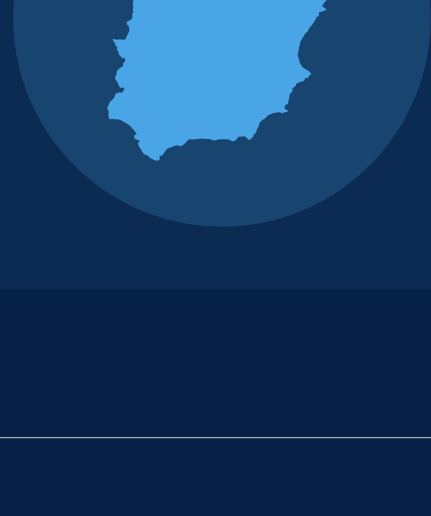


Spain Economic Outlook 2Q19

Growth expectations are revised downwards and risks increase



2.6%
2018

↑
+0.1pp

2.2%
2019

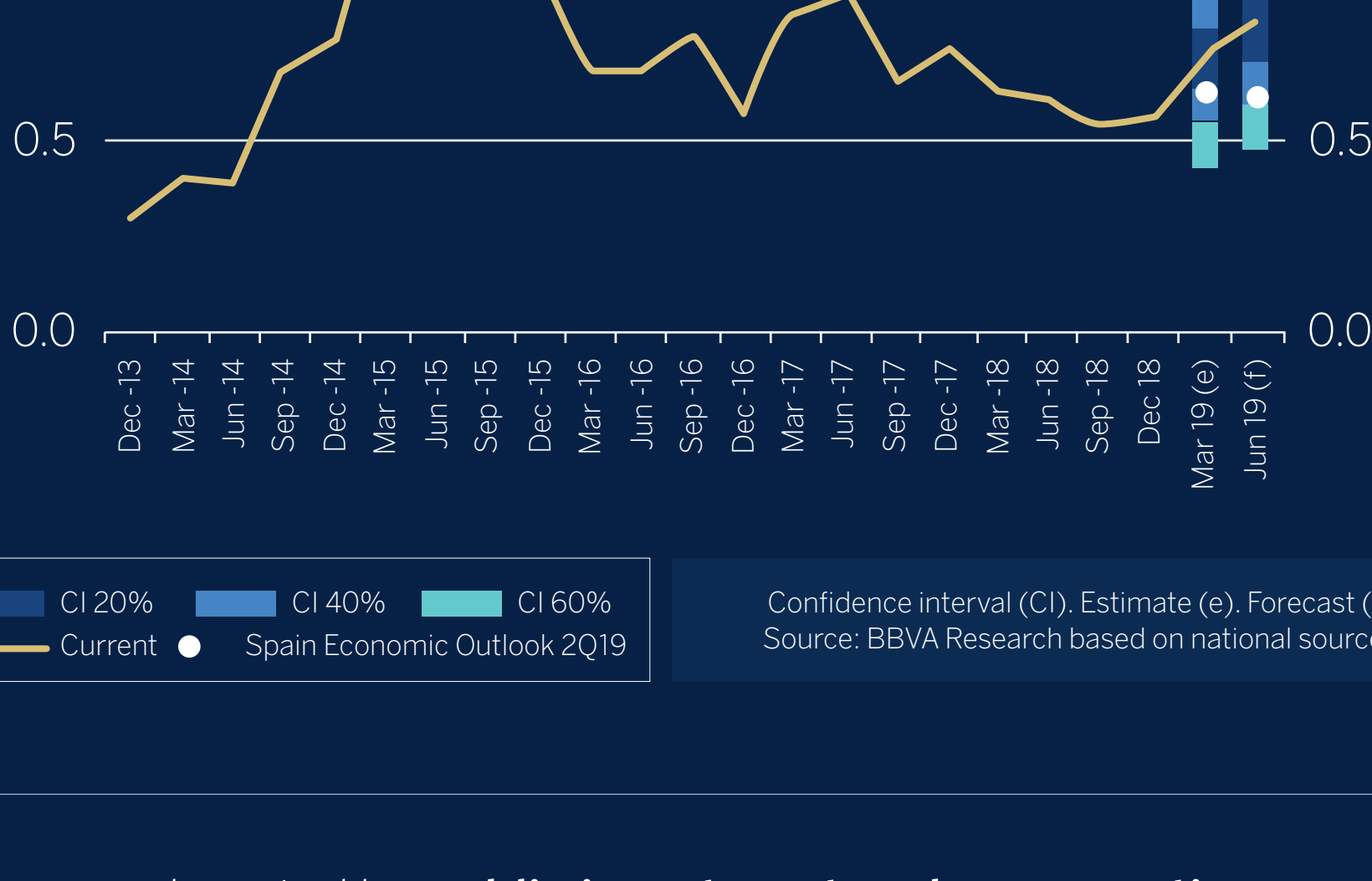
↓
-0.2pp

1.9%
2020

↓
-0.1pp

In the **short run**, the **increase** in activity will **remain solid**...

GDP growth observed and forecasts using the MICA-BBVA model (% QoQ)



...boosted by **public investment and consumption**, with extremely volatile private investment (Average quarterly growth 4Q18-1Q19, %)



*4Q18 observed, 1Q19 forecast
Source: BBVA Research based on INE data

The **recovery will continue**, although **expectations** are tempered in 2019 and 2020

What is boosting **growth**?

1

The **growth in global demand** despite uncertainty

2

A more expansionary **monetary policy** stance

Long-term **interest rates**:

2018 **1.50%**

2019 **1.60%**
(-100 bp compared to Nov 18)

2020 **2.25%**
(-85 bp compared to Nov 18)

3

Increased financing to families due to employment growth and household confidence

Spain: new lending operations (SWDA, 2018 average = 100)



Source: BBVA Research based on BdE data

What is hindering **growth**?

1

The **slowdown** in private **consumption growth** (YoY)

