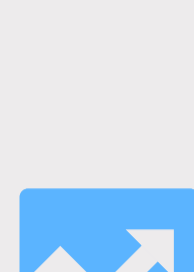
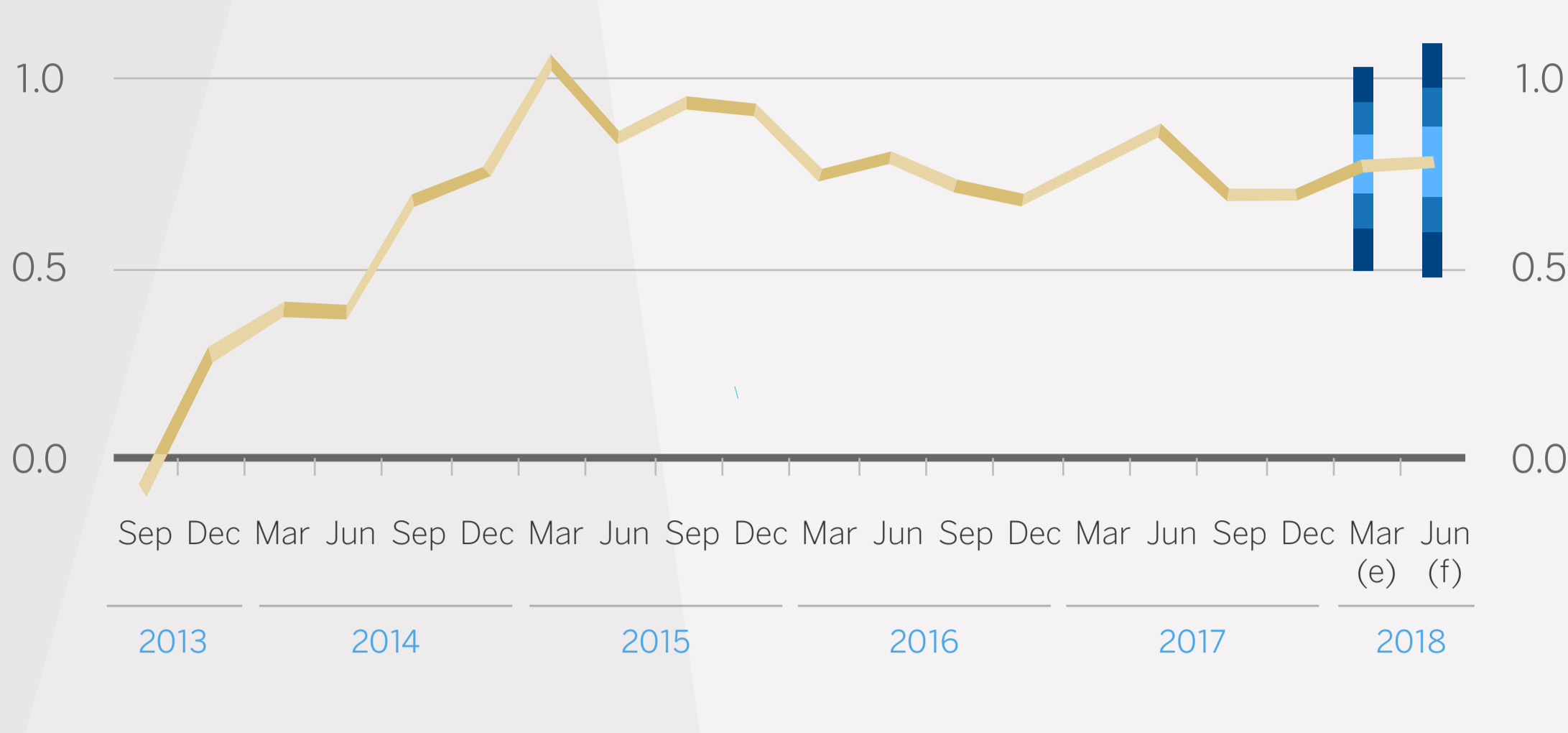


