% QoQ, 3.0% YoY)**[7]**, partially due to the slowdown observed in exports addressed the UK (6.5 YoY accumulated from July to August against the 11.3% YoY accumulated between January and June)**. Regarding services exports, while the behaviour of foreign tourism remains healthy[8], available information suggests that **the consumption of non-residents in Spain would have diminished to 0.6% QoQ (5.9% YoY)** while exports of non-tourism services would have diminished to 0.9% QoQ (13.0% YoY), 3.5pp less than that registered in 2Q16.

External demand would not have contributed to quarterly growth

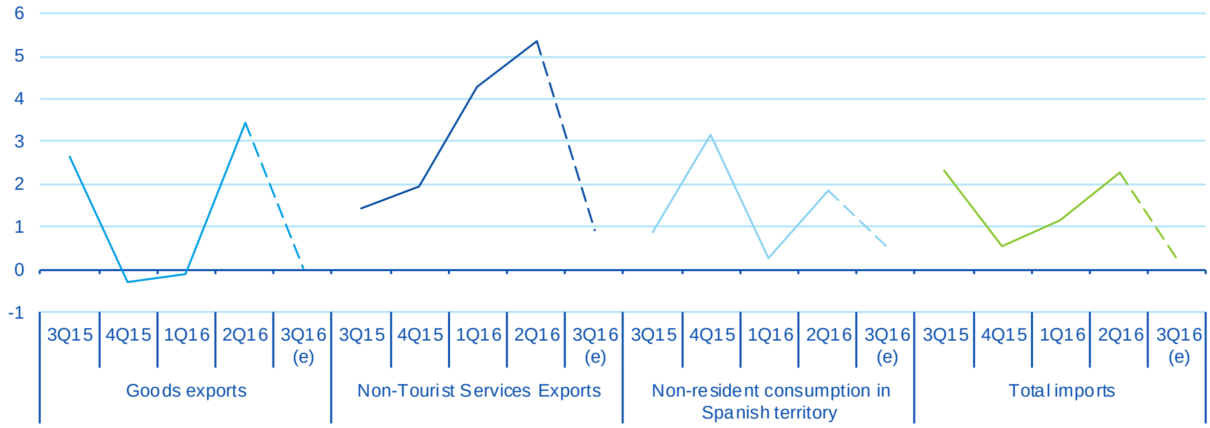
In line with the behaviour of final demand, available information at the closing date of this report suggest that **growth in imports during 3Q16 was marginal (0.2% QoQ; 4.2% YoY).** This behaviour, along with the one expected for total exports, would have resulted in a **zero contribution (+0.0 pp) from net external demand to quarterly growth in the Spanish economy**.

Overall, it is estimated that the sluggishness observed in trade flows is temporary since it responds, at least in part, to the downward correction after the sharp rise recorded at the end of the first half. Looking to the fourth quarter, the stabilisation of global trade let us foresee positive rates in external demand.

7: Both exports by large companies and the backlog of export orders moderated their growth in 3Q16, while the information available from the trade balance points to a drop in exports of goods in the quarter.
8: The entry of non-resident tourists in hotels grew at around 1.0% QoQ SWDA, while number of overnight stays by the same group decreased by 0.7% QoQ SWDA.

Figure 3.4

Spain: growth observed and forecasts of the main components of external demand (% QoQ)



(e): estimated.
Source: BBVA Research based on INE

The recovery of the labour market continued during the third quarter

The Labour Force Survey (LFS) for 3Q2016 confirmed the trend pointed by Social Security registration and unemployment figures[9]. Employment increased by 226,500 people due partly to seasonal causes. Adjusting for seasonality, the number of employed persons regained momentum (0.8% QoQ) after the downsizing surprise recorded in the previous quarter (0.4% QoQ). The private sector and, in particular, services continued to lead in job creation.

Employment rose in 3Q16 and the unemployment rate fell below 20%

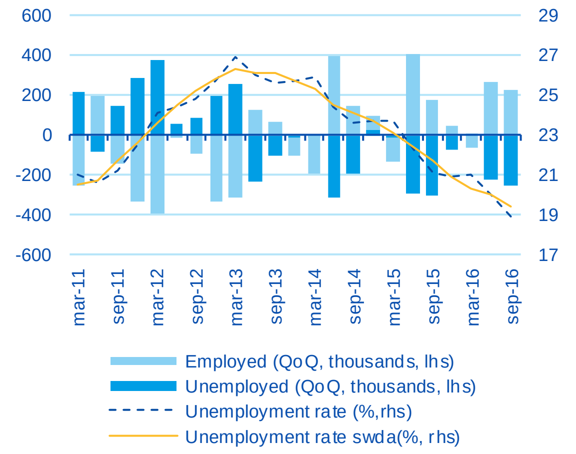
The increase in employment and the slight decline in the labour force (-27,400 people) led to a **fall of 1.1% in the unemployment rate to 18.9%**. After adjustments for seasonality, it is estimated that the unemployment rate would have decreased by six tenths to 19.4%, 6.9 points below the cyclical peak reached in 1Q13 (see Figure 3.5).

The upturn in the number of employees with temporary contracts (245,900), and the decline of 29,000 in the number of those with indefinite contracts caused an **upturn in the seasonal temporary employment rate in 3Q16** (up to 27.0%). Seasonally corrected, the percentage of employees with temporary contracts increased by five tenths of a percentage point to 26.3%, 3.6 pp above its cyclical trough reached in the first quarter of 2013 (see Figure 3.6)[10].

