BBVA Research

Spain

# Economic Outlook

Third Quarter 2010

**Economic Analysis**

- The Spanish economy grew slightly during the first half of the year, but it remains the uncertainty about the second half.
- Risk premiums do not yet reflect the fundamentals of the Spanish economy.
- Stricter and more transparent stress tests for banks than elsewhere in Europe show just how solid the Spanish financial system is.
- Stepping up the pace of structural reforms is crucial to securing sustained growth and job creation.

BBVA

# Contents



**Closing date: August 3, 2010**

# Summary

**European fiscal consolidation must reduce the structural component of the deficit**

One of the main negative impacts of the fiscal crisis on Europe's economies has been the loss of confidence, and fiscal prudence is vital to restore it. The good news, however, is that governments are making adjustments swiftly, targeting expenditure. This should boost confidence in the private sector and partly offset the negative impact on growth stemming from the reduction in public demand. Accordingly, if fiscal consolidation is rigorous, the repercussions on European economic activity will be more limited and short-lived than if the fiscal adjustment is hesitant or less rigorous.

**Bank stress tests have reduced uncertainty regarding the Spanish financial system**

Against this backdrop, financial risks deriving from the sovereign debt woes took developed economies towards a vicious circle, ultimately pushing up market risk and absorbing liquidity, especially in Europe. The publication of the results of the stress tests in the euro area's financial system helped allay pressures, although results diverged across countries. In Spain, the Bank of Spain conducted the tests with rigour and its results were both highly informative and credible. Nonetheless, the risks coming from the financial markets for Europe, let alone the global economy, are still clearly the main cause for concern.

**The Spanish economy grew again in the second quarter**

Growth of the Spanish economy in the second quarter was again sluggish and slightly higher than in the first quarter. The potential short-term contractive effects of the austerity plan and the impact of greater uncertainty in financial markets on consumer and investment decisions have increased the likelihood of a transitory, albeit limited, relapse in the economy during the third quarter.

**Spain's economic fundamentals warrant lower risk premiums**

Nonetheless, confidence is likely to continue to improve going forward, while risk perception will probably continue to dissipate. In fact, the private sector is well on the way to correcting previously accumulated imbalances: savings rates remain high, while investment in sectors with surplus capacity has been scaled back. This has lowered external financing needs in Spain more than in other countries that had similar imbalances when the crisis began.

**The fiscal consolidation process, underpinned mainly by spending cuts, has a high probability of success**

The tax hikes have so far focused on indirect taxes, the reduction of the structural deficit comes during the first few years of the adjustment, and the Spanish economy benefits from the credibility gained by adhering strictly to fiscal targets in the past. All of this should be reinforced with the release of updated budget data, which are already showing a major improvement in the first half. At the same time, both these measures and those included in the 2011 budget must avoid undermining business and household confidence, minimising their impact on future growth prospects. The cuts should come more on the current spending side than by sacrificing public investment in infrastructure, education or R+D. Furthermore, the possibility of introducing alternative funding mechanisms for certain public services (e.g. selective co-payment in health and education by citizens who can afford it, and who are the majority) should be considered. This would increase the contribution from private spending to the supply of such services, boost efficiency, guarantee the sustainability of the Welfare State and work as another instrument of the wealth redistribution policy.

**The Spanish tax system is progressive enough compared to the rest of Europe. The fiscal debate should be aimed at achieving a more efficient tax system**

In particular, it is necessary to take into account the differences between marginal tax rates in Spain and those of neighbouring countries, which distort the decisions on jobs and investment among households and businesses. According to Eurostat, the implicit capital gains tax rate is 6.7 points higher in Spain than elsewhere in the EU, and it is higher than the employment income tax rate (while in the rest of Europe the opposite is true). Moreover, indirect taxes in Spain are still among the lowest in the EU, despite the VAT hike effective from July 2010. Accordingly, the conditions are there for the fiscal structure to move towards a system that reduces the burden on household and company income and profit, placing more emphasis on indirect taxation. Lastly, it is not advisable to hike marginal tax rates on employment income in order to achieve more progressivity. For example, the gap between the marginal rate on employment income (43.0%) and the average effective rate (30.5%) is above the EU average (37.5% and 34.2%, respectively). Additional increases in the marginal rate not only have scant capacity to raise tax receipts, but would generate disincentives to accumulate human capital and would introduce distortions on labour supply decisions in Spain among the population with higher standards of education, compared with other economies where the tax burden is lower. This would undermine the recruitment of talent and the potential of the Spanish economy.

Progress in labour reform includes reducing duality and achieving a legal framework that dispels uncertainty among businesses and workers

In the last few months, accelerated structural reform has come on the heels of the adjustment processes that both private agents and the public sector are implementing. In particular, the main advances have been the labour market reform and the new Savings Banks Act, coupled with the financial sector restructuring process and the publication of the aforementioned bank stress test results. While the Royal Decree Law 10/2010 marks a significant improvement on previous legislation, it might not be enough to solve the problems plaguing the Spanish labour market. Unless economic agents perceive that the reform completely dispels uncertainty regarding the grounds for objective dismissal or salary opt-out conditions, then it will not have the desired effect on job creation and the reduction of temporality. This means clearly and simply telling citizens, and more importantly firms, about the advantages and scope of the changes introduced under the new law once Parliament has given approval. Consequently, an intensive exercise in pedagogy, that explains in detail the new labour conditions and the agents affected by it. Similarly, improvements in the way the labour market works require further development of the reform and ongoing monitoring to correct any deficiencies that might gradually emerge in the future.

With regard to the new legislation on savings banks, although the solvency tests should dispel most of the uncertainty concerning the Spanish financial sector, the economic scenario going forward remains uncertain. While capital markets are gradually opening up, government backing via the FROB (Fund for Orderly Bank Restructuring) provides a strong support for institutions that need to raise capital. The recent changes to the Savings Banks Act were timely, opening up new channels to raise private capital and, in exceptional circumstances, enabling the FROB to bail out individual entities with clear recapitalisation needs. All of this helps the financial sector restructuring process, which will have to plough ahead in order to ensure that institutions operating in the Spanish market will be profitable over the long term, and to guarantee the existence of a level playing field in which they can compete on an equal footing.

The medium-term prospects for the Spanish economy are better now than they were a couple of months ago. However, the reform process must not falter

With the measures adopted and the many others that must be implemented in the short term, financial pressures should ease in the next few months and the economy should return to sustained growth generating jobs from 2011 onwards. There are still some major objectives pending. For instance, the energy deficit is still a huge burden on the Spanish economy's external financing needs. The credibility of public accounts in the medium term must be shored up through measures to ensure the sustainability of the pension system. More importantly still, labour-intensive sectors like the services sector must be driven through greater liberalisation. Only through ongoing structural reforms can the Spanish economy be ensured a quick recovery towards higher growth.

# A. Reassessing the risks for the global economy

The negative effect of fiscal adjustment on growth in Europe should be limited by the positive effect on credibility

One of the main negative impacts of the fiscal crisis on European economies has been the loss of confidence, and fiscal prudence is vital to restore it. Consolidation plans in Europe are being implemented in line with a schedule submitted to the European Commission (EC) in early 2010. European fiscal consolidation must focus on the structural side, but a positive factor is that the planned adjustment is fast and tilted towards reducing expenditure, which should boost confidence and all-but offset the negative impact on growth from the reduction in public demand. Accordingly, while fiscal consolidation persists, the repercussions on European economic activity should be limited and transitory. Meanwhile, other advanced economies where fiscal stimulus measures have been substantial and whose debt levels grew at the same pace as Europe's are lagging behind when it comes to reducing their deficits and, at least, stabilising their debt levels. This is a medium-term risk that is being underestimated, since experience shows that the effects of lax fiscal policy on interest rates are not linear, with the ensuing risk of a sudden increase in long-term interest rates and a shift in private demand, precisely the opposite of what the fiscal stimulus packages are designed to achieve.

The main risk for global prospects still stems from financial markets

Financial risks deriving from the sovereign debt woes became a vicious circle, ultimately pushing up market risk and absorbing liquidity, especially in Europe. However, the considerable increase in financial stress in Europe during the second quarter is starting to ease (see Chart 1). The publication of the results of the stress tests in the Eurozone's financial system helped allay pressures, although results diverged across countries. In particular, these tests may go a long way towards dispelling the uncertainty surrounding the Spanish financial system, since they were conducted with rigour and their results were both highly informative and credible. The risks from the financial markets for Europe, let alone the global economy, are still clearly the main cause for concern.

The US and EMU have delayed hikes in benchmark interest rates, while emerging economies have adopted tighter monetary policies

Financial strains in Europe and uncertainty about the pace of recovery in the US will prompt central banks in both regions to postpone their first rate rises and keep very low policy rates for an extended period. Inflationary pressures in both areas will remain benign, enabling the banks to maintain flexible monetary policies. However, a faster recovery in the US would bring a change in monetary policy earlier than in Europe, and these factors would weigh on the euro. Although both the Fed and the ECB will delay monetary adjustments, the tone of their communications and manner of assessing risks are still different. This limits the ECB's relative capacity to respond, particularly to deflationary risks. Meanwhile, benchmark rates in emerging economies are already on the rise, after the interlude (especially in Asia) caused by the European debt crisis. This should help ease inflationary pressures in Asia—which had begun to spike—and prevent pressures from emerging in South America later in the year. A significant exception is the Bank of Mexico, which might hold rates steady until the second quarter of 2011.

In Europe, the severity of financial stress should undermine confidence and stifle growth in the second half of 2010 and early 2011. These tensions will likely ease after the summer, but financing conditions could still be affected for several months, pushing back the recovery. Moreover, external demand looks set to be less solid than in 1H10, although it will continue to provide some support to economic activity, mainly because of the effects of the euro's recent slide, which could boost GDP growth in the euro area by several tenths in an effect lasting for several quarters. A third factor hampering the European recovery is fiscal adjustment. According to our estimates, this will not substantially affect growth, but it could have a slightly negative short-term aggregate impact, differentiated over time depending on how these plans are implemented (e.g. speed, composition, whether or not they are accompanied by other reforms).

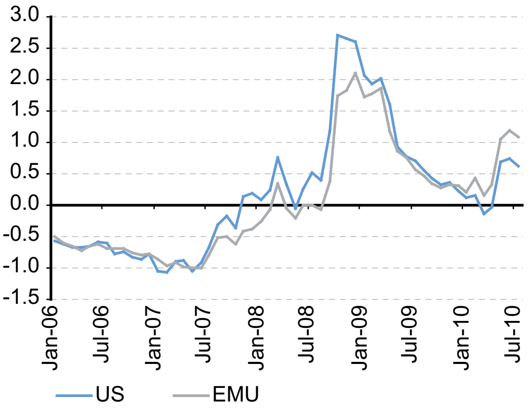
Consequently, growth forecasts for the euro area point to deceleration in the second half of the year -so far this has only been seen in some leading confidence indicators- and a slow recovery in 2011, with GDP growth of around 1% in both years. However, this average growth in 2010 masks higher rates in the first half of the year than in the second, when the increase in activity looks set to be very weak. As for the composition of growth, net trade should remain the main driver. Domestic demand will remain almost stagnant, as it is now, since in addition to the very timid recovery in private consumer spending and investment, public spending will slow (due to fiscal consolidation). Inventories are likely to make an increasingly smaller contribution now that stocks are balancing out again.