SPAIN ECONOMIC OUTLOOK 2Q18

MACROECONOMIC CONTEXT

Forecasts indicate that **GDP growth is accelerating**

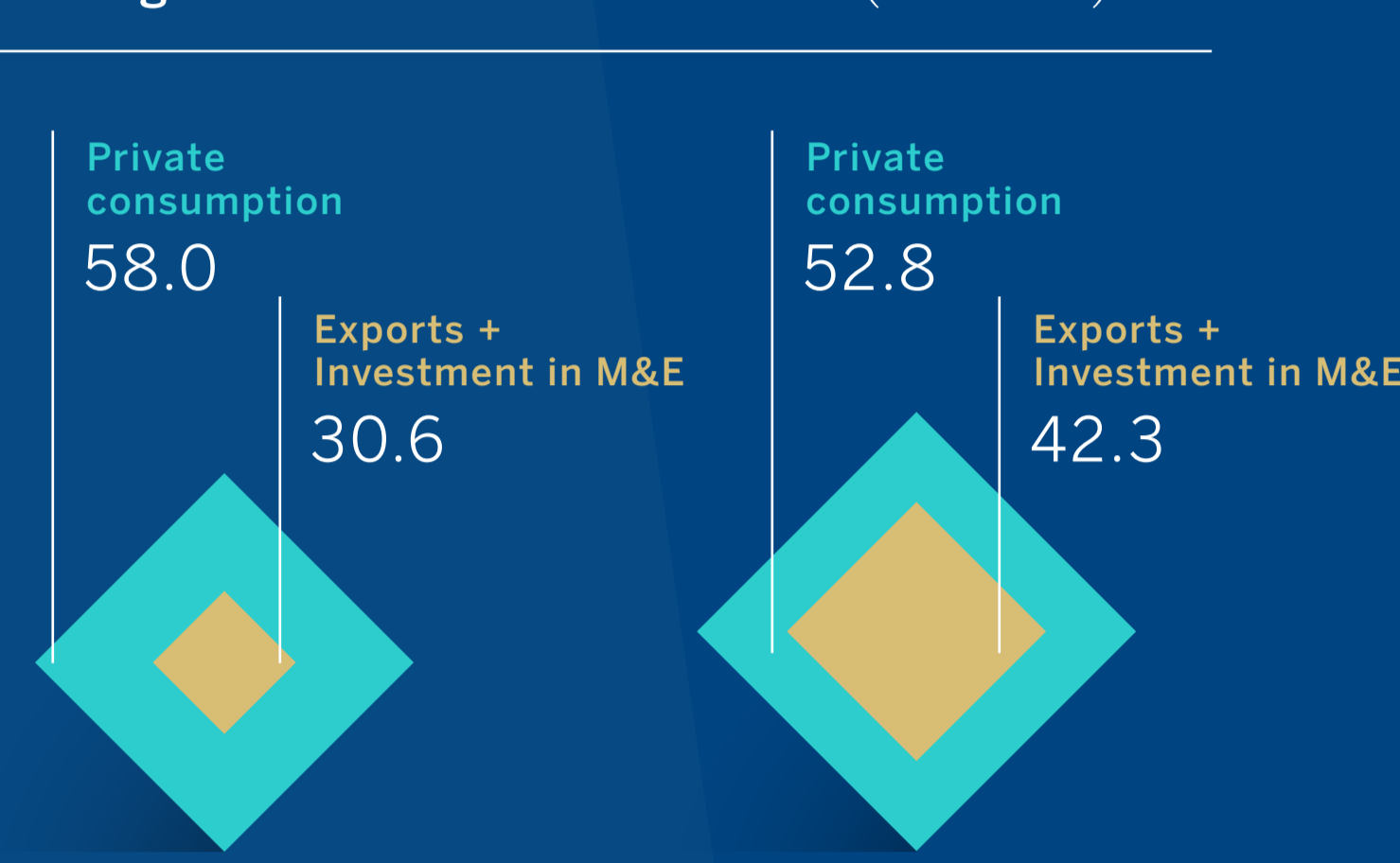
Observed GDP growth and forecasts using the MICA-BBVA model (% Q/Q)



Despite uncertainty surrounding economic policy, **the economy may grow by around 0.8% in 1H18**, above what was estimated three months ago

Exports and investment are picking up, while consumption is easing off

Changes in the structure of demand (% of GDP)

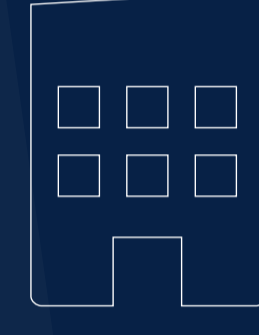


Source: BBVA Research based on INE

(f) Forecast

Economic policy uncertainty in Catalonia is high, although it has tapered off from the maximum seen last October, and its impact is in line with expectations...

...this was temporary (4Q17), geographically limited and having effects on specific sectors (tourism)



In terms of the **real-estate sector**, the outlook is positive: prices are beginning to grow in line with the average household income, however they are still below the pre-crisis levels

FORECASTS

Upwards revision of growth in 2018 and 2019

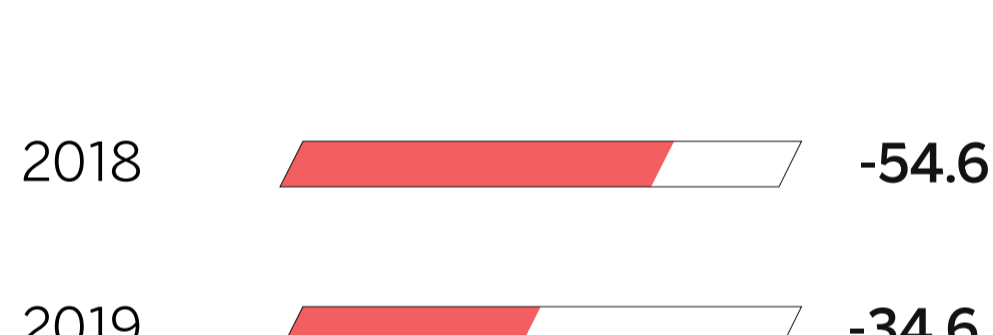


With a **positive external context**:

Upward revision of growth in Europe and the US

Reduction in the cost of financing for the Spanish economy

Downward revision of the risk premium (Deviation from the baseline scenario in bps)

