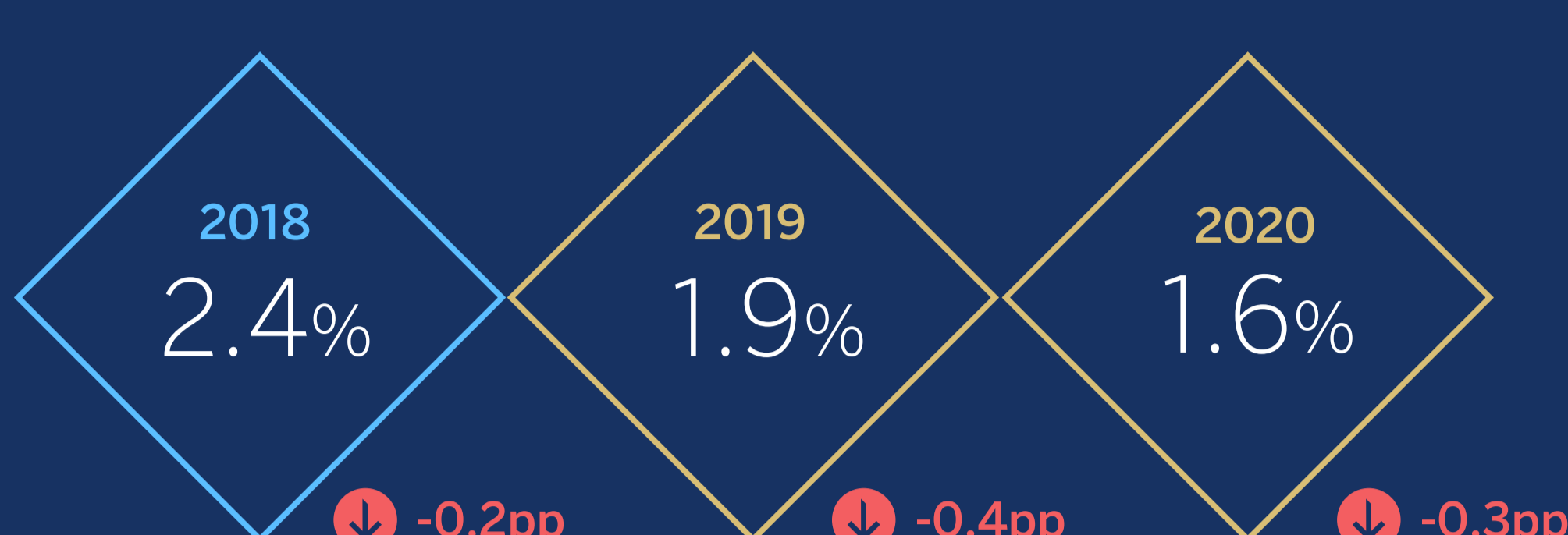


Spain Economic Outlook 4Q19

The evolution of the economy points to a GDP growth lower than expected three months ago

GDP growth (%)

Source: BBVA Research based on INE (Spanish Office of National Statistics)