In the euro area, the breakdown by country shows slightly higher growth in Germany, since its exports and industrial output have bounced back nicely in the first half (although they are expected to slow from now on). France, whose most recent indicators show signs of weakness, should also gain steam, as should Italy, which despite having grown strongly in 1Q10 still has major structural weaknesses limiting its potential.

**The global economy is on track for a mild and differentiated slowdown**

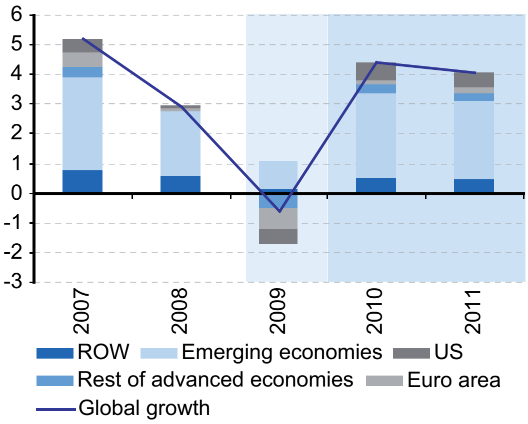
Spillovers from the European financial crisis to other geographical zones have been relatively limited. However, in the next few quarters, the global economy looks set to slow down (see Chart 2). Recovery in the US is likely to lose steam because of the situation in the labour and housing markets. This evidences the current limitations on private domestic demand in the US as an independent growth driver. In China, both deceleration in GDP growth in 2Q10 and other indicators show moderation in activity, suggesting that the authorities' adjustment measures are efficiently steering the economy towards more sustainable growth. Latin America's economy also looks set to lose steam in 2011, although growth should remain high. In this context, gaps between advanced and emerging economies and within each of these groups will continue to widen.

Chart 1
### Financial stress index*




* Indicator comprising financial stress in three credit markets (sovereign, corporate and financial), liquidity restrictions and volatility of interest rates, exchange rates and equity markets
Source: BBVA Research

Chart 2
### Contributions to global GDP growth




Source: BBVA Research based on national accounts

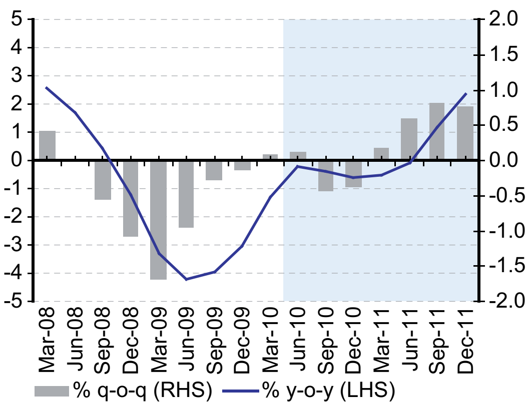
# B. The Spanish economy grew slightly during the first half of the year, but it remains the uncertainty about the second half

The Spanish economy grew in the first quarter of 2010 for the first time since the crisis began. Economic data available at the closing date of this report suggest that the Spanish economy grew again by one or two decimal points in the second quarter, supported mainly by the resilience of Spanish exports. However, the acceleration of fiscal consolidation, together with some persistent uncertainties and the volatility of financial markets, would have a negative impact –although limited and transitory- on Spanish economic growth in the short term. Against this backdrop, GDP could shrink by around 0.6% in 2010 as a whole. However, depending on the ongoing strength of Spanish exports, on how sustained the positive reaction of markets that we have seen in recent weeks became, and on the structural reform process underway, a recovery could be somewhat swifter than suggested here.

The Spanish economy recorded moderate growth again in the second quarter of 2010

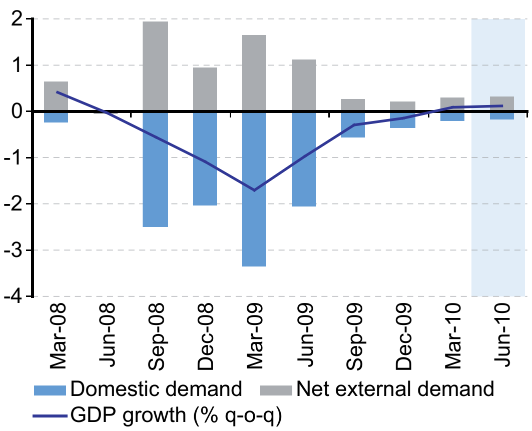
In June, the Spanish economy extended the trend of the previous two months, characterized by a moderate activity recovery and a lack of dynamism in the labour market. Consequently, pending official data for the second quarter of 2010, preliminary economic indicators show, on balance, that the weak improvement of the first few months of the year has continued, pointing to GDP growth of between one and two decimal points for the second quarter (see Chart 3). By components, the signals are mixed, and this time the quarter-on-quarter step up in GDP is likely to be more attributable to consolidation of the positive contribution by net external demand than to the dynamism of domestic demand (see Chart 4).

Chart 3
**Spain: GDP growth**




Source: BBVA Research based on INE data

Chart 4
**Spain: Contributions to GDP growth**



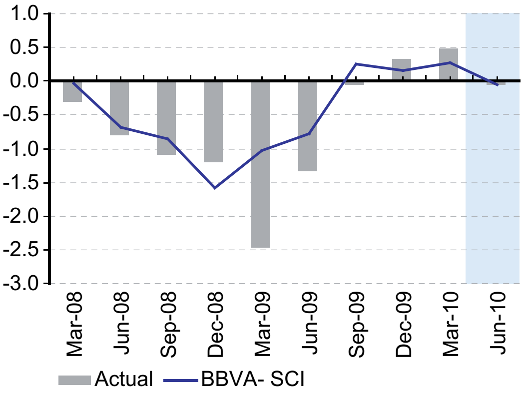

Source: BBVA Research based on INE data

The main features defining the Spanish economic juncture until the second quarter are still, on the one hand, sluggish domestic demand and weak employment, and, on the other hand, strong exports.

Firstly, regarding final household consumer expenditure, the steady loss of steam in its drivers (mainly disposable income and wealth), plus the slight erosion in consumer confidence (linked to the growing financial stress) and the weakening of fiscal stimulus measures, explain why this component of aggregate demand may have posted zero growth in the 2Q10 (see Chart 5). Indeed, retail figures at constant prices (seasonally and working day adjusted, swda henceforth) indicate that the recovery in the first quarter (0.8% q-o-q) backtracked in the second (-0.7% q-o-q). Besides, the stimulus effect of the government's Plan 2000E on demand for cars in the wake of its unbridled success in the third and fourth quarters of last year wore off gradually. Chart 6 shows that q-o-q growth in new passenger car registrations (swda) slowed from 22.9% between June and September 2009 to 0.7% in the 2Q10. With respect to qualitative indicators, consumer's confidence fell by 4.7 points in 2Q10, following a 1.7 increase in 1Q10.

Chart 5

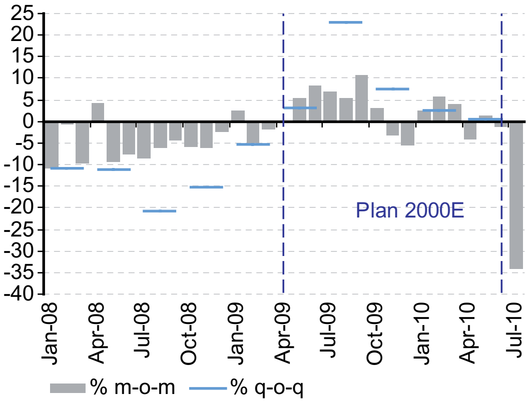
### Spain: private consumption and BBVA Synthetic Consumption Indicator (SCI) (% q-o-q)




Source: BBVA Research based on INE data

Chart 6

### Spain: passenger car registrations (swda)



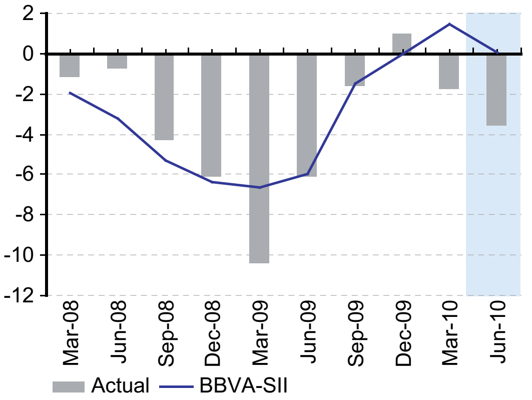

Source: BBVA Research based on ANFAC and Ganvam data

Secondly, although signals in this regard are mixed, investment in capital goods is likely to have drooped again during the second quarter of the year, but less than in 1Q09 (see Chart 7). On the one hand, in April and May the industrial production of capital goods (swda) was 1.5 and 0.5 percentage points (pp) lower than the average recorded in 1Q10, pointing to a 1.3% decline in this component of industrial production for the second quarter as a whole, if the same trend continued in June. Furthermore, imports of capital goods (swda) in the first two months of 2Q10 were 1.4% and 0.7% lower than the 1Q10 average. As a result, we expect a decline close to 1.4% for the quarter as a whole. Meanwhile, industrial vehicle registrations (swda) held steady at around 3.5% q-o-q, in line with the growth recorded in 1Q10, but well below the growth rates registered in previous quarters (3.6% and 5.9% q-o-q in 1Q10 and 4Q09, respectively). However, at the same time, production capacity utilisation rose by 1.9 pp to 70.9% (79.6% on average between 1995 and 2007). Moreover, industrial confidence in capital goods remained at around -9.6 points in the second quarter, still below the pre-crisis average (0.4 points) but above the previous quarter's reading (-18.3 points). In short, there are mixed signs with regard to investment in capital goods, although on balance data point to a further downward correction, which could be temporary depending on the effect of the going up financial pressures from mid-quarter on business sentiment.