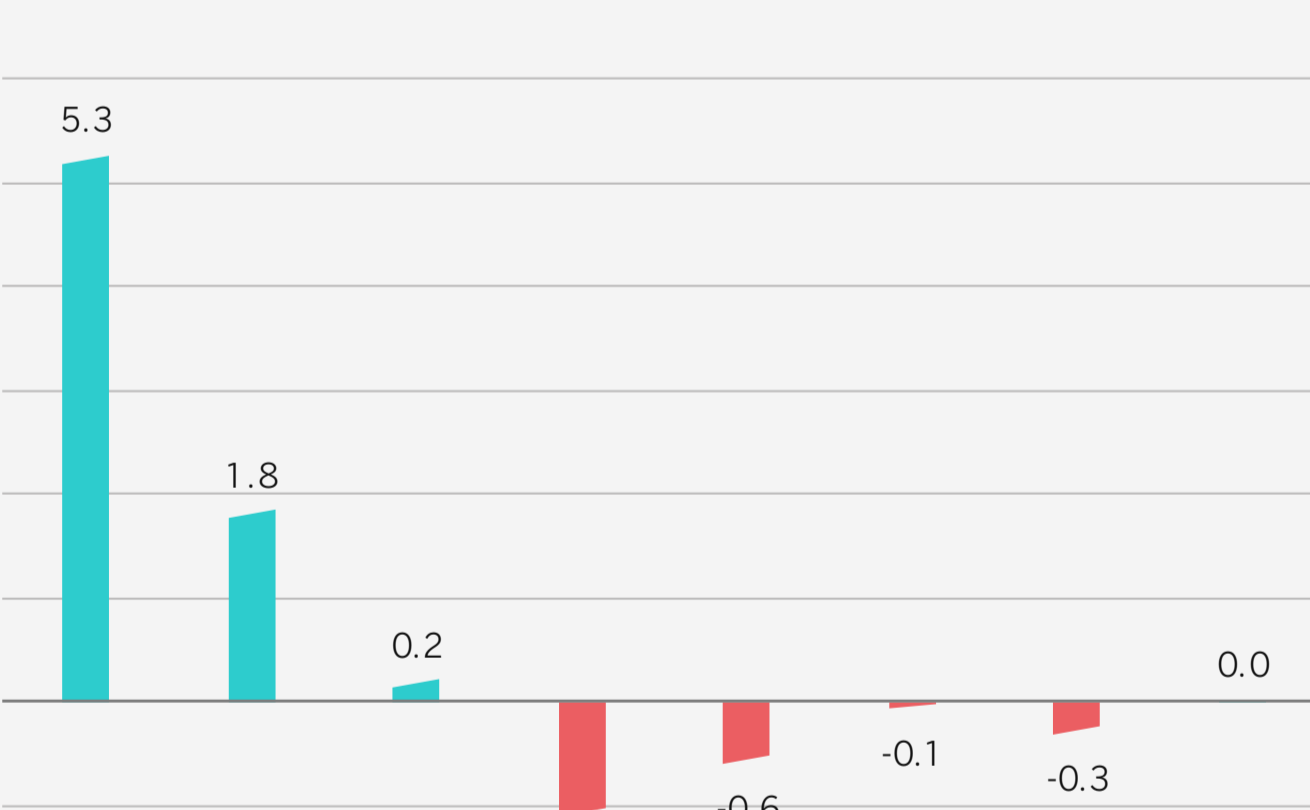


Source: BBVA Research based on Bloomberg

- The **euro exchange rate appreciation** will have a limited impact for Spain, but may affect some regions, sectors and companies
- Very gradual ECB exit** with low long-term interest rates

The fiscal policy stance will be mildly expansionary

Changes in the primary structural balance (Excluding financial sector aid)



(a) Advance (f) Forecast

Source: BBVA Research based on Ministry of Finance and Public Administration and INE

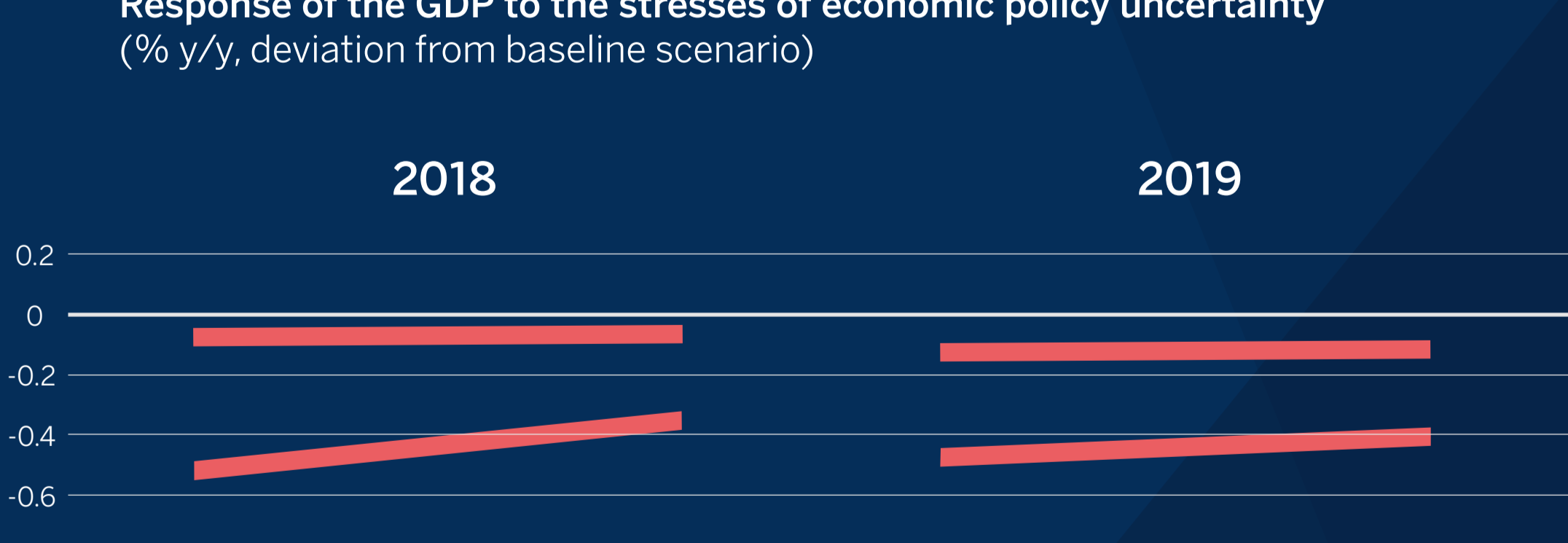
The recovery in economic activity may not be sufficient to reach the stability objectives, given the new measures to expand investment spending

