BBVA | RESEARCH

Europe Economic Outlook

Second Quarter 2014
Economic Analysis

- **Recovery in the eurozone is underpinned by better financial conditions and greater confidence,** with some doubts remaining about the foreign sector.
- **Growth takes hold in peripheral countries,** with a degree of convergence in growth rates to 2015.
- **Inflation will stay below 1% in the next few quarters,** which will make it difficult to reduce imbalances, particularly in the periphery.
- **The strong euro and low inflation have led the ECB to make a preliminary announcement about measures in June:** quantitative easing in the second half of the year cannot be ruled out.

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Closing date: May 9, 2014

1. Editorial

The eurozone economy has provided few surprises in the last three months in terms of the recovery rate and the fundamentals underpinning it, although there are nuances. The short-term data continue to be relatively positive, with confidence indicators growing somewhat more than might be expected (particularly given the geopolitical problems in Eastern Europe), while activity data are somewhat more lagging. Germany has had very strong growth in the first quarter, although the second will be slightly weaker. Recent data from France are more negative, but Italy and Spain continue to recover, even with biases to the upside. Fiscal policy continues to be clearly less restrictive than it was a year ago, since ECOFIN changed it in May 2013, while monetary policy has additional scope for easing (see below). Financial variables have improved more than forecast, mainly because of the reduction in sovereign differentials on the periphery, linked to inflows from emerging markets, which is having an upward impact on the euro.

It is precisely the exchange rate with the dollar, for which we forecast lower depreciation in the medium term, which is one of the factors holding back recovery, or making it more moderate. To this component we should add lower growth forecasts for China, this year and next, closer to 7% than 7.5%, and in other emerging markets, which could also have an impact on exports. Despite this, greater vigour in Europe's domestic demand offsets these biases to the downside in the foreign sector, and leads us to stand by our growth forecast for the eurozone of 1.1% in 2014 and 1.9% in 2015, above its growth potential, which will allow it to reduce its unemployment rate a little.

Apart from doubts in the foreign sector, the other risk factor in the eurozone relates to the low level of inflation, which stood at 0.5% in March and is going to stay below 1% for nearly the rest of the year, according to our forecast. We continue to view a deflation scenario as improbable, but a low inflation scenario not only brings problems if there is another downwards shock, but is also prejudicial for rebalancing between eurozone countries, for changes in relative prices and for deleveraging at a reasonable rate by private agents and governments, highly indebted in many eurozone countries. The ECB did not take additional easing measures in March, despite having forecast inflation of only 1.5% on a two-year horizon (to 2016), but it seems to have rectified this more recently, citing the various measures that it might take in response to different events (financial tension, excessive euro appreciation, persistently low inflation) and, more importantly, indicating that it is prepared (unanimously) to embark on quantitative easing measures if inflation deviates from the forecast path. For the moment, it is quite possible that it will lower refi rates further and move deposit rates to negative territory in June, while further liquidity measures are not discarded in coming months.

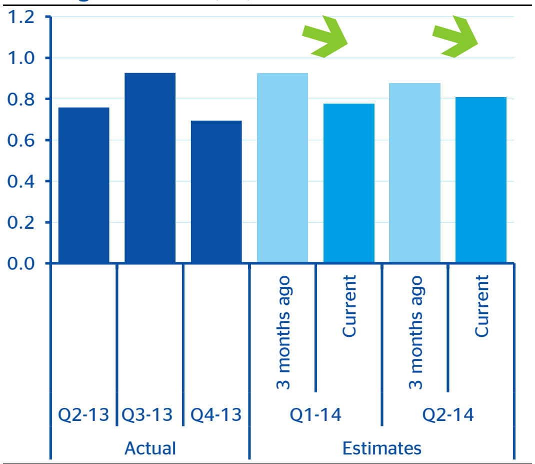
As to the rest of this year and 2015, after the progress made on banking union (which has taken another step in recent months, with the approval of the single resolution mechanism), the imminent banking asset quality review and stress tests continue to be a factor to bear in mind. If at the end of the year there is a banking sector in Europe that is solvent and recapitalised, together with common supervisory and resolution mechanisms already underway, there will be room for a substantial reduction of financial fragmentation and for paving the way for a more robust credit recovery.

2. The deceleration in China and the Fed's tighter monetary policy will define the global scenario

The global economic cycle remains robust at the start of 2014. According to our estimates, in the first quarter of 2014 global GDP has accelerated very slightly to around 0.8% QoQ and, according to our global activity indicator (BBVA-GAIN), we expect this pace to be maintained for the first part of the year (see Figure 2.1). In the wake of this sustained global recovery is the cyclical improvement in the DMs, which has offset the deceleration in some EMs in Asia and Latin America. Meanwhile, in the last few months the financial markets have performed very differently in the two regions, and with more differentiation between the EMs. Capital flows, asset prices, interest rates and financial tension indicators have fundamentally performed in line with the outlook for rate hikes in the UK, but have also been affected to a greater or lesser extent by geopolitical risk events in Eastern Europe and China's slowdown expectations.

The normalisation of US monetary policy via quantitative measures and interest-rate expectations is resulting in a rebalancing of financial portfolios at a global level, which is having a relevant impact on funding conditions and asset prices in the EMs. This contagion is nothing new, but has raised its head again in a new environment: with more financial integration in the EMs and an extraordinarily lax monetary policy in the US. Symmetrically, the exit from this exceptional period will also have an impact on the financial variables.