2018 **2.3%**

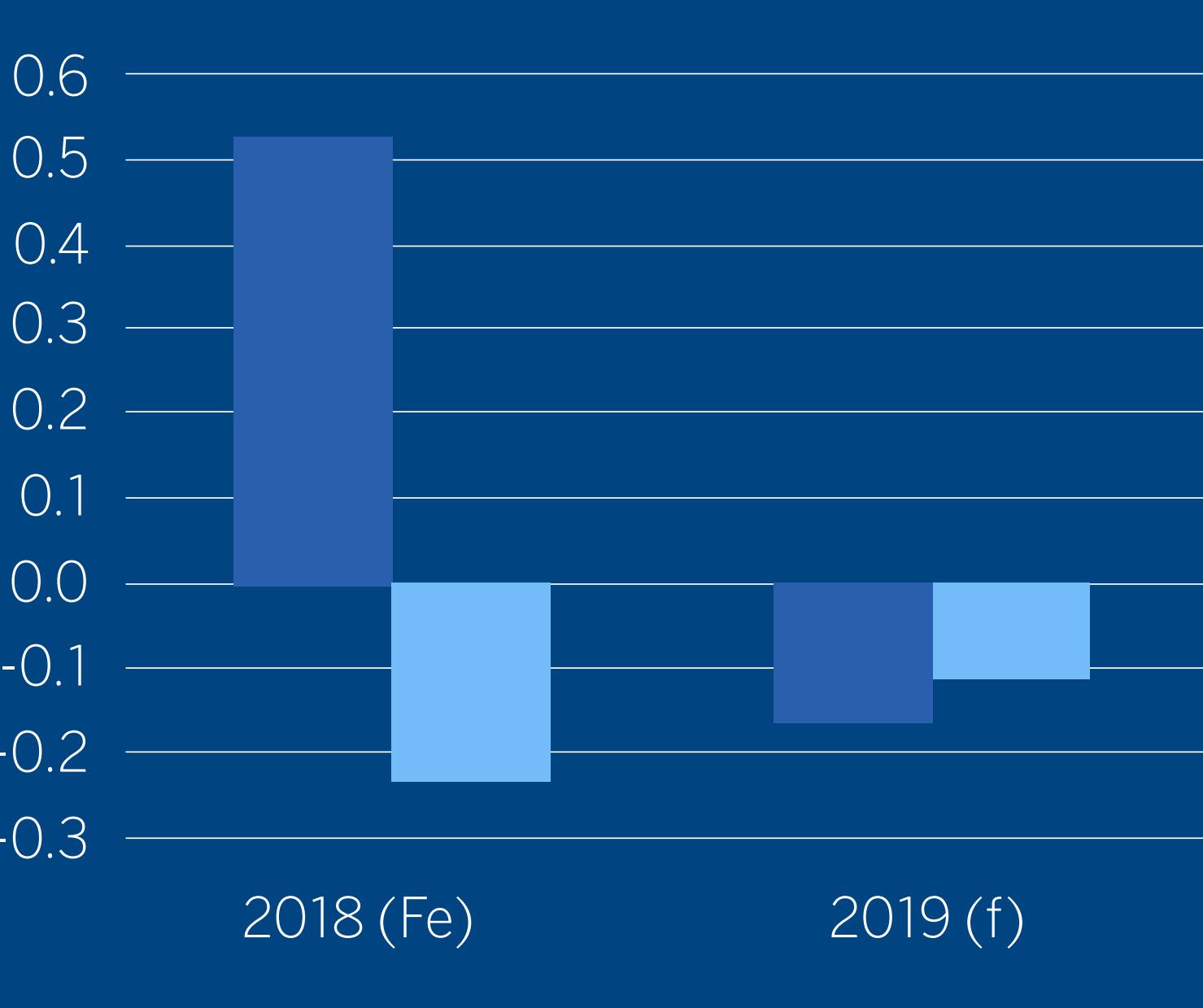
2019 **2.0%**

2020 **1.7%**

2

The expansionary stance of fiscal policy may **wane**

Changes in primary expenditure for the public sector (pp of GDP)

