

SPAIN ECONOMIC OUTLOOK 3T18

MACROECONOMIC CONTEXT

The global recovery continues, with signs of moderation and differences between large areas

The risks are linked to political **uncertainty**, **vulnerabilities in emerging economies** and, above all, **protectionism**

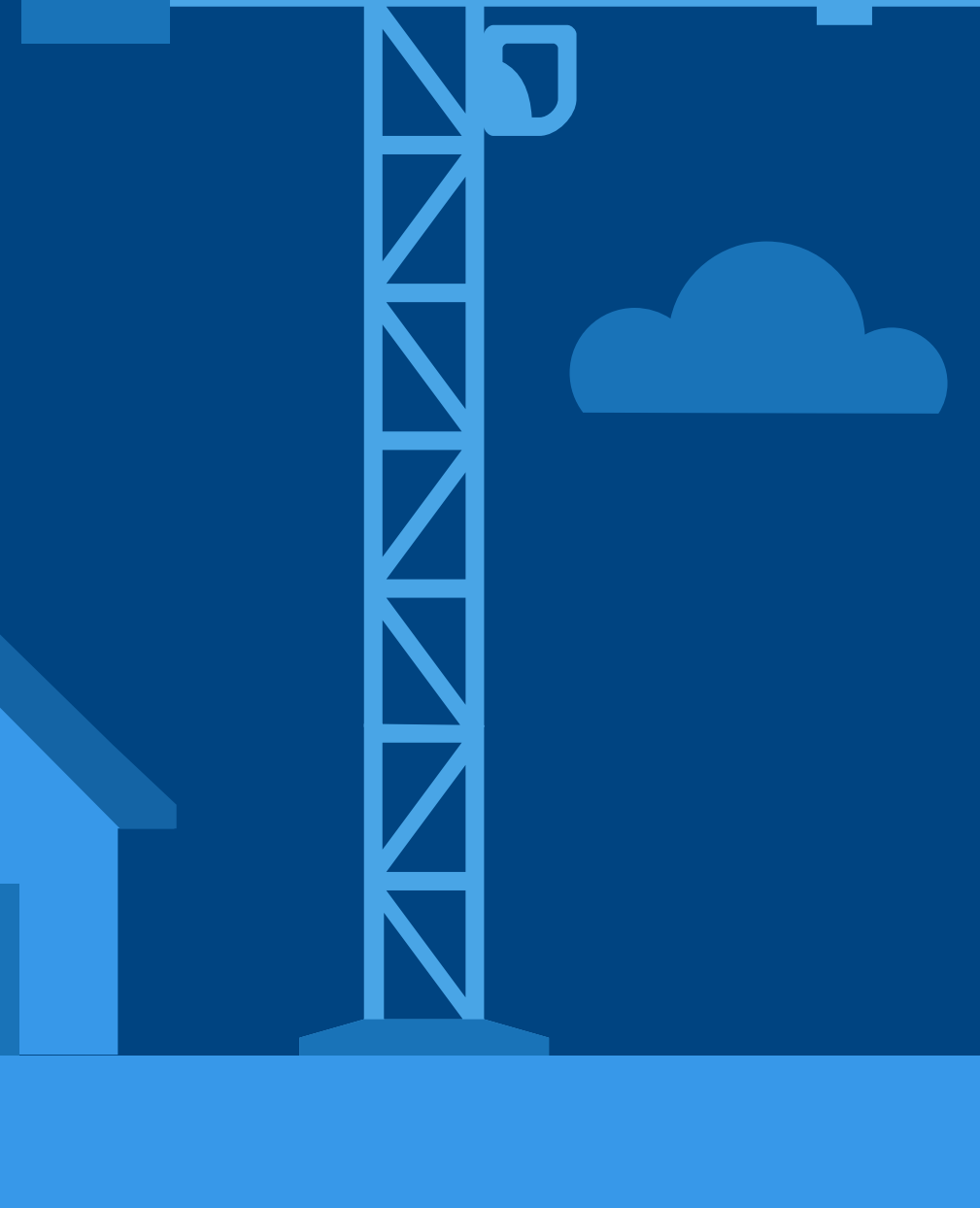
For Spain

Expectations of GDP growth are maintained (2.9% and 2.5% in 2018 and 2019)