Chart 2.1
Global growth (%, QoQ) based on BBVA-GAIN



Source: IMF and BBVA Research

Chart 2.2
Global GDP growth (%)

Source: BBVA Research

To sum up, our assessment of the global scenario has a downward bias compared with our valuation three months ago, which is reflected in the adjustments to our forecasts. After growing at 3.0% in 2013, global GDP will start to accelerate again in 2014 and 2015 at around 3.4% and 3.8% respectively, figures that demonstrate both the variations in growth expectations in diverse regions and the increased, although slight, contribution to global growth by the developed economies (see Figure 2.2). Although there have been no significant changes in either the US or the eurozone, the downward pressures in our forecasts are above all visible in the EMs in 2014 and 2015, in both Asia and Latin America (see update forecast in Section 5 and our Global Economic Outlook Second Quarter 2014 for a more detailed analysis).

3. The eurozone is supported by better financial and economic policy conditions, but with some doubts on the foreign sector

The outlook for the eurozone is still relatively positive, now that the recovery seems set to continue. In the last three months the economy has moved in line with expectations, on the whole, although with slight changes in the relative weight of its fundamentals. So, while the pattern in financial variables has been more positive than expected, and the macro-economic data point to growth above expectations in the first quarter, with a relatively swift recovery – particularly of confidence – the uncertainties are coming from outside, with a dollar exchange rate which now appears to be overvalued, and a forecast of rather less growth in Asia, which may reduce the external sector's contribution. In terms of the tone of economic policies, fiscal policy appears unchanged, and monetary policy is somewhat more disposed to additional relaxation, although it is giving signals that are sometimes mixed. The progress made in banking union remains key for future growth and for overcoming the crisis, with the banking tests comprising the central event of the second half of the year.

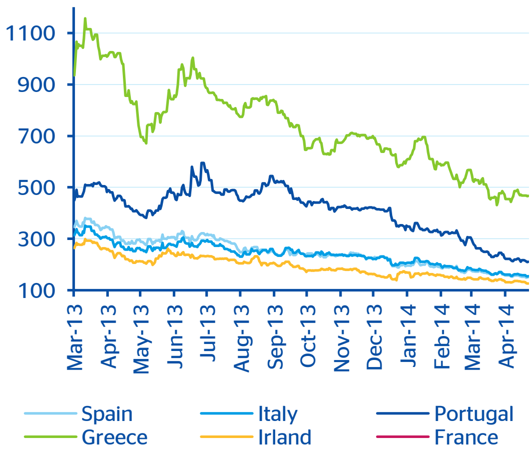
The financial environment continues to improve more quickly than expected

In the last quarter, financial tensions have remained at low levels, particularly in developed economies, including Europe. The highest tensions were felt in Eastern Europe – caused by the conflict in Ukraine – but did not transfer to other emerging regions and, as such, contagion has been very limited.

Even so, uncertainty linked to this factor, as well as cyclical weakness in some of the key emerging economies, is giving rise to a certain demand for safe-haven assets (US Treasury bonds and German bonds). Similarly, these factors are contributing to a situation in which capital outflows from emerging markets in previous months are benefiting Europe, especially the peripheral countries. On the other hand, the Federal Reserve's relatively relaxed tone and weaker than expected activity data in the American economy for the first quarter (very affected by weather conditions) have caused a reduction in long-term US interest rates, with the resulting carry-over effect on European curves.

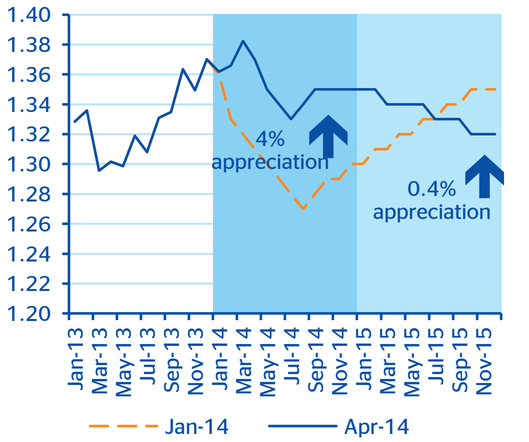
Thus, in Europe, the combination of these factors, together with expectations of low inflation and possible action on the part of the ECB (including the possibility of quantitative easing, QE), has reduced long-term interest rates on European bonds, both those of core countries and the periphery. The yield on the German bond has again dropped below 1.50%, while Spanish and Italian bonds at the same maturities are under 3%. In this context, risk premiums, favoured by capital inflows, expectations of a possible QE, and to a lesser degree by the rating improvement, have continued to tighten (see Figure 3.1). This tightening has been particularly strong in Greece, which is still being supported by the Troika in order to meet its funding requirements, and in Portugal, which has announced its exit from the programme without the support of any additional lines of credit.

Figure 3.1
Risk premium (spread 10 years) in the periphery



Source: Bloomberg

Figure 3.2
Dollar/Euro Exchange rate



Source: BBVA Research

A foreign environment without extensive changes, but with biases to the downside because of the exchange rate and lower growth in China