9: Adjusted for seasonal variations, average Social Security affiliation increased by 0.7% QoQ SWDA in the third quarter, one tenth less than in the second quarter. The momentum of hiring also slowed by four tenths to 1.6% QoQ. By contrast, registered unemployment fell 2.8% QoQ SWDA between July and September, half a point more than in 2Q16. The October figures extended the positive trend of the third quarter. Adjusted for seasonality, BBVA Research estimates indicate that the increase in Social Security affiliation was around 90,000 people, while the fall in unemployment was 40,000. For more information, see https://goo.gl/2PyBlI
10: The detailed evaluation of the data from the LFS of 3Q16 can be found at: https://goo.gl/oS2Vwj

Figure 3.5

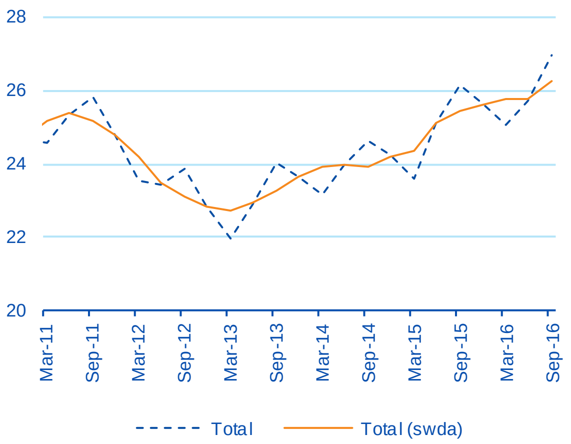
Spain: employed, unemployed persons and unemployment rate



Source: BBVA Research based on INE

Figure 3.6

Spain: temporary employment rate (% of employees with temporary contract)



(e): estimated.
Source: BBVA Research based on INE

Inflation resumed its upward trajectory

Inflation returned to positive territory in September

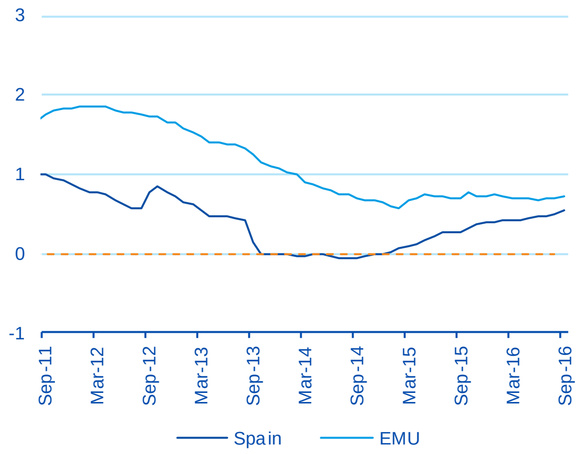
Headline consumer prices recorded their first positive growth rate so far this year at the end of 3Q16 (0.2% YoY in September)[11], as a result of lower downward pressure on energy prices and **virtually stable core inflation (0.8% YoY in September)**[12]. According to BBVA Research estimates, the sustainable increase in Spain's core inflation takes place in an environment of low and stable inflation in Europe, and consequently limits the Spanish economy's gains in price competitiveness. Therefore, although it remains favourable, the **differential in trend inflation relative to the euro zone as a whole fell by almost a point since its peak in October 2013** to 0.2 pp in September (see Figure 3.7)[13].

Wage demands remained steady during the third quarter, in line with core inflation. The average wage increase agreed in collective bargaining stood at 1.1% YoY from July to September for the revised multi-year agreements and 1.0% for agreements signed during the current year, involving 1,200,600 workers[14]. As can be seen in Figure 3.8, increases in wages in the third quarter were similar to those registered in the first half of 2016, but less than the 1.5% set as a maximum limit in the 3rd Agreement for Employment and Collective Bargaining (AENC from its Spanish initials) for the year as a whole[15].

11: The CPI leading indicator pointed to a moderation of 0.5 pp in headline inflation up to 0.7% YoY, which corresponds to an increase in energy inflation. Our estimates suggest that core inflation would have remained stable at around 0.7% YoY.
12: Thus, the contribution of core inflation to the year-on-year growth of prices stood in September at around 0.7 pp, while the residual component contribution was at -0.5 pp (energy: -0.6 pp).
13: For more details on the calculation of trend inflation using the trimmed mean method, see Box 1 of the Spain Economic Outlook review for the first quarter of 2014, available at: http://goo.gl/j0rlT8
14: The number of workers covered by collective bargaining agreements was close to 6.6 million up to September including those affected by agreements signed before 2016 (5,378,000). Even though this figure is 27% higher than that recorded to June 2015, it must not be interpreted as an increase in the number of workers covered by collective bargaining agreements, because since the beginning of the current year Collective Bargaining Agreements Statistics have also included agreements signed but not yet registered.
15: The 3rd AENC, signed in early June 2015 by CEOE, CEPYME, Comisiones Obreras and UGT, sets limits on wage increases agreed in collective agreements. In 2015 they were not allowed to exceed 1%, and 1.5% in 2016. The increase in 2017 will depend on the development of GDP growth in 2016

Figure 3.7

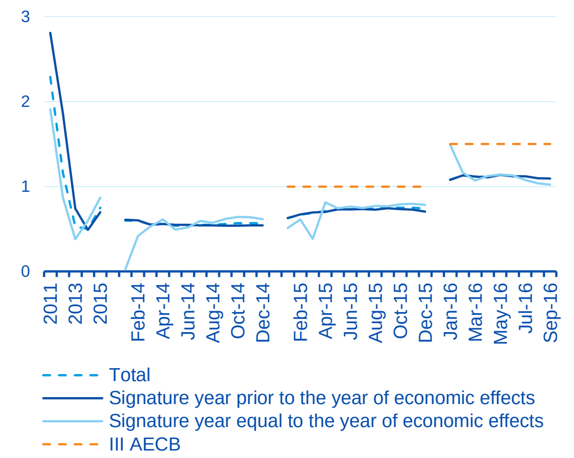
Spain: employed, unemployed persons and unemployment rate



Source: BBVA Research based on INE

Figure 3.8

Spain: average wage increase agreed in collective agreements (%)



Annual data include agreements registered after December each year and incorporate the review using the wage guarantee clause. (*) Data for 2015 and 2016 are provisional. The figures from 2013 onwards are not strictly comparable with those of previous years.
Source: BBVA Research based on ME and SS

The new credit to households and SMEs continues to grow, although it is decelerating

Loans to large companies are continuing on a downward trend

The stock of credit to the private sector continued to decline in 3Q16, albeit at a slower pace than in the first half (-4.1% YoY in August). Similarly, **new transactions granted extended their downward trend** (-13.9% YoY accumulated from January to September) conditioned mainly by financing transactions for companies exceeding €1 million (-33.2% YoY in January-September). This lower demand for bank credit by major companies is due at least in part to the climate of uncertainty (national and international) and to the growing trend to meet financing requirements from other sources (own savings and debt issues). This would have also been affected by the lowering of debt issuance prompted by the program of buying corporate debt by the ECB and the elimination of partial payments (by 12%) of corporate tax, since a part of it was probably met by credit[16]. **On the side of the retail sectors (households and SMEs), a slowdown in credit growth is observed**, although a rise of 5.2% YoY in January-September has been accumulated.

