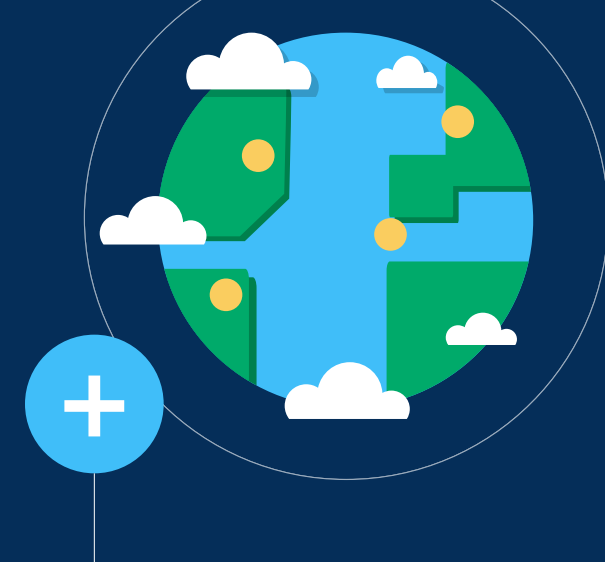
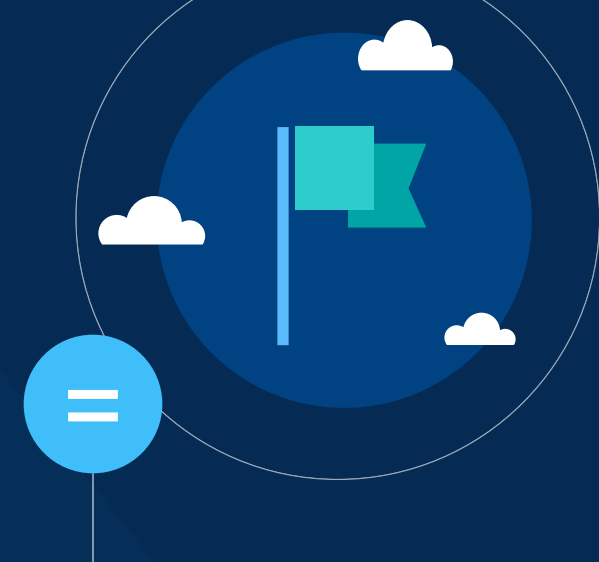


SPAIN ECONOMIC OUTLOOK 4Q18

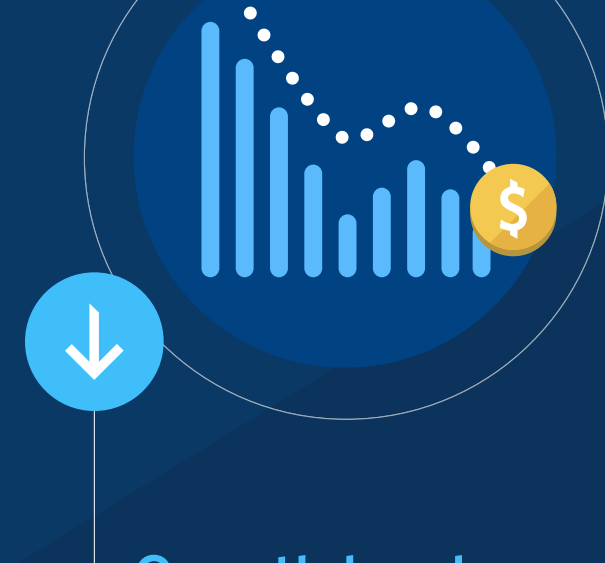
Macroeconomic context



The **global environment continues positive**, although growth is moderating in emerging economies and in the eurozone.