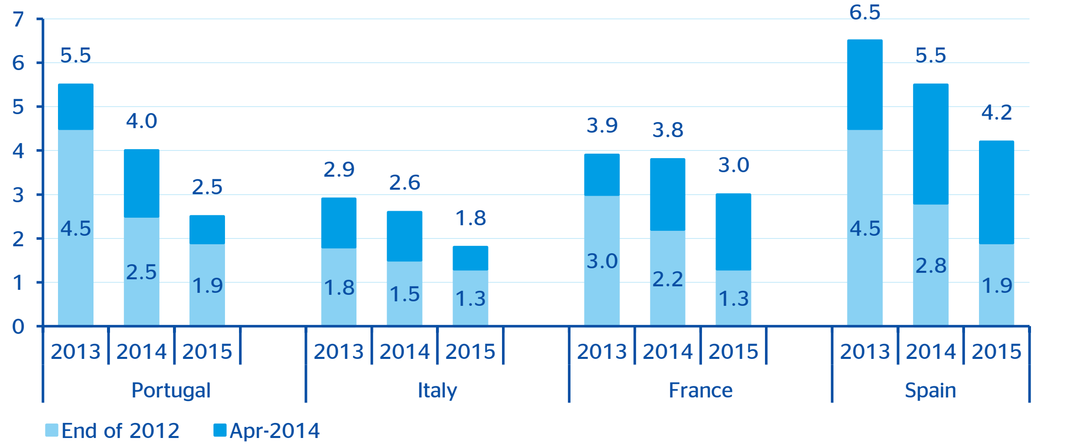
The world's economic growth in the first two quarters of this year is going to be somewhat less than we forecast three months ago, but remains strong (at a rate of 0.8% QoQ), and is accelerating from 0.7% in the fourth quarter of 2013. As outlined in the previous section, the developed economies are, up to a point, taking over from emerging markets. Even though our forecasts for US growth have not varied (2.5% in 2014 and 2015), the biases are to the upside, while doubts about China mean that its GDP growth is going to be closer to 7% than the 7.5% previously forecast, which will also be reflected in other emerging economies. In any event, exports from the eurozone have remained stable in the last few months, thanks to other European countries (the United Kingdom, mainly) with established trading links and where growth remains very strong.

The euro is still strongly underpinned by entry flows in eurozone assets and by economic figures which continue to point to a slow but gradual economic recovery, and it does not appear that this trend is going to vary significantly. Our dollar/euro scenario estimates a much more moderate depreciation in 2014 and the first half of 2015, representing a 4% higher appreciation in value against the dollar than in our earlier scenario (see Figure 3.2). This could have an accumulated impact of around 0.7pp on export growth between 2014 and 2015, and of around 0.3pp on GDP, which will probably be offset by greater impetus on the part of internal demand.

No change to fiscal policy after the slight relaxation in 2013

The relaxation in fiscal targets approved by ECOFIN in the first half of 2013 was an important factor in the European economy's recovery in the second half of the year, as we pointed out in previous editions of this report. The panorama has not changed. Fiscal policy continues to be contractive, but less so than forecast at the time, thanks to the postponement of the 3% deficit target for several countries, including France, Italy and Spain (see Figure 3.3). Deviations from the deficit targets in 2013 have been small, except in France (0.4pp off the May 2013 stability plan's target) and plans presented to the Commission in April this year retain the targets forecast or modify them towards a somewhat slower consolidation path.

Figure 3.3
Fiscal deficit target revision (% GDP)



Source: European Commision

Monetary policy shows greater disposition to further relaxation in the light of disinflation risks

In general the ECB has relaxed its monetary policy in the last few months, although more in terms of its communication than in real measures. After an interest reduction in November, which almost nobody was expecting, it has insisted on its forward guidance policy, making it clear that interest rate rises are not to be expected in the next few quarters; it has introduced the possibility of carrying out quantitative easing (unanimously, which would require the approval of the ECB's core country members), although only if inflation is persistently low, and has acknowledged the importance for inflation of an exchange rate that is too high (see Box1 in the next section). Furthermore, it has made a preliminary announcement of measures for June, which may involve an additional reduction in the refi rate from its current 0.25% and fixing a negative deposit rate. Although all these measures are more linked to inflation risks, following the ECB's mandate, their effect on activity is clearly expansive.

Progress on banking union is still on track, with balance sheet analysis as the key milestone in the second half of the year

The European authorities concerned (Commission, Council and Parliament) have reached agreement in the first quarter of this year on the single resolution mechanism (SRM) and the single resolution fund, which comprise the second leg of the banking union process planned in mid-2013. The process is thus moving forward according to schedule. The single supervisory system (first leg) will come into force in October, led by the ECB, after the banking balance sheet analyses and stress tests which are taking place in the next few months, and which will also be published in October. Agreement has not been reached on the third component in the route map, a common deposit guarantee fund, and this is not expected to be achieved in the short or medium term. Agreement on SRM is a definite step in the right direction, and although it has received criticism for the time it will take to introduce and the resources being allocated, it does not appear to have had a negative impact on markets.

The key factor at the moment is the outcome of the banking analysis: drawing a clear map of the status of the European banking system, in some cases after recapitalisation of certain institutions, ought to reduce uncertainty about the sector, about the negative loop between banking and sovereign credit, and ought also to help to reduce financial fragmentation in the eurozone. The effect on credit flows, insofar as credit is also affected by supply-side factors, should make itself felt throughout 2015.

4. Perspectives: moderate growth in 2014, building momentum in 2015

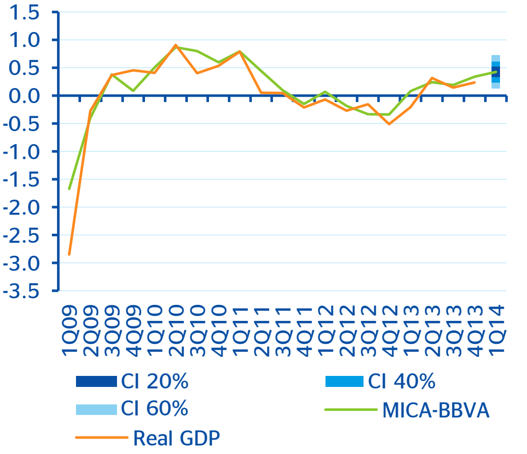
Economic growth in the eurozone as a whole appears to have gained some traction in the first quarter of the year, sustained by progressive normalisation in financial markets, that has been reflected in a major improvement in confidence. Nevertheless, some key determinants have deteriorated during the recovery, mainly the slower growth in some emerging economies and the strength of the euro, which might put a brake on the drive in exports, resulting in slower economic progress in forthcoming quarters.