Turning to housing investment, the most recent data do not provide any major news. The economic information compiled in 2Q10 suggests that the contraction in this aggregate demand component continues to ease (see Chart 8), as indicated by new building permits which, despite being at lows, have been declining more slowly since mid-2009. On average, the monthly change in building permits in the first five months of the year was 0.3% (swda), while in the same period of 2009 the contraction was 10.4% m-o-m. Accordingly, the adjustment in the housing market continues. On the demand side, the Euribor has ticked up since April, but it is still comparatively low, leading to favourable financing conditions for homebuyers. These conditions, coupled with the correction in housing prices (-15.1% in real terms from 1Q08), maintain the affordability ratios at lower levels than in previous quarters. Accordingly, demand for homes is reacting positively and y-o-y growth in home purchases continues to show the y-o-y recovery trend seen since January this year (11.1% in May 2010). However, this recovery in demand is significantly sharper in the existing homes market, where y-o-y growth in transactions has been higher than in the housing starts market since December 2009. All in all, it is important to note that, to a great extent, the demand reaction reflects a bringing forward of hosing investment ahead of the withdrawal of home purchases' fiscal advantages for incomes over 24,000 Euros scheduled for January 2011. Consequently, while it is true that transactions have been showing some signs of recovery, the transitory nature of some of the drivers of this recovery casts doubts about whether housing investment will cease to negatively contribute to GDP growth in the next few quarters.

Chart 7

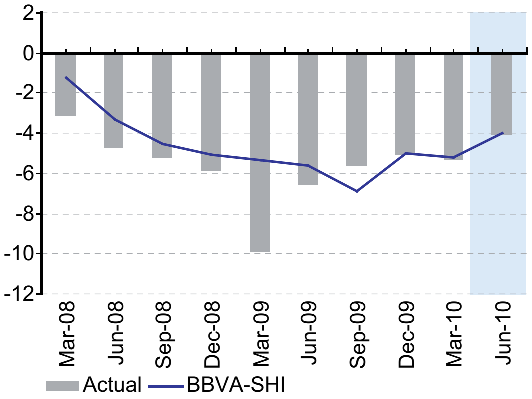
**Spain: investment in capital goods and other products and BBVA Synthetic Investment Indicator (SII) (% q-o-q)**




Source: BBVA Research based on INE data

Chart 8

**Spain: Housing investment and BBVA Synthetic Housing Indicator (SHI) (% q-o-q)**




Source: BBVA Research based on INE data

As for public spending, it is worth pointing out that the June's State budget figures do not show yet a significant reduction in civil servant wages. This was nonetheless expected, as the June bonus payments were calculated based on the income of the previous six months and, consequently, was barely affected by the public wage cuts approved in May by the Spanish government effective from June. However, both intermediate consumption (-22% y-o-y in June) and current spending on international cooperation (-56% y-o-y in June) did help reverse the rising trend in public spending. Indeed, current transfers to the rest of public administrations slumped in June (5 billion euros) and could do so again in July as part of the fiscal consolidation process, which will certainly affect spending by the autonomous regions.

Although there are question marks over how some of the additional measures concerning cutbacks in public investment will actually be implemented, their impact could start to be felt relatively soon as companies related with the public works sector bring forward their restructuring processes in anticipation of the deceleration expected in infrastructure spending. Worth noting is that, in line with the moderate recovery in activity during the last six months, State finances have improved gradually; the 12-month cumulative deficit shrank from 7.9% of GDP in May to 7.1% in June. This improvement was due partly to higher public revenue in the first half of the year, which is closely related to the implementation of measures aimed at meeting the budget targets for the year (e.g. withdrawal of the €400 personal income tax deduction). However, there has also been a recovery independently of these measures, as evidenced by the growth in homogeneous revenues (i.e. excluding discretionary policy measures) of 5.8% y-o-y in June vs. 4.7% in May. In particular, y-o-y growth in VAT revenues and, to a lesser extent, revenues from personal income tax, have rebounded sharply. Consequently, over the last 12 months, the State's cumulative VAT revenue already totalled more than 2.5% of GDP, up from a 1.7% low in February this year. In this connection, it is worth highlighting that the increase in fiscal revenue as a percentage of GDP indicates that the sizeable overreach in tax collection during the first quarters (in which the decline was much bigger than the contraction in GDP) has corrected. This correction, not to mention the increases in the rate of some taxes (e.g. VAT, personal income tax, special taxes and capital gains tax), suggests that in the medium term public revenues could easily return to 38% of GDP, a similar figure to the average seen between 1995 and 2003.

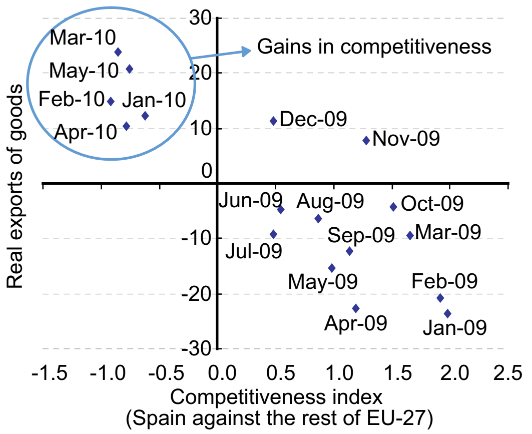
In contrast to sluggish domestic demand, data available so far indicate the Spanish exports sector continued to play the major role as a driver of recovery in 2Q10. Just as 1Q10 saw the first y-o-y increase in exports in two years (four cumulative quarters of positive quarterly growth), the monthly trade balance and balance of payments data point to notable growth in real exports of goods and an increase in the services sector surplus in the second quarter. As we already pointed out in the June issue of Spain Economic Outlook, the ongoing, albeit moderate, economic recovery in Europe and competitiveness gains in terms of the real effective exchange rate (REER) were the underlying factors behind the jump in Spanish exports (see Chart 9). Of the country's main export goods, the latest data for May reveal the significance of capital goods exports (36% m-o-m swda), most notably capital equipment and intermediate goods (6% m-o-m, swda). Following the decline in April, and despite the steady reduction in fiscal stimulus measures for vehicle purchases in EU countries, cars exports increased by 11% m-o-m (swda) in May, underpinned mainly by the performance of auto parts sales. In short, the diversity evidenced by Spanish exports indicates that the sector is likely to continue to perform well even after Spain's main trade partners withdraw their scrapping schemes (see Chart 10).

Despite robust exports, the current account balance is adjusting at a more moderate pace. Recent figures show a decline in the pace of adjustment of the annual cumulative external deficit, mainly because of the slight decline in the trade deficit. This worsening was due mostly to the base effect of the increase in oil prices in the second half of 2009, which triggered a worsening of Spain's energy deficit. Going forward, stable oil prices, together with robust exports and the slowdown in demand for imports, should reactivate the moderate pace of improvement in the foreign trade balance, thereby reducing the Spanish economy's needs for external financing.

Moreover, indicators available at the closing date of this report also point to a favourable performance by incoming tourism in 2Q10. According to the latest Hotel Occupancy Survey conducted by the National Statistics Institute (INE), the number of foreign travellers and overnight stays by non-residents increased by 9.3% and 4.4% y-o-y in 2Q10, respectively (5.3% q-o-q and 1.3% q-o-q swda, respectively, according to our estimates). In the same vein, data published by EGATUR indicate that total nominal spending by foreign travellers increased 0.7% y-o-y (0.2% y-o-y in 1Q10), implying an improvement of 0.3% q-o-q (swda).

Chart 9

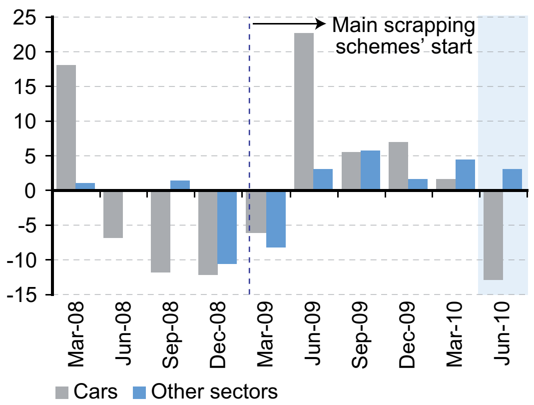
**Spain: recovery of real exports of goods and competitiveness index based on industrial prices (% y-o-y)**




Note: movements to the left imply improvements in competitiveness
Source: BBVA Research based on data from the Bank of Spain and the Ministry for Industry, Tourism and Trade

Chart 10

**Spain: goods exports in volume, cars and other of sectors (% q-o-q, swda)**

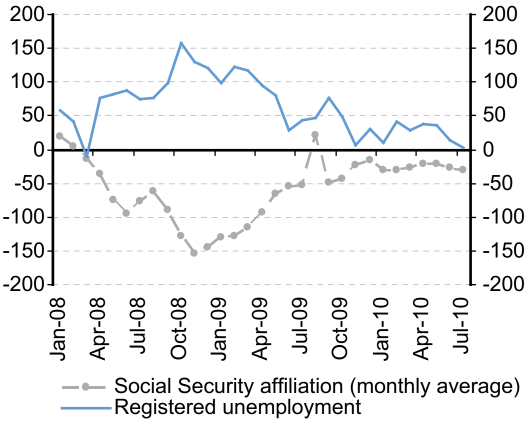



Note: data for June 2010 are forecasts by BBVA Research
Source: BBVA Research based on data from the Ministry for Industry, Tourism and Trade

Turning now to the labour market, indicators for 2Q10 confirmed that employment is not yet showing signs of improvement, with no significant changes after seasonal adjustments. While the decline in Social Security Affiliation (average) has eased somewhat (buoyed by the sound performance of the services sector), unemployment is showing a resistance to decline. Accordingly, seasonally and working day adjusted registered unemployment increased by 105k between April and June, compared with an increase of 72k in the previous quarter (see Chart 11). The recent publication of the Labour Force Survey (LFS) for 2Q10 confirms this performance. As Chart 12 shows, the increase in labour market participation, outstripping gross job creation (115k and 82k, respectively), triggered a further increase in unemployment to 20.1%. Adjusted for seasonal factors, the estimated decline in employment was around 77k, lower than the (109k) figure for 1Q10, but still not showing clear signs of recovery.

Chart 11

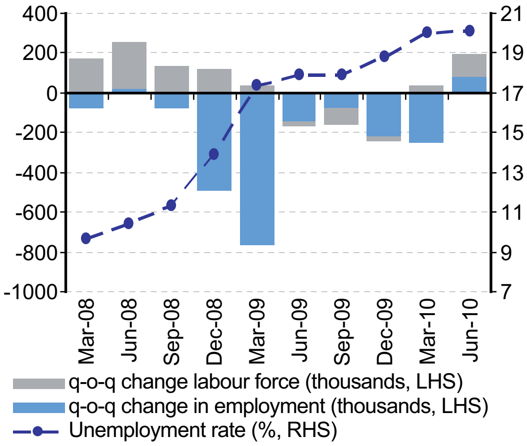
**Spain: registered unemployment and Social Security affiliation (m-o-m change in thousands, swda)**




Source: BBVA Research based on SPEE and MTIN data

Chart 12

**Spain: employment, labour force and unemployment rate**




Source: BBVA Research based on INE data

Adjustments in progress are likely to entail negative GDP growth in the third quarter of 2010

As we mentioned in the previous issue of this report, the acceleration of the fiscal consolidation process, coupled with lingering uncertainties and ongoing volatility in capital markets (mitigated, among other factors, by the recent publication of the results of the European bank stress tests) could have a negative short-term impact, albeit limited and temporary, on Spanish economic growth. In the next few months, we could see negative q-o-q growth rates again, although much less severe than in 2008 and 2009. In this scenario, Spanish GDP would contract by around 0.6% in 2010 as a whole (see Table 1).