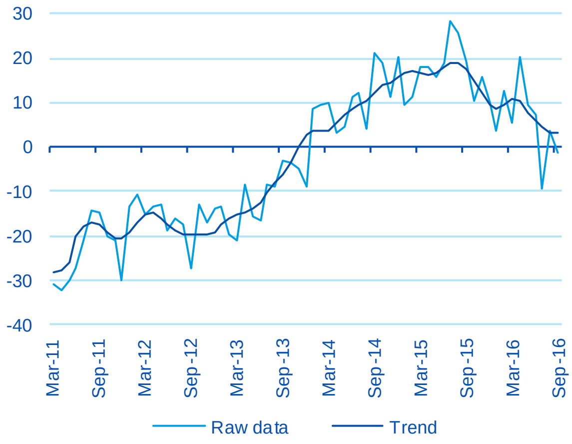
Moreover, the price of new credit has maintained its downward trend, favoured by the reduction in the Euribor, the best liquidity conditions for banks (thanks in part to ECB auctions), the lower sovereign risk and lower credit risk faced by banks. However, in some portfolios there is evidence of having reached a minimum threshold in an environment of narrowing interest margins and changes in the structure of the class of loan.

and the government's macroeconomic forecasts. Although the agreement does not expressly impose the inclusion of wage revision clauses, it does indicate that the wage growth agreed in the 2015-2016 two-year period must be greater than the sum of the inflation in both years.
16 The latest measures by the caretaker government to retrieve and raise instalments paid by the end of this year (23%), could partially reverse the decline in lending to large companies.

On the other hand, the rates for housing acquisition (2.37% APR in August, 5 bps less than a year ago), show a clear resistance to keep declining given the growing importance of fixed rate mortgages.

Figure 3.9

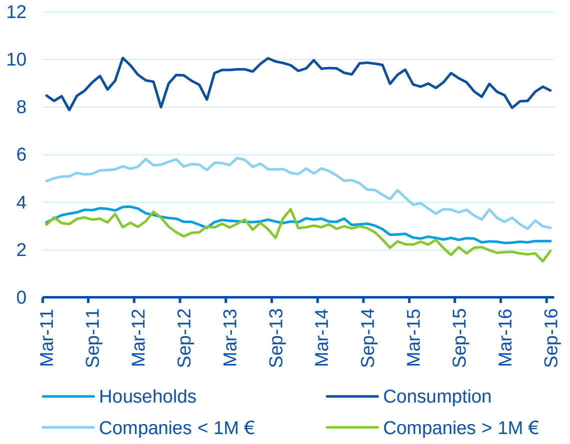
Spain: new lending transactions to the retail sector (% YoY)



Source: BBVA Research based on INE

Figure 3.10

Spain: interest rates on new lending (% APR)



Annual data include agreements registered after December each year and incorporate the review using the wage guarantee clause. (*) Data for 2015 and 2016 are provisional. The figures from 2013 onwards are not strictly comparable with those of previous years.
Source: BBVA Research based on ME and SS

2016-2017 scenario: shifting gears

Growth will moderate from 3.3% in 2016 to 2.5% in 2017

Going forward, the fundamentals of the Spanish economy justify the continuation of the recovery over the biennium 2016-17. In fact, the information known as at the closing date of this report confirms the upward bias pending on the scenario and forces us to revise growth estimates by 0.2pp for both 2016 and 2017. However, expectations of moderation in the pace of growth remain in the short term, given the climate of uncertainty, both internal and external, and the lower tailwind being exercised by factors such as oil prices and fiscal and monetary policies. Thus, estimates by BBVA Research indicate that the economy would end up **growing at a pace of 3.3%, and it will slow down to 2.5% in 2017** (see Table 3.1). In any case, this improved activity will be enough to accumulate a net creation of employment of around 875,000 jobs in the biennium and reduce the unemployment rate to around 17.7% at the end of the period[17].

Despite the expected slowdown for 2017, growth will continue to rely on both internal and external factors. While important sources of uncertainty remain (regarding the rate of global growth or Brexit; for example), the international environment will continue to support export demand. Similarly, domestic demand will continue to be favoured by the improvement of its fundamentals, progress in correcting imbalances and expansionary monetary policy. The increase in final demand will bring about an expansion in imports, which

17: In average terms, employment will grow at an annual rate of 2.7% and the unemployment rate will be around 18.1% in 2017.

in the expected scenario for external demand will result in a slight contribution by net external demand to growth.

Table 3.1

Spain: macroeconomic forecasts

(% YoY unless otherwise indicated)	2Q16	3Q16 (e)	2015	2016 (p)	2017 (p)
National Final Consumption Expenditure	2.8	2.5	2.6	2.7	2.2
Private FCE	3.4	3.0	2.9	3.3	2.3
Public Admin. FCE	0.7	1.0	2.0	1.2	1.8
Gross Fixed Capital Formation	3.7	4.0	6.0	4.1	3.4
Equipment and Machinery	6.3	5.9	8.9	6.3	3.8
Construction	2.1	2.6	4.9	2.6	2.7
Housing	2.2	2.9	3.1	3.1	3.1
Other Buildings and Constructions	2.0	2.3	6.4	2.3	2.2
Domestic demand (*)	**3.0**	**2.8**	**3.3**	**3.0**	**2.3**
Exports	7.2	5.1	4.9	5.5	3.5
Imports	6.4	4.3	5.6	5.1	3.1
External balance (*)	**0.4**	**0.4**	**-0.1**	**0.2**	**0.2**
Real GDP at market prices (mp)	**3.4**	**3.2**	**3.2**	**3.3**	**2.5**
Nominal GDP mp	**4.0**	**4.2**	**3.7**	**4.1**	**4.7**
Total employment (LFS)	2.4	2.7	3.0	2.8	2.5
Unemployment rate (% Active Population)	20.0	18.9	22.1	19.7	18.1
Total employment (FTE)	2.7	2.7	3.0	2.8	2.0

(*) Contributions to growth.
(e): estimated; (p): projected.
Source: BBVA Research based on INE and Banco de España

The impact of expansionary monetary policy moderates

The ECB remains committed to using all the stabilising instruments covered within its mandate while risks continue to hang over inflation. In October, the ECB's Governing Council (GC) maintained the reference interest rate (0.0%) and the deposit facility rates (-0.4%) at all-time lows. With regard to unconventional measures, the ECB confirmed that it would maintain its monthly asset purchases at €80 billion until the end of March 2017 or even later, if necessary.