Our short-term MICA-BBVA model estimates quarterly GDP growth of 0.4-0.5% QoQ in the first quarter of the year (0.2pp above our forecast three months ago) in the eurozone, after the 0.2% QoQ recorded in 4Q13 (see Figure 4.1). Data available for 2Q14 are restricted to the confidence indicators for April, and show mixed signals. On the one hand, the PMIs improved again, and indicate higher growth, while the European Commission's confidence data worsened, as did some national indicators (such as the Ifo in Germany, which picked up on the uncertainty of the geopolitical situation in Ukraine), suggesting that growth could moderate slightly, more in line with our scenario (0.2% QoQ).

By countries, the recovery is now taking shape in the periphery, gaining momentum in Spain (0.4% QoQ, up from 0.2% QoQ in 4Q13) and in Italy (0.3% QoQ, up from 0.1% QoQ). The German economy continues to lead growth (0.6% QoQ, up from 0.4% QoQ), while doubts are now focusing on the French economy (0.1% QoQ, from 0.3% QoQ), which might bear the brunt of the increased uncertainty (already reflected in confidence) about the economic policy that has to be introduced within the forecast horizon.

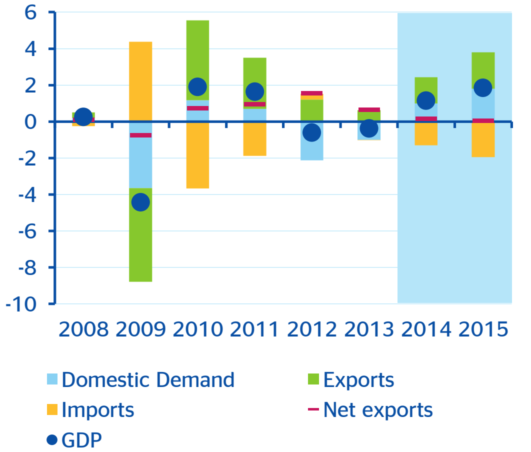
The slight changes in the growth fundamentals (see Section 3) offset one another. Our scenario continues to be that the drive already seen in recent quarters will continue to consolidate this year, with domestic demand taking over from exports throughout 2014, and we maintain our GDP growth forecast of 1.1% for the eurozone. Specifically, improved economic performance in the first quarter (+0.3pp) has offset the possible negative effect of the euro's appreciation (-0.2pp) and deceleration in emerging markets (-0.1pp). For 2015, we also hold our growth forecast at 1.9%, driven by the increased investment and the consolidation in the recovery of private consumption. Despite this, these forecasts imply that by the end of 2015 GDP will only have returned to pre-crisis levels (first quarter of 2008) and the output gap will continue to be negative.

Chart 4.1
EMU: MICA-BBVA and real GDP (% QoQ)



Source: Eurostat and BBVA Research

Chart 4.2
EMU: contribution to GDP growth (pp)



Source: Eurostat and BBVA Research

Exports will remain robust and crucial for growth …

The most recent trade balance figures show that growth in exports gained momentum at the beginning of the year (1.1% in January-February over 4Q13, when they grew 0.3% QoQ), especially those going to other European countries (around 46% of total exports) which offset a slight fall in sales to Asia (around 23%). These figures, therefore, are already reflecting the slowdown in some emerging economies (China and Latin America), although global growth continues to be strong (around 0.8% QoQ) because of the cyclical improvement in developed economies, whilst the euro's appreciation is being partly offset by the drop in prices of exports (around -0.3% QoQ on average throughout 2013). Furthermore, foreign orders from the industry's confidence surveys (both PMIs and the EC) point to good export performance over the next few months.

Slower growth in some emerging economies, together with a more appreciate euro than we forecast three months ago (around 4%), has led us to revise our export growth forecast slightly downwards. Despite that, exports ought to grow again at a relatively strong rate (our forecast is for 3.1% in 2014 and 4.2% in 2015, compared to the average growth of 6% between 1995 and 2008), enough to drive investment, while internal demand takes a clearer lead within the timespan of our forecast horizon. Nevertheless, the contribution of net exports to GDP growth in the eurozone as a whole will gradually lose relative importance (0.1pp in 2014 and none in 2015, after an average of 0.9pp between 2010 and 2013), with imports also increasing significantly because of the rise in purchases linked to investment and greater impetus in private consumption (see Figure 4.2).

… driving investment this year and, more so, in 2015

The increase in investment already visible in the second half of 2013, mainly on capital goods, that is the one which most benefits from the recovery in global demand, continues demonstrating that the obstacles to investment decisions are waning, particularly the uncertainty about the recovery's sustainability and the normalisation of capacity used by companies. The latest indicators suggest that this investment trend ought to continue in the next few months (with significant increases in the production of intermediate and capital goods, as well as consumer durables, plus an improvement in orders), with a large rise in 2014 (3.1%) despite the slow credit recovery. Nevertheless, as credit conditions improve (with banking union underway and, above all, the conclusion of the banking system's stress tests) and corporate profits continue to rise, we are expecting a new investment uptick in 2015 (5.1%).