Table 1

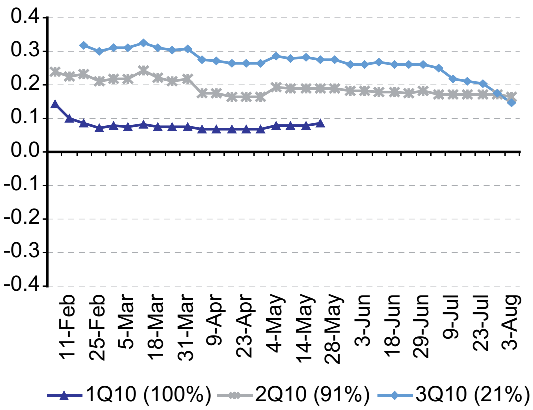
**Spain: macroeconomic forecasts**

| (y-o-y growth, %) | 1Q10 | 2Q10 | 3Q10 | 4Q10 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|
| Household consumption | -0.6 | 0.7 | -0.1 | -1.2 | -0.6 | -5.0 | -0.3 | 0.3 |
| Public consumption | 1.5 | 2.0 | 0.5 | 1.8 | 5.5 | 3.9 | 1.4 | 0.2 |
| GFCF | -9.9 | -8.5 | -9.2 | -10.4 | -4.4 | -15.2 | -9.5 | -3.2 |
| Capital goods and other products | -8.8 | -6.3 | -9.4 | -13.3 | -2.7 | -20.6 | -9.4 | -1.9 |
| Construction | -10.6 | -9.9 | -9.2 | -8.4 | -5.5 | -11.1 | -9.5 | -4.0 |
| Housing | -20.7 | -18.6 | -15.7 | -12.3 | -10.3 | -24.5 | -16.8 | -6.1 |
| Other construction | -2.8 | -3.7 | -4.8 | -6.0 | -0.4 | 1.6 | -4.3 | -2.5 |
| Chg. in inventories (*) | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| **Domestic demand (*)** | **-2.5** | **-1.3** | **-2.2** | **-2.7** | **-0.5** | **-6.4** | **-2.2** | **-0.6** |
| Exports | 8.0 | 7.7 | 6.2 | 4.4 | -1.0 | -11.3 | 6.6 | 7.3 |
| Imports | 2.6 | 2.9 | -1.2 | -4.0 | -4.9 | -17.7 | 0.0 | 1.5 |
| **Net trade balance (*)** | **1.2** | **1.1** | **1.8** | **2.1** | **1.4** | **2.8** | **1.5** | **1.3** |
| **GDP at mp** | **-1.3** | **-0.2** | **-0.4** | **-0.6** | **0.9** | **-3.6** | **-0.6** | **0.7** |
| **Pro-memoria:** | | | | | | | | |
| GDP w/o housing investment | -0.1 | 0.9 | 0.6 | 0.1 | 2.0 | -1.8 | 0.4 | 1.2 |
| GDP w/o construction | 0.3 | 1.4 | 1.1 | 0.7 | 2.3 | -2.2 | 0.9 | 1.5 |
| Employment (LFS) | -3.6 | -2.5 | -2.4 | -2.0 | -0.5 | -6.8 | -2.6 | -0.3 |
| Unemployment rate (% active pop.) | 20.0 | 20.1 | 18.9 | 19.4 | 11.3 | 18.0 | 19.6 | 19.4 |
| Employment (FTE) | -3.6 | -2.5 | -2.5 | -2.1 | -0.6 | -6.7 | -2.7 | -0.5 |

(*) contribution to growth
Source: INE and BBVA Research forecasts

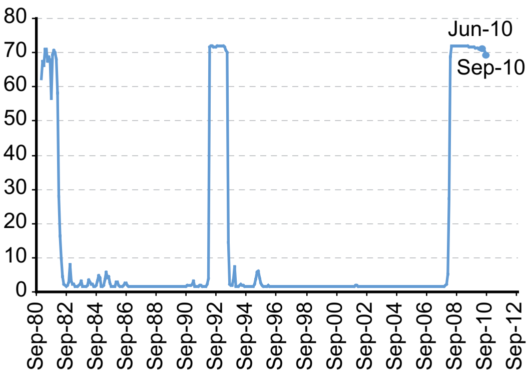
Economic data compiled for July up to the date of publication of this report is incomplete. However, passenger car registrations in July (-34.3% m-o-m SWDA) together with the HCPI flash estimates for this month (1.9% y-o-y, vs. 1.5% y-o-y in June) already suggest that the VAT hike implemented from July is hitting both demand and prices, in line with our core scenario. Along these lines, industrial and consumer confidence indicators published by the EC each showed a one-point setback. The decline in consumer confidence was shaped mainly by the downturn in the major purchase convenience index (-9.8 points), while the dip in industrial confidence stemmed mainly from the (-2.4 points) decline in future output expectations, heralding a slowdown in the improvement in industrial activity in the next few months. Finally, Social Security affiliation (monthly average) and registered unemployment in July showed that the labour market began 3Q10 without a significant improvement once the seasonal adjusted. While employment destruction continued (-30k swda), unemployment barely increased (+3k, swda). Based on July data, the short-term GDP forecasts using the MICA-BBVA[1] model suggest that 3Q10 also began with sluggish growth, of around 0,1%, so the performance of this indicator does not reveal any acceleration in activity. In contrast, Chart 13 shows how the real-time forecast for this quarter has been revised down by a decimal point from 0.2% q-o-q at the end of 2Q10 (forecast at 29 June) to 0.1% q-o-q as of the date of this report (forecast at 3 August). Considering that this is a temporary reversal of the upward trend, the likelihood of negative growth will remain around the figure estimated for 2Q10, still high (see Chart 14).

Chart 13
**Spain: quarterly GDP growth forecasts using the MICA-BBVA model by forecast date**




Note: the figure in brackets is the percentage of the data set known at the last estimate date relative to the benchmark quarter
Source: BBVA Research

Chart 14
**Spain: probability of negative quarterly growth (%)**




Source: BBVA Research

1: For a description of this model, see Spain Economic Outlook, November 2009, available at: http://www.bbvaresearch.com/KETD/fbin/mult/0911_spainwatch_tcm348-204668.pdf?ts=882010.

However, upside risks cannot be ruled out, even in the short term

As we outlined in our previous *Spain Economic Outlook* report, certain factors could improve the outlook for the Spanish economy, some even in the short term. Firstly, the Spanish export sector will likely continue to offset sluggish domestic demand. At the start of 3Q10, the euro area, which receives close to 60% of Spanish exports, was outperforming projections at the end of June. Consequently, our short-term outlook for the monetary union as a whole has improved slightly; we are now projecting GDP growth of around 0.9% for the whole of 2010 (up 0.2 pp from the previous forecast). Furthermore, the response to a weaker euro could be better than expected, in view of the higher degree of diversification of exports observed in the last 10 years towards non-euro area destinations. The replacement of non-EMU imports with intra-EMU imports in the monetary union, coupled with the higher penetration of non-EMU markets where demand is currently more robust, could therefore boost prospects in the sector in the next few quarters. In addition, if Spanish exports outperform expectations in the short term, we could see a repeat of the classic pre-recovery pattern which, in line with previous recessions, began to emerge in mid-2009. In anticipation of an improvement in the domestic mood and an upturn in external demand, companies could quickly step up investment in order to raise production capacity.

Secondly, the impact of the additional fiscal consolidation measures approved in May could end up being very limited as they were accompanied by structural reforms, such as the labour market reform and the new Savings Banks Act (*Ley Orgánica de Cajas de Ahorro* - LORCA). In this respect, it is worth highlighting that the content of the final text of these reforms, as well as the degree of efficiency in their implementation, could prove pivotal with respect to the pace of Spanish economic recovery in the next few quarters (see section C of this report). Lastly, if the lingering uncertainties in international financial markets continue to dissipate as they have in the last few weeks, confidence, among both international investors and national agents, could be shored up. This would help ease the downward pressure on domestic demand growth. In this regard, the newly released stress test results show the resilience and capacity of the Spanish financial system to tackle especially adverse stressed scenarios and they are likely to dissipate doubts in this connection.

# C. Financial uncertainty and stepping up the pace of structural reforms

Since the publication of the latest issue of the *Spain Economic Outlook* report, two events have changed the core scenario described therein. First is the greater uncertainty in capital markets, which triggered a significant increase in Spain's sovereign risk premium that was larger and lasted longer than expected a couple of months ago. Therefore, despite the sharp correction in the risk premium in the last few weeks, this event introduces more uncertainty in the short term with regard to the scenario of normalisation of financial stress envisaged in spring. Second, partly in response to the aforementioned factor, is the increasing pace of structural reform in Spain, especially in relation to the restructuring of the financial sector, the labour market and fiscal consolidation. Both events will have short- and medium-term implications for activity. However, to be able to assess the final impact thoroughly, we first have to analyse the scope of the reforms. Preliminary indications suggest that there has been progress in the right direction and that potential economic growth will increase as the measures unveiled are implemented. However, the Spanish economy is facing big enough challenges to seize this opportunity and take an ambitious approach in those areas which have not yet been fully defined. What's more, any doubts must be dispelled as markets begin to get back to normal and price in the effects of these reforms.

## Greater uncertainty

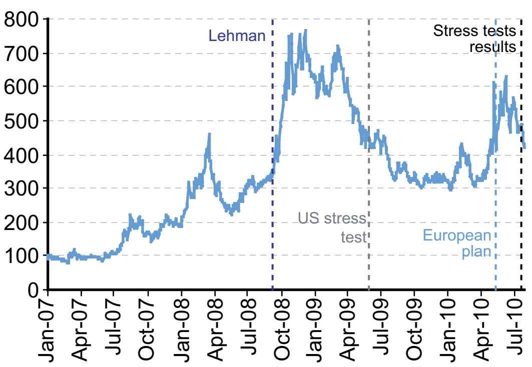
Despite the European plan, financial stress remains high

Financial markets in the second quarter were affected mainly by the turmoil that ensued from the European sovereign crisis. Consequently, financial stress remained high in May and June despite the European plan approved in early May, with a number of European countries, most notably Spain and Portugal, subjected to considerable market pressure. Non-core European countries' sovereign bond yields reached new highs in mid-June. Equity markets were hampered by the financial sector, while the cost of hedging government and private debt default risk rose considerably.