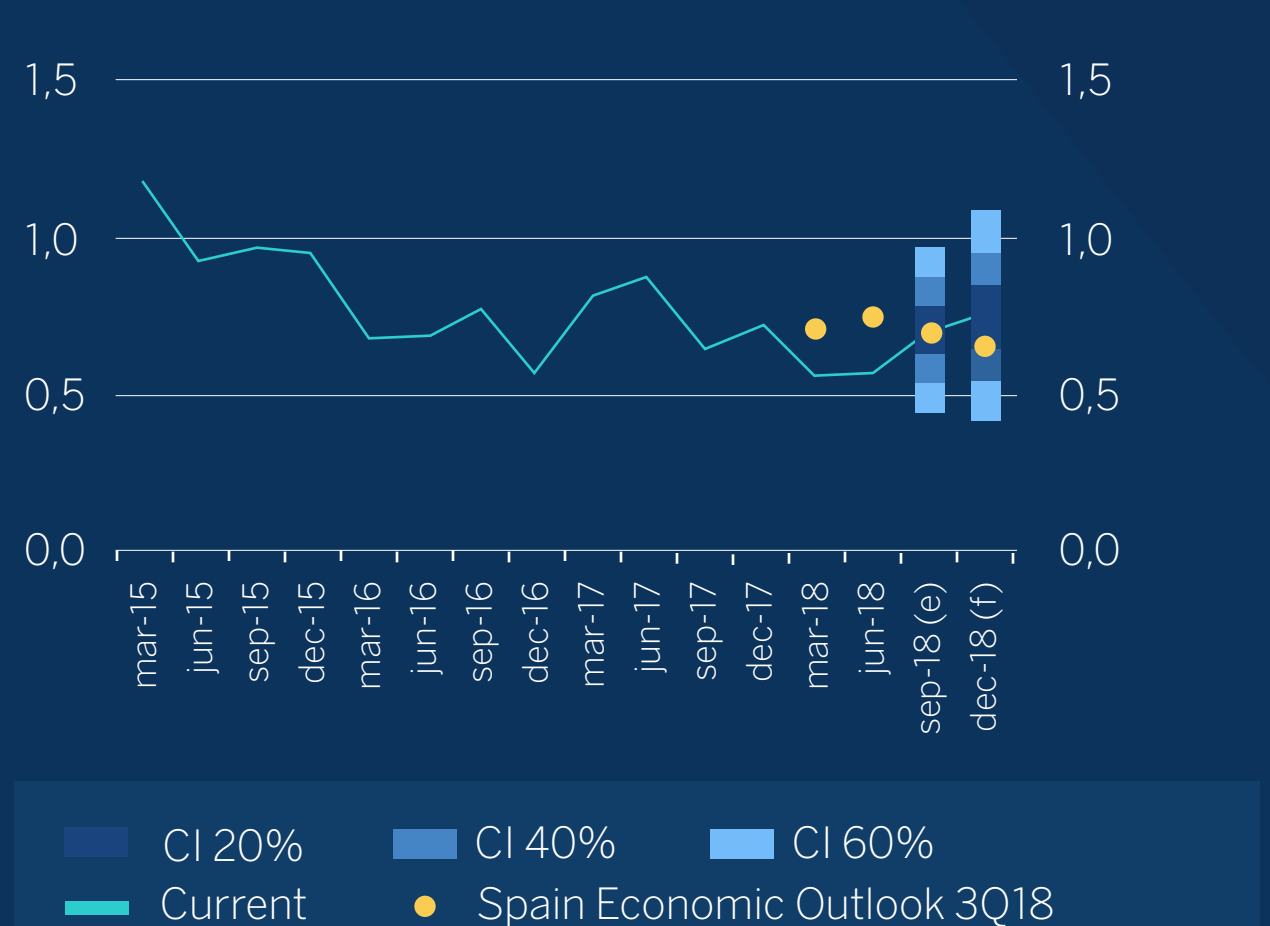
The impact of **protectionism** is still limited, but remains the **main risk**, along with the Fed's normalisation and political uncertainty in Europe.



Growth has been revised slightly downward in Spain, to 2.6% in 2018 and 2.4% in 2019.