RISKS

A Externally: **greater protectionism**
Trade and monetary policy will be key to avoiding possible risk scenarios.

B Internally: **uncertainty about economic policy**
In line with expectations, the political tension in Catalonia has diminished, and so it will have a limited impact

Response of the GDP to the stresses of economic policy uncertainty (% y/y, deviation from baseline scenario)



C Internally: **fiscal policy**
It cannot be ruled out that tax policy may be laxer than in 2017, which could make the Spanish economy more vulnerable to changes in external financing conditions

CHALLENGES

Progressing towards a **more inclusive labour market**



The flexibility of the Spanish labour market increased after the reforms adopted since 2012, but the degree of job security has not improved significantly

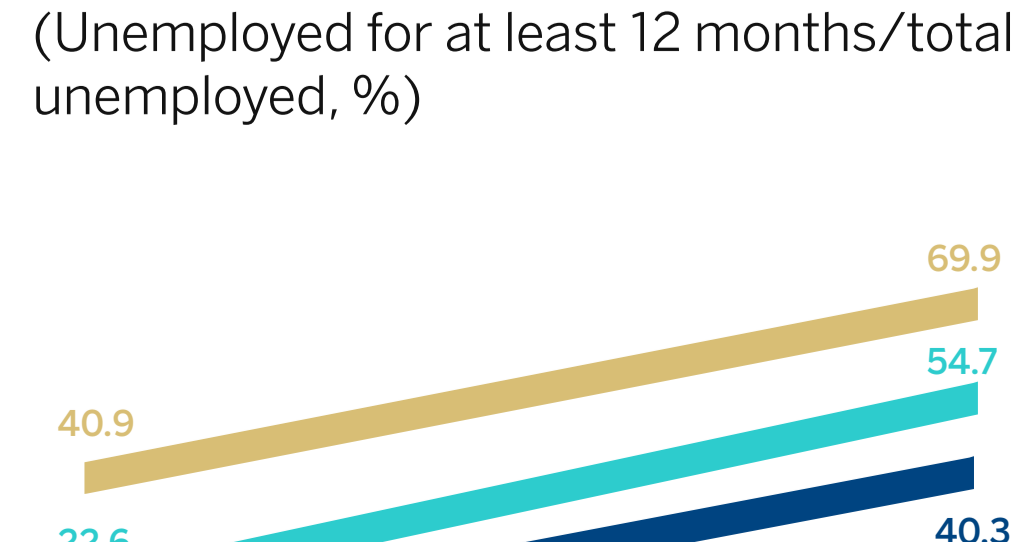


Younger and older workers have benefited the least from the recovery

Temporary employment rate by age group (% of employees)



Incidence of long-term unemployment by age group (Unemployed for at least 12 months/total unemployed, %)



Source: BBVA Research based on INE