Gradual recovery in consumption, both private and public

Available indicators suggest that the slow growth of private consumption since 2Q13 may have accelerated slightly at the beginning of the year. Consumer confidence went up significantly, supported by the stabilisation in the unemployment rate over the last 18 months (around 11.9%) and by better expectations for forthcoming months. This is already being reflected in retail sales growth in 1Q14 (0.8% over 4Q13), and points to private consumption having returned to growth of around 0.2% QoQ in 1Q14. Over the forecast horizon, the support structure for private consumption will continue to strengthen, given that better expectations for the labour market will be reflected in a rise in employee remuneration in a context of low inflation (which we put at 0.9% in 2014 and 1.3% in 2015). This ought to lead to increased household disposable income in the forecast horizon (0.7% in 2014 and 1% in 2015). All this will mean that private consumption may go up by around 0.8% and 1.3% in 2014 and 2015, respectively.

Fiscal policy will continue to be restrictive in the forecast horizon, although fiscal efforts will be less rigorous than those of 2012 and 2013, since the rest of the adjustment has been postponed, in order to meet the target of structural balance in the public accounts beyond 2015. With all this, public consumption may go up by around 0.3% in 2014 and 0.7% in 2015.

As a consequence of the above, domestic demand recovery will be consolidated throughout 2014 (contributing 1pp to growth), and ought gradually to take over from net exports, becoming the main engine of growth in 2015 (1.8pp).

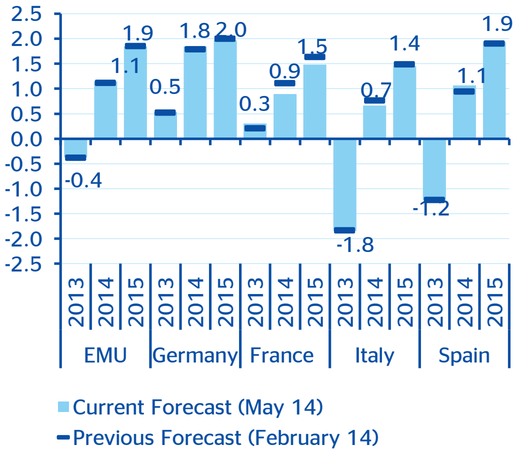
The labour market will continue to stabilise in 2014, with moderate growth in employment in 2015

The main factors behind the stabilisation of the labour market in the last year are the interruption in job destruction, as well as a slight fall in the active population, giving rise to a spike in productivity (0.5%). The rate of economic growth does not appear to be fast enough to create meaningful numbers of jobs yet in 2014 (0.1%), but will make an impact principally through another increase in productivity to levels of around 1%. Next year, however, we forecast that employment will rise by just under 1% and the unemployment rate will go down by around 0.6pp to 11.4%. This behaviour will be generalised across countries, so the large divergences in unemployment rates will continue throughout the entire horizon forecast.

Recovery is widespread throughout the eurozone, with some convergence in growth rates to 2015

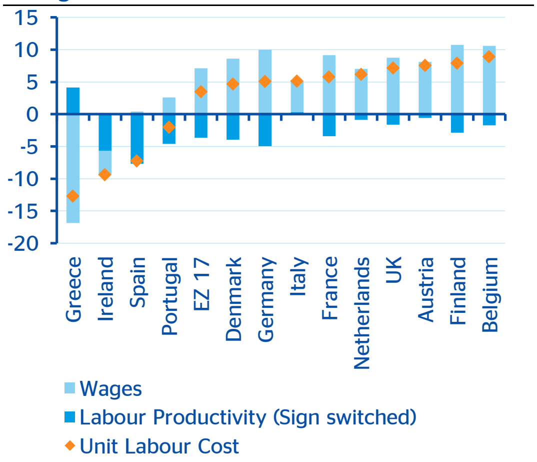
As with the eurozone as a whole, economic performance by countries has been in line with our forecasts, so we have not made significant revisions to them (see Figure 4.3). Growth in the area will continue to be led by the German economy this year (1.8%), but we expect growth in France and in peripheral economies to converge towards rates in the eurozone as a whole (1.1%) in 2014. Furthermore, we also forecast a more balanced growth pattern in the periphery, while retaining the differences in the contribution of domestic demand when compared with countries in central Europe. This still reflects the on-going correction of imbalances, particularly internal, since competitiveness gains in recent years have meant that in most cases heavy external deficits have already been corrected (see Figure 4.4).

Chart 4.3
EMU: GDP growth forecast by country



Source: Eurostat and BBVA Research

Chart 4.4
Change in unit labour costs 2009-2013



Source: Eurostat and BBVA Research

Box 1. Inflation of around 1% on the forecast horizon increases pressure on the ECB to ensure anchoring of price expectations in the medium term

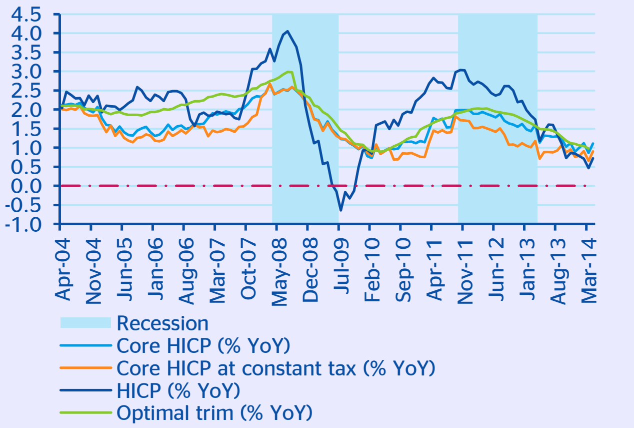
Persistent low inflation in Europe, together with the risk of deflation and the possibility of the ECB reacting with additional measures, perhaps with quantitative easing, are at the centre of the current debate about the eurozone's monetary policy.

In principle we still do not perceive a high risk of deflation...