The monetary policy easing in Europe –along with expectations that the Federal Reserve will continue the process of gradual normalization of monetary policy in the United States (conditional on the evolution of the economy in the short term)– are helping to mitigate financial volatility. However, its greatest impact on growth figures may be over, given the limitations inherent in the zero bound of interest rates. In this regard, BBVA Research estimates suggest that structural reforms in Europe and in Spain, together with the ECB's monetary policy, allowed the credit supply to expand between 2013 and 2015, contributing 0.8 pp to the average annual growth in GDP (after dragging a deficit of -1.0 pp each year between 2008 and 2012). During the 2016-2017 biennium, the fall in interest rates is still proving limited and, therefore, the impact on annual growth will be around 0.1 pp on average.

Bank financing flows will return to the path of growth

Going forward, we expect total new lending to halt its relapse, for reasons of both demand and supply. On the demand side, the retail sector will continue to show a positive trend and will play a leading role in the new lending (it already accounts for 62% of the total accumulated in 2016). Furthermore, the improved economic situation of companies (especially in the case of those which export), the obligation to re-make corporation tax instalment payments, the potential completion of the corporate bonds purchase programme by the ECB in March 2017 and lower credit prices will favour the recovery of transactions by large companies. On the supply side, positive contributions will be felt because of improvements in liquidity conditions (thanks to the banking union and the ultra-expansionary policy of the ECB) and lower portfolio risk. The recovery of new credit operations should accompany the improvement in economic activity, so that the banking sector attends to solvent demand especially to the retail sector, which is more dependent on bank financing.

Fiscal policy will turn into contractionary again in 2017

Known information on budget implementation of the public administrations as a whole confirms that **the fiscal policy stance in 2016 is proving to be more expansionary than expected at the beginning of this year**. On the revenue side, BBVA Research estimates suggest that the structural drop in revenues from direct taxes, resulting from the tax cuts of 2015 and 2016, will be only partially compensated by the corrective measures for the deficit approved over the year and by the recovery of the economic cycle. On the expenditure side, it is estimated that the adjustment will continue, largely due to the improvement in the labour market–, which will reduce the amount of unemployment benefits–, and due to the reduction in financing costs. Thus, it is expected that real public consumption will close 2016 with a growth of 1.2%, while investment in non-residential construction (affected by public works) will increase by 2.3%.

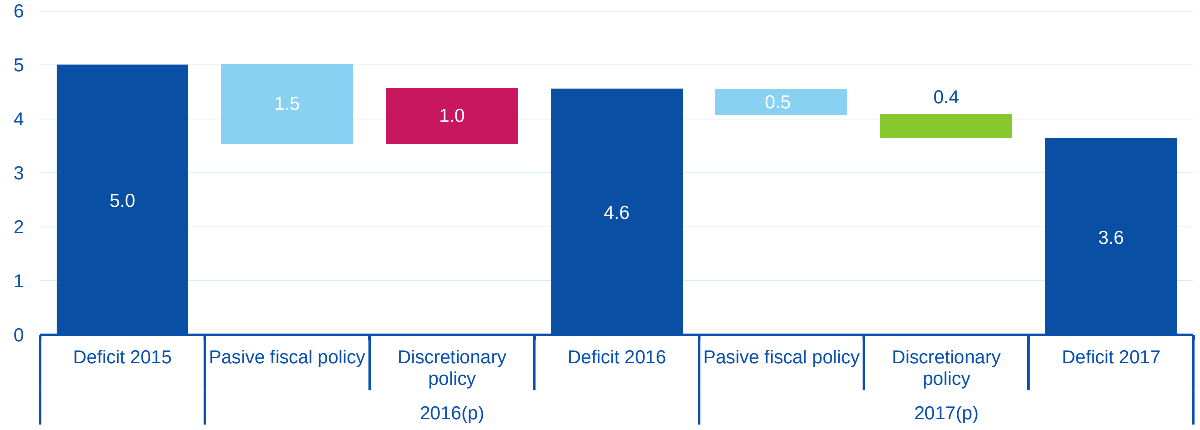
In a non-policy change scenario, **the fiscal policy stance will be slightly contractionary in 2017**. However, the annual growth of real public consumption spending could reach 1.8% due at least in part to the base effect caused by the decline in mid-2016. Meanwhile investment in other construction will present a growth rate of around 2.2%, driven by non-residential private investment, which will offset the prospects of stabilization in public works.

In short, **the economic cycle will favour again the containment of the deficit, but not enough to offset the negative impact of the expansionary discretionary measures already adopted in 2016**. However, the corrective measures for the deficit approved over the year, and especially, the modification of the instalment payments of corporation tax[18], will help offset some of the impact, so that the deficit in 2016 will decrease to align with the stability target (4.6% of GDP). However, in a scenario with no change in fiscal policy and the expectation that the economic cycle will continue correcting the deterioration in public accounts, the deficit would only reduce to 3.6% of GDP in 2017, 0.5 pp above the target set for this year (see Figure 3.11).

18: Agreement on non-availability of credit, advance of the closing of the State budget to July, and approval of a minimum payment for the corporation tax instalment payments.

Figure 3.11

Public Administration: breakdown of fiscal adjustment (pp of GDP)



(a): advance; (p): projected.
Source: BBVA Research based on MINHAP and INE

All in all, **fiscal policy for the next biennium shall be subject to the new government's ability to meet commitments to the European Commission** in August. In this context, on 14 October, the Government sent to the Commission the Budget Plan for 2017, thus complying with the schedule set by the corrective component of the Stability and Growth Pact. This Plan does not provide any new developments, and presents a scenario without changes or new measures, in which the Spanish National Budget 2016 is extended. The Plan highlights the fiscal adjustment measures already adopted throughout 2016, which will enable to compliance with 2016 stability objective; but not with the one in 2017. Thus, in the planned scenario there is a pending adjustment of the public deficit of around 0.5 pp of GDP in 2017, which will need to be handled by the new Government. Also, the scenario maintains the uncertainty about the decision by the European Parliament to suspend both the sanctions for breach of the stability objectives and the retention of part of the structural funds, which would mean a brake on public investment.