Although risk premiums have diminished in recent weeks, uncertainty remains high

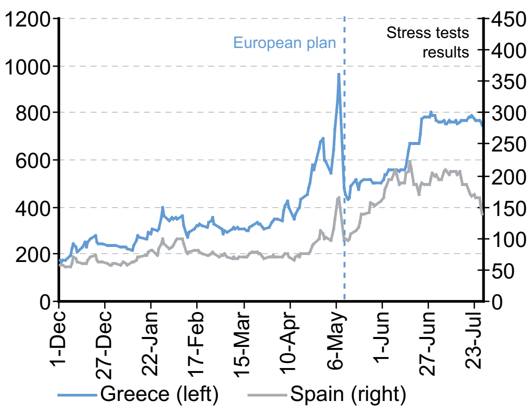
Nevertheless, in the last month, and more evidently in the last few weeks, financial stress in the euro area has eased significantly following the publication of the results of the stress tests conducted at the leading European financial institutions. In fact, the decline in Spain's risk premium has been one of the greatest of any non-core European country, buoyed by the strong take-up of government debt auctions and lower pressure from short-term financing needs. That said, uncertainty lingers in financial markets in general, and in the interbank and private debt markets in particular, while its impact on activity is still doubtful. The key lies in the ability of the countries that have suffered most from the contagion of the Greek debt crisis to regain full access to credit markets. The outlook for the second half of the year is more encouraging, as several of the countries under market pressure have been able to issue government debt at auctions with healthy demand, in particular Spain, but also Greece. At the same time, the ECB has remained locked into its accommodative monetary policy, although it is now injecting less liquidity into the aggregate euro area.

Chart 15
**EMU: Financial stress indicator**




Source: BBVA Research

Chart 16
**Greece and Spain: spread vs. 10y German bond (bp)**




Source: Bloomberg and BBVA Research

The tensions will have different short- and medium–term effects

Going forward, financial pressures are likely to diminish, but risk premiums will probably stay above late-2009 levels. In the case of Spain, this will have different effects in the short and medium term. Short term, the increase in risk premiums could cause domestic demand to contract because of the higher cost of borrowing, quantitative restrictions in external financing markets and the slide in business and consumer confidence, at least temporarily. Meanwhile, this episode has served to step up the structural reform process which, if consolidated, will have positive effects on growth.

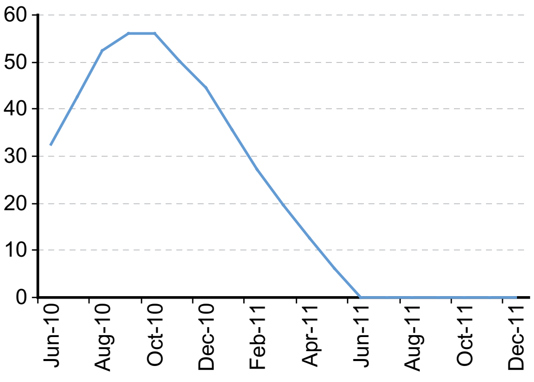
Risk premiums do not yet reflect the fundamentals of the Spanish economy

Starting with the short-term effects, it will be vital to monitor the speed of correction in the main indicators of financial stress so as to gauge the final impact on activity. In this connection, it is worth noting that current market valuations do not correspond to the fundamentals of the Spanish economy. In particular, Spain's economy is in the midst of an intensive adjustment process that has caused household savings rates to soar, investment in sectors that posted high growth in the past to dry up and, as a result, the financing needs of the economy as a whole to decrease. Furthermore, the Spanish public sector has been one of the first to begin the fiscal adjustment process, from relatively low indebtedness levels. Spain announced the withdrawal of discretionary measures and proposed tax hikes before most of its European counterparts. Spain's sound track record in compliance with its fiscal consolidation targets and the credibility of its institutions are also assets that set it apart from other economies. All of the above contributes to fundamentals that point to a positive difference between Spain and other countries with similar imbalances when the crisis began. As the market prices in these factors, there should be a swift reduction in risk premiums and fewer external restrictions.

There has been more stress than expected. This will take its toll on domestic demand

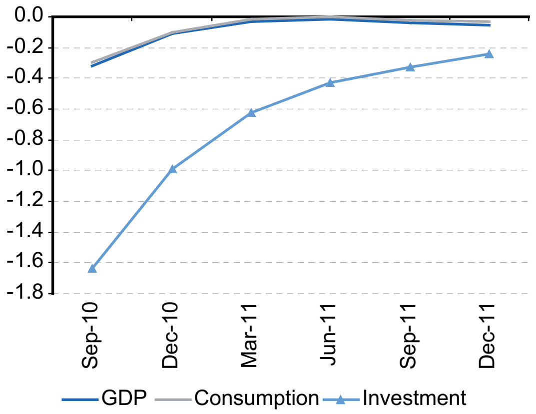
However, since the sovereign risk premium has remained high for longer than expected, the likelihood of fiscal consolidation having a positive impact on domestic demand in the short term has diminished. For example, in the previous issue of *Spain Economic Outlook* we explained that fiscal consolidation could have a positive effect if perceived as a "regime change" generating greater confidence and reducing the costs linked to the restructuring of the State budget. As the following charts show[2], for a few months the risk premium should be higher than estimated three months ago, when we expected a quicker normalisation of financial stress than has actually taken place. This factor will hamper domestic demand, although the impact should be offset by the increase in exports led by gains in competitiveness triggered by lower domestic price growth and the faster-than-expected depreciation of the euro.

Chart 17
**10y sovereign bond spread (difference against BBVA June's core scenario, in pp)**




Fuente: BBVA Research

Chart 18
**Impact of higher risk premium based on REMS model (percentage deviation vs. trend)**




Fuente: BBVA Research

In the medium term, acceleration of the reforms could boost growth potential

At any rate, the biggest effects of the increase in uncertainty in markets could come in the medium term. In particular, the events described above have sped up decision-making with regard to a series of structural reforms considered completely necessary to boost the economy's growth potential and the importance of which was also discussed in the previous issue of this report. In this connection, the government has decided to focus on three main areas: restructuring the financial sector, fiscal consolidation and labour market reform.

2: The simulation in these charts corresponds to the results used in the REMS model. For a description of this model, see Spain Economic Outlook, November 2009, available at: http://www.bbvaresearch.com/KETD/fbin/mult/0911_spainwatch_tcm348-204668.pdf?ts=882010.

## The restructuring of the financial sector has been stepped up in the last few months

Merger processes are a step in the right direction, but the degree of consolidation is not sufficient yet

The Spanish financial system restructuring, which began timidly with the approval of three mergers in March this year, has been stepped up several gears in the second half of this year. A significant number of applications for mergers were submitted shortly before 30 June, when the FROB was due to expire. At that date, the Bank of Spain considered the restructuring process to be complete. However, on 26 July the FROB received European approval to be renewed until the end of 2010, so there could be additional funds to continue the process if necessary. So far, approval has been given for seven mergers and institutional protection schemes (IPSs) with FROB backing, and two mergers and IPSs without the need for FROB backing. Approval is pending for another three mergers and IPSs. So far, 12 billion euros have been disbursed and job cuts (3% of the total banking system) and branch closures (5% of the total) have been announced. These figures indicate that, although the sector's surplus capacity has been reduced, further consolidation is needed. Nevertheless, the merger processes underway are undoubtedly a step in the right direction which, coupled with the positive effect of approval of the new Savings Banks Act and publication of the stress test results, will be decisive in the restructuring process.

The Spanish stress tests envisage the most severe scenarios and are more transparent than those of the rest of Europe

In fact, the stress tests conducted by the Bank of Spain on almost the entire Spanish financial system marked a turning point in the market's valuation of the system as a whole, with the results being very well recognized. The recognition attributes to severe macroeconomic scenarios (e.g. decline in GDP and housing prices) adopted greater transparency (not only because of the wider coverage, but also because there were additional disclosures on the exposure of portfolios) and more prudence in calculating banking margins. Consequently, the macroeconomic, financial and sovereign risk scenarios assumed are robust, detailed and much stricter for Spain than for other EMU countries, especially when it comes to the adjustment in the property sector. The adverse scenario envisages a 24% slump in house prices through 2011. This would imply a real adjustment of 40% from the top value and, in less than three-and-a-half years, a bigger correction than the average observed in previous real estate market crises[3]. Moreover, this correction applies only to Spain. However, as the International Monetary Fund (IMF) notes, other European property markets, such as Ireland, France, the UK and Holland, show imbalances that in some cases exceed those of Spain. In addition, a third, even more adverse scenario was included that distorts the yield curve to capture the effects of a hypothetical sovereign debt crisis.

Moreover, compared with the 65% average coverage in Europe, the Spanish stress tests were more transparent than in other countries. In Spain almost all the banks were analysed (95%), and the Bank of Spain has provided more information than its European counterparts, including details of each institution's lending portfolio.

Furthermore, the differences in the various national estimates of earnings benefits before provisions affect the credibility of the exercise in Europe. However, in Spain's case, this item declined considerably more than European average[4], once again showing that the tests conducted in Spain were more rigorous.

The results clearly show how solid the Spanish financial system is

The results demonstrate significant resilience in the Spanish financial system, as expected. Considering the size of the sample group, not surprisingly five savings banks groups revealed a need for capital, all together accounting for just 6.5% of total assets.

The estimated capital requirements for 2010 and 2011 are in line with our estimates and are perfectly acceptable for the Spanish economy. On aggregate, in the adverse scenario, the recapitalization requirement of the sector would be equal to 16.2 billion euros,. 1.5% of GDP. This is 2 billion euros more than the combined 14.6 billion euros already provided by the FROB (12 billion euros) and the Deposit Guarantee Funds (2.6 billion euros). Furthermore, institutions with comfortable Tier 1 capital ratios, above 8% in the adverse scenario, represent 52% of the assets in the system.

3: Based on the analysis of 44 previous property market crises. An average adjustment in house prices of 21% and an interval of no fewer than four years was calculated.
4: While for the Spanish financial system the variation in earnings before provisions between 2009 and the estimates for 2010-11 is -18%, in Germany they remain stable and in France they are even up 6%.

The financial system is provided with satisfactory recapitalisation instruments

In short, the results obtained clearly show the resilience of the Spanish banking sector, even in a particularly adverse stressed scenario compared to the rest of European countries. This should make it easier to discriminate between solvent and insolvent entities, helping to dispel any doubts regarding the solvency of the system as a whole. While capital markets are gradually opening up, government backing via the FROB provides a strong support for institutions that need to raise capital. The recent changes to the Savings Banks Act were timely in (i) opening up new channels to raise private capital and, in exceptional circumstances, (ii) enabling the FROB to bail out individual entities with clear recapitalisation needs. In fact, the new Savings Banks Act is very good news not only for the savings banks sector, but for the Spanish economy as a whole, since it provides new channels for raising capital, increasing the appeal of the *"participation quotas"* (equity instruments) by affording them voting rights, which should strengthen savings banks' capital.