Recent economic data indicate lower growth than was estimated three months ago. However, the positive differential with respect to the EMU would be maintained (0.4 pp on average)

Spain: GDP growth observed and forecasted using MICA-BBVA model

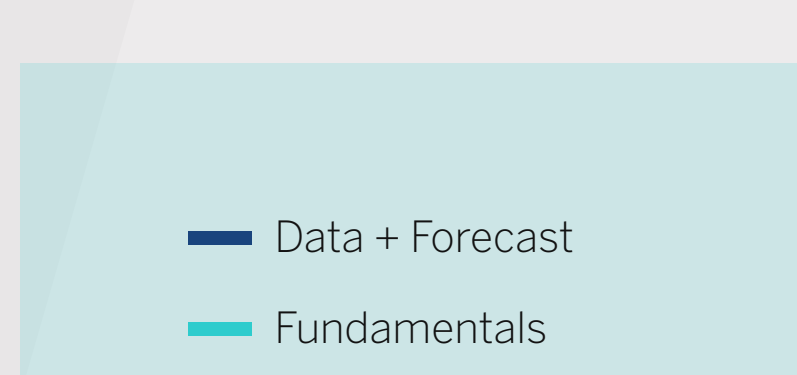


(C) Confidence interval. (e) Estimation. (f) Forecast
Source: BBVA Research based on national sources