The commitments taken on suggest an additional adjustment of 0.5 pp to GDP in 2017

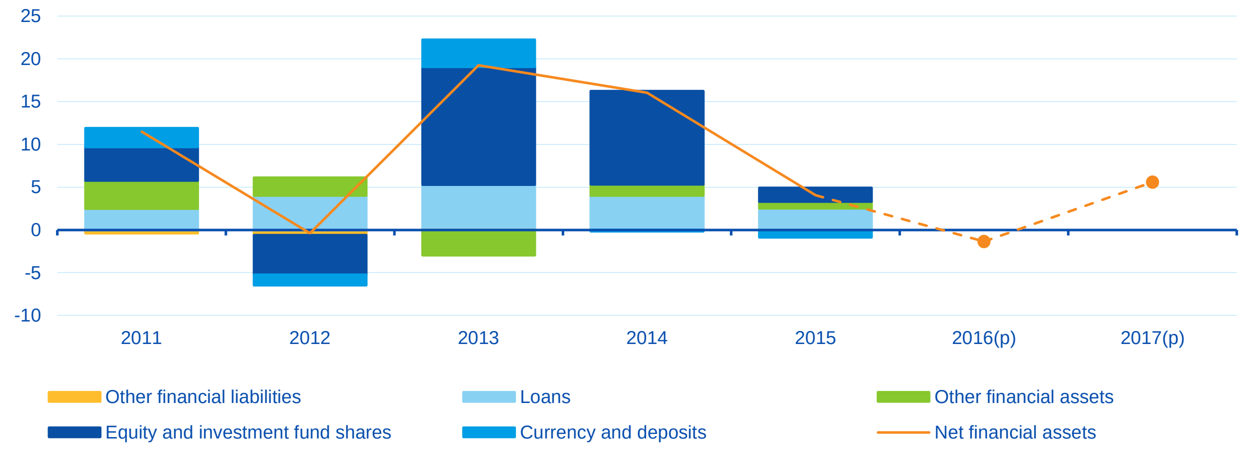
Private domestic demand, the main source of economic growth, will slow in 2017

Prospects for household consumption remain positive. Job creation, lower tax burden and low inflation continue to favour real disposable income during the second half of 2016. The expected growth in housing wealth and the expectation that official interest rates will remain at historically low levels will also encourage private consumption. In addition, new consumption finance transactions will continue to increase and will sustain spending in the short term. By contrast, the contribution of net financial wealth to growth in household spending is more modest than in previous years. The disappointing trend in stock market prices will reduce the weight of direct shareholdings and units in investment funds, which have accounted for almost 70% of the increase in net financial wealth since 2012, as shown in Figure 3.12 As a result, the balance of the fundamentals point to a **growth in private consumption of 3.3% in 2016**, in line with the forecasts made in September.

The growth of household spending will reach 2.3% next year, three tenths more than expected two months ago. However, the prospects of a slowdown in consumption compared to 2016 remain, given the anticipated lower impetus of some of the determinants of expenditure –such as income and housing wealth in real terms–, the disappearance of temporary factors that have encouraged consumption until 2016 –such as the tax reduction–, the increase in energy costs and the impact of uncertainty on economic policy experienced in 2016[19].

Figure 3.12

Spain: contributions to net growth in financial wealth of households (annual averages in %)



Data up to 1Q16; forecasts thereafter
Source: BBVA Research based on INE

The growth forecasts of investment in machinery and equipment for 2016 and 2017 remain positive and around those presented in September. However, this is consistent with the slowdown in this component of investment, given the expected lower impetus of final demand, coupled with the uncertainty about the economic policies that will be implemented in the future and what will emerge from Brexit. Also, both the stabilisation of oil prices and the expansionary monetary policy of the ECB will continue to facilitate the financing of new investment projects with own and third-party funds, although probably at a lower intensity than that observed so far. Thus, in the absence of relevant developments, it is expected that **investment in machinery and equipment will go from growth of 6.3% in 2016 to 3.8% in 2017**.

The real estate market recovery seems consolidated

Around the real estate market, the scenario does not show any significant changes from those described in September. Thus, it is expected that residential transactions will continue to show impetus in both 2016 and 2017, in a context in which the recovery in the sector seems to be consolidated. This will keep sustaining both the positive evolution of gross household income and the continuation of favourable financial conditions that both families

19: Consumers alter their patterns of saving and spending, if they have doubts about how policy actions will influence their future income. For example, the possibility that the tax burden on a particular good or service might change, could motivate the bringing forward or deferral of demand. But in addition to its direct effect on purchase intentions, political uncertainty indirectly influences consumption through its impact on job creation. Specifically, companies can modify their investment plans, hiring and firing when the degree of uncertainty about economic policy changes, which sooner or later effects households' spending decisions. For more details, see Box 1 of the Consumption Outlook review for the first half of 2016.

and entrepreneurs can access, which will encourage the implementation of residential projects and be translated into increases in the initiation of new works. Also, the recovery of housing prices benefits the momentum of the market, since it means there is less uncertainty among buyers and an increase in collateral for households and businesses when applying for new loans. However, the assessment on the consequences of Brexit on housing demand among British citizens remains negative. In short, the prospects for growth in **housing investment remain at 3.1% in 2016 and 3.5% the following year**. Thus, in both the current year and the next, this investment item will contribute 0.15 pp to economic growth.

Trade flows will continue to grow, despite the external uncertainty

The global environment for Spanish exports has hardly changed compared to the BBVA Research scenario published in September. In this context, both the expectations of low oil prices and those associated with the exchange rate of the slightly depreciated euro remained stable. On the other hand, global trade seems to have stabilised and developing economies' demand is showing signs of improved performance, due at least in part to lower volatility in the prices of raw materials. However, uncertainty remains over the realization of the exit of the UK from the EU and the elections in the USA. Thus, **the forecasts for exports of goods and services stood at 5.5% for 2016 and 3.5% for 2017**, which in any case is a positive development for foreign trade. Thus, it is expected that sales of goods abroad will slow down (from 3.8% in 2016 to 3.0 in 2017), while the slowdown scenario with respect to sales of services abroad goes from 9.4% in 2016 to 4.7% in 2017.