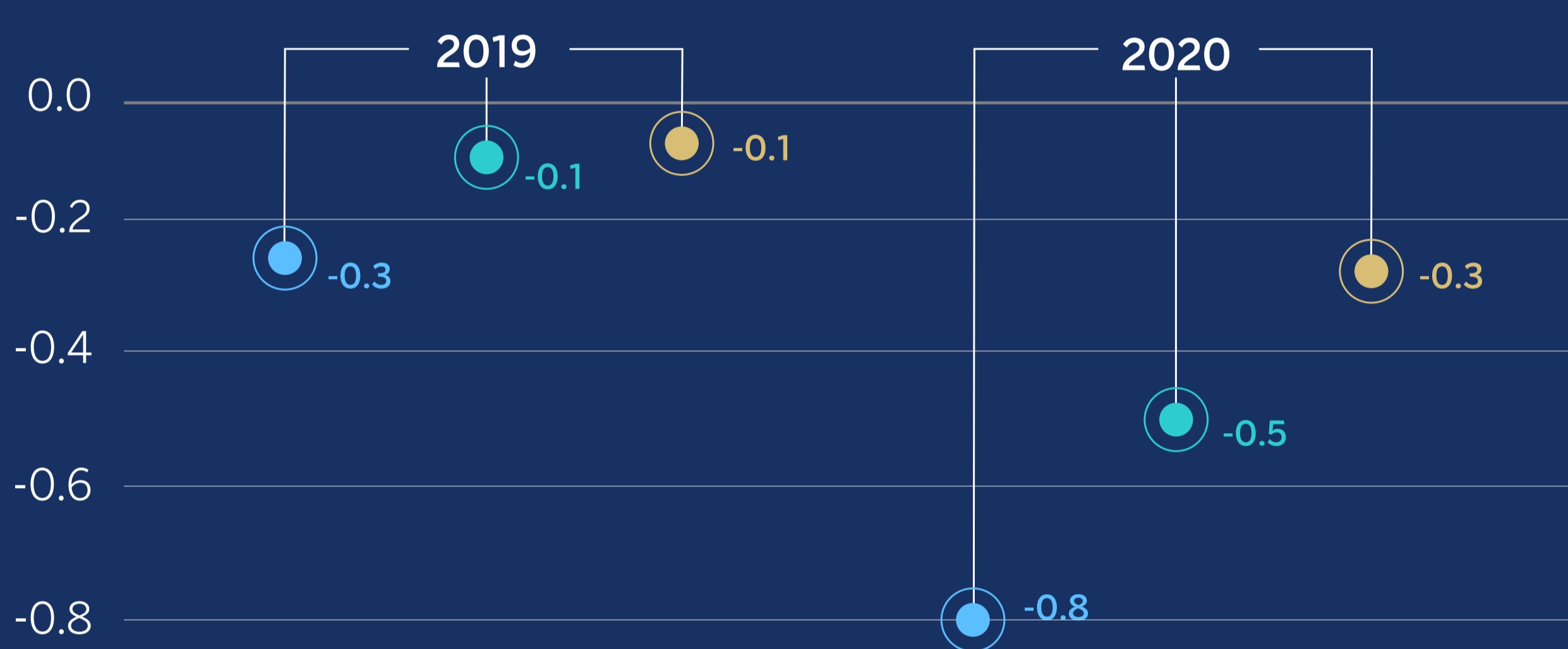
The causes of this scenario

- GDP growth in 1H19** was lower than previously expected, according to the **review of the INE's Quarterly National Accounts**
- The composition of growth has weakened**, with a further slowdown in domestic demand due, above all, to the reduction in private consumption
- Growth in the EMU** will be lower than was expected three months ago: 1.1% in 2019 and 0.8% in 2020

Spain: impact of the downward revision of EMU growth (deviation from the baseline scenario in pp)