In the first quarter, and in line with our scenario, both headline and core inflation were relatively stable (an average of 0.7% YoY for headline and 1% YoY for core, compared to forecasts of 0.7% and 0.9%). The pattern of inflation in March and April was affected by Easter falling late this year, which, together with base effects, meant that inflation moderated a great deal in March (to 0.5% YoY, and 0.9% YoY in the case of core) and spiked up again in April: to 0.7% YoY in the case of headline inflation, slightly less than expected (-0.1pp) because of a greater fall in energy products, while core inflation went up to 1.1%, in line with our forecast.

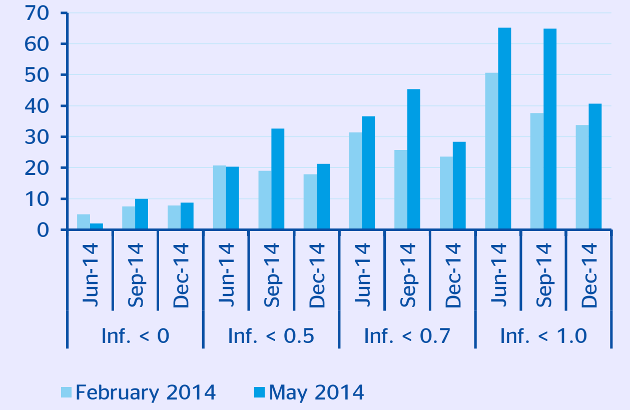
Our inflation scenario is for a gradual recovery, given that the fall in inflation in the last few quarters was a reaction to a logical pattern in a recessionary situation (Figure B.1.1). If we use the series provided by Eurostat, adjusted for tax and administered price rises (linked to fiscal consolidation in several countries since 2010), and we apply an adjustment similar to core inflation, we see that disinflation has essentially coincided with the recession, and that inflation over the last year, although low, has remained at relatively stable YoY rates. These are similar to those experienced after the first recession the European economy went through in 2008-09, after the brusque deceleration it has been going through since the end of 2011 (around 2.1pp, down from rates close to 3% YoY).

Chart B.1.1
EMU: Inflation (% YoY)



Source: Eurostat and BBVA Research

Chart B.1.2
EMU: probability of inflation in 2014 (%)

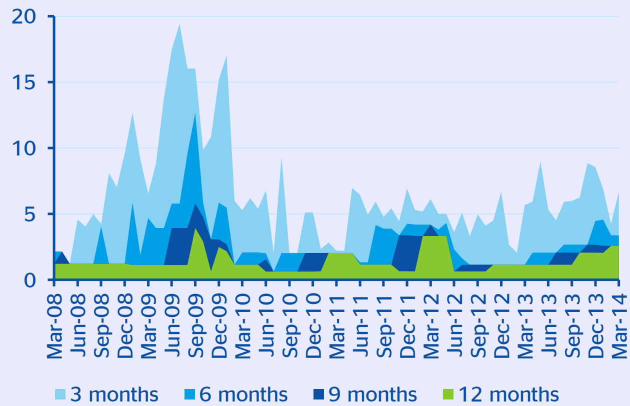


Source: BBVA Research

In general terms, with a gradual recovery in domestic demand already underway, the risk of deflation in the eurozone as a whole remains low (see Figure B.1.2). Despite persistent low rates in the last few years, once adjusted for transitory effects, there is still no evidence of a generalised drop in prices (see Figure B.1.3), with less than 3% of HICP items registering MoM negative rates in the last twelve months.

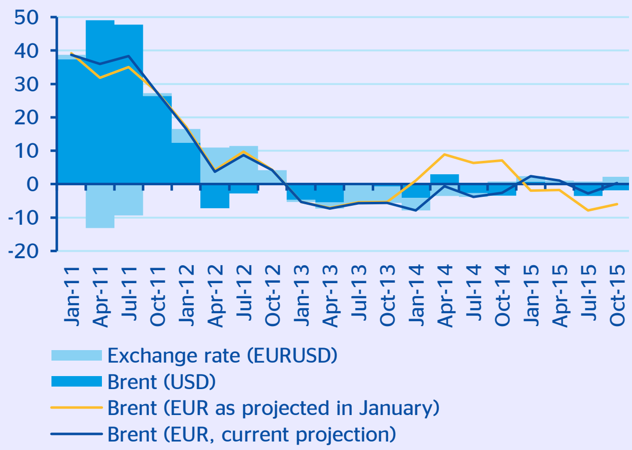
Despite this, we have revised our inflation forecasts for 2014 downwards by 0.1pp (to 0.9%), and for 2015 (to 1.3%) because of two new factors: the projected oil price has been revised downwards, and the euro exchange rate is expected to appreciate further than previously anticipated (around 4% more appreciated over the dollar) (see Figure B.1.4).

Chart B.1.3
EMU: share of HICP items with negative monthly rates by differing degrees of persistence (swda data)



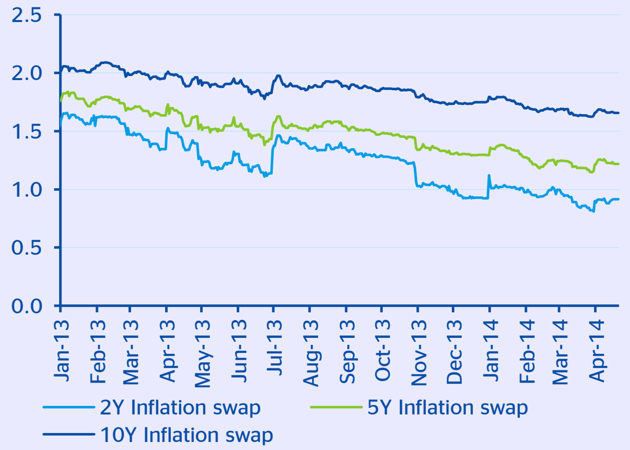
Source: Eurostat and BBVA Research

Chart B.1.4
Oil price and euro exchange rate (% YoY)