The new legal framework for savings banks also entails three possible ways of "making them into banks": (i) by conducting the activity indirectly via a corporation (bank) to which their financial business is contributed, (ii) by conducting the activity indirectly via the core entity of a IPS and (iii) by spinning off financial activity into a bank and transforming into a special foundation (which would manage the charity-welfare work, as well as the securities portfolio).

The FROB could acquire securities issued by solvent entities

Not only does the reform offer new methods of capitalisation via the markets, but it also establishes that, exceptionally, the FROB may acquire securities issued by solvent and viable entities which, might need to strengthen their capital in stressed situations. This opens an additional recapitalisation channel for some of the five entities identified as "vulnerable" after the stress tests.

Finally, another significant aspect of the new legislation that could also play a pivotal role in improving market perception of savings banks sector, both at home and abroad, is the ban on having elected officials and senior government officials on their governing bodies. This will certainly help professionalize the management of these institutions.

The process must continue to guarantee viable entities and a level playing field

As a final reflection, it is worth highlighting that the stress tests have shown limited capital woes in Spanish financial sector, and, even more importantly, there are mechanisms (e.g. the reformed LORCA or the extension of the FROB) in place to tackle the problems at the most vulnerable institutions. This combination of factors facilitates the financial sector restructuring process, which must advance on towards two objectives: (i) to guarantee that entities operating in the Spanish market are viable in the long term and (ii) to guarantee the existence of a level playing field in which they may compete on the same conditions.

## Fiscal consolidation

Ambitious, but feasible fiscal consolidation...

The Spanish government has laid the groundwork for ambitious fiscal consolidation. However, as we have been asserting at BBVA Research, it will be feasible if the fiscal adjustment is conducted strictly by all public administrations. According to our calculations, once the policies behind the spending ceiling for 2011 are defined, almost 80% of the adjustment towards a deficit of 3% of GDP in 2013 will have been achieved two years ahead of schedule. What's more, a significant part of this effort will have come via expenditure, affording the adjustment more credibility and minimising its impact on growth.

...that must prioritise spending cutbacks

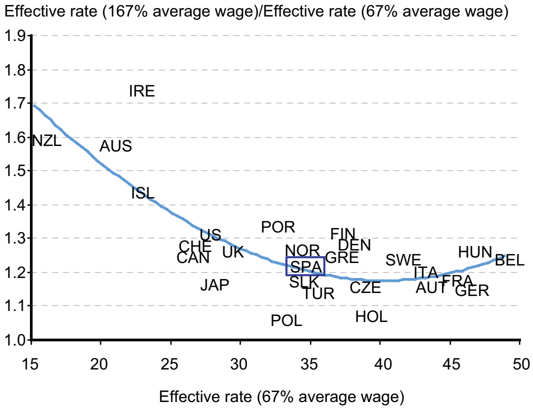
It is necessary and desirable for the government and other public administrations to maintain this line of action going forward if further measures are needed, or simply when it comes to defining the efforts to be made in 2012 and 2013. In this respect, streamlining current expenditure must be prioritised before continuing to adjust public investment.

Moreover, it would be advisable to lower the tax burden on households or companies. Short term, it must be remembered that a society such as Spain has, like those of other advanced economies, has limited tolerance for tax hikes. Therefore, the current economic environment could well be used to progress towards a more efficient, simple and competitive system compared to the rest of Europe.

However, the opportunity to boost the efficiency of the tax system should also be seized

We would point out that any adjustment should be aimed at minimising the impact of the measures on growth and, more importantly still in the case of the Spanish economy, on employment. Furthermore, the negative effects of greater progressive scaling in taxation on employment income should be taken into account, since in Spain it is already higher than the European average. The marginal income tax rate in Spain is one percentage point higher than the EMU average, according to data recently published by Eurostat. If instead of comparing marginal rates we compare the effective tax rate (including social security contributions and deductions) of single worker without children who receives 167% of the average wage to that of a worker who receives 67%, we see that the progressive scaling of taxation in Spain is in line with the OECD average, higher than that of Germany, Austria, France and Italy, and slightly lower than that of Sweden and other northern European countries, where indirect taxes are much higher[5]. Additional increases in the marginal rate would generate disincentives to accumulate human capital and jobs in Spain among the population with higher standards of education, compared with other economies where the tax burden is lower. This would undermine the recruitment of talent and the potential of the Spanish economy. Preventing this kind of disincentive is essential if Spain is to progress towards a change in the productive model that fosters innovation and employment.

Chart 19
**Progressivity of OECD tax regimes**




Source: BBVA Research based on OECD data

Table 2
**Tax rates in Europe and Spain**

| | Personal income tax* | Corporation tax* | Consumer tax |
|---|---|---|---|
| EU 27 | 37.5 | 23.2 | 20.2 |
| Spain | 43 | 30 | 18 |

* Marginal rate
Source: BBVA Research based on Eurostat data

As well as avoiding an increase in the already-high fiscal progressivity, it would be advisable to make the Spanish tax system more efficient without raising the effective average rate on labour income and capital, considering three factors:

1. The tax burden on labour income is high in Spain in relation to other EU countries.
2. Corporation tax is high in comparative terms.
3. Indirect taxation is relatively low.

Corporate social security contributions are higher than in the rest of the EMU...

With respect to the first point, in previous publications (for example, Boscá *et al*; 2009)[6] it has been shown that the average effective rate of corporate contributions to social benefits in Spain is among the highest in the EMU (behind only France and Italy) and much higher than in the US. At times when job creation should be one of the main priorities, policies that can help boost the recruitment of workers will always be welcome.

...as is corporation tax

Another factor that must be taken into account in order to boost the efficiency of the Spanish tax system is that corporation tax is also among the highest in Europe, so there is no scope for raising it without triggering a competitive disadvantage compared with other countries in the region. In particular, corporate income tax on Spanish companies is high (at least, before deductions), especially considering that the economic literature gives us plenty of reasons to think that the optimum level for this kind of tax should be lower (ultimately, capital gains tax is only a double tax on future household consumption).

5: See *Taxing Wages*, OECD (2010).
6: Boscá, J. E., R. Doménech and J. Ferri (2009): “Tax Reforms and Labour market Performance”. *Moneda y Crédito* Nº 228, 145-196.

Increasing indirect and cutting direct taxes would drive efficiency

Lastly, in a context of fiscal consolidation and uncertainty in financing markets, any measure proposed must have a neutral effect on the public deficit. In an economy that aims to reduce its financing needs in the next few years, foster savings and change the productive model, the increase in indirect taxation (e.g. VAT) as a source of public revenue is one of the most efficient methods (in the short term it does not distort employment vacancy decisions) and one of the most effective (in terms of raising tax revenue) possible. This kind of combination, i.e. reducing direct taxes and increasing indirect taxes, would render the Spanish economy more competitive with respect to other countries and foster a transition towards models such as the Scandinavian one, where social expenditure is funded through higher indirect taxation. In fact, it is estimated that a permanent reduction of 3.5 pp in the effective rate of employer social security contributions (companies and independent workers), offset by a 2 pp increase in the average effective tax rate on consumer spending, would boost equivalent full-time employment in the year of implementation by 1.4%, or around 280k jobs, while GDP would grow by 0.6%.

Medium-term fiscal consolidation is equally important

Finally, it is essential that the fiscal consolidation process is also aimed at reducing medium-term uncertainty. In particular, it is fundamental to improve the perception of economic sustainability of some parts of the welfare state. In this connection, instead of undermining the quality of certain essential public services through excessive spending cuts, it is preferable to seek complementary funding formulae (e.g. reasonable co-payment in health and education for taxpayers who can afford it, and who are the majority) which would increase the percentage of private funding of these services, as is already the case elsewhere in Europe. This would drive a more rational use of the related services, while at the same time it would resolve the lack of progressivity in their provision.

Complementary funding formulae must be sought

Furthermore, to generate the necessary confidence in public accounts, the uncertainty linked to the medium-term sustainability of the pensions system must be dispelled. In this connection there is considerable literature (see, for example, De la Fuente and Doménech, 2010[7], and the references cited therein) which basically points to solutions such as increasing the retirement age to 67 or extending the contribution period for calculating pensions.

## The labour market

The labour reform approved recently is a step in the right direction

Royal Decree Law (RDL) 10/2010 concerning urgent measures to reform the labour market, approved on 16 June, is a step in the right direction towards solving the problems plaguing Spain's labour market. In the first place, because it is a step towards the necessary re-balancing of recruitment and dismissal costs among temporary and permanent workers. Furthermore, the reform generalises the Employment Permanent Employment Promotion Contract (Contrato de Trabajo de Fomento de la Contratación Indefinida - CFCI), whereby severance for fair dismissal on objective grounds is 33 days' salary per year worked[8]. In addition, the Wage Guarantee Fund (Fondo de Garantía Salarial - FOGASA) will pay eight days of severance for new permanent contracts until the capitalisation fund comes into force in early 2012. Moreover, the reform helps clarify the technical, organisational and productivity-related grounds for objective dismissal, and would introduce the principle of minimum reasonability, which could speed up the process of fair dismissal on financial grounds.

Secondly, the reform leaves open to agreement between company and employee representatives the decision to temporarily not apply the wage regime set forth in the higher-level collective bargaining agreement when the company's prospects could be damaged because of its application. Accordingly, the higher-level collective bargaining agreements no longer establish the procedures that regulate the wage opt-out clauses.

Thirdly, companies' internal flexibility instruments are strengthened by allowing working conditions to be changed (working hours, distribution of time, shifts, etc.) due to financial, technical, organisation or productivity-related causes through consultation with the workers' legal representatives. Similarly, temporary suspension of contracts and shorter workday are encouraged, with the Social Security Administration covering the ensuing wage cut[9].

Overall, while Royal Decree Law 10/2010 is a significant improvement on the previous employment legislation, it might not be enough to resolve all Spain's labour market ills.

7: A. De la Fuente and R. Doménech (2010): “Ageing and real convergence: changes and proposals”, in J. F. Jimeno (ed.): *Spain and the Euro, the first ten years*. Bank of Spain.
8: At the same time, severance for dismissal under temporary contracts is increased progressively: one day salary per year worked from 2012 up to 12 days per year worked in 2015.
9: This measure is known as the “German model” because of its similarity with a reduced work programme in place in Germany (*Kurzarbeit*).