In this context, **it is expected that tourism will remain being an important pillar of foreign trade in the short term**, driven at least in part by the deterioration of the geopolitical context in some of the main competitors to the Spanish tourism market. Thus, BBVA estimates indicate that this factor alone could have explained about 30% or 35% of the increase in the number of foreign tourists between 2010 and 2015, with particularly significant effects in the island regions. During the first half of 2016, the new rise in geopolitical tensions in competitor markets resulted in an increase of 705,000 overnight stays by non-residents, 33% of the total increase recorded in the period.[20]

Geopolitical tensions explained about 33% of the increase in foreign tourism in 1H16

While the slowdown in final demand will adversely affect **imports, its growth will remain high** (4.4% yearly on average for the biennium). Thus **the contribution of net external demand to growth will be slightly positive in 2016 and 2017 (0.2pp each year)**. Nonetheless, cheaper oil prices will continue to alleviate the energy bills of the Spanish economy in foreign trade, helping to **maintain positive balances in the current account during the next biennium (average: 1.5% of GDP).**

Lower dynamism in job creation in 2017

The growth expectations for the fourth quarter suggests that employment could close 2016 with an increase of 2.8%, one tenth less than expected two months ago. The unemployment rate would drop 2.4 points to 19.7% (19.6% in September). **Expectations of a slowdown of the economy in 2017 pushed the**

20: The Economic Observatory with details on these estimates will be available for the interested reader at http://goo.gl/kfkzhA

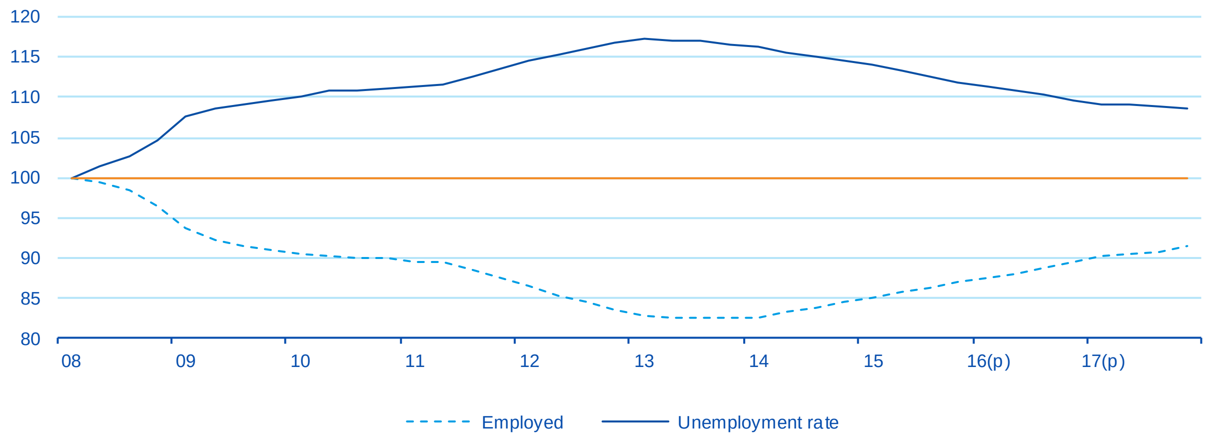
expected job creation downward to 2.5%. However, the poor growth of the active population would offset the lower increase in employment, so the unemployment rate would continue to decline to 18.1%.

Despite the improving labour market, much still remains to be done.

As Figure 3.13 shows, **in the fourth quarter of 2017 employment is expected to be about 8.6% lower than at the beginning of 2008**, while the unemployment rate is expected to be 8.6 points higher[21]. In addition, the expected development of activity and full-time equivalent employment – which will grow by around 2.5% on average in 2016 and 2017 – suggest a meagre rebound in the apparent productivity of labour until it converges in 2017 with pre-crisis figures.

Figure 3.13

Spain: level of employment and unemployment rate
(1Q08 = 100. SWDA data)



(f): forecast.
Source: BBVA Research based on INE

Prices will again grow steadily in 2017

Despite having returned to positive territory at the end of the third quarter, **headline inflation will close 2016 with a negative annual average (-0.3%)**, as a result of the fall in energy prices during the early stages of the year. However, domestic determinants have sustained positive rates for both core inflation and for the implicit GDP deflator throughout the year, which will be settled with an average annual growth of 0.9% and 0.7%, respectively.

Inflation will remain above 1% in 2017

BBVA Research estimates suggest that **both headline and core inflation will remain in positive territory in 2017 (1.7% and 1.1% annual average, respectively)**. Although the start of the year will be marked by volatility derived from the base effect in energy prices, inflation for most of 2017 will remain below the target set by the ECB for the whole euro area. Thus, after leaving behind the episode of negative rates

21: In order to strengthen the recovery in employment, BBVA Research proposes that a thorough reform of the labour market be undertaken, which includes a change in the system of job protection so as to encourage hiring on indefinite contracts, modernisation of the collective bargaining system and far-reaching changes to labour market policies. A proposal in this regard can be seen in BBVA Research (2016). BBVA Research (2016): *"Hacia un mercado de trabajo más eficiente y equitativo"* ("Towards a more efficient and fairer labour market"), *Observatorio Económico BBVA*, May. Available at: https://goo.gl/zcwmsn.

on headline inflation, it is found that the trend stability is sustained by both the improvement in activity and employment, and **monetary policy stimulus** (low interest rates, promoting the availability of credit and quantitative expansion).

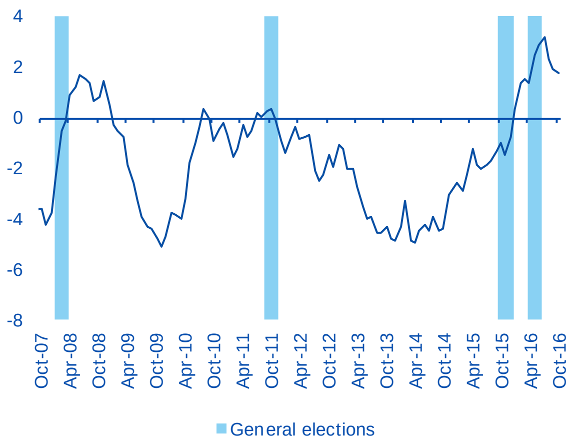
The scenario is not risk-free

While forecasts are corrected upwards from those described in the previous edition of this publication, external and internal risks persist. Externally, the restlessness remains over the lower growth recorded in both GDP and productivity in the major developed economies (and in particular the US). In addition, it remains uncertain what route the negotiations will take to bring about the UK's exit from the EU, which could generate an environment of increasing volatility, and have a greater negative impact on economic activity than is currently estimated.