Note: The euro exchange rate is represented on an inverse scale: negative values represent an appreciation.
Source: Eurostat and BBVA Research

Chart B.1.6
EMU: inflation expectations

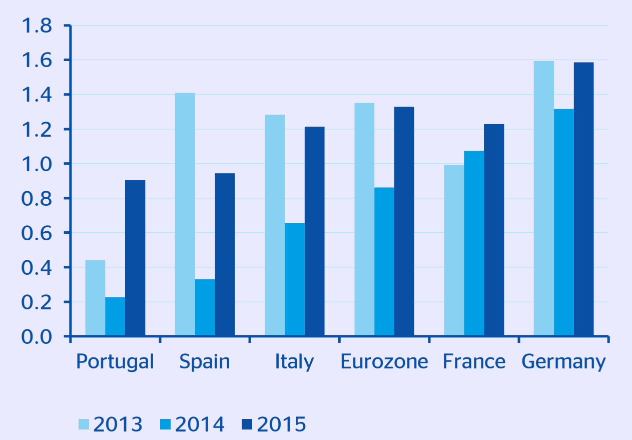


Source: Eurostat and BBVA Research

In addition, other factors remain which determine our scenario of low inflation rates on the forecast horizon: a clearly negative output gap which will only close slowly, as well as adjustments made in peripheral countries oriented to restoring the loss of competitiveness accumulated in the pre-crisis period, which limits cost growth.

By countries, there will continue to be inflation differentials between core countries and those at the periphery of the eurozone (see Figure B.1.5), particularly this year, as internal adjustments designed to gain competitiveness in the latter group are rolled out, a kind of internal devaluation, made more acute by weakness in domestic demand.

Chart B.1.5
Inflation (% YoY)



Source: Eurostat and BBVA Research

… but inflation is still causing problems

Although the central scenario is not one of deflation, low inflation poses problems. First, moderate inflation in central Europe (associated above all with lower raw materials prices) implies greater efforts on the periphery to rebalance relative costs and continue with the recovery in competitiveness, given the downward price rigidity of factors which still persist, despite the structural reforms.

Second, one of the natural mechanisms that helps to reduce the high degree of leverage in both the private and the public sector loses strength, since inflation is clearly below its target and the real value of debts go down more slowly. The delay in the deleveraging process means that some consumption and investment decisions are pushed back.

Third, a low and persistent inflation increases the risks of going into deflation, above all by reducing the margin for reaction to possible negative shocks in forthcoming quarters, despite the fact that risks to the downside are lower than before.

Finally, low inflation increases the risks of unanchoring inflation expectations, which have historically been close to the ECB's definition of price stability (below, but close to, 2%), but which have recently shown signs of going down (see Figure B.1.6). Some expectations to the downside of inflation feed back into disinflation, reinforcing all the problems mentioned above.

The ECB appears prepared to combat low inflation, but for the moment has given unconvincing signals

The central bank is giving signals that it will take additional measures if inflation does not return to expected levels in the next few months, although it is not clear exactly how much deviation would trigger a quantitative easing programme.

Communication in recent months has not clarified matters much. In its November meeting the surprise decision was taken to cut interest rates, because there were no clear signs of recovery. In March, the ECB did not take additional measures despite the surprises to the downside in inflation in the preceding months, and also despite having aroused certain market expectations. What is more, since it did nothing, coinciding with the publication of medium term inflation forecasts (1.5% on average in 2016) that were clearly below the price stability definition, the ECB implicitly let it be understood that it was not uncomfortable with these forecasts, and the risks that they entailed.

In April the bank appeared to rectify its position, alluding in its communiqué to the "unanimous" openness to take unconventional measures (that is, including quantitative easing), should inflation stay low for a prolonged period.

Subsequently, the ECB's President Draghi clarified the different contingencies that might prompt some kind of action on the part of the ECB and what measures would be adopted in each case. Thus, in the face of unwished-for tension in monetary conditions (determined by the combination of short- and long-term rates and exchange rates), the ECB would consider exhausting more "conventional" measures, that is: cutting interest rates, including a negative rate on deposits, extending the provision of long-term refinancing operations (LTRO) or new liquidity injections. If the monetary policy transmission mechanism were to deteriorate (that is, without recovering credit), the bank would consider injections of credit-linked liquidity or even the purchase of asset-backed securities (ABS). And, finally, were medium-term inflation perspectives to deteriorate, it would look at the option of a general bond purchase programme (including public bonds, "pure QE"). In May, the ECB held to its monetary policy, but made a preliminary announcement that it will probably take measures in June, coinciding with the review of the ECB's staff projections, but without revealing what these measures might involve. Nevertheless, Mr. Draghi emphasised that one of the Council's key concerns is the strength of the euro, so the most likely outcome is that the ECB will begin to exhaust more conventional measures next month (dropping the reference and deposit interest rate).

Eurozone member states: detailed analysis

Germany: domestic fundamentals playing an increasing role

GDP: +1.8% in 2014, +2.0% in 2015

Recent data: The positive trend in the German economy seen at the end of 2013 has stayed firm in 1Q14, with the macro data confirming our scenario of a solid recovery (0.6% QoQ), mainly sustained by a clear improvement in domestic demand, although the data for industrial production in March have not been good and suggest that the growth rate will moderate in 2Q14. The unemployment rate, which remains at historic lows, has been reflected in a notable improvement in consumer confidence and an increase in retail trade, pointing to better performance in private consumption in the first quarter. Meanwhile, foreign demand continues to support industrial production and has sustained investment growth, while the forward indicators suggest that the trend could hold in forthcoming months.