### *Duality and the rebalancing of employment protection*

But a swift and efficient resolution to all the dysfunctionalities characterising the Spanish labour market requires further advancements, which may still come during the parliamentary processing stage

The reform approved in June does not reduce the broad range of contracts that still exist under the Spanish legal system, so its effect on the duality of the labour market remains to be seen. While it does slightly rebalance employment protection among temporary workers and workers on permanent contracts, in the short term the gap with respect to the conditions of terminating a temporary contract is still huge when a dismissal is judged unfair (25 days' salary per year worked plus 15 days' notice). In order to iron out the differences in the treatment of employees in respect of the terms of their dismissal, in the March 2009 issue of *Spain Economic Outlook*, BBVA Research proposed the following combination: a) a new single contract–not affecting contracts currently in force–with severance costs that increase in line with the number of years the worker has been at the company[10]; and b) a severance insurance system financed through social security contributions, similar to the one in place in Austria, which would accumulate in individual accounts. If a worker decides to switch company, he/she may transfer her individual account, which would boost mobility in the labour market; if the worker is never dismissed during her entire working life, the amount accumulated in his/her account would be used to top up his/her pension. While RDL 10/2010 makes some headway in the second part of this proposal, the generalisation of the CFCI will scarcely translate into a reduction of duality that would have resulted from a single contract, which in the long term, by definition, means zero temporality.

The role of FOGASA in reducing severance costs differential between temporary workers and permanent ones will be limited, since it will only pay the eight days of severance from June 2011 through 31 December of the same year on permanent contracts registered after the entry into force of RDL 10/2010. From January 2012, payments by FOGASA will be replaced by the capitalisation fund, whose characteristics, financing sources and benefits have yet to be established. If the capitalisation fund is designed correctly with the adequate incentives, it could substantially improve the operation of Spain's labour market.

As regards dismissal on objective grounds, RDL 10/2010 is vague when it comes to the concurrence of financial causes for terminating a contract, so that while the legal uncertainty has diminished compared with the previous system, there is still enough uncertainty to jeopardise this dismissal model. The complete elimination of the legal insecurity linked to the procedure of dismissal on objective grounds should not be interpreted as a reduction in employment protection, but as a necessary condition for companies to reliably compare the advantages of a permanent contract and those of a temporary one, whose termination cost is widely known. If employers had complete confidence that the dismissal of a worker with a permanent contract were to be judged fair, provided it is on objective grounds, the gap in firing costs between contract types would be negligible, and this would reduce the preference for temporary contracts[11].

### *Collective bargaining and wage opt-out clauses*

Empirical evidence indicates that the characteristics of the collective bargaining system in Spain, in particular its degree of centralisation (intermediate), makes for the existence of wage rigidities that translate into below-potential job creation, higher structural unemployment and comparatively high inflation[12]. To correct the inefficiencies of the wage indexing process and to encourage coordination between the various agents in order to generate a virtuous circle between remuneration and macroeconomic conditions, BBVA Research highlights the need for more decentralised collective bargaining. The proposal would materialise in the removal of the principle of general automatic efficacy in higher level collective bargaining agreements, setting caps on the maximum validity period without new bargaining (principle of ultra-activity) and establishing the topics to be negotiated in each sphere, leaving organisational and wage aspects for the company-specific agreements. Furthermore, the reform should make the legal representation of workers at companies with five or fewer employees more flexible[13].

10: A similar single contract proposal can be found in Spanish at: http://www.crisis09.es/propuesta/?page_id=37.
11: Again, a single contract with increasing severance based on seniority would ease the problem by reducing legal insecurity. Bentolila and Jansen (2010) suggest that severance increasing in line with seniority could differ depending on the reason for dismissal. See: Bentolila, S. and M. Jansen (2010): "La viabilidad jurídica del contrato único", in J. J. Dolado and F. Felgueroso (coordinators): *Propuesta para la reactivación laboral en España*. Fedea, Madrid. Available in Spanish at: http://www.crisis09.es/ebook_propuesta_laboral/Propuesta_reactivacion_laboral_art_7.pdf.
12: In particular, there are four main causes of rigidity triggered by collective bargaining in Spain: the regulatory nature of the agreements, the general automatic efficacy, the principle of ultra-activity and the prevalence of sector-based provincial collective bargaining agreements. For a detailed analysis, see the March issue of Spain Watch at http://serviciodeestudios.bbva.com/KETD/fbin/mult/0903_spainwatch_tcm348-189472.pdf?ts=982010.
13: A recent study that illustrates the need to reform the Spanish collective bargaining system can be found in Spanish in: Bentolila, S., M. Izquierdo and J. F. Jimeno (2010): "Negociación colectiva: la gran reforma pendiente", *Papeles de Economía Española*, Nº 124.

However, RDL 10/2010 has scarcely modified the current wage-setting mechanism or the structure of the collective bargaining system. While it does help companies that need to hammer out agreements with workers' representatives regarding the non-application of wage conditions agreed in higher-level agreements, arbitration procedures when no such agreements are reached are still under the control of the higher-level collective bargaining agreements.

### *Internal flexibility and the German model*

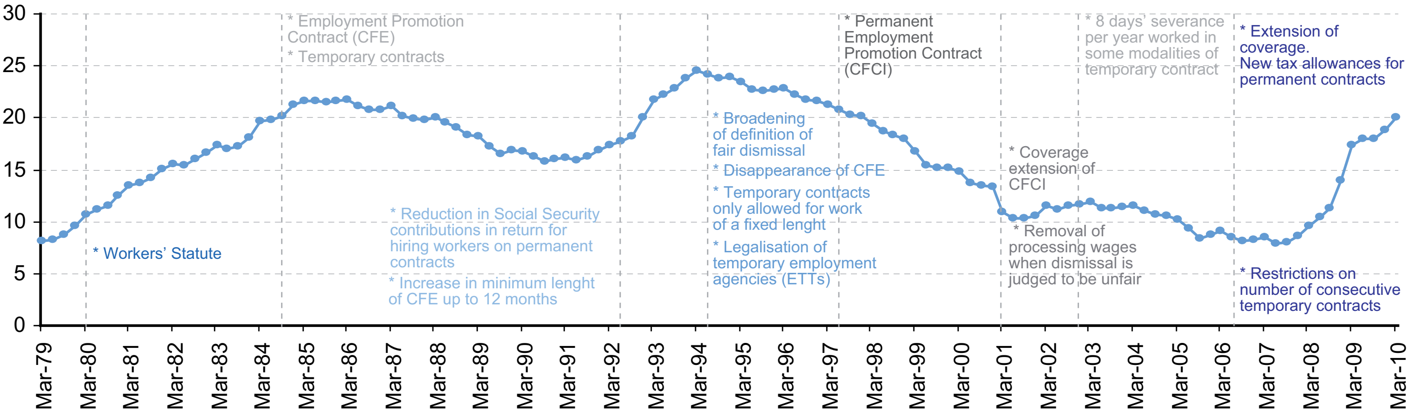
That the RDL 10/2010 helps companies and workers agree on changes in working conditions based on financial conditions is positive. However, the implementation of a shorter working schedule programme, based on the model applied in Germany, merely avoids the problem of unemployment in special circumstances. A shorter working schedule such as the one proposed is effective in situations where companies face temporary dips in demand, so that they can use the shorter working hours to avoid having to axe jobs. However, part of the employment lost in Spain is structural and linked to the downturn in the real estate sector. Furthermore, since most of the job destruction has already taken place, implementation of the German model would not solve the problem of the high unemployment rate in the Spanish economy.

For the reform to be as effective as possible, it must be actively implemented and continuously monitored

While most of the amendments proposed entail changes that would not drastically alter the expected results of RDL 10/2010, its parliamentary processing as a draft law is an excellent opportunity to introduce improvements in the reform, in line with some of the aforementioned proposals[14]. At any rate, for the reform to be as efficient as possible it must be known in detail by all agents in the labour market. This means clearly and simply telling citizens, and in particular all employers, about the advantages and scope of the changes introduced under the new law once it has been approved by Parliament. Consequently, an intensive exercise in pedagogy is necessary to explain the need for an effort by the agents involved and to clarify the details of the reform to all those affected by it. Similarly, improvements in the way the labour market works require further development of the reform and ongoing monitoring to correct any deficiencies that might gradually emerge in future.

Chart 20

**Spain: unemployment rate and main labour reforms**




Source: BBVA Research based on INE data

14: The parliamentary groups have presented more than 300 amendments to RDL 10/2010, which have been discussed at the Congressional Commission on Employment and Immigration. The resulting text has been sent to the Senate for debate and possible modification, and will not be definitively approved in Congress until September.

# Tables

Table 1

## Macroeconomic forecasts: Gross Domestic Product

| (y-o-y growth, %) | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| US | 2.1 | 0.4 | -2.4 | 3.0 | 2.5 |
| EMU | 2.8 | 0.4 | -4.1 | 0.7 | 1.3 |
| Germany | 2.6 | 1.0 | -4.9 | 1.1 | 1.3 |
| France | 2.3 | 0.1 | -2.5 | 1.2 | 1.3 |
| Italy | 1.4 | -1.3 | -5.1 | 0.7 | 1.1 |
| Spain | 3.6 | 0.9 | -3.6 | -0.6 | 0.7 |
| UK | 2.6 | 0.5 | -4.9 | 1.4 | 1.7 |
| Latin America* | 5.8 | 4.0 | -2.4 | 5.2 | 4.2 |
| Mexico | 3.3 | 1.5 | -6.6 | 4.5 | 3.7 |
| LatAm5 ** | 7.8 | 5.0 | -1.3 | 3.8 | 4.1 |
| Asia | 7.3 | 4.0 | 1.8 | 6.4 | 5.5 |
| China | 14.2 | 9.6 | 9.1 | 9.8 | 9.2 |
| Asia (excluding China) | 5.1 | 2.1 | -0.7 | 5.1 | 4.1 |
| World | 5.3 | 3.0 | -0.6 | 4.4 | 4.1 |

Closing date: 31 July 2010
* Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela
** Argentina, Chile, Colombia, Peru, Venezuela
Source: BBVA Research

Table 2

## Macroeconomic forecasts: 10Y interest rates (average)

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| US | 4.6 | 3.6 | 3.2 | 3.4 | 3.7 |
| EMU | 4.2 | 4.0 | 3.3 | 2.8 | 3.0 |

Closing date: 31 July 2010
Source: BBVA Research

Table 3

## Macroeconomic forecasts: exchange rates (average)

| US dollars ($) per national currency | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| US (EUR/USD) | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 |
| EMU | 1.4 | 1.5 | 1.4 | 1.3 | 1.2 |
| UK | 2.0 | 1.8 | 1.6 | 1.5 | 1.4 |
| China | 7.6 | 6.9 | 6.8 | 6.7 | 6.4 |

Closing date: 31 July 2010
Source: BBVA Research

Table 4

## Macroeconomic forecasts: official interest rates (end of period)

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| US | 4.3 | 0.6 | 0.3 | 0.1 | 0.8 |
| EMU | 4.0 | 2.5 | 1.0 | 1.0 | 1.0 |
| China | 6.9 | 5.3 | 5.3 | 5.6 | 5.9 |