THE COMPOSITION OF GROWTH IS SOMEWHAT LESS FAVOURABLE:

exports of goods and investment in machinery and equipment (M&E) are adversely affected by headwinds,

while **consumption growth** is continuing and **investment in construction** is accelerating



Spain: Demand components average growth rate (% QoQ)



Source: BBVA Research based on INE

- Income, real estate wealth and financing boost the recovery of private consumption
- Investment in M&E is supported by solid fundamentals especially the low cost of financing
- The recovery is continuing in the real estate sector, although still in its initial phase and with great heterogeneity
- Behind the deceleration of exports is the appreciation of the exchange rate, the slowdown in European demand, the rising cost of oil and, probably, supply limitations

FORECASTS

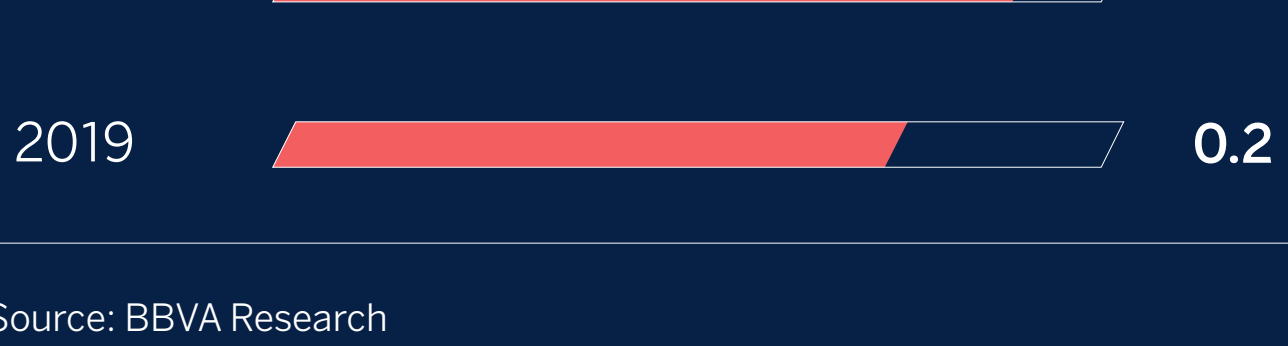
More risks are perceived, and the probability of their materialisation is increasing, **but they are counteracted by the expansive tone of the monetary and fiscal policy**



Source: BBVA Research

2

The fiscal impulse will increase private consumption in the biennium by **0.4 pp**