Factors behind the slowdown

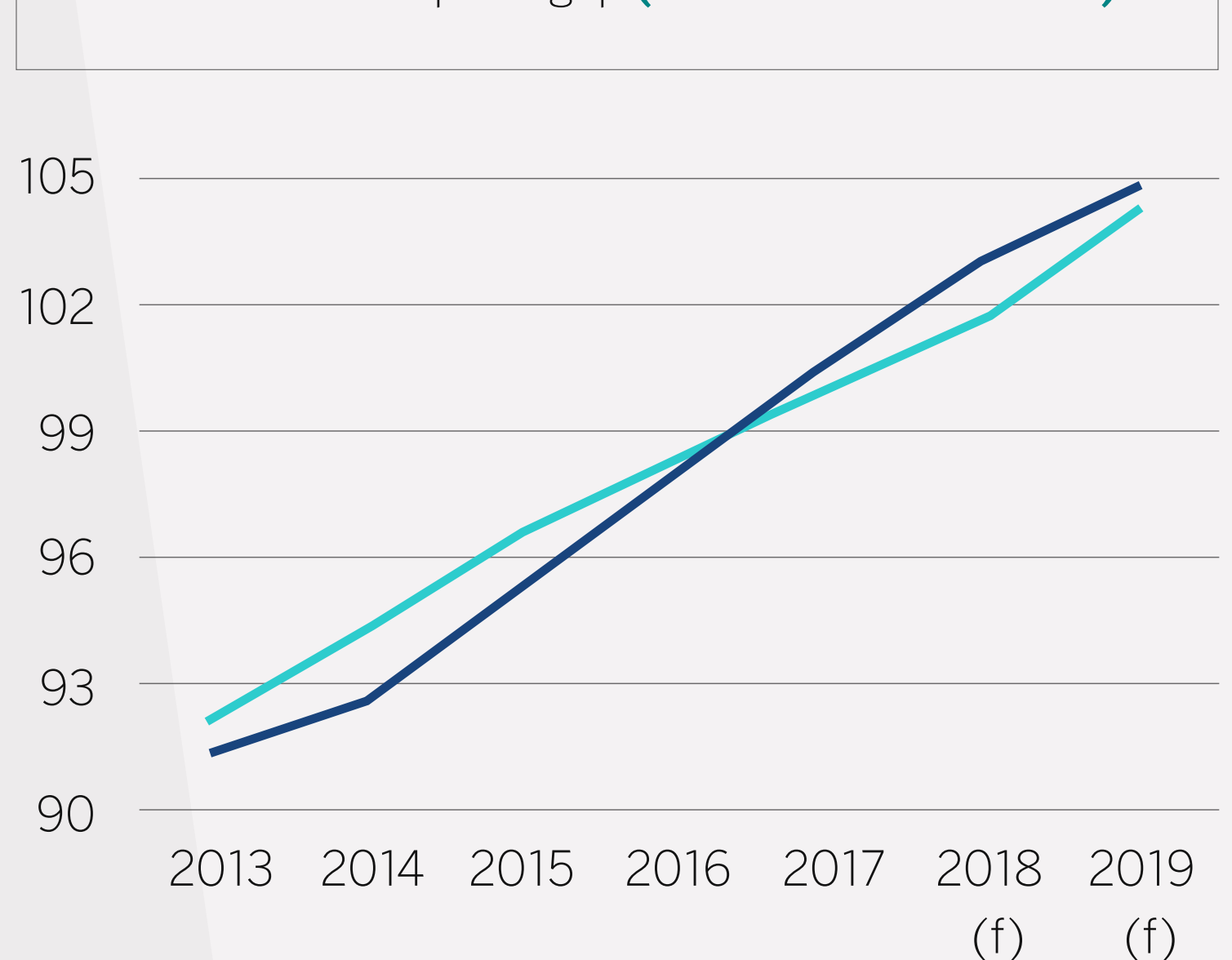
1 Consumption

Absorption of pent-up demand of durable goods ceased to contribute to economic growth in 2017.



(f) Forecast Source: BBVA Research

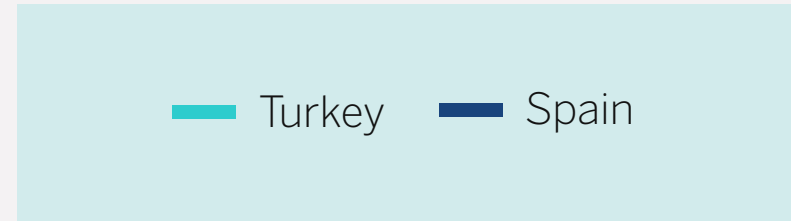
Private consumption gap (Index based on 2010)