Closing date: 31 July 2010
Source: BBVA Research

Table 5

**EMU: macroeconomic forecasts (y-o-y change, %, unless indicated otherwise)**

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Household consumption: | 1.6 | 0.3 | -1.2 | 0.0 | 0.4 |
| Public consumption | 2.3 | 2.2 | 2.7 | 1.0 | 0.5 |
| GFCF | 4.6 | -0.9 | -10.9 | -3.4 | 0.3 |
| Capital goods and other products | 7.8 | 0.8 | -15.1 | -1.5 | 0.8 |
| Capital goods | 8.4 | 0.7 | -16.5 | -0.9 | 0.5 |
| Construction | 2.2 | -2.2 | -7.6 | -5.1 | -0.4 |
| Housing | 1.1 | -4.7 | -9.8 | -5.3 | -0.7 |
| **Domestic demand (*)** | **2.4** | **0.5** | **-3.3** | **0.5** | **0.4** |
| Exports | 6.3 | 0.7 | -13.2 | 7.7 | 7.9 |
| Imports | 5.5 | 0.8 | -11.9 | 6.9 | 6.7 |
| **Net trade balance (*)** | **0.4** | **0.0** | **-0.8** | **0.4** | **0.6** |
| **GDP mp (% y-o-y)** | **2.8** | **0.4** | **-4.1** | **0.9** | **1.0** |
| **Pro-memoria:** | | | | | |
| GDP w/out housing investment | 2.9 | 0.8 | -3.8 | 1.2 | 1.0 |
| GDP w/out construction | 2.8 | 0.8 | -3.7 | 1.6 | 1.1 |
| Employment (LFS) | 2.0 | 0.9 | -1.8 | -0.5 | 0.3 |
| Unemployment rate (% active pop.) | 7.5 | 7.6 | 9.4 | 10.4 | 10.6 |
| Current account balance (% GDP) | 0.1 | -1.1 | -0.8 | -0.5 | -0.2 |
| Public sector balance (% GDP) | -0.6 | -2.0 | -6.3 | -6.8 | -5.5 |
| CPI annual average | 2.1 | 3.3 | 0.3 | 1.3 | 1.2 |

(*) Contribution to GDP growth
Source: official institutions and BBVA Research

Table 6

**Spain: macroeconomic forecasts (y-o-y change, %, unless indicated otherwise)**

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| **Activity** | | | | | |
| Real GDP at market prices | 3.6 | 0.9 | -3.6 | -0.6 | 0.7 |
| Private consumption | 3.6 | -0.6 | -5.0 | -0.3 | 0.3 |
| Public consumption | 5.5 | 5.5 | 3.9 | 1.4 | 0.2 |
| Gross fixed capital formation | 4.6 | -4.4 | -15.2 | -9.5 | -3.2 |
| Capital goods | 9.0 | -1.8 | -22.9 | -5.5 | -1.0 |
| Construction | 3.2 | -5.5 | -11.1 | -9.5 | -4.0 |
| Housing | 3.0 | -10.3 | -24.5 | -16.8 | -6.1 |
| Other construction | 3.3 | -0.4 | 1.6 | -4.3 | -2.5 |
| Other goods | 3.6 | -4.3 | -17.3 | -15.0 | -3.2 |
| Chg in inventories (*) | -0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| Domestic demand (*) | 4.4 | -0.5 | -6.4 | -2.2 | -0.6 |
| Exports of goods and services | 6.6 | -1.0 | -11.3 | 6.6 | 7.3 |
| Imports of goods and services | 8.0 | -4.9 | -17.7 | 0.0 | 1.5 |
| Net trade balance (*) | -0.9 | 1.4 | 2.8 | 1.5 | 1.3 |
| GDP at current prices | 7.0 | 3.4 | -3.4 | 0.4 | 1.5 |
| Billion euros | 1052.7 | 1088.5 | 1051.2 | 1055.6 | 1071.5 |
| **Prices and Costs** | | | | | |
| GDP deflator | 3.3 | 2.5 | 0.2 | 1.1 | 0.8 |
| Household consumption deflator | 3.2 | 3.7 | -0.7 | 1.8 | 0.9 |
| CPI | 2.8 | 4.1 | -0.3 | 1.6 | 1.4 |
| Compensation per employee | 4.5 | 6.1 | 3.7 | 1.3 | 0.6 |
| Unit labour cost (ULC) | 3.8 | 4.6 | 0.4 | -0.8 | -0.6 |
| **Foreign trade** | | | | | |
| Trade balance (% GDP) | -8.7 | -8.0 | -4.3 | -3.5 | -1.3 |
| Current account balance (% GDP) | -10.0 | -9.7 | -5.5 | -4.2 | -2.7 |
| **Government sector** | | | | | |
| Debt (% GDP) | 36.2 | 39.7 | 53.2 | 63.6 | 69.7 |
| Public administration balance (% of GDP) | 1.9 | -4.1 | -11.2 | -9.6 | -6.6 |
| **Labour market** | | | | | |
| Active population (LFS) | 2.8 | 3.0 | 0.8 | -0.7 | -0.7 |
| Employment (LFS) | 3.1 | -0.5 | -6.8 | -2.6 | -0.3 |
| Change, thousands of people | 608.3 | -98.3 | -1369.7 | -499.7 | -64.2 |
| Full-time equivalent employment (CNTR) | 2.8 | -0.6 | -6.7 | -2.7 | -0.5 |
| Unemployment rate (% active pop.) | 8.3 | 11.3 | 18.0 | 19.6 | 19.4 |
| Productivity | 0.7 | 1.5 | 3.1 | 2.1 | 1.2 |
| **Households** | | | | | |
| Real disposable income | 3.0 | 2.2 | 1.8 | -2.6 | -1.1 |
| Nominal disposable income | 6.3 | 6.0 | 1.1 | -0.8 | -0.2 |
| Savings rate (% of nominal income) | 10.7 | 12.9 | 18.8 | 16.8 | 15.7 |

(*) contribution to GDP growth
Source: official institutions and BBVA Research

## DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called “BBVA”) to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

**Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report.** Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

**The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.**

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates´ salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates’ proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

This document is provided in the United Kingdom solely to those persons to whom it may be addressed according to the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and it is not to be directly or indirectly delivered to or distributed among any other type of persons or entities. In particular, this document is only aimed at and can be delivered to the following persons or entities (i) those outside the United Kingdom (ii) those with expertise regarding investments as mentioned under Section 19(5) of Order 2001, (iii) high net worth entities and any other person or entity under Section 49(1) of Order 2001 to whom the contents hereof can be legally revealed.

The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA and the rest of entities in the BBVA Group which are not members of the New York Stock Exchange or the National Association of Securities Dealers, Inc., are not subject to the rules of disclosure affecting such members.

**“BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance”.**

## This report has been produced by the Spanish and European Unit:

*Chief Economist*
**Rafael Doménech**
+34 91 537 36 72
r.domenech@grupobbva.com

Spain
**Miguel Cardoso**
+34 91 374 39 61
miguel.cardoso@grupobbva.com

**Juan Ramón García**
+34 91 374 33 39
juanramon.gl@grupobbva.com

**Virginia Pou**
+34 91 537 77 23
virginia.pou@grupobbva.com

**Camilo Andrés Ulloa**
+34 91 537 84 73
camiloandres.ulloa@grupobbva.com

**Mónica Correa**
+34 91 374 64 01
monica.correa@grupobbva.com

**Félix Lores**
+34 91 374 01 82
felix.lores@grupobbva.com

**Pep Ruiz**
+34 91 537 55 67
ruiz.aguirre@grupobbva.com

**Isabel Mohedano**
+34 91 374 62 66
isabel.mohedano@grupobbva.com

Europe
**Miguel Jiménez**
+34 91 537 37 76
mjimenezg@grupobbva.com

Financial Systems
**Ana Rubio**
+34 91 374 33 42
arubiog@grupobbva.com

Economic Scenarios
**Juan Ruiz**
+34 91 374 58 87
juan.ruiz@grupobbva.com

Regulatory Affairs
**María Abascal**
+34 91 374 70 15
maria.abascal@grupobbva.com

Financial Scenarios
**Marcos Dal Bianco**
+34 91 538 63 49
marcosjose.dal@grupobbva.com

## BBVA Research

*Group Chief Economist*
**José Luis Escrivá**

*Chief Economists & Chief Strategists:*

*Regulatory Affairs, Financial and Economic Scenarios:*
**Mayte Ledo**
teresa.ledo@grupobbva.com

Financial Scenarios
**Sonsoles Castillo**
s.castillo@grupobbva.com

Financial Systems
**Ana Rubio**
arubiog@grupobbva.com

Economic Scenarios
**Juan Ruiz**
juan.ruiz@grupobbva.com

Regulatory Affairs
**María Abascal**
maria.abascal@grupobbva.com

*Market & Client Strategy:*
**Antonio Pulido**
ant.pulido@grupobbva.com

Equity and Credit
**Ana Munera**
ana.munera@grupobbva.com

Interest Rates, Currencies and Commodities
**Luis Enrique Rodríguez**
luisen.rodriguez@grupobbva.com

Asset Management
**Henrik Lumholdt**
henrik.lumholdt@grupobbva.com

*Spain and Europe:*
**Rafael Doménech**
r.domenech@grupobbva.com

Spain
**Miguel Cardoso**
miguel.cardoso@grupobbva.com

Europe
**Miguel Jiménez**
mjimenezg@grupobbva.com

*United States and Mexico:*
**Jorge Sicilia**
j.sicilia@bbva.bancomer.com

United States
**Nathaniel Karp**
nathaniel.karp@bbvacompass.com

Mexico
**Adolfo Albo**
a.albo@bbva.bancomer.com

Macro Analysis Mexico
**Julián Cubero**
juan.cubero@bbva.bancomer.com

*Emerging Markets:*
**Alicia García-Herrero**
alicia.garcia-herrero@bbva.com.hk

Cross-Country *Emerging Markets* Analysis
**Daniel Navia**
daniel.navia@grupobbva.com

Pensions
**David Tuesta**
david.tuesta@grupobbva.com

Asia
**Stephen Schwartz**
stephen.schwartz@bbva.com.hk

South America
**Joaquín Vial**
jvial@bbvaprovida.cl

Argentina
**Gloria Sorensen**
gsorensen@bancofrances.com.ar

Chile
**Alejandro Puente**
apuente@grupobbva.cl

Colombia
**Juana Téllez**
juana.tellez@bbva.com.co

Peru
**Hugo Perea**
hperea@grupobbva.com.pe

Venezuela
**Oswaldo López**
oswaldo_lopez@provincial.com

## Contact details

**BBVA Research**
Paseo Castellana, 81 - 7th floor
28046 Madrid (Spain)
Tel.: +34 91 374 60 00 and +34 91 537 70 00
Fax: +34 91 374 30 25
bbvaresearch@grupobbva.com
www.bbvaresearch.com

Legal Deposit: M-31254-2000