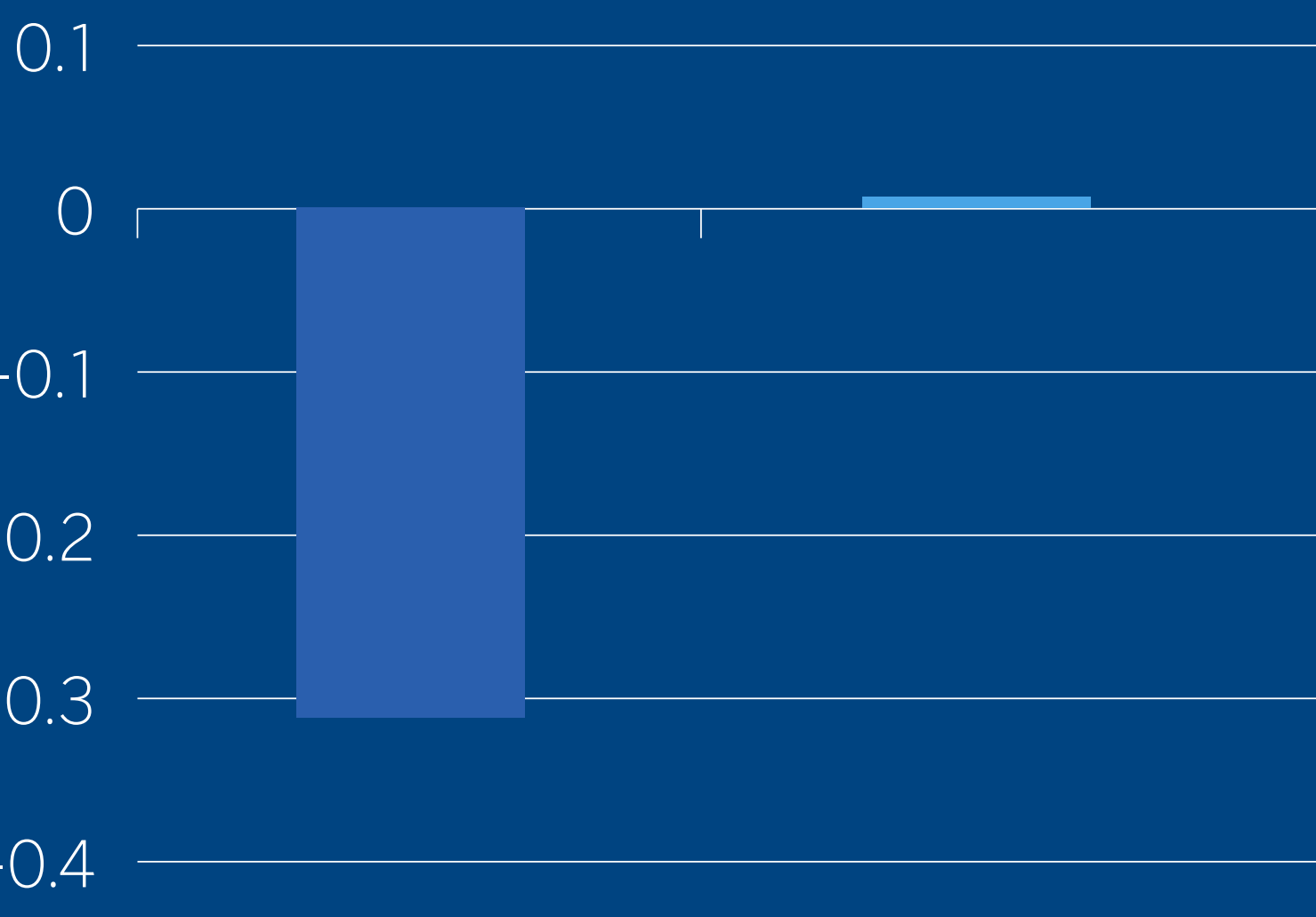


Note: AMECO forecasts for the EMU, and BBVA Research forecasts for Spain (a) Actual growth, Forecast (f).
Source: BBVA Research based on Spanish Ministry of the Treasury and AMECO data

3

Uncertainty around the impact of the increase of the **statutory minimum wage** (SMW)

Social Security Registration: difference between the quarterly variation in 1Q19 and the average for 1Q17-1Q18 (wage earners, %)



*People under the age of 30, Trade, hospitality, real estate activities, professional, administrative and artistic activities; and other services. Canary Islands, Extremadura, Andalusia and Murcia
Source: BBVA Research based on MITRAMISS (Spanish Ministry of Labor, Migrations and Social Security) data