Perspectives for 2014 and 2015: Domestic demand will be the key factor for growth in 2014 and 2015, with investment growing at high rates (4.2% YoY and 5% YoY respectively), helped by labour market conditions, increases in household expenditure and a still moderate inflation. Balance of trade figures to February, on the other hand, indicate more growth in imports than exports, which is in line with the perspective of zero contribution to growth by the foreign sector.

Fiscal policy: In 2013 the public sector had a small fiscal deficit (-0.1% of GDP), with the federal government's accounts closing with the biggest deficit (EUR8.5bn), down from their 2012 surplus (0.1% of GDP). For 2014 and 2015 we forecast that the public sector's accounts will be balanced and public debt will fall, even more than previously forecasted, to about 72.5% of GDP, two percentage points less than our former forecast (74.5%), mainly because the debt fell more than expected in 2013.

France: the recovery is taking its time

GDP: 0.9% in 2014, 1.5% in 2015

Recent data: The principal confidence and activity indicators suggest that the French economy's recovery is cooling at the beginning of the year. On the one hand, families have reduced their consumption, reflected in the reduction of retail sales to February; on the other hand, confidence indicators, for both households and companies, are stagnant at levels similar to those of 3Q13. Manufacturing production figures, however, are maintaining their positive trend, and this is starting to show in the recovery of investment in machinery. When it comes to the foreign sector, the French economy continues to suffer a trade deficit which the latest reforms are trying to correct. All this leads us to predict slight growth in 1Q14 (0.1% QoQ).

Perspectives for 2014 and 2015: Our scenario for 2014 and 2015 forecasts a recovery based on the contribution of internal factors. With the improvement in the labour market and relatively moderate and stable inflation, private consumption ought to increase gradually (0.9% YoY and 1.2% YoY, respectively), while investment will benefit from the strength of global demand, although less than in other countries. Increased exports will be offset by the increase in other imports, fed by improved domestic demand, so we do not anticipate a contribution to growth on the part of the foreign sector. Finally, the application of a restrictive fiscal policy will imply a reduction in support from public consumption.

Fiscal policy: The government's deficit stood in 2013 at -4.3% of GDP, about 0.2pp above the government's forecasts and a deviation of 0.4pp over the target set by the European Commission (-3.9% of GDP). For 2014 and 2015, we are revising our deficit forecast to the upside slightly, 0.2pp for this year and 0.1pp for next; now we forecast that the deficit will go down to -3.8% in 2014 and -3% in 2015, in line with the cuts announced by the government (EUR50bn), which will also be used to fund the cut in taxes and employment charges (-EUR30bn), which have the aim of encouraging job creation and reducing the competitive disadvantage with other countries in the eurozone. In 2015 we maintain our forecast that the structural deficit will be around -2% of GDP. Meanwhile, the latest official data continue to indicate that public debt will reach its highest point in 2014, at around 95.6% of GDP; however, it will not go down in 2015, as we had initially forecast. We now anticipate that it will remain steady at 95.6% of GDP, in line with the government's forecasts.

Italy: recovery continues, albeit slowly, supported by robust exports

GDP: +0.7% in 2014, +1.4% in 2015

Recent data: External demand has been the most important factor in the recovery of the Italian economy in late 2013 and will have remained so during 1Q14. Industrial orders from abroad increased, which is reflected in an improvement in industrial production until February, and increased investment in equipment. Private consumption, however, is showing signs of weakness, despite improved consumer confidence and low inflation, mainly due to the high tax burden and the bad unemployment data, which together limit household purchasing power. Overall, we expect growth of 0.3% QoQ in the first quarter, which will remain pretty constant in the rest of the year.

Perspectives for 2014 and 2015: On the forecasting horizon, the recovery will continue to be driven by exports, while the weight of the external sector in growth will lose relevance as domestic demand recovers and imports increase. The strong exports and better financing conditions should encourage new investment, and reducing the tax wedge could favour the recovery of private consumption, while public consumption is subject to budgetary limits. The new reform agenda should also help the recovery of confidence.

Fiscal policy: As we pointed out in our previous report, after excluding extraordinary expenditures that are not taken into account in assessing the excess deficit, the Italian fiscal accounts met the target of 3% in 2013. For 2014 and 2015, we expect it to continue to decline to -2.6% and -2% respectively. The new government, on the other hand, is studying a public spending review programme, whose savings will be used to reduce taxes on workers and businesses. We still estimate the fiscal effort necessary to follow a structural balance at about 1.6% of GDP in 2014. However, the main concern remains the high volume of public debt (132.6% of GDP in 2013), and the government is expecting a further increase in 2014, reaching its peak at about 134.9% of GDP, and descending to 133.3% in 2015. These forecasts take into account a scheme to privatise public enterprises, which has been taking place since late last year, with the target of posting the resulting income to debt reduction from 2015, in line with our forecasts.

Spain: the recovery takes shape

GDP: +1.1% in 2014, +1.9% in 2015

Recent data: The preliminary GDP estimate for 1Q14 (0.4% QoQ) suggests that the Spanish economy's recovery is taking root. In terms of composition, domestic demand made a positive contribution to activity, while net foreign demand sapped growth (although to a small degree), due to an increase in imports which on this occasion offset the export uptick. The private sector accounts for most of the recovery in domestic demand: more disposable income and the improvement in consumer confidence, together with moderate inflation, have driven household expenