BBVA | Research

Spain Economic Outlook

4TH QUARTER 2017 | SPAIN AND PORTUGAL UNIT

Contents

Closing date: **3 November 2017**

1. Editorial

In 2017, the Spanish economy is expected to show growth above 3% for the third year in a row, and to continue to recover in 2018, albeit at a slower pace and in an environment of increased uncertainty. More specifically, the advance of GDP growth could be around 3.1% for 2017 and 2.5% in 2018, with both figures being lower than those forecast last July (3.3% and 2.8% respectively). The factors underpinning growth will be the positive inertia still observed in acitivity data and employment; a favourable international context that should support growing exports of goods; and, an expansive monetary policy. However, the increase in uncertainty and the possibility of its prolonged persistence pose a risk to the development of certain demand components, mainly investment and service exports.

Recent activity data for the second and third quarter revealed a GDP advance of 0.9% QoQ and 0.8% QoQ, indicating a somewhat more marked growth moderation than what was expected in July (1.0% and 0.9% respectively). The lower growth is explained by the **unexpected weakness of exports and capital expenditure on machinery and equipment** in the past few months, together with a somewhat slower increase in household consumption. In regards to the exports of goods, the practical stagnation of the last two quarters is partly due to the sharp increase seen at the end of last year and the beginning of the current one. Accordingly, this process of consolidation of the high levels of exports attained in the early part of the year could give way to a return to growth in the next few months. A greater source of concern is the persistent weakness of British demand, affected as it is by the uncertainty relating to Brexit. Also, the euro's recent appreciation against the dollar (and other currencies) may have hampered the competitiveness of some companies that are particularly sensitive to price changes due to their limited degree of integration in European production chains or due to their small size. Lastly, tourism is slowing, possibly as a consequence of structural factors. In particular, as pointed out three months ago, there are some tourist areas that are starting to show symptoms of over-occupation and exhaustion, given the constraints on increases in supply that exist in the sector. With regard to household consumption expenditure, the slowing trend has been observed since the second half of 2015 and simply seems to reflect the reduced effect of certain tailwinds that had boosted spending in previous years. **On the other side of the ledger, we should highlight the positive trend in residential investment, where growth has been exceeding its forecast for a year now.**

Looking ahead, we expect a favourable external environment and the ECB's monetary policy to underpin continued recovery. In particular, global growth seems to have had several above average quarters since 2008. The improvement in confidence indicators, together with the good performance of manufacturing activity, point to this continuing through next year. Moreover, this acceleration of the world economy seems more synchronised. Of particular importance for Spain is the growing dynamism observed in the EMU, where GDP growth, recently revised upwards, should be around 2% on average during 2017 and 2018. In any case, job creation in developed economies is not accompanied by a sustained increase in inflation, which points towards monetary policies that will keep the cost of financing at historically low levels. Both factors should stimulate the rest of the world's demand for Spanish goods and services, while lending will continue to increase and support the growth of private consumption and investment.

During the fourth quarter, growth seems sustained at levels consistent with the trend of the past few years, despite the fact that uncertainty is once again the main risk facing economic activity. In particular, the latest activity data suggest GDP is increasing between 0.8% and 1.0% QoQ between October and December. In any case, various factors could slow the advance in activity. On the one hand, the terrorist attacks suffered in August in Catalonia could have an effect on foreign tourist arrivals. As shown in this publication, these events increased the attention given to Barcelona with the same intensity, duration and tone as in similar situations experienced by other cities such as Paris, Nice or London. Using these experiences as a reference, we calculate that the negative impact on foreign tourist overnight stays would reach a figure between 1.5% and 2.0% in the year following the attacks. In any case, several factors could moderate these numbers. For example, the effect on other cities may have been greater as a consequence of the recurrence of this kind of incident. Over the past few years one of Spain's comparative advantages had been the perception of safety relative to other destinations. If it is confirmed that the attacks were atypical events, the final effect could be moderate. Also, with the recovery, businesses in the sector had started to transfer the increase in demand into margins. This process could be reversed in the next few months, giving way to price reductions which could sustain growth in demand.

On the other hand, economic policy uncertainty has increased. The measures taken at the end of last year and over the course of this, together with the economic recovery, point towards the Public Administrations as a whole meeting the deficit target set for the end of 2017. However, 2018 is expected to begin with extended General State Budgets. This introduces uncertainty in various areas. Although it may help to continue the process of reducing the public deficit, it would be better for specific measures to be agreed to attain this goal - measures that would minimise the economic impact of fiscal consolidation.

There has also been an increase in the volatility of certain financial variables, mainly related to the political environment in Catalonia. In this regard, the indicators that seek to measure economic policy uncertainty have reached levels above those seen in 2016. Thus, there is a risk that this increased tension will have a negative influence on consumers' and businesses' future spending decisions. Estimating the impact on GDP of the current political situation in Catalonia is particularly difficult, since this uncertainty is of a different nature from that seen in the past. Moreover, it presents paths of contagion to other regions that may be unique due to the event faced by the Spanish economy. On the other hand, there are various factors that could moderate the effect on activity, such as the ECB's monetary policy and the redirecting of expenditure to other regions of Spain. Lastly, the repercussions for the economy will depend crucially on the magnitude and length of the uncertainty currently experience. We therefore estimate a wide range of possible impacts. In particular, according to preliminary estimates, if the uncertainty seen in October lasts until the end of the year, GDP for 2018 could be between 0.2% and 1.1% less than it would have been in a stress-free scenario. In any case, in the most likely scenario we expect the impact to be limited and GDP growth for 2018 to be around 2.5% on average.

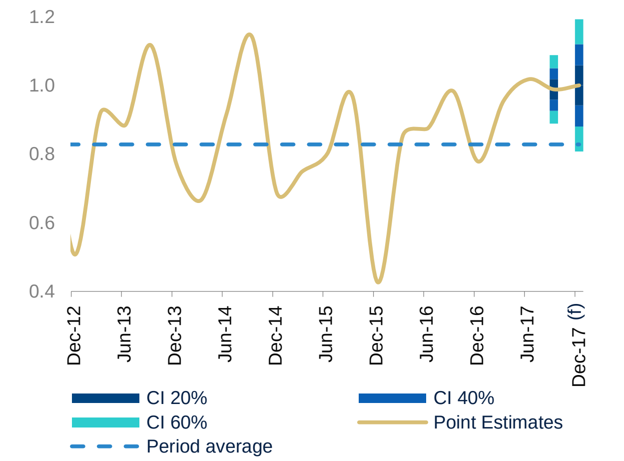
One of the main negative effects that the current environment could have is represented by opportunity cost. In particular, significant reforms, such as those related to the financing of the autonomous regions, the pensions system and improvements to the functioning of the labour market have been postponed. This at a time when the ECB is moving closer to withdrawing the stimulus measures that have kept the Spanish economy's cost of financing at historically low levels. Towards the future, it will be essential to put these issues back at the top of the legislative agenda and to build the necessary consensus for consolidating the recovery, while at the same time seeking to reduce inequality.

2. Consolidation of the positive global environment

Robust, stable global growth, with recovery more synchronized across areas

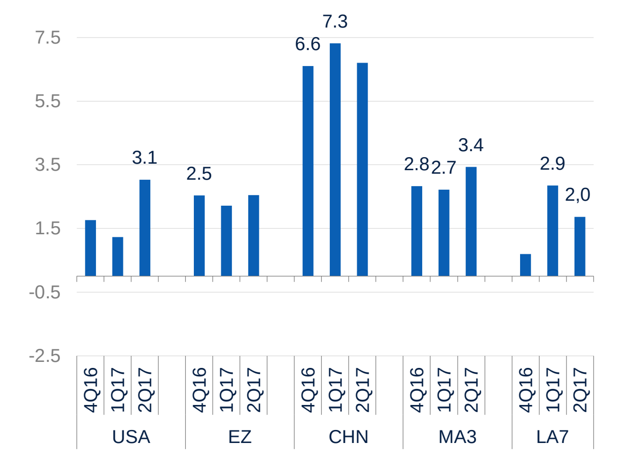
World economy growth stabilised at around 1% QoQ mid-way through the year, and the indicators available thus far suggest that this progress is continuing in the second half of the year (see Figure 2.1). **Global confidence indicators have, once again, improved**, in both advanced and emerging economies, pointing to a brighter panorama than the activity indicators, which have slowed down at the beginning of the third quarter. Nonetheless, **world trade growth remains solid and the recovery of the manufacturing sector continues apace.** This underpins the upturn in investment, while the **strength of private consumption** holds out, despite the weaker tailwinds.

Figure 2.1 World GDP growth
(Forecasts based on BBVA-GAIN, % QoQ)



(f) forecast.
Source: BBVA Research

Figure 2.2 GDP growth by region
(SWDA, % YoY)



Source: BBVA Research

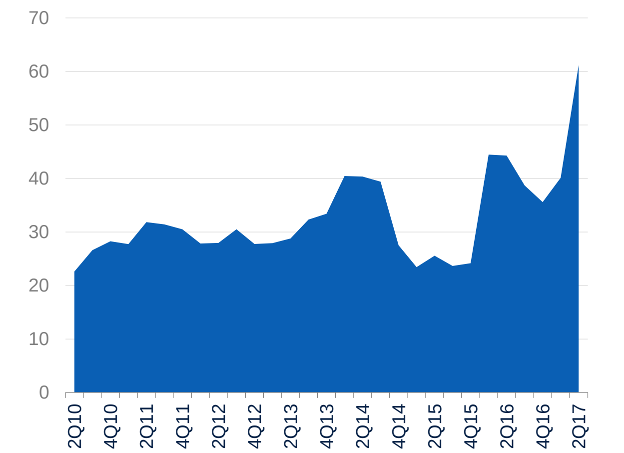
This upbeat dynamic reflects a stronger economic performance in all areas (see Figure 2.2). In advanced economies, US GDP rebounded in the second quarter, and held relatively steady in the third, which reduces the doubts about the sustainability of moderate growth in the next few quarters. In Europe, the positive surprise was due to the increased strength of domestic factors. Among emerging economies, stabilising growth in China will continue to shore up the rest of Asia, which, in combination with the favourable conditions of the financial markets, is also allowing growth in Latin American countries to gain traction. Finally, the recovery of Russia and Brazil has stopped hampering world growth. Therefore and unlike other expansionary phases that followed the financial crisis (in early 2013 and mid

2014), **the current recovery is the most synchronised** according to the BBVA cyclical synchronisation index[1] illustrated in Figure 2.3.

So far, this growth environment has been accompanied by **moderate levels of inflation**, also generalised by regions, despite the abundance of liquidity in the markets. Furthermore, there are no clear signs of inflationary pressures building up. In the case of the emerging economies, the strengthening of their currencies, brought about by the weak dollar and firmer commodity prices, has helped inflation to continue to moderate. In developed economies, the fall in inflation comes from the disappearance of the base effect of energy prices (especially in Europe) and certain transitory factors (mainly in the US). Although **core inflation remains low,** doubts persist as to whether the factors behind this are of a passing or lasting nature. Be that as it may, the context of low inflation gives **central banks in emerging economies greater room for manoeuvre** in continuing to use monetary policy to support growth **it also allows monetary authorities in advanced economies to remain cautious in implementing normalisation**.

Other factors contributing to the positive global performance, such as **generally neutral or expansive fiscal policies** and moderate commodity prices, look likely to remain at the forecast horizon. Furthermore, financial markets have been relatively complacent and have not suffered persistently from the sources of political stress.

Figure 2.3 BBVA cyclical synchronisation index*
(Base on the time variance of GDP)



Source: BBVA Research
*: see footnote 1

Figure 2.4 Financial tension index. USA vs. EMU (normalised)

Source: BBVA Research

1: The synchronisation index is the result of inverting the standard deviation of quarterly growth observed in countries. The index therefore associates less (more) growth volatility among countries with a higher (lower) degree of synchronisation worldwide.

Favourable environment in the financial markets and normalisation of monetary policies

As shown in Figure 2.4, **the market dynamic has remained unchanged so far in the second half of the year, despite episodes of stress**, particularly of political nature, such as the debate on the debt ceiling in US domestic politics and the North Korean situation internationally. These events have caused certain refuge effect for bonds, which has sent long term interest rates back to the lower end of the contribution range. However, its effect has been transitory.

In an environment of healthy growth, and with no inflation surprises on the downside, **central banks continue with the gradual process of withdrawing monetary stimulus measures**. Specifically, **the US Federal Reserve has announced the start of the reduction of its balance sheet from October**. This will take the form of a passive adjustment, by allowing a portion of public and private bonds to simply expire. Having been clearly signalled, it has not led to market stress. Furthermore, the Federal Reserve still expects to implement a series of rate hikes, even though the markets have systematically shown themselves to be more dovish. In this regard, **we expect a 25 bp hike in official rates in December this year and then two further hikes up to 2% in 2018**. That said, uncertainty over the course of the hikes has been heightened, not only because inflation is still at low levels, but also because of **the changes at the Fed** following the departure of a substantial number of its members.

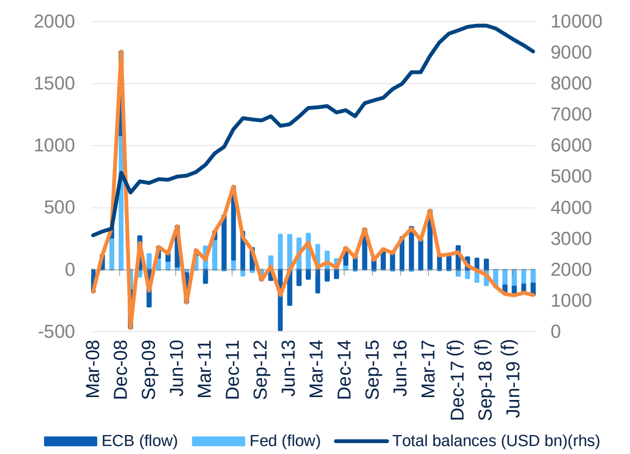
In October, the European Central Bank **(ECB) announced a scaling down of its asset purchase programme**, which will start to implemented in January next year. The withdrawal of the stimulus measures will be gradual: the volume of monthly purchases will be reduced from the current €60 billion to €30 billion, falling to zero in September. For all that, the BBVA Research scenario envisages **rate hikes to be delayed until mid-2019,** largely because of the ECB's growing concerns about the appreciation of the euro and its potential impact on inflation.

With the latest recalibration of the asset purchase programme (APP), the ECB is sending several messages. Firstly, one of increased confidence that inflation is moving closer to the target, justifying a somewhat less accommodative monetary policy. Secondly, one of caution, since it is extending the programme for a further nine months, and so far without an end date. In fact, given that Draghi stressed that the programme would not be ended abruptly, it could be extended into 4Q18. What is more, once the APP has ended, the ECB intends to remain present in the debt market for an extended time by reinvesting as bonds mature.

In this meeting the ECB faced a major challenge: gradually adjusting monetary conditions to the favourable economic environment while avoiding market overreaction, in particular as regards the euro. In fact, in the last quarter, the strength of the currency represented a differential factor, in view of its potential impact on the prospects of inflation in the medium term and financial conditions in the euro zone. Thus, despite the reduction in stimulus measures, the ECB is seeking to avoid upsetting the markets by using communication policy, especially forward guidance.

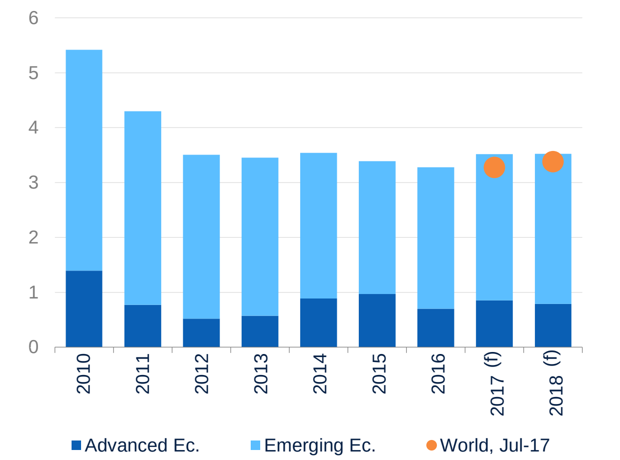
As in the previous quarter, the combination of low volatility, low rates and dollar weakness have set the scene for a **favourable environment for emerging markets**. **Strategies to seek out profitability have been conducive to strong inflows**, particularly in debt, as well as currency appreciation.

Figure 2.5 Balance sheets of the Federal Reserve and the ECB (level and quarterly changes, US$ billions)



(f) forecast.
Source: BBVA Research

Figure 2.6 World GDP growth by region (% YoY)



(f) forecast.
Source: IMF and BBVA Research

Higher global growth upward revision in Europe and China

After reaching 3.2% in 2016, **global growth will accelerate to 3.4% in 2017-18**, representing an upward revision of 0.2 pp this year relative to the July scenario (see Figure 2.6). **The underlying factors contributing to the uptick and steadying of world growth will remain present, although some might gradually fade** in the coming quarters. The most immediate one will be the normalisation of monetary policy by the Federal Reserve and the ECB (see Figure 2.5), which will lead to a gradual reduction in global liquidity and less support for capital flows into emerging economies.

China: a more promising panorama in the short term

The support of the Chinese authorities, especially through fiscal policy favourable to growth, has led to **slightly better than expected economic performance so far this year**, with very gradual moderation in GDP growth, to 6.8% YoY in 3Q from the 7% posted in 1Q. Furthermore, **measures are being taken to address financial vulnerabilities and promote orderly deleveraging**. Specifically, tougher regulation of shadow banking and the real estate market is being combined with: a more prudent monetary policy;a less expansionary fiscal policy; and, the removal of certain controls on the forex market. At the Communist Party congress, the authorities confirmed that they will continue to move ahead with most of the reforms announced in the past five years as regards the structural changes needed to adjust the growth model and open up the economy. In particular, growth will be focused more on qualitative than on quantitative objectives, giving priority to (i) low unemployment, (ii) bringing growth of per capita income more into line with that of GDP, (iii) a more equitable distribution of income and (iv) lower environmental costs. Nonetheless, there is uncertainty as to how these directives will be implemented and about their prioritisation once the objective of economic growth has been excluded.

As a result of the recent improved performance, we have revised **our GDP growth forecast upwards by 0.2 pp to 6.7% in 2017**, slightly more than the authorities' target of 6.5%, **while maintaining our prediction of a slowdown in 2018 to 6%**. Since mid-year the available indicators have been showing signs of more moderate economic growth, and could be reflecting the impact of more prudent demand-side policies, but also the negative effect on activity of regulatory tightening, the elimination of businesses' excess capacity, and, currency appreciation. On the other hand, the regulatory toughening and a stronger currency ought to continue to contain price trends, for which reason we **are keeping our inflation forecast at 1.7% in 2017 and 2% in 2018**.

The authorities' strategy and the more gradual slowing of growth have **reduced the risks at the forecast horizon, but they continue to increase in the medium term.** Indebtedness continues to grow, with debt service indicators at high levels, while adjustments to state enterprises are postponed.

Euro zone: increased growth due to strong domestic demand

The **euro zone economy** has been moving ahead at a quarterly rate of **around 0.6% since the end of last year.** Sustained global demand continues to underpin exports, while the impact of a stronger euro has been limited. The currency's strength partly reflects the **more benign phase of the cycle for the euro zone economy, driven by the solidity of domestic fundamentals,** which have favoured increased dynamism of both consumption and investment. Although economic performance is rather better than expected so far this year, the weakness of core inflation is keeping the ECB wary. Although the debt purchasing programme will start to be scaled down at the beginning of 2018, monetary policy will continue to underpin growth by holding interest rates unchanged beyond the forecast horizon. Moreover, fiscal policy will be slightly expansive in 2017-18, favoured by the positive impact of the cyclical recovery on the public accounts. For these reasons, **we have revised forecast GDP growth for 2017 upwards by 0.2 pp to 2.2%**, which represents above-potential growth for the third year in a row. This makes it hard to imagine a higher acceleration rate in the short term. In addition, **some of the tailwinds from the past are somewhat losing strength** or reverting (euro appreciation, rising oil prices and stabilisation of world growth), which explains **the forecasted decelaration to 1.8% in 2018**.

Headline inflation has held relatively steady in the third quarter, with lower energy and food prices being offset by a rise of around 0.1 pp in core inflation (to 1.3%). Beyond the volatility and seasonality of certain components of inflation, the strength of domestic demand, the improvement of the labour market and the incipient wage increases should start to exert upward pressure on prices in the coming quarters.However, **the impact of the recent euro appreciation on prices of imported products leads us to revise the forecast for headline inflation downwards**

by about 0.1 pp in 2017 to 1.5% and by 0.2 pp in 2018 to 1.2%, while **leaving the forecast of a gradual increase in core inflation unchanged** (1.1% this year and 1.4% in 2018).

The **domestic risks in the euro zone as a whole still have a downward bias, but are moderate.** And most of them are political, such as stumbling blocks in the Brexit negotiations, the unresolved banking problems in certain countries, the political tensions in others and the possible lack of support for moving ahead with the European project following the results of the German elections.

US: sustained growth despite political uncertainty and natural disasters

GDP growth recovered from the significant moderation recorded at the end of 2016, and after rebounidngto 3% YoY in the second quarter, it held steady in the third quarter. Although uncertainty remains high, on account of both natural disasters and economic policy, the **economic fundamentals are consistent with the sustained growth of around 2%** which has been recorded over the past two and a half years. The **net economic impact of the hurricanes will be limited at national level**, given that the 0.2 pp that we estimate could have been pared from growth in Q3 should be offset by the reconstruction efforts in the final stretch of the year. Moreover, the agreement between the government and the Democratic Party has **extended the deadline for approving the budget and raised the debt ceiling**. With respect to economic policy, the government is now focusing on **tax reform, but this is still short on essential details** and offers only limited options for enhancing efficiency. **Even if it ends up being approved, the tax cuts are unlikely to give a significant boost to economic growth** given the cyclical situation of the economy, which is very close to full employment.

Therefore, the forecast of GDP growth is maintained at 2.1% in 2017 and 2.2% in 2018. The strenght of global growth, the dollar depreciation, and expectations of sustainable oil prices and the slight improvement in the construction sector should favour an **upturn in investment.** On the other hand, the more gradual improvement in the labour market and higher inflation point towards a **moderation in private consumption** at the forecast horizon. However, the slowing rate of price increases in the past few months and the absence of clear signs of inflationary pressures suggest that **the process of monetary policy normalisation will continue slowly**.

Even so, **the risks to this scenario continue to be downside** due to the unknowns regarding the implementation of economic policy measures announced and the accumulation of financial vulnerabilities, favoured by the long period of cyclical expansion and loose demand-side policies, which could trigger a recession in the medium term.

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3. Growth outlook for the Spanish economy

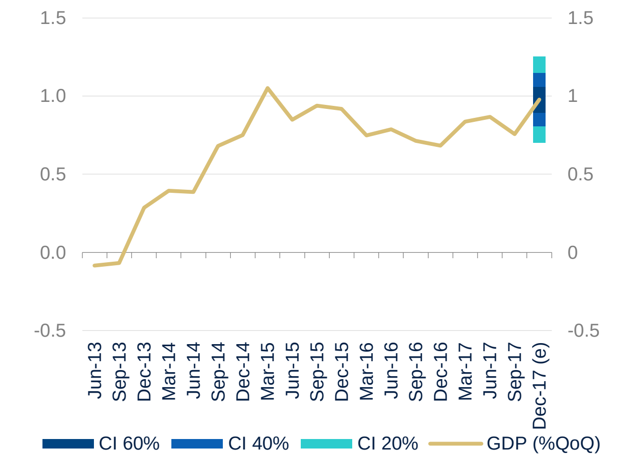
The pace of recovery has moderated from the second half

The GDP advance estimate published by the National Statistics Institute (INE) indicated that in 3Q17 the Spanish economy grew by 0.8% QoQ (3.1% YoY)[2]. If this estimate is confirmed, the increase in activity will once more have been at the lower end of the forecast interval (MICA-BBVA: between 0.8% and 1.0% QoQ), as already occurred in 2Q17 (0.9% QoQ compared with a forecast of 1.0%).

BBVA Research estimates suggest that the effects of economic policy uncertainty could start to be felt during the fourth quarter of the year. However, given the momentum of the economic recovery, the pace of GDP growth should remain close to that seen up until the third quarter (forecast of the MICA-BBVA model: between 0.8% and 1.0% QoQ) (see Figure 3.1).

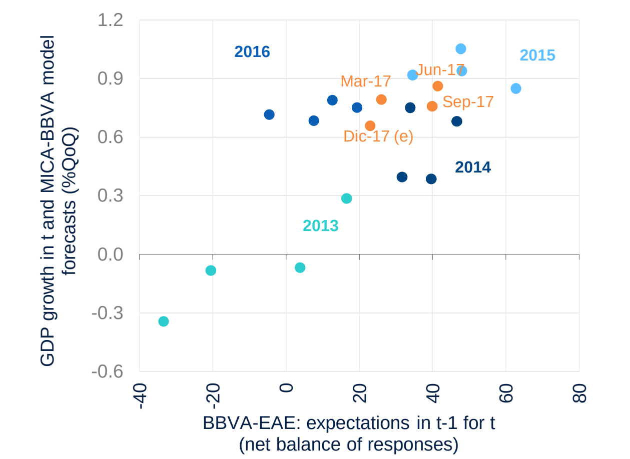
This outlook is in line with the results of the BBVA Economic Activity Survey (BBVA-EAE), which show a moderation in growth expectations relative to the first half of the year (see Figure 3.2).

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 BBVA-EAE in the previous quarter



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

2: The Quarterly National Accounts for 3Q17 will be published on 30 November, possibly with a revision of the advance estimate.

Consumption and investment sustain growth in domestic demand

The loss of dynamism seen in the partial indicators of expenditure[3], wage income and stock exchange listings suggest that despite the increased confidence, growth in private consumption moderated slightly in 3Q17**. Thus, household spending may have increased by 0.7% QoQ (2.6 % YoY) in 3Q17,** 0.2 pp less than in 2Q17 (see Figure 3.3).

As regards public demand, we expect the dynamism observed since the beginning of the year to continue. Specifically, available data on budget execution indicate that **actual final consumption of all government bodies increased by 0.6% QoQ in 3Q17 (1.2% YoY)**, after growing by 0.5% QoQ in 2Q17. As for **investment in other constructions**, consisting ofnon-residential private investment and public investment, it is estimated to have **grown by 0.5% QoQ** (1.5% YoY) between July and September, having been practically stagnant in the first half of the year.

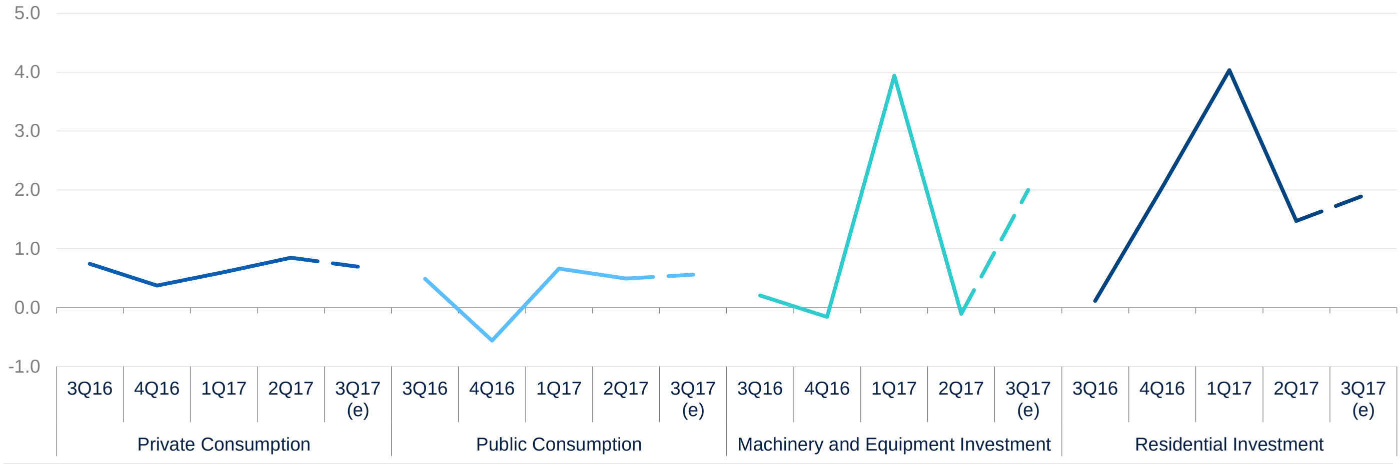
On the side of **investment in machinery and equipment,** partial indicators[4] suggest that, after contracting unexpectedly in the second quarter (-0.1% QoQ), **this component of demand grew again in 3Q17 (2.0% QoQ; 5.7% YoY)**. At the same time, available information[5] indicates that **residential investment may have increased by 1.9% QoQ** (9.8% YoY) in 3Q17, consolidating the recovery of the property sector. In this regard, recent data confirm that growth last year (1.9% QoQ on average) amply exceeded that estimated at the end of the summer of 2016 (0.8% QoQ on average).

Domestic demand continues to drive growth

In short, the partial indicators of the current situation are showing that in 3Q17 **domestic demand contributed 0.8 pp to the quarterly increase in GDP** thanks to the advance of all its components.

3: Domestic sales of major corporates and retailers moderated, while new car registrations stagnated.
4: Certain indicators such as those of manufacturers' confidence and order books deteriorated significantly in the quarter, while those of imports of capital goods and manufacturing output increased, albeit at low rates, and new industrial vehicle registrations gained dynamism.
5: Al the indicators were positive. Furthermore, social security registration in the construction sector continued to grow by more than the average.

Figure 3.3 Spain: growth observed and forecasts of the major components of domestic demand (% QoQ)



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

Trade flow growth remains weak in the short term

Total exports apparently remained stagnant in the third quarter. In particular, available indicators –exports of major corporates and order books– suggest that although exports of goods moderated their decline[6] (by 1.1 pp to -0.2% QoQ, 4.2% YoY), those of services experienced significantly slower growth (by -2.8 pp to 0.2% QoQ, 6.4%YoY) (see Figure 3.4).

Regarding exports of goods, the information in hand suggests that the appreciation of the euro may have prolonged the sluggishness of sales outside the euro zone during the second and third quarters (see Figure 3.5). As regards sales of services, we see a negative trend in the indicators for foreign tourism[7], with domestic consumption by non-residents down by -0.2% QoQ (7.8% YoY).

…In contrast with external demand

In line with exports, available information at the closure of this edition suggests that, after falling in 2Q17, imports would have stagnated in 3Q17 (0.1 QoQ, 4.1% YoY). However, this stagnation was apparently not enough to prolong the positive contribution of external demand to growth seen since the beginning of 2016 (0.2 pp per quarter on average since 1Q16).

6: Available information on the balance of trade also points to a decline in exports of goods in the quarter.
7: Overnight hotel stays by non-resident tourists fell by -2.3% QoQ SWDA in 3Q17. Moreover, arrivals increased by just 0.6% QoQ SWDA, maintaining the flatness seen in the previous quarter. Meanwhile, balance of payments revenues from tourism fell by -1.5% MoM SWDA in August.

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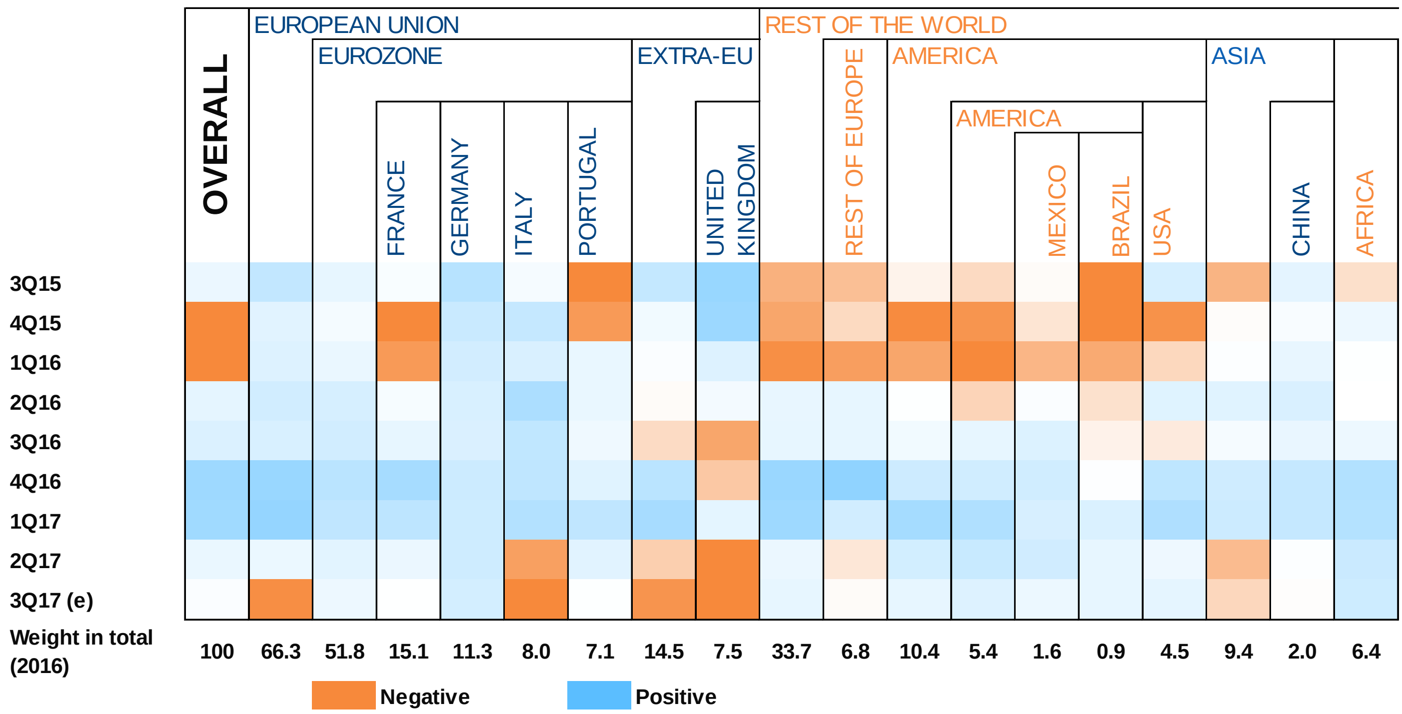
Figure 3.4 Spain: growth observed and forecasts of the major components of external demand (% QoQ)

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

Figure 3.5 Spain: trend growth in exports of goods (% QoQ)



(e) estimated.
Source: BBVA Research based on Customs data

Labour market recovery lost traction during the third quarter

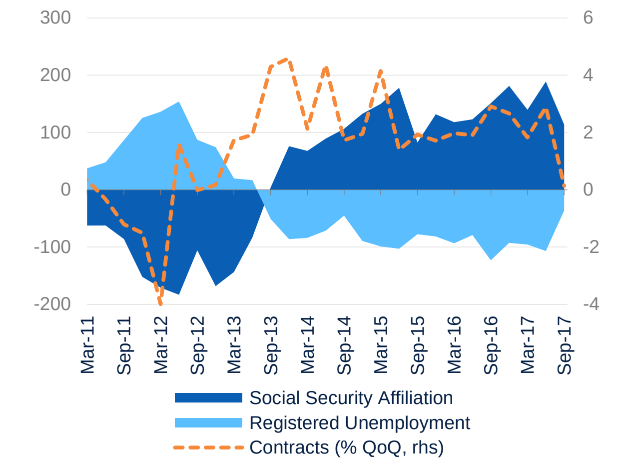
Controlling for variations caused by seasonal factors, **Social Security increased by 0.7% QoQ in the third quarter**, 0.4 pp less than in the second quarter (see Figure 3.6). Hiring stagnated for the first time since 3Q12 (0.1% QoQ SWDA) due to the decline in temporary contracts (-0.3% QoQ SWDA). Although the increase in the number of indefinite contracts accelerated by 2.4 pp to 4.8% QoQ SWDA, the ratio of temporary contracts remained at around 91% SWDA between July and September. The decline in unemployment also slowed to -1.1% QoQ SWDA, nearly 2 pp less than in 2Q17, due to the reduced impetus of the service sector and the disappointing performance of agriculture.

The Labour Force Survey (LFS) for 3Q2017 confirmed the trend hinted by Social Security registration and unemployment figures. The number of employed people increased by 235,900, leading to a fall of 0.8 pp in the unemployment rate to 16.4%, despite the unexpected increase of 53,300 in the active population. Controlling for seasonality, the increase in employment was lower (0.7% QoQ), and the unemployment rate fell by 0.5 pp down a similar level as that of the beginning of 2009 (16.9%)

Increase in temporary employment due to seasonal factors

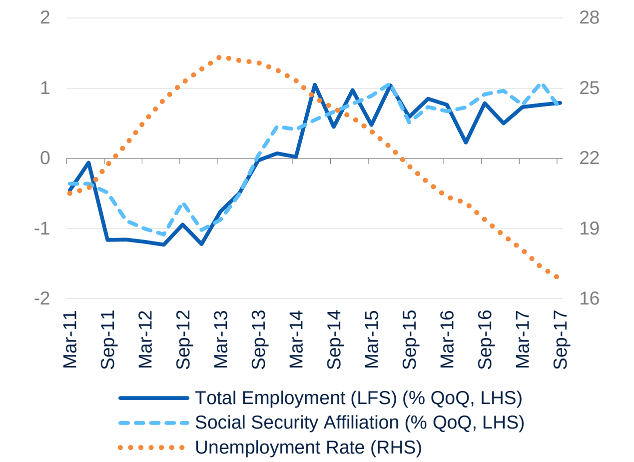
The uptick in temporary hiring (149,000) exceeded that of indefinite contracts employees (67,500 personas), as a result of which the temporary ratio increased by 0.6 pp to 27.4%. Seasonally corrected, the percentage of employees with temporary contracts held steady at 26.7%, 4 pp above its cyclical minimunm recorded in the first quarter of 2013 (see Figure 3.6)[8].

Figure 3.6 Spain: labour market records (SWDA). Quarterly variation in thousands of people, except where indicated otherwise)



Source: BBVA Research, based on Ministry of Employment and Social Security figures

Figure 3.7 Spain: labour market indicators (SWDA)



(e) = estimated.
Source: BBVA Research, based on Ministry of Employment and Social Security and INE figures

8: The detailed evaluation of the data from the EAPS of 3Q17 can be found at: https://goo.gl/UqF9Mb

Price and wage increases remained limited

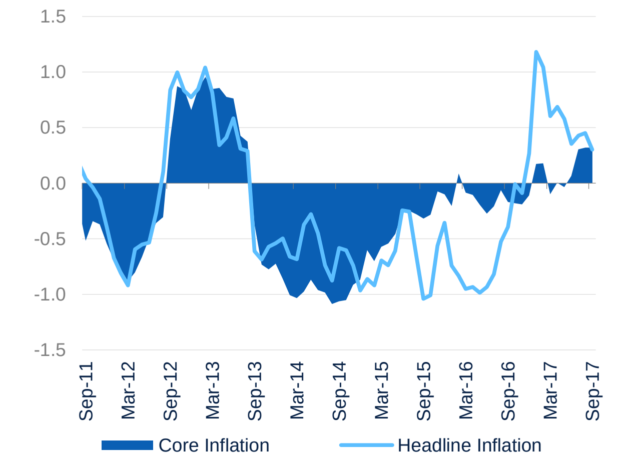
Energy and unprocessed food condition inflation in the short term

Headline inflation increased gradually during the third quarter, reaching, 1.8% YoY in September according to the advance indicator[9]. Behind this increase is the uptick in energy and unprocessed food prices, which is due at least in part to the fading of the base effect caused by the falls seen in mid-2016. **Meanwhile, core inflation has remained subdued** and could close September at around 1.2% YoY.

Even so, BBVA Research estimates indicate that the **differential in price increases relative to the euro zone as a whole is slightly unfavourable,** in terms of both headline and core inflation (0.4 pp and 0.3 pp respectively) (see Figure 3.8).

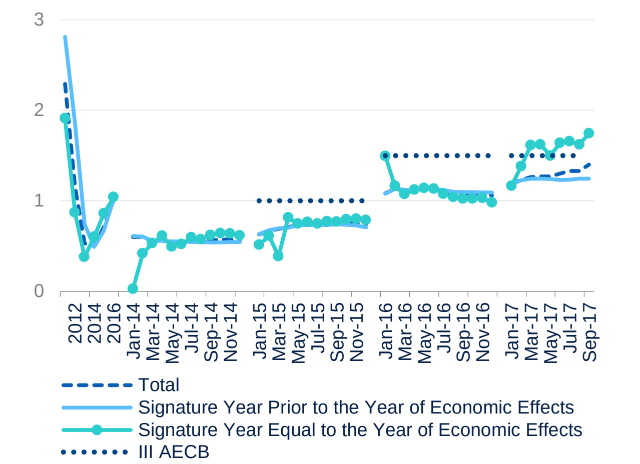
Like prices, wage demands also increase in the third quarter. Although average wage increases agreed in collective bargaining agreements up to September were similar to those recorded in the first half of the year, barely exceeding 1.2% YoY in the revised multi-year agreements, they rose to 1.7% in agreements signed during the current year, which apply to 1,962,000 workers[10]. However, the average increase in wages was less than the 1.5%, figure set as a maximum limit in the 3rd Agreement for Employment and Collective Bargaining (AENC) for the previous year[11] (see Figure 3.9).

Figure 3.8 Spain: inflation differentials relative to the euro zone (% YoY)



Source: BBVA Research, based on INE and Eurostat figures

Figure 3.9 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 Ministry of Employment and Social Security figures

9: The advance CPI indicator for October signalled a moderation of 0.2 pp in headline inflation, to 1.6% YoY.
10: The number of workers covered by collective agreements surpassed 6.3 million to September, including those affected by agreements signed before 2017 (4,385,000). This figure is 3.5% lower than that recorded up to September 2016.
11 : The 3rd AENC, signed in early June 2015 by CEOE, CEPYME, CCOO and UGT, sets limits on the wage increases agreed in collective bargaining agreements. In 2015 they were not allowed to exceed 1%, and in 2016 the figure is 1.5%. The increase in 2017 will depend on the development of GDP growth in 2016 and the government's macroeconomic forecasts.

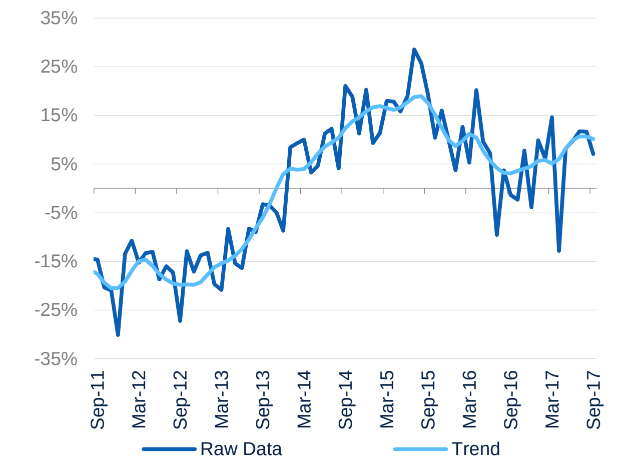
New lending to companies is recovering

Credit flows confirm their positive trend

The stock of credit to the private sector continued to decline in the third quarter (-2.6% YoY in August). At the same time, **granted operations are consolidating in positive territory** (4.6% YoY, YTD September), due to the uptick in loans of more than €1 million (0.8% YoY for the same period compared with -32.8% in 2016). This recovery in new bank lending to large companies corresponds to the fading of the factors that discouraged it in 2016: an environment of uncertainty at home and abroad and falling costs of corporate borrowing. On the side of the retail sectors (households and SMEs[12]), we have seen the flow of credit recover in the first nine months of 2017 (6.9% YoY)[13].

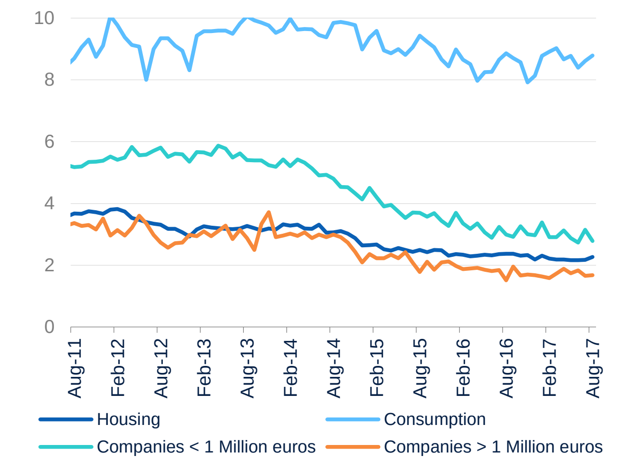
Apart from this, the price of new credit has remained at record low levels. This has been favoured by the reduction in EURIBOR, the improved liquidity conditions for banks (thanks in part to ECB auctions), the containment of sovereign risk and lower credit risk faced by banks. However, in some portfolios there is evidence of a minimum threshold having been reached in an environment of narrowing interest margins and changes in the term structure. Also, the rates for housing acquisition (2.21% APR average in August, 16 bps less than a year ago), show a clear resistance to further decline given the growing importance of fixed rate mortgages. According to this indicator, which includes commissions, Spanish mortgage loans continue to be cheaper than those of many other European countries such as France and Ireland.

Figure 3.10 Spain: new retail sector credit transactions (% YoY)



Source: BBVA Research, based on Banco de España figures

Figure 3.11 Spain: interest rates on new lending transactions (% APR)



Source: BBVA Research, based on Banco de España figures

12: Lending to SMEs is an approximation in view of loans of less than €1 million.
13: However, this growth is less than it could have been given the base effect deriving from the refinancing of portfolios (counted as new transactions) to eliminate "floor clauses" in April 2016.

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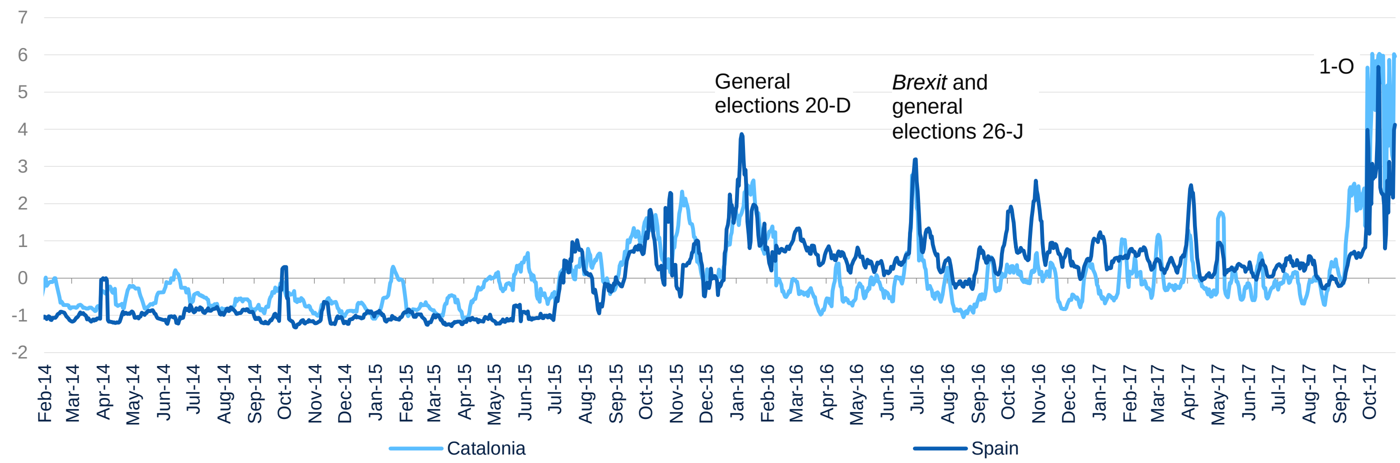
Scenario for 2017-2018: uncertainty tilts growth expectations downwards , but recovery continues

The information available at the date of writing makes it advisable to revise our growth forecasts for the Spanish economy downwards. On the one hand, the reduced impetus shown by employment and activity during the middle part of the year moderates the advance of GDP by 0.2 pp to 3.1% in 2017. On the other hand, the political tensions in Catalonia have led to an uptick in economic policy uncertainty, which now far exceeds the levels recorded in January 2016 (See Figure 3.12)[14]. Although at the time of writing the data on real activity and employment still show no evidence of economical deterioration. The possibility of households and businesses changing their consumption and investment decisions in the short term is one of the reasons for revising the growth estimate for 2018 downwards by 0.3 pp to 2.5%[15].

Economic policy uncertainty conditions growth

Figure 3.12 Spain and Catalonia: indices of uncertainty about economic policy (standard deviations from the mean)



Source: BBVA Research based on GDELT

14: Both the levels and the volatility of the index exceed those reached during the "9-N" consultation [on Catalonia's status] of 2014.
15:For further 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/TksUX0

Table 3.1 Spain: macroeconomic forecasts

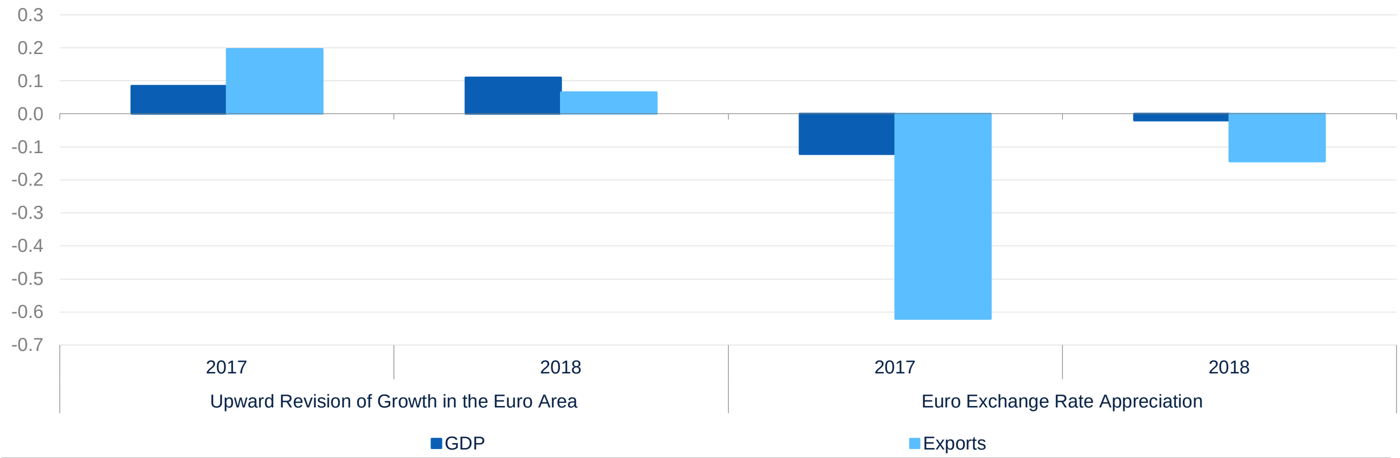
(% YoY unless otherwise indicated)	2Q17	3Q17(e)	2015	2016	2017 (f)	2018 (f)
National Final Consumption Expenditure	2.2	2.2	2.8	2.5	2.3	2.0
Private FCE	2.6	2.5	3.0	2.9	2.6	2.1
FCE Public Admins.	1.1	1.2	2.1	0.8	1.3	1.8
Gross Fixed Capital Formation	3.5	5.3	6.5	3.3	4.7	3.6
Plant and Equipment	3.9	5.7	11.5	5.0	5.6	2.8
Construction	3.6	5.4	3.8	2.4	4.5	3.8
Housing	7.9	9.8	-1.0	4.4	8.2	5.9
Other Buildings and Constructions	-0.1	1.5	7.9	0.9	1.2	1.9
Domestic demand (*)	**2.3**	**2.8**	**3.9**	**2.5**	**2.6**	**2.3**
Exports	4.4	4.9	4.2	4.8	5.0	4.3
Imports	2.3	4.1	5.9	2.7	3.8	3.8
External balance (*)	**0.8**	**0.4**	**-0.4**	**0.7**	**0.5**	**0.3**
Real GDP at market prices	**3.1**	**3.1**	**3.4**	**3.3**	**3.1**	**2.5**
Nominal GDP at market prices	**3.8**	**4.0**	**4.1**	**3.6**	**4.0**	**3.9**
Total employment (LFS)	2.8	2.8	3.0	2.7	2.7	2.3
Unemployment rate (% of active population)	17.2	16.4	22.1	19.6	17.1	15.5
Employment (full-time equivalent) QNA (Quarterly National Accounts)	2.9	2.7	3.2	3.0	2.8	2.1

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

The external environment for the Spanish economy remains favourable

Global growth will provide a high potential demand for Spanish exports, despite the existence of elements of uncertainty in the short term which may act as a constraint on sales of goods, non-tourism services (Brexit and US trade policy) and tourism services (terrorist attacks in Catalonia, more uncertain environment). Thus, although we expect a **greater euro appreciation** against the dollar than the one presented in the last edition of this publication (2.5 pp in 2017 and 2.8 pp in 2018), **we have revised the growth estimate for the euro zone in 2017 and 2018 upwards** (by 0.1 pp and 0.2 pp to 2.2% and 1.8% respectively). In this regard, BBVA Research estimates suggest that although the impact of the euro's appreciation on exports may be considerable in the short term, the expected improvement in EMU demand could offset the aggregate effect on GDP growth (see Figure 3.13)

Figure 3.13 Spain: impact of the euro's strengthening against the dollar and of growth in the euro zone (% YoY, deviation of annual growth in pp from base scenario of three months ago)



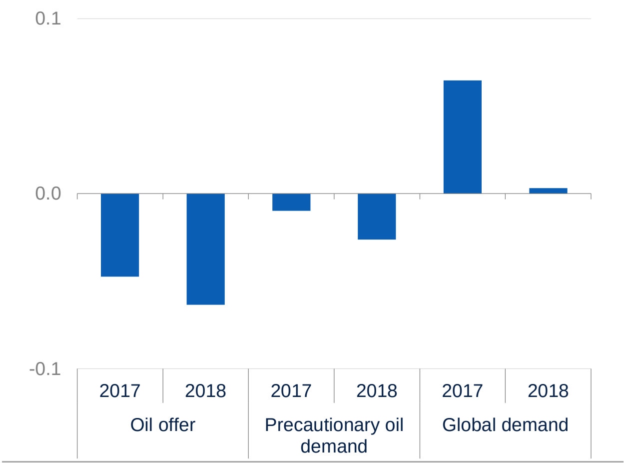
Source: BBVA Research

In addition, the trend in the price of oil has corrected slightly upwards, with Brent crude at around $55 per barrel as at the time of writing (see Figure 3.14). Thus, BBVA Research forecasts indicate that, on average, prices will be around US$53 and US$57 per barrel in 2017 and 2018, 2.1% and 0.7% higher respectively than the values estimated three months ago, which in any case introduces a marginal bias for growth (see Figure 3.15)[16].

Figure 3.14 Oil price scenarios (US$ per barrel Brent)

Source: BBVA Research based on Bloomberg

Figure 3.15 Spain: impact of change in oil price by type of shock (deviation of annual growth in pp from base scenario of three months ago)



Source: BBVA Research

16: For further details on estimating the effects of oil prices by type of shock on activity and prices in the Spanish economy, see Box 1 of the Spain Economic Outlook journal for the second quarter of 2011, available at: https://goo.gl/6DM3cE

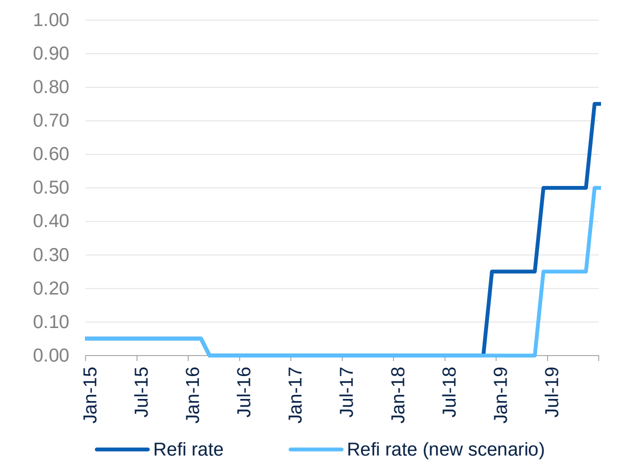
The ECB will start to withdraw monetary stimulus in 2018

In line with expectations, the ECB has announced the reduction of monetary stimulus from January 2018, given the satisfactory performance of the euro zone economy. At the October monetary policy meeting, the ECB announced that from January it will start to reduce its asset purchase programme (APP) from the current monthly €60 billion to €30 billion and extend it until September.

The delay in raising interest rates will have hardly any effect on growth

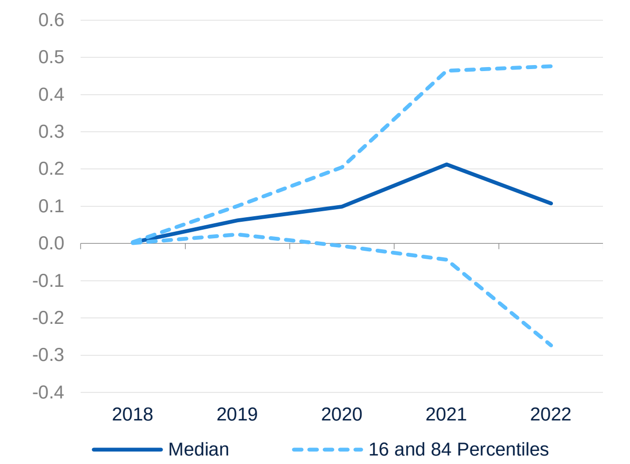
BBVA Research now expects the first interest rate increase to be postponed from late 2018 to mid-2019 (see Figure 3.16). BBVA Research estimates indicate that this postponement will have no effect on the growth of the Spanish economy in 2018. It will have a positive effect of 0.1 pp in the two-year period 2019-2020, and a statistically insignificant effect thereafter (see Figure 3.17).

Figure 3.16 ECB reference interest rate (%)



Source: BBVA Research based on ECB

Figure 3.17 Spain: impact of the postponement of official interest rate hikes (deviation from annual growth in pp relative to the baseline scenario)



Source: BBVA Research

The flow of bank lending will remain positive over the two-year period

Going forward, we expect **new lending will continue to increase, for reasons of both demand and supply.** Demand for credit will be stimulated by the positive trend in activity, both domestically and internationally, and by the still low interest rates, which will offset the short-term effect of the extension of the ECB's corporate bond purchase programme to the end of 2017. 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 risks**. The recovery of new credit operations will accompany the improvement in economic activity**, so that the banking sector attends to solvent demand and, especially, to the retail sector, which is more dependent on bank financing.

Public demand will increase at a moderate pace

The recovery in activity favours an uptick in tax revenues and provides a margin for continuation of the **rising trend in expenditure on public consumption**. However, the commitment to reduce the deficit causes the average growth rate for the two-year period 2017-2018 for **this component of demand to be revised upwards by only 0.3 pp relative to the previous scenario, to 1.6% YoY.**

Growth of public investment remains moderate

Similarly, budgetary obligations will limit the recovery in public investment to low growth rates, especially in the current fiscal year. In this way, it is expected that **investment in other constructions will register growth of 1.2% in 2017 and 1.9% in 2018**, driven both by non-residential private investment and by the progress in public works, once the protocol of excessive deficit has been surpassed (see page 30).

Investment will continue to lead the recovery in domestic demand

After reaching 2.9% in 2016, growth in household consumption will slow to 2.6% in 2017 and 2.1% in 2018, due above all to increased uncertainty and the disappearance of some transitional stimulus measures in force until 2016, such as the tax cuts, as well as to pent-up demand and the notable drop in energy prices. The fundamentals of expenditure are expected to continue to show signs of strength, albeit less marked than envisaged in July. Job creation will drive the increase in households' disposable income, and the recovery of housing prices will increase real estate wealth. Net financial wealth will also contribute to the increase in spending, and will do so in greater amounts than in 2016 given the favourable trend in stock market prices. In addition, consumer finance will continue to grow, supported by still-low interest rates. Finally, the continuing improvement during 2017 in households' expectations of the economic situation suggests increased spending in the next few quarters, although the downward path of the rate of savings is limited.

The increased economic policy uncertainty will also have a negative effect on investment decisions. Nonetheless, capital expenditure on machinery and equipment will continue to grow in the coming quarters, meeting most of the physical capital requirements deriving from the growth of domestic and external demand. In this context, the postponement of interest rate increases and the,still, low price of oil will favour the necessary financing, whether domestic or foreign, needed to undertake the expansion of businesses' installed capacity. In short, **we expect capital expenditure on machinery and equipment to grow by 5.36% in 2017 and, given the more uncertain environment, to moderate its rate of growth to 2.8% in 2018,** 1.8 pp less than forecasted at the close of the first half-year.

Low interest rates will continue to drive investment

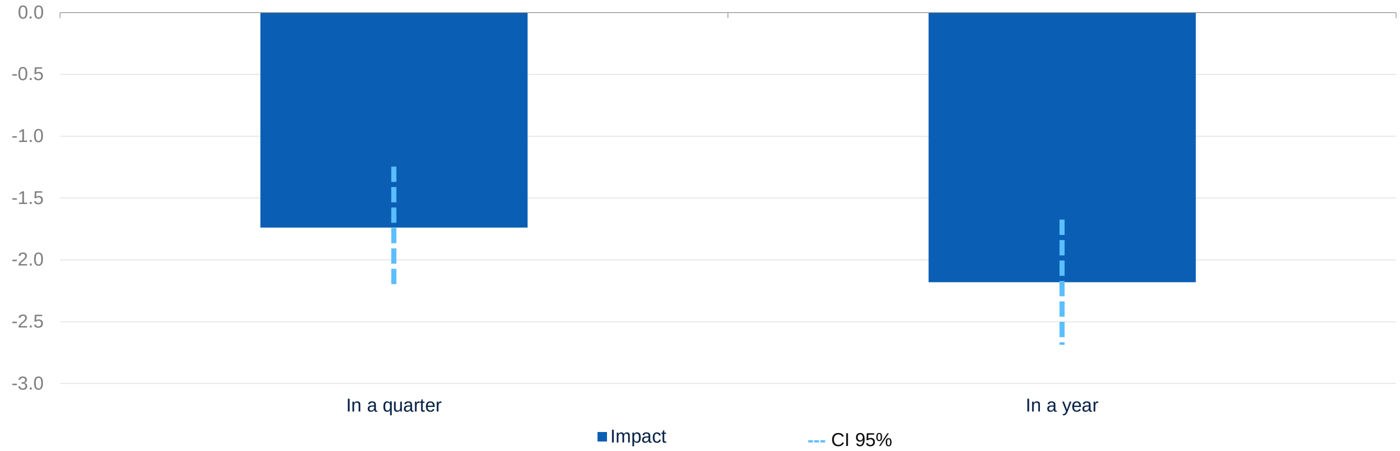
Investment in housing will consolidate its recovery during the current biennium. The real state market continues to show a positive trend, reflected in the firmness of demand and increases in housing prices. Added to this is the growing dynamism of land purchase transactions, which will no doubt be converted into new developments in the coming quarters. In this context, the expectation that financing costs will remain at low levels benefits both residential demand

and businesses in the sector. Thus the improvement in the fundamentals and the positive surprises seen in residential investment in the past nine months allow us to **raise the growth forecast to 8.2% for 2017** (1.7 pp more than in the previous scenario). However, bearing in mind the sector's sensitivity to economic policy uncertainty, –which could be greater than that of other sectors given the heavy weight of regulations on the execution of property projects,– the **growth of this component of demandis revised downwards for 2018, by 0.5 pp to 5.9%**.

Exports will resume their upward trend over the course of the biennium

The improvement in growth expectations for Europe, China and Latin America supports a **solid potential demand for Spanish exports** in an environment of reduced oil prices. However, the euro's recent appreciation and the elements of uncertainty present in the scenario may depress external demand in the short term. In particular, added to the doubts that persist over Brexit and US trade policy are the possible knock-on effects of the terrorist attacks in Catalonia and the environment of uncertainty that could affect tourism in the region and to the rest of the country. In this regard BBVA Research estimates that the increased tension produced by the terrorist attack in Barcelona could reduce foreigners overnight stays in seaside communities by 1.7% during the quarter following the attack, relative to the attack-free scenario (see Figure 3.18)[17].

Figure 3.18 Spain: impact of the terrorist attacks in Catalonia on overnight stays by foreign tourists (deviation from baseline scenario in pp)



Source: BBVA Research

17: Various factors could mitigate the negative impact. Among them we might mention the scarcity of alternative destinations, the fact that there has so far been no recurrence of the attacks, and the fact that firms have room to adjust margins to maintain the flow of visitors.

In this context, **forecasts of export sales are revised downwards for 2017 and 2018**. We expect total exports to grow by 5.0% this year and 4.3% next, respectively 2.5 pp and 0.7 pp less than forecasted three months ago.

The tourism sector might be approaching saturation level

In particular, **we expect exports of goods to grow at an annual average rate of 4.6%** over the current biennium(1.7 pp less than previously estimated) and **growth in non-residents' consumption to decrease from 9.7% in 2016 to 7.3% in 2017 and 1.2% in 2018** (1.1 pp less than expected before the summer). Factors contributing to this include not just those weighing on tourist demand in the short term but also the possible structural exhaustion of supply. The evidence indicates that the sector could be nearing saturation levels, particularly at the traditional seasidedestinations, and that future increases in demand will be more and more likely to translate into higher prices and wages rather than boosting growth and employment.

The expected evolution of the final demand will lead to **another big increase in imports during the current biennieum (average for the two years: 3.8%),** which in any case, will not prevent the contribution of net external demand to growth from being positive in both 2017 (0.5 pp of GDP) and 2018 (0.3 pp). This will contribute to maintain positive balances in the current account (average for the biennium: 1.7% of GDP).

Employment recovery will continue despite the downward revision of activity

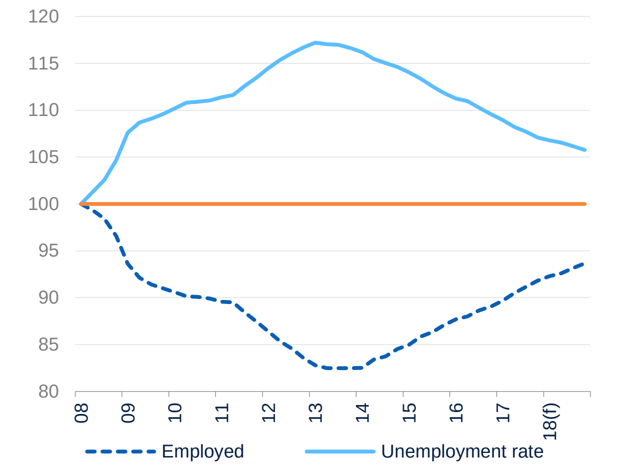
At the end of 2018 the labour market will not have returned to its pre-crisis level

Since expectations of growth in activity in 2017 and 2018 are now more conservative than three months ago, so are those for job creation. This year, we expect employment to increase on average by 2.7%, the same as in 2016 and 0.2 pp less than forecasted in July, and to moderate to 2.3% in 2018 (0.4 pp less than in the previous edition). Given the expected flatness of the labour force[18], we estimate that growth in employment will translate into a decrease of 4.1 pp in the unemployment rate to 15.5% in 2018.

Although the recovery of the labour market will continue throughout the biennium, pre-crisis levels of employment and unemployment will remain distant. As Figure 3.19 shows, in the fourth quarter of 2018 employment will be 6% lower than at the beginning of 2008, while the unemployment rate will be nearly six points higher. In addition, the expected development of activity and full-time equivalent employment – which will increase by around 2.4% on average in the 2017-2018 period – suggests a slight rebound in the apparent productivity growth of the labour factor to 0.4% in 2018. (See Figure 3.20).

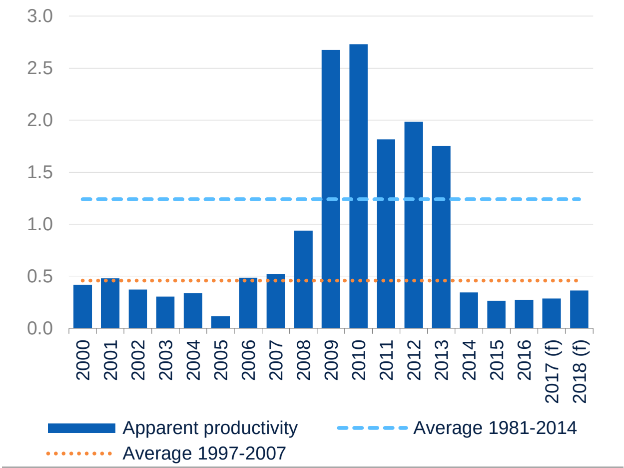
18: Data from the EPA labour force survey for the third quarter indicated greater than expected flatness of the active population. This, together with its pro-cyclical nature, lead us to revise its expected growth slightly downwards. Thus we expect the active population to decline by 0.4% in 2017 and increase by 0.3% in 2018, 0.4 pp less than forecast in July.

Figure 3.19 Spain: level of employment and unemployment rate
(1Q08 = 100. SWDA data)



Source: BBVA Research based on Bloomberg

Figure 3.20 Spain: growth in apparent productivity of labour (%)



Source: BBVA Research

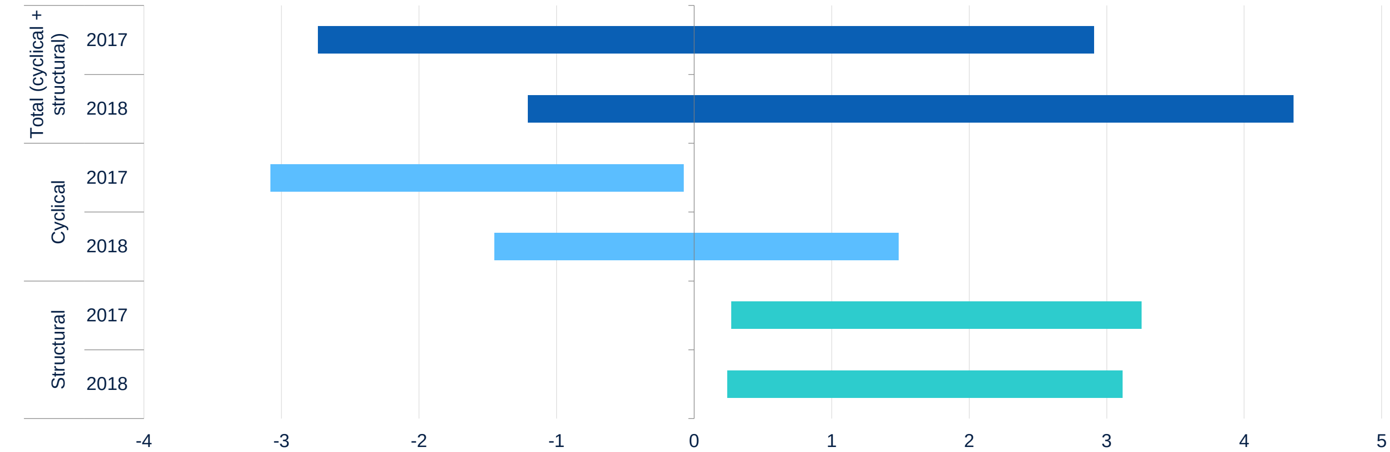
The trend in inflation will remain moderate, though pressure on wages cannot be ruled out

Core inflation will remain stable

The recent trend in inflation confirmed that the factors that pushed it up at the beginning of the year (adverse weather and the base effect on energy prices) were of a temporary nature. Thus, we estimate that **2017 will close with an annual average inflation of 1.9%,** in line with the forecast of three months ago, given that the euro's appreciation will completely offset the effects of the oil price revision. Domestic fundamentals and monetary policy underpin the steady trend of underlying prices (1.1% annual average growth for 2017). **In 2018, core inflation will increase gradually (an annual average of 1.3%) which, together with the fading of the base effect on energy prices, will place headline inflation at 1.4%.** If these forecasts are met, the headline inflation differential with respect to the euro zone, in Spain's favour for the past three years (-0.5 pp on average), will be slightly unfavourable in the current biennium (0.2 pp on average).

In view of the foregoing, **upward pressures on wages from next year on cannot be ruled out**. BBVA Research estimates indicate that, although the high level of unemployment could be containing wage increases, for example, after the uptick in inflation and SMI in early 2017, this element could be running out. Thus, as cyclical unemployment is absorbed, i.e. as the unemployment rate approaches its structural level, we will be more likely to see, for example, wage increases in excess of long-term expectations (see Figure 3.21). Given BBVA Research's growth forecasts for GDP and employment, the increase in compensationper employee should not exceed 2% in 2018 so that the unemployment rate continues to decline.

Figure 3.21 Spain: breakdown of expected growth in remuneration per employee (Confidence Interval 90% probability)



Estimates made based on the NAWRU, using the remuneration per employee of the CNTR.
Source: BBVA Research

The fiscal policy stance is turning neutral and contributing to attainment of the budgetary objectives

Budgetary execution data to August show the **strength of tax revenues deriving from the cyclical recovery** in tax bases and the tax increases of the end of 2016[19]. Nonetheless, this dynamism is proving somewhat less strong than estimated at the beginning of 2017. At the same time, we expect the containment of public spending of the first half of the year to continue in the second part of the year, albeit with less intensity as a result of the approval of the General State Budgets for 2018.

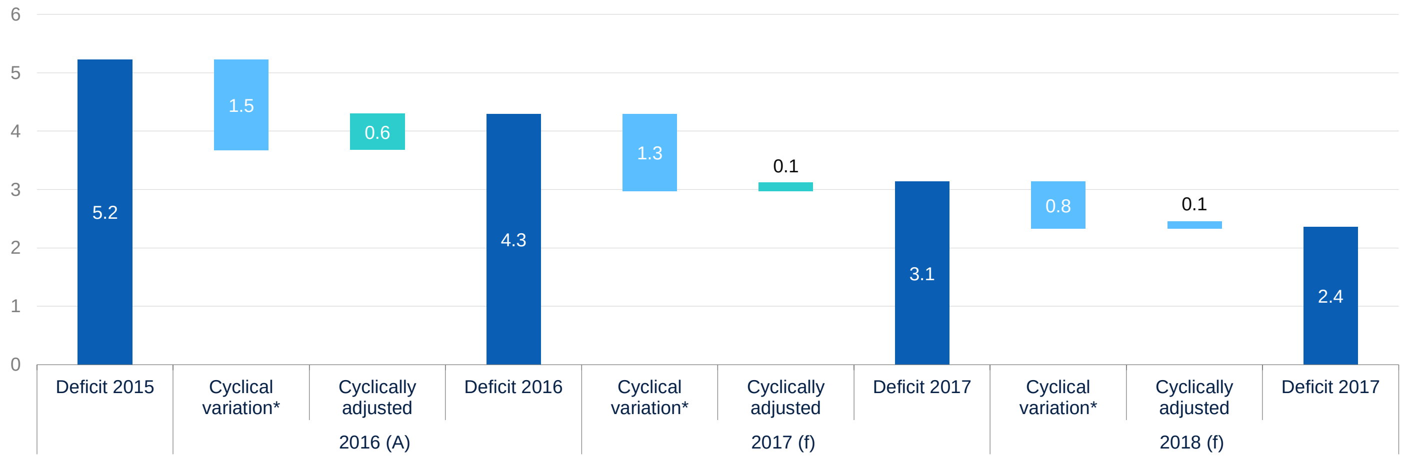
The level of debt remains high and a risk

In this way, the economic cycle will once again correct the fiscal deterioration over the next two years. **In a scenario without changes in fiscal policy, the public deficit would be reduced to 3.1% in 2017 and 2.4% in 2018**, in line with the stability objectives. This would imply a deterioration in the primary structural balance of 0.2 pp up to 2018, which would be offset by lower borrowing costs. Thus, the stance of fiscal policy will turn neutral during the biennium 2017-2018 (see Figure 3.22).

In this scenario, **the Government's deficit forecasts for 2017 included in the Stability and Growth Program (PEC) for 2018 are attainable**, despite the fact that the estimated level of public revenues is unlikely to be achieved. Meanwhile, the adjustment of public spending could be rather greater than that proposed by the Government.

19: In December 2016, among other measures, new limits were imposed on the deductibility of certain elements of the corporate tax base, the application of inheritance tax was extended throughout 2017 and tax rates set for certain special levies (see Royal Decree-Law 3/2016 of 2 December. BOE (Official State Gazette) -A-2016-11475)

Figure 3.22 Public Administrations: breakdown of fiscal adjustment, excluding bail-outs of financial institutions (pp of GDP)



(e) estimated; (f) forecast.
(1) Includes changes in interest charges.
(2) 2016: 0.6 pp structural deterioration + 1,0 pp expansive policies – 0.7 pp fiscal adjustment measures.
Source: BBVA Research, based on Ministry of Finance and Public Administration and INE figures

If the BBVA Research scenario were to be confirmed, Spain would exit the excessive deficit protocol in 2018. However, if public debt remains above 60% of GDP (we estimate 97.1% of GDP at the end of 2018), the Spanish economy will continue to be subject to supervision for at least the next three years**.** During that period, fiscal policy will have to ensure that sufficient primary surpluses are generated to reduce debt.

In this context, although the adjustment measures adopted in the past few years are going in the right direction and have succeeded in making the short-term objectives attainable, there are still major reforms (pensions, financing of autonomous communities, fiscal reform, etc.) remain to be undertaken to ensure structural improvement of the public accounts.

The range of risks hanging over the scenario has widened

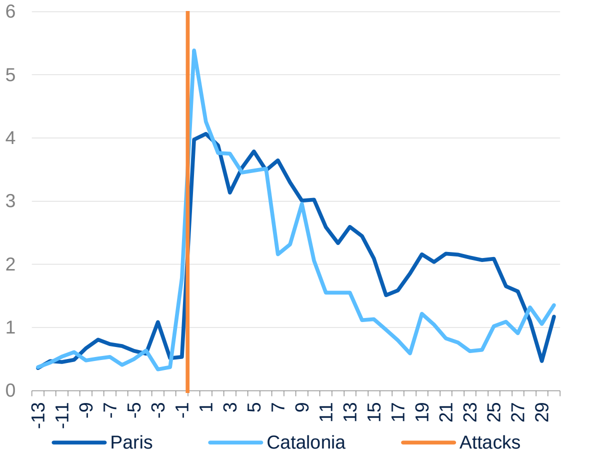
As recorded three months ago, downside bias dominates the balance of biases. On the external front, uncertainty persists regarding world trade, linked to the evolution of US trade policy and the UK's exit of the EU. Furthermore, the consequences of the recent elections in Germany and of the upcoming ones in Italy (in the early part of 2018) remain as an additional unknown in the external panorama.

On the domestic front, recent events introduce uncertainty into the scenario. On the one hand, the terrorist attacks in Catalonia have produced a temporary increase in tensions similar to that seen in other episodes in different parts of Europe such as Paris, London and Nice (see Figure 3.23)[20]. Although the effect on aggregate consumption seems to

20: The instability indices are prepared using GDELT (https://www.gdeltproject.org/), a database that gathers information from newspapers, radio, television and online news at international, national, regional and local level in more than 100 languages, providing a huge quantity of geo-referenced information dating from 1979 to the present day every fifteen minutes.
These indices cover a dual dimension to assess the "importance" or "impact" of an event: media coverage of the subject and the sentiment or average tone expressed in the news items. The average tone goes from -100 (extremely negative) to +100 (extremely positive). The usual values vary between -10 and +10, with 0 being a neutral

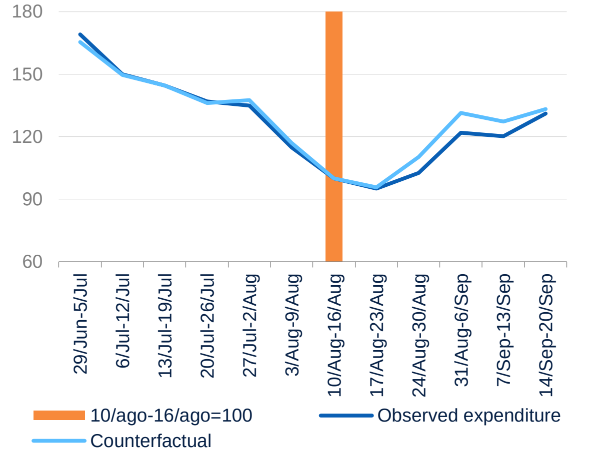
have largely diluted (see Figure 3.24)[21], we cannot rule out the possibility that the negative impact on sectors, such as tourism or real estate, might persist.