Source: BBVA Research based on INE

Exports Domestic demand GDP

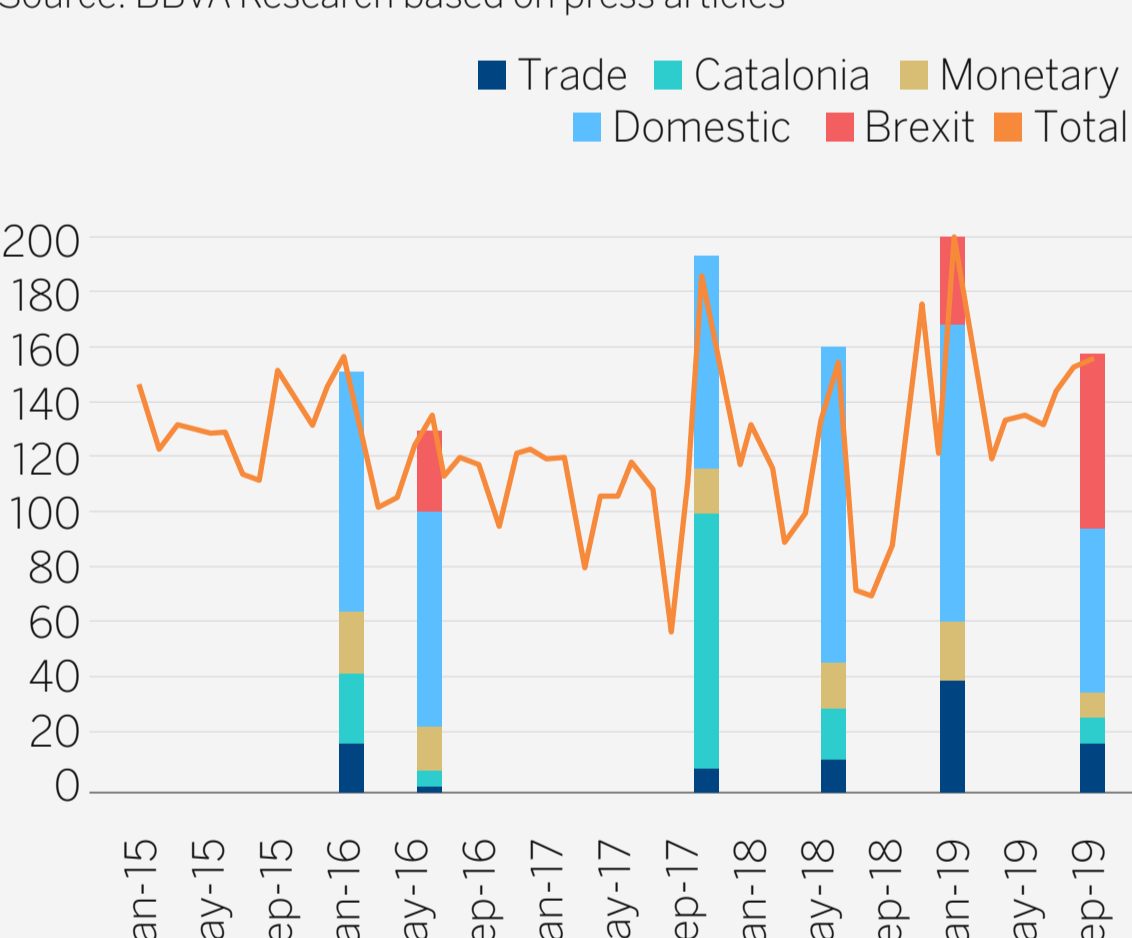


Also, uncertainty has increased

Uncertainty around economic policy is growing due to a more volatile external environment

Spain: breakdown of economic policy uncertainty index (Index, 100 = average, 1997-2019)

Source: BBVA Research based on press articles



Brexit will raise prices in commercial transactions and reduce investment flows

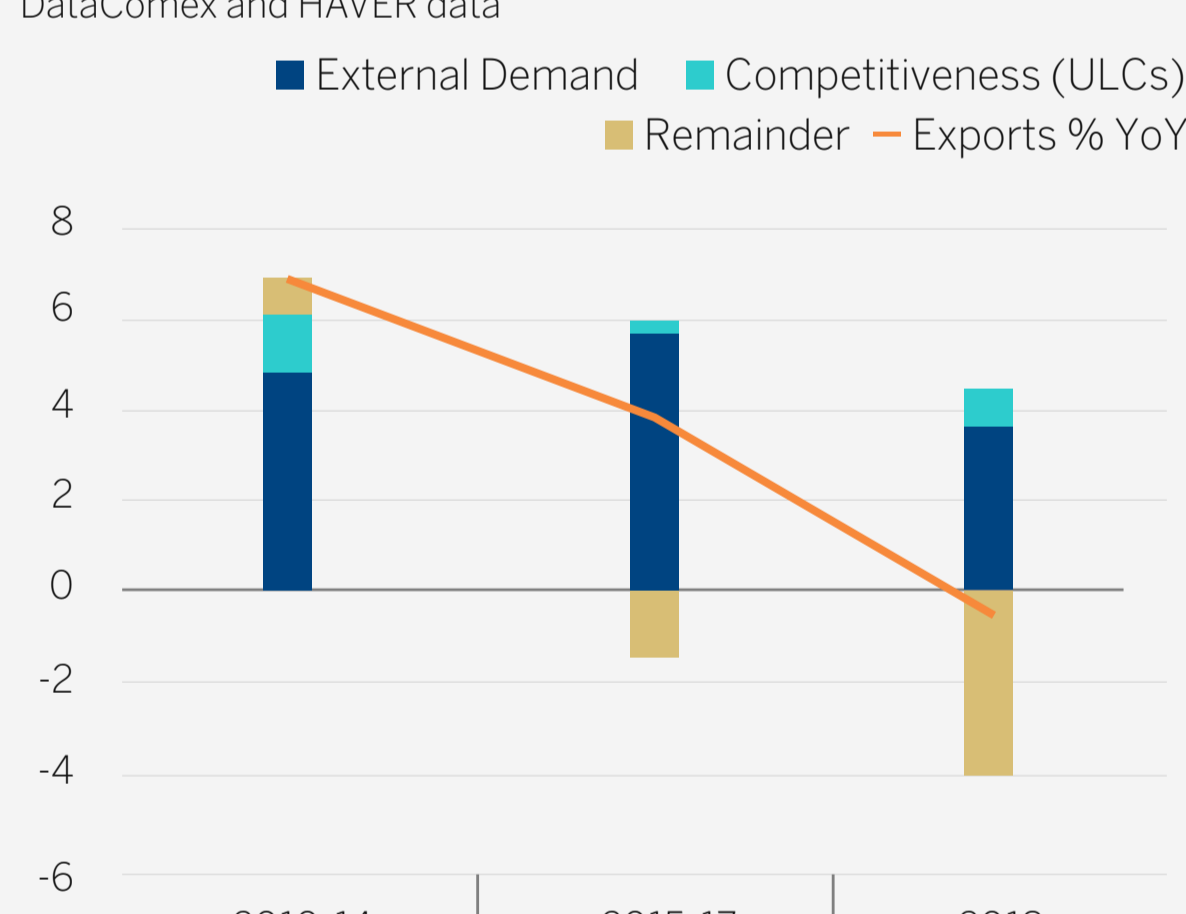
Structural changes in the automobile sector are explained by variations both in terms of demographics and preferences