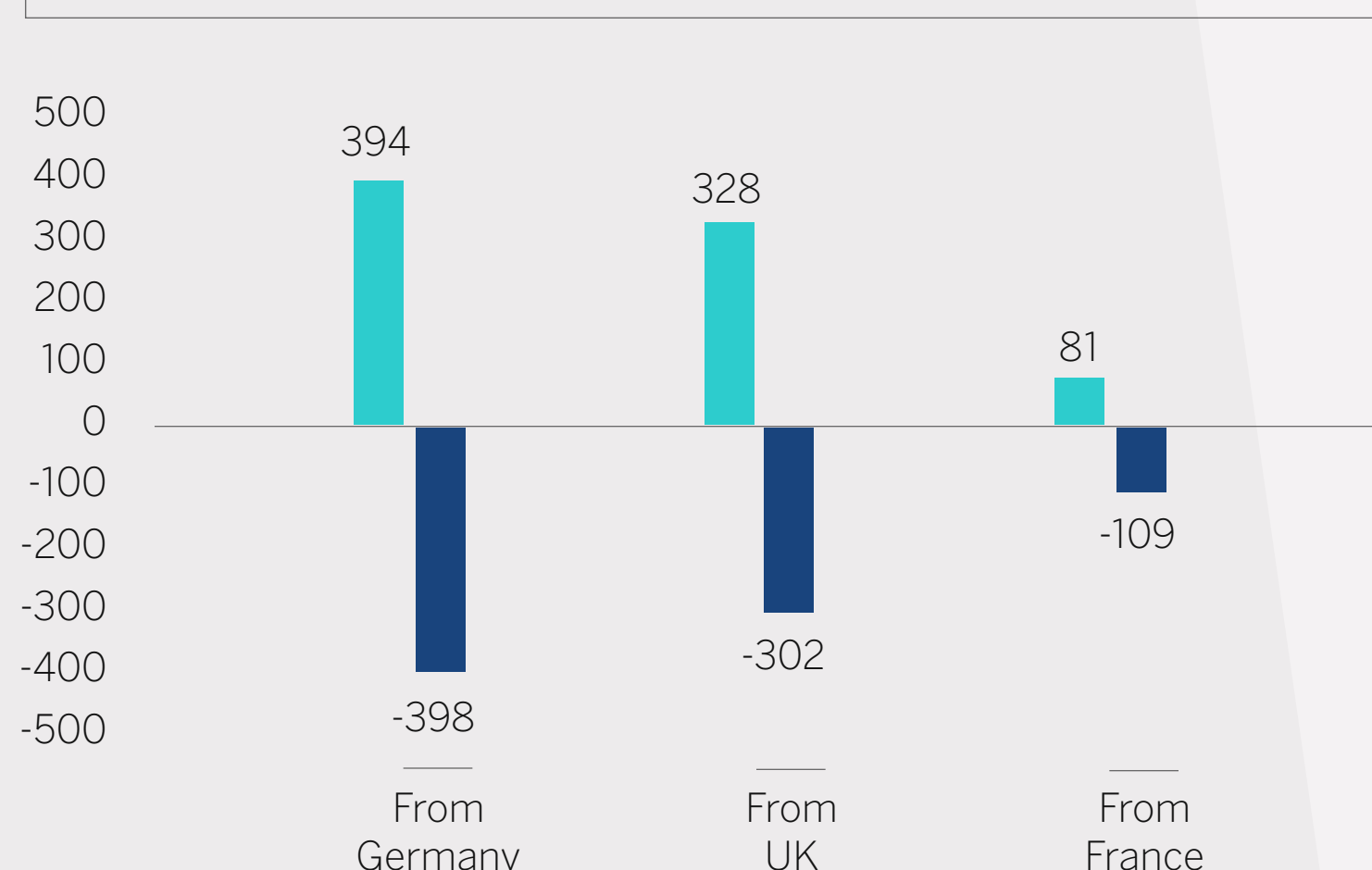
2 Tourism

A **gap** of around 10% persists between the observed tourist flows and what is explained by fundamentals.

The change towards other destinations is especially noticeable in tourists of European origin.

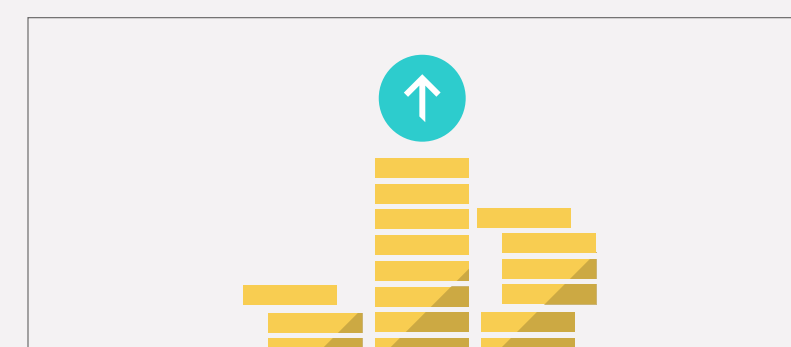


Tourist arrivals at the border in Turkey and Spain (Variation YoY in thousands of people, Jan-Jul 18)



3 Raw materials

The price of oil rises. It appears that companies are moderating their margins, in an environment of lower demand growth, expected to be temporary.



Outlook for 2018-2019

Although certain factors show **signs of moderation**, there is scope to continue growing steadily in the medium term.

Spain: Evolution of macroeconomic indicators during the maximum pre-crisis and the present (**Deviation from the 1988-2008 average**)



(f) Forecast
Source: BBVA Research based on INE, CE and BdE

Forecasts

Indicator	2018	2019
Employment growth (LFS)	2,6%	2,2%
Unemployment Rate	15,3%	13,7%
Inflation	1,8%	1,6%
Compensation per employee	0,9%	2,1%

Percentage, annual means
Source: BBVA Research

Risks

External factors

- **Protectionism:** although limited for Spain at the moment, it could reduce investment expectations.
- Higher oil prices.
- **Political uncertainty in Europe:** tensions in Italy and Brexit.

Internal

- **Moderation of tourism and impact on job creation:** there are doubts about the capacity of other sectors to compensate for the deceleration that is already being observed.
- **Uncertainty about economic policy:** especially around the approval of the Spanish National Budget for 2019.



Impact of uncertainty on annual GDP growth (%)



(f) Forecast
Source: BBVA Research