Figure 3.23 Instability indices* (Days after attacks (t=0))



*Volume of news items that include instability, social unease, attacks, conflicts and fear, standardised for the total number of news items
Source: BBVA Research based on GDELT

Figure 3.24 City of Barcelona: spending through POS terminals*
(Week prior to the attack (10-16 August) = 100)

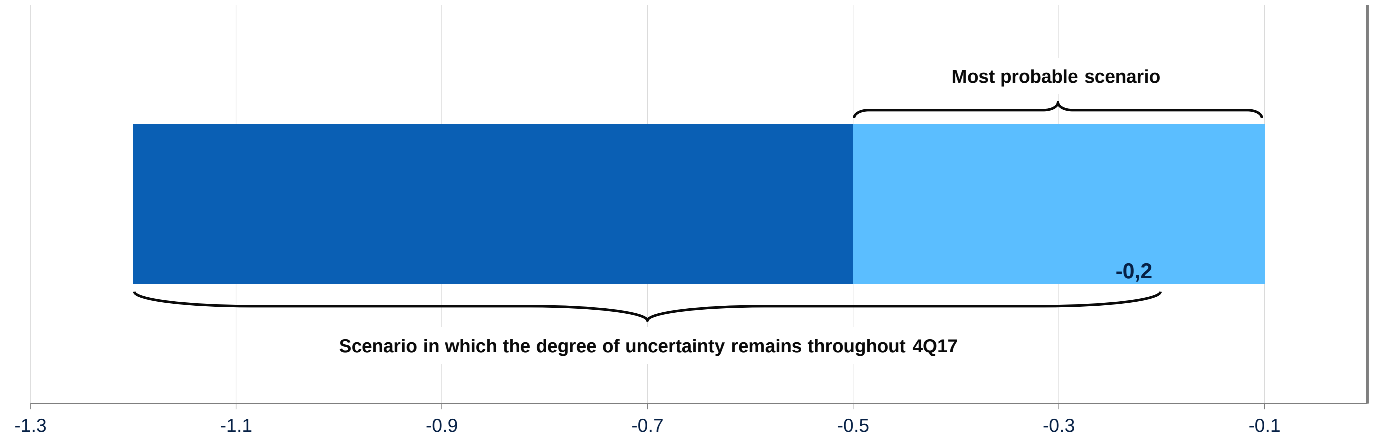


*Spending at BBVA POS terminals by customers and non-customers of BBVA plus spending by BBVA customers at non-BBVA POS terminals
Source: BBVA Data & Analytics and BBVA Research

Apart from this, we cannot rule out the possibility of the **current political tensions exerting increased pressure on the recovery if they intensify or persist longer than in the updated macroeconomic scenario**. BBVA Research estimates indicate that if the degree of economic policy uncertainty persists through the fourth quarter, GDP growth in 2018 could be between 0.2 pp and 1.1 pp lower than the 2.8% envisaged in the 'no uncertainty' scenario (See Figure 3.25)[22].

bias. This scoring can be used as a means of filtering the "context" of an event in order to obtain a fine measurement of its importance as an approximation of its "impact".
21: BBVA Data & Analytics and BBVA Research estimate that expenditure in Barcelona in the four weeks following the attack was 5.0 pp less than it would have been in normal circumstances. However, levels of spending have returned to normal since September.
22: For more details on estimating the effects of uncertainty about economic policy on activity in the Spanish economy, see Box 1 of the Spain Economic Outlook journal for the first quarter of 2016, available at: https://goo.gl/TksUX0

Figure 3.25 Spain: range of impact of the increase in uncertainty about economic policy observed in October depending on degree of persistence (deviation of annual growth from baseline scenario in pp)



Source: BBVA Research

4. Tables

Table 4.1 Macroeconomic forecasts Gross domestic product

(Annual average %)	2014	2015	2016	2017	2018
United States	2.6	2.9	1.5	2.1	2.2
Euro zone	1.4	2.0	1.8	2.2	1.8
Germany	1.9	1.5	1.9	2.2	1.8
France	1.0	1.0	1.1	1.7	1.7
Italy	0.2	0.9	1.1	1.5	1.3
Spain	1.4	3.4	3.3	3.1	2.5
United Kingdom	3.1	2.3	1.8	1.4	1.2
Latin America*	0.9	-0.4	-1.3	1.1	1.6
Mexico	2.3	2.7	2.0	2.2	2.0
Brazil	0.5	-3.8	-3.6	0.6	1.5
Eagles**	5.4	4.7	5.2	5.3	5.1
Turkey	5.2	6.1	2.9	6.0	4.5
Asia and Pacific	5.6	5.6	5.6	5.5	5.3
Japan	0.2	1.1	1.0	1.4	1.0
China	7.3	6.9	6.7	6.7	6.0
Asia (ex. China)	4.2	4.5	4.7	4.4	4.6
World	3.5	3.4	3.3	3.5	3.5

* Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela.
** Saudi Arabia, Bangladesh, Brazil, China, the Philippines, India, Indonesia, Iraq, Mexico, Nigeria, Pakistan, Russia, Thailand and Turkey.
Forecast closing date: 3 November 2017.
Source: BBVA Research and the IMF

Table 4.2 Interest rate on ten-year government bonds

(Annual average %)	2014	2015	2016	2017	2018
US	2.53	2.13	1.84	2.34	2.62
Germany	1.22	0.52	0.13	0.43	0.97

Forecast closing date: 03 November 2017
Source: BBVA Research and the IMF

Table 4.3 Macroeconomic forecasts Exchange rates

(Annual average %)	2014	2015	2016	2017	2018
EUR-USD	0.75	0.90	0.90	0.89	0.83
USD-EUR	1.33	1.11	1.11	1.13	1.20
USD-GBP	1.65	1.53	1.35	1.28	1.30
JPY-USD	105.82	121.07	108.82	112.12	117.33
CNY-USD	6.14	6.23	6.64	6.79	6.83

Forecast closing date: 03 November 2017.
Source: BBVA Research and the IMF

Table 4.4 Macroeconomic forecasts: Official interest rates

(End of period, %)	2014	2015	2016	2017	2018
US	0.25	0.50	0.75	1.50	2.00
Euro zone	0.05	0.05	0.00	0.00	0.00
China	5.60	4.35	4.35	4.35	4.10

Forecast closing date: 03 November 2017.
Source: BBVA Research and the IMF

Table 4.5 EMU: macroeconomic forecasts (YoY change. %. Unless otherwise indicated)

(End of period, %)	2014	2015	2016	2017 (f)	2018 (f)
GDP at constant prices	**1.4**	**2.0**	**1.8**	**2.2**	**1.8**
Private consumption	0.9	1.8	2.0	1.8	1.7
Public consumption	0.7	1.3	1.7	1.3	1.3
Gross fixed capital formation	1.9	3.0	4.5	4.0	3.7
Inventories (*)	0.3	0.0	-0.1	0.0	0.0
Domestic demand (*)	**1.3**	**1.9**	**2.3**	**2.1**	**2.0**
Exports (goods and services)	4.6	6.1	3.3	4.7	2.9
Imports (goods and services)	4.9	6.5	4.7	4.7	3.5
External demand (*)	**0.1**	**0.1**	**-0.5**	**0.2**	**-0.2**
Prices					
RPI	0.4	0.0	0.2	1.5	1.2
Underlying RPI	0.9	0.8	0.8	1.1	1.4
Labour market					
Employment	0.6	1.0	1.4	1.6	1.3
Unemployment rate (% of active population)	11.6	10.9	10.0	9.2	8.5
Public sector					
Deficit (% of GDP)	-2.6	-2.1	-1.5	-1.2	-1.1
Debt (% of GDP)	92.0	90.3	89.2	87.1	84.8
External sector					
Balance of payments on current account (% of GDP)	2.5	3.2	3.3	3.2	3.0

(f) forecast.
Forecast closing date: 03 November 2017.
Source: official organisations and BBVA Research

Table 4.6 Spain: macroeconomic forecasts (Annual rates of change in %, unless otherwise indicated)

(Annual average %)	2014	2015	2016	2017	2018
Activity					
Real GDP	1.4	3.4	3.3	3.1	2.5
Private consumption	1.5	3.0	2.9	2.6	2.1
Public consumption	-0.3	2.1	0.8	1.3	1.8
Gross Capital Formation	4.7	6.5	3.3	4.7	3.6
Plant and Equipment	5.9	11.5	5.0	5.6	2.8
Construction	4.2	3.8	2.4	4.5	3.8
Housing	11.3	-1.0	4.4	8.2	5.9
Domestic Demand (contribution to growth)	1.9	3.9	2.5	2.6	2.3
Exports	4.3	4.2	4.8	5.0	4.3
Imports	6.6	5.9	2.7	3.8	3.8
External Demand (contribution to growth)	-0.5	-0.4	0.7	0.5	0.3
Nominal GDP	1.2	4.1	3.6	4.0	3.9
(Billions of euros)	1037.8	1080.0	1118.5	1163.4	1208.8
GDP excluding housing investment	1.0	3.6	3.2	2.9	2.4
GDP excluding construction	1.4	3.4	3.3	3.0	2.4
Labour market					
Employment, LFS (Labour Force Survey)	1.2	3.0	2.7	2.7	2.3
Unemployment rate (% of active population)	24.4	22.1	19.6	17.1	15.5
Employment (full-time equivalent) CNTR (Quarterly National Accounts)	1.0	3.2	3.0	2.8	2.1
Apparent productivity of labour factor	0.3	0.3	0.3	0.3	0.5
Prices and costs					
CPI (annual average)	-0.2	-0.5	-0.2	1.9	1.4
CPI (end of period)	-1.0	0.0	1.6	1.2	1.7
GDP deflator	-0.2	0.6	0.3	0.9	1.3
Remuneration per employee	0.1	1.6	-0.3	0.1	1.4
Unit labour cost	-0.2	1.4	-0.6	-0.3	1.0
External sector					
Balance of payments on current account (% of GDP)	1.1	1.1	1.9	1.8	1.5
Public sector (*)					
Debt (% of GDP)	100.4	99.4	99.0	98.3	97.0
Balance Public Admin. (% of GDP)	-5.8	-5.2	-4.3	-3.1	-2.4
Households					
Nominal disposable income	1.1	2.2	2.0	2.8	4.6
Savings rate (% of nominal income)	9.4	8.8	7.9	6.4	7.4

Annual change in %, unless indicated expressly.
(p) projected.
Forecast closing date: 3 November 2017.
(*) Excluding aid to Spanish banks.
Source: BBVA Research

5. Glossary

Initials

- APP: Asset Purchase Programme
- APR: Annual Percentage Rate
- AECB: Agreement for Employment and Collective Bargaining
- BBVA: Banco Bilbao Viscera Argent aria
- BBVA–EAE: BBVA Economic Activity Survey
- BBVA–GAIN: BBVA's overall index of economic activity
- CC.OO: The *Comisiones Obreras* trade union
- CEOE: *Confederación Española de Organizaciones Empresariales* ("Spanish Confederation of Employers' Organisations")
- CEPYME: *Confederación Española de la Pequeña y Mediana Empresa*
  ("Spanish Confederation of SMEs")
- CG: Governing Council
- CPI: Consumer Price Index
- EAGLES: Emerging and Growth-Leading Economies
- ECB: European Central Bank
- EU: European Union
- E(FTE) Employment (full-time equivalent)
- EMU: Economic and Monetary Union
- Euríbor: Euro Interbank Offered Rate
- FED: US Federal Reserve System
- GDP Gross domestic product
- JPY: Japanese Yen
- LATAM Latin American countries. Includes Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
- LFS Labour Force Survey
- ME&SS: Ministry of Employment and Social Security
- MICA-BBVA: BBVA Coinciding Activity Indicators Model
- MFPA Ministry of Finance and Public Administration
- NFCE: National Final Consumption Expenditure
- PPAA Public Administrations
- QNA: Quarterly National Accounts
- RDL: Royal decree-law
- SWDA Seasonally and calendar-adjusted data
- SME: Small and medium enterprise
- SMI: Salario mínimo interprofesional (legal minimum wage)
- Stability and Growth Program (PEC)
- UGT: The Unión General de Trabajadores trade unión
- USD: United States Dollar

Abbreviations

- YoY: Year on Year
- CI: Confidence Interval
- Bn: billions
- bps: basis points
- MP: Market price
- pp: Percentage points
- QoQ: Quarter on Quarter

LEGAL NOTICE

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