The **real estate market** is amassing negative surprises

Exports are weakening and their contribution to growth is diminishing

Spain: evolution of determining factors of growth in goods exports (average contributions YoY)

Source: BBVA Research, based on CNT (Confederación Nacional del Trabajo — Spanish National Confederation of Labor) (INE), DataComex and HAVER data



There will be a **turning point in fiscal policy**: meeting fiscal goals will require a deficit adjustment

Spain: a change in the cyclically adjusted balance is required to achieve the government's deficit target* (pp)

1H19: 0.5 | 2H19 (p): -0.7

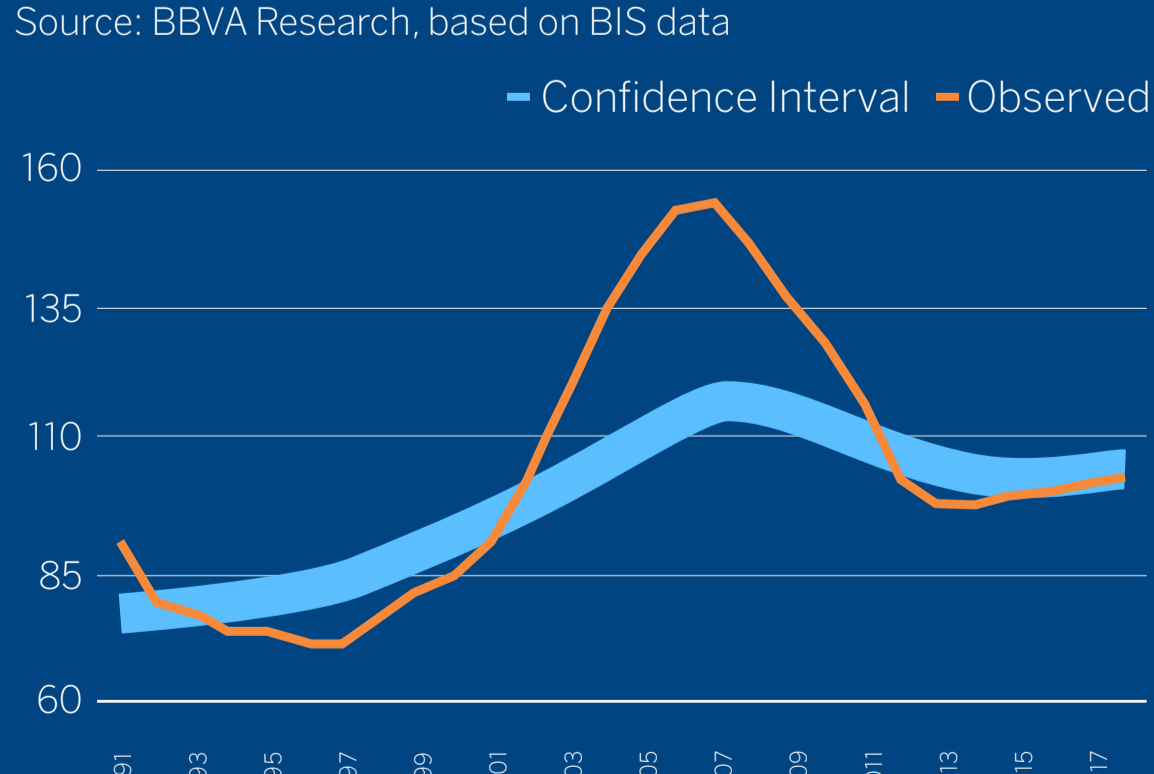
* The Government's deficit target is 2.0%
Source: BBVA Research, based on Ministerio de Hacienda (Spanish Ministry of Finance) data

What is supporting the Spanish economy?

- Unlike the period 2005-2007, **now there are no signs of major imbalances**
- A positive impact of monetary policy** on growth
- A low probability of recession in the short term**: there is slowdown, but the growth phase still continues

Spain: housing prices (real price index)

Source: BBVA Research, based on BIS data



So, what economic challenges persist at the domestic level?



To reestablish compliance with the EMU's and the OECD's economic recommendations



To work toward inclusive recovery throughout Spain