Source: BBVA Research

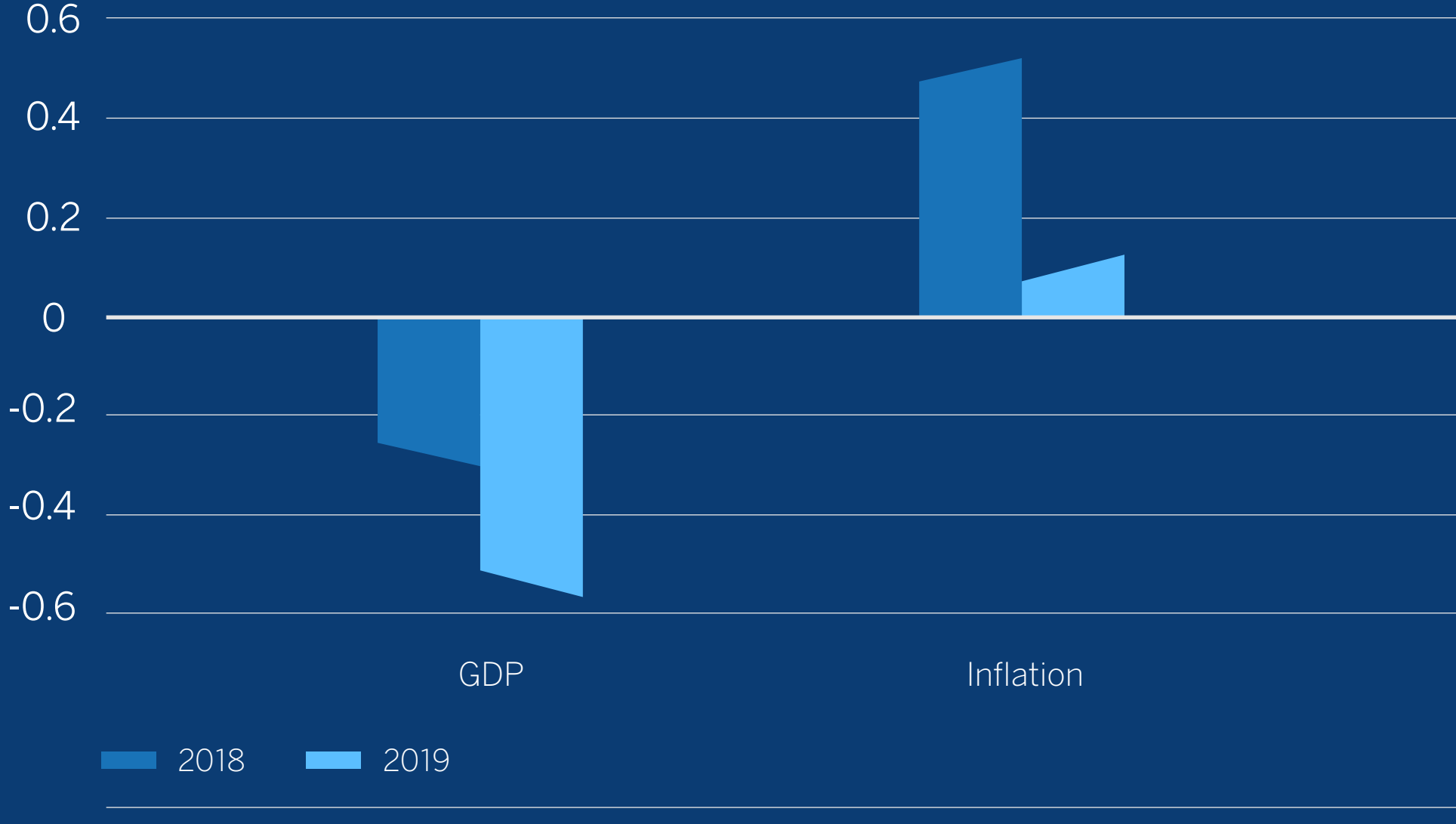


The tail winds are **weakening** in an environment of greater uncertainty

A | Global risks

- Lower growth of the EMU
- Higher oil prices

Spain: Impacts of the change in oil price forecasts (On year-on-year growth rates, %)