In the domestic environment, it remains to be resolved how the **necessary adjustment will take place (about 0.5pp of GDP) to meet the deficit target agreed for 2017**. The type of fiscal policy measures which are finally implemented will determine the impact which can be observed on growth. In addition, a recent judgement by the Court of Justice of the European Union has introduced uncertainty about the legislation in the labour market, whose consequences for maintaining the process of job creation are unclear. Finally, although the uncertainty about economic policy has moderated in the second half, it continues to be relevant and, according to estimates by BBVA Research, could continue subtracting around 0.5 pp from growth during the current biennium (Figures 3.14 and 3.15)[22].

Figure 3.14

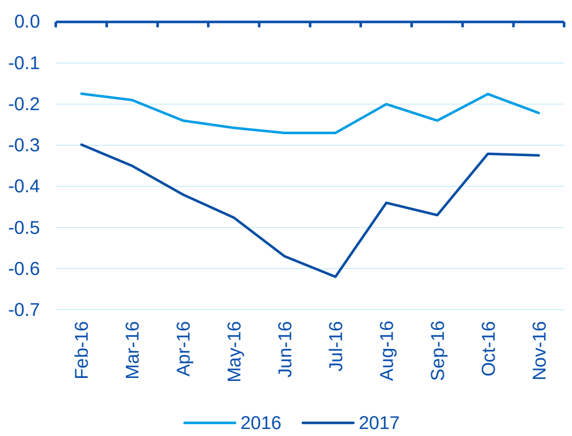
Spain: Uncertainty of Economic Policy (SM12 of the idiosyncratic component in standard deviations)



The shading corresponds to a period of three months surrounding the general elections
Source: BBVA Research based on the EPU index produced by Baker *et al.* (2015)

Figure 3.15

Spain: estimated impact of uncertainty on economic policy in GDP by forecast date



Source: BBVA Research

22: For details about estimating the effects of economic policy uncertainty on the Spanish economy, see Box 1 of the Spain Economic Outlook journal for the first quarter of 2016, available at: https://goo.gl/zp5twT

4. Tables

Table 4.1

Macroeconomic Forecasts: Gross Domestic Product

(Annual average, %)	2012	2013	2014	2015	2016	2017
United States	2.2	1.7	2.4	2.6	1.6	2.1
Eurozone	-0.8	-0.2	1.1	1.9	1.6	1.5
Germany	0.7	0.6	1.6	1.5	1.8	1.5
France	0.2	0.6	0.7	1.2	1.2	1.3
Italy	-2.9	-1.7	0.2	0.6	0.7	0.9
Spain	-2.9	-1.7	1.4	3.2	3.3	2.5
United Kingdom	1.3	1.9	3.1	2.2	1.9	0.6
Latam *	2.8	2.8	0.7	-0.4	-1.3	1.5
Mexico	3.8	1.6	2.2	2.5	1.8	2.2
Brazil	1.9	3.0	0.1	-3.8	-3.0	0.9
Eagles **	5.3	5.4	5.3	4.6	4.8	4.9
Turkey	2.1	4.2	3.0	4.0	2.7	3.5
Asia Pacific	5.8	5.8	5.6	5.5	5.5	5.1
Japan	1.7	1.4	-0.1	0.6	0.6	0.8
China	7.8	7.8	7.3	6.9	6.6	5.8
Asia (ex. China)	4.3	4.3	4.2	4.3	4.4	4.5
World	3.5	3.3	3.4	3.2	3.0	3.2

* Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
** Bangladesh, Brazil, China, India, Indonesia, Iraq, Mexico, Nigeria, Pakistan, Philippines, Russia, Saudi Arabia, Thailand and Turkey.
Forecast closing date 4 November 2016.
Source: BBVA Research and IMF

Table 4.2

Macroeconomic Forecasts: 10-year government bond yield

(Annual Average, %)	2012	2013	2014	2015	2016	2017
United States	1.79	2.34	2.53	2.13	1.72	1.79
Germany	1.57	1.63	1.25	0.54	0.08	0.13

Forecast closing date 4 November 2016.
Source: BBVA Research and IMF

Table 4.3

Macroeconomic Forecasts: Exchange Rates

(Annual Average)	2012	2013	2014	2015	2016	2017
USD-EUR	0.78	0.75	0.75	0.90	0.90	0.90
EUR-USD	1.29	1.33	1.33	1.11	1.11	1.11
GBP-USD	1.59	1.56	1.65	1.53	1.34	1.22
USD-JPY	79.77	97.45	105.82	121.07	107.85	111.75
USD-CNY	6.31	6.20	6.14	6.23	6.63	7.00

Forecast closing date 4 November 2016.
Source: BBVA Research and IMF

Table 4.4

Macroeconomic Forecasts: Official Interest Rates

(End of period, %)	2012	2013	2014	2015	2016	2017
United States	0.25	0.25	0.25	0.50	0.75	1.25
Eurozone	0.75	0.25	0.05	0.05	0.00	0.00
China	6.00	6.00	5.60	4.35	4.35	4.10

Forecast closing date 4 November 2016.
Source: BBVA Research and IMF

Table 4.5

EMU: macroeconomic forecasts (YoY change, %, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017
Real GDP	**-0.8**	**-0.2**	**1.1**	**1.9**	**1.6**	**1.5**
Private consumption	-1.2	-0.5	0.8	1.7	1.6	1.4
Public consumption	-0.3	0.2	0.6	1.4	1.7	1.1
Gross fixed capital formation	-3.2	-2.4	1.5	2.9	2.2	2.4
Inventories (contribution to growth)	-0.9	0.1	0.2	-0.1	0.0	0.0
Domestic demand (contribution to growth)	**-2.2**	**-0.6**	**1.1**	**1.7**	**1.7**	**1.5**
Exports	2.8	2.3	4.4	6.1	2.4	2.8
Imports	-0.7	1.5	4.8	6.1	2.9	3.2
Net exports (contribution to growth)	**1.4**	**0.4**	**0.0**	**0.2**	**-0.1**	**-0.1**
Prices						
CPI	2.5	1.4	0.4	0.0	0.2	1.4
CPI core	1.8	1.3	0.9	0.8	0.8	1.2
Labour market						
Employment	-0.4	-0.7	0.6	1.1	1.3	0.9
Unemployment rate (% of labour force)	11.4	12.0	11.6	10.9	10.1	9.7
Public sector						
Budget balance (% GDP)	-3.7	-3.0	-2.6	-2.1	-1.9	-1.8
Debt (% GDP)	89.5	91.3	92.0	90.4	89.6	88.5
External sector						
Current account balance (% GDP)	1.2	2.2	2.4	3.1	3.4	3.2