4

Residential investment growth has been hindered by legal uncertainty (YoY)

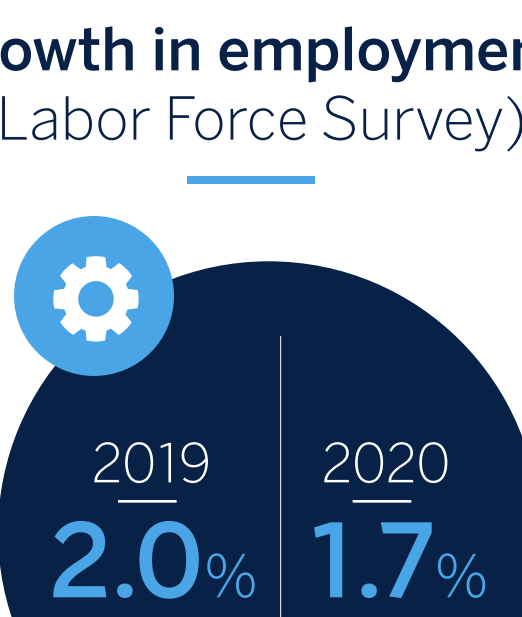
2018 **6.9%**

2019 **4.6%**

2020 **4.3%**

Outlook for 2019-2020

Growth in employment (Labor Force Survey)



Inflation



Unemployment rate



Nominal compensation per employee



Percentage, annual averages
Source: BBVA Research

Risks

Risks are still numerous and the **likelihood of occurrence** of some of them **is increasing**:

1

Trade tensions: import tariffs in the USA and Brexit

2

Global low-growth environment

3

Economic policy **uncertainty**

4

Uncertainty about the **growth of exports**

5

Reduced demand in some **core sectors**, such as tourism

6

"**Premature deindustrialization**" in some regions