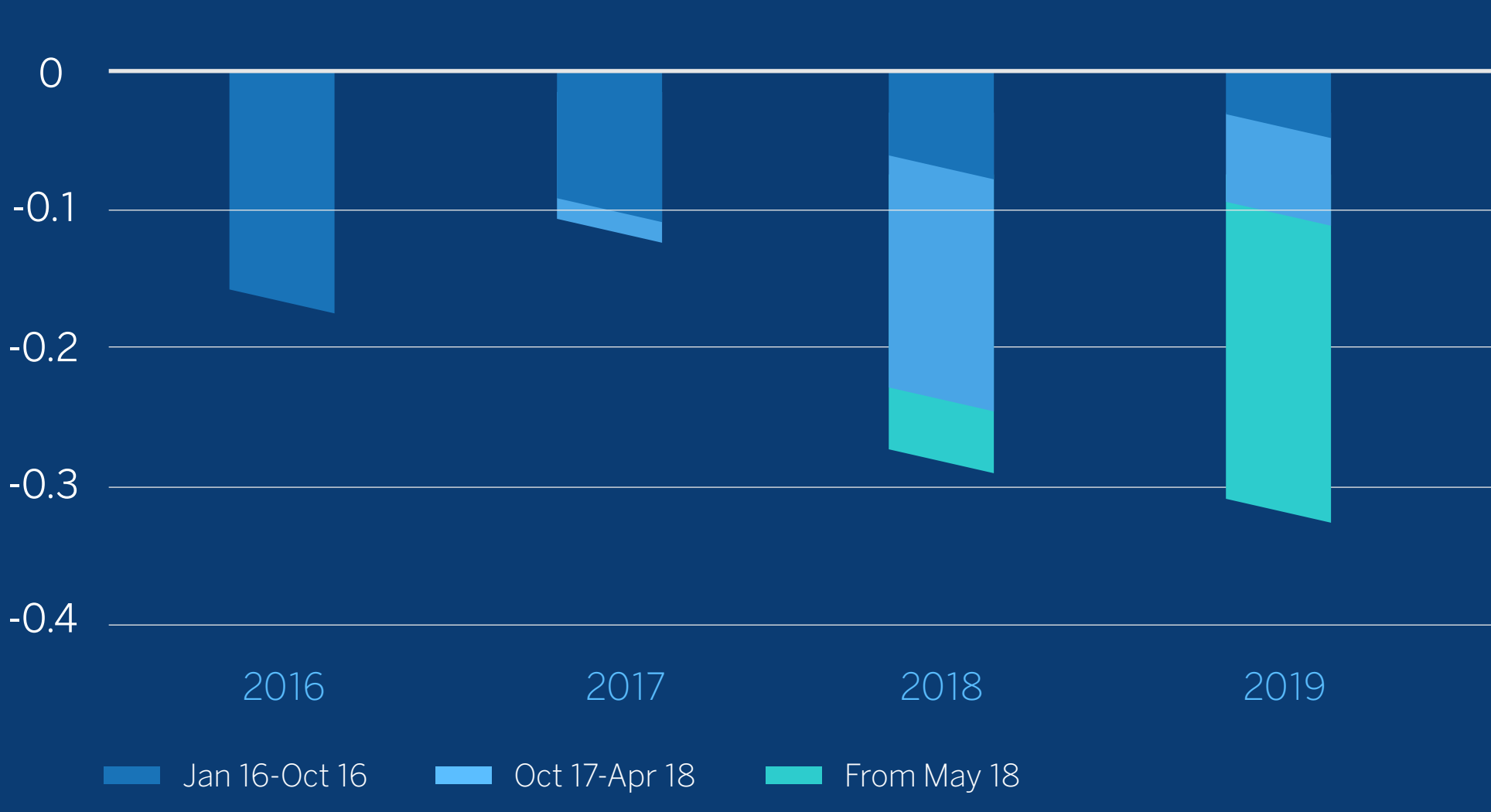
Source: BBVA Research

- Higher commercial rates: at the moment with limited impact in the short term

B | Idiosyncratic risk

- Increases in uncertainty could subtract between 0.2 and 0.3 pp from the average annual deceleration during the **current biennium**

Spain: Response to the increases in economic policy uncertainty (% YoY, deviation from the baseline scenario)



Source: BBVA Research

- The **expansive tone** of fiscal policy assumes deficit forecasts of **2.8%** in 2018 and **2.1%** in 2019

CHALLENGES: LABOUR MARKET



The growth of productivity in the Spanish public sector is stronger than in Europe

- The differential is explained by the lower progress of the private sector, while the public sector has experienced higher growth
- Despite this, the Spanish public sector still has a wide margin to improve its productivity, where the adoption of new technologies is key



We must keep our attention on salaries given the scarcity of human capital

A slight upturn in salary growth is observed, but with greater heterogeneity than in the recent past, which possibly reflects differences between sectors and companies