(f): forecast.
Forecast closing date: 4 November 2016.
Source: BBVA Research

Table 4.6

Spain: macroeconomic forecasts (Annual rate of change in %, unless otherwise indicated)	2013	2014	2015	2016 (p)	2017 (p)
Activity					
Real GDP	-1.7	1.4	3.2	3.3	2.5
Private consumption	-3.2	1.6	2.8	3.3	2.3
Public consumption	-2.1	-0.3	2.0	1.2	1.8
Gross Capital Formation	-3.4	3.8	6.0	4.1	3.4
Equipment and Machinery	5.0	8.3	8.9	6.3	3.8
Construction	-8.6	1.2	4.9	2.6	2.7
Housing	-10.2	6.2	3.1	3.1	3.5
Internal Demand (contribution to growth)	-3.1	1.9	3.3	3.0	2.3
Exports	4.3	4.2	4.9	5.5	3.5
Imports	-0.5	6.5	5.6	5.1	3.1
External Demand (contribution to growth)	1.4	-0.5	-0.1	0.2	0.2
Nominal GDP	-1.4	1.1	3.7	4.1	4.7
(Billions of euros)	1025.6	1037.0	1075.6	1119.8	1172.8
Labour market					
Employment, LFS	-2.8	1.2	3.0	2.8	2.5
Unemployment rate (% of labour force)	26.1	24.4	22.1	19.7	18.1
Employment (full-time equivalent)	-3.4	1.1	3.0	2.8	2.2
Apparent productivity of labour factor	1.7	0.3	0.3	0.5	0.3
Prices and costs					
CPI (annual average)	1.4	-0.2	-0.5	-0.3	1.7
CPI (end of period)	0.3	-1.0	0.0	0.7	1.3
GDP deflator	0.4	-0.3	0.5	0.8	2.1
Compensation of employees	1.4	0.0	0.4	0.8	1.2
Unit labour cost	-0.3	-0.3	0.2	0.4	0.8
Foreign sector					
Balance of payments on current account (% of GDP)	1.5	1.0	1.4	1.3	1.7
Public sector (*)					
Debt (% of GDP)	93.7	99.3	99.2	100.2	99.5
Balance Public Admin. (% GDP)	-6.6	-5.7	-5.0	-4.6	-3.6
Households					
Nominal disposable income	-0.9	0.9	1.9	3.4	3.9
Savings rate (% nominal income)	9.9	9.1	8.4	8.9	8.8

Annual change in %, unless indicated expressly
(f): forecast.
Forecast closing date: 4 November 2016
(*): Excluding aid to Spanish banks
Source: BBVA Research

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This report has been produced by the Spain & Portugal Unit:

Chief Economist for Spain & Portugal
Miguel Cardoso
miguel.cardoso@bbva.com
+34 91 374 39 61

Ignacio Archondo
ignacio.archondo@bbva.com
+34 91 757 52 78

Joseba Barandiaran
joseba.barandia@bbva.com
+34 94 487 67 39

Álvaro Flores
alvaro.flores.alonso@bbva.com
+34 91 757 52 78

Juan Ramón García
juanramon.gl@bbva.com
+34 91 374 33 39

Félix Lores
felix.lores@bbva.com
+34 91 374 01 82

Antonio Marín
antonio.marin.campos@bbva.com
+34 648 600 596

Myriam Montañez
miriam.montanez@bbva.com
+34 638 80 85 04

Matías José Pacce
matias.pacce@bbva.com
+34 647 392 673

Virginia Pou
virginia.pou@bbva.com
+34 91 537 77 23

Juan Ruiz
juan.ruiz2@bbva.com
+34 646 825 405

Pep Ruiz
ruiz.aguirre@bbva.com
+34 91 537 55 67

Camilo Andrés Ulloa
camiloandres.ulloa@bbva.com
+34 91 537 84 73

With the contribution of:

Global Modelling & Long Term Analysis
Julián Cubero
juan.cubero@bbva.com

Financial Systems
Ana Rubio
arubiog@bbva.com

José Félix Izquierdo
jfelix.izquierd@bbva.com

Global Macroeconomic Scenarios
Miguel Jiménez
mjimenezg@bbva.com

Global Financial Markets
Sonsoles Castillo
s.castillo@bbva.com

María Martínez Álvarez
maria.martinez.alvarez@bbva.com

BBVA Research

Group Chief Economist
Jorge Sicilia Serrano

Macroeconomic Analysis
Rafael Doménech
r.domenech@bbva.com

Global Macroeconomic Scenarios
Miguel Jiménez
mjimenezg@bbva.com

Global Financial Markets
Sonsoles Castillo
s.castillo@bbva.com

Global Modelling & Long Term Analysis
Julián Cubero
juan.cubero@bbva.com

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

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

Countries Coordination
Olga Cerqueira
olga.gouveia@bbva.com

Digital Regulation
Álvaro Martín
alvaro.martin@bbva.com

Regulation
María Abascal
maria.abascal@bbva.com

Financial Systems
Ana Rubio
arubiog@bbva.com

Financial Inclusion
David Tuesta
david.tuesta@bbva.com

Spain & Portugal
Miguel Cardoso
miguel.cardoso@bbva.com

United States of America
Nathaniel Karp
Nathaniel.Karp@bbva.com

Mexico
Carlos Serrano
carlos.serranoh@bbva.com

Turkey, China & Geopolitics
Álvaro Ortiz
alvaro.ortiz@bbva.com

Turkey
Álvaro Ortiz
alvaro.ortiz@bbva.com

China
Le Xia
le.xia@bbva.com

South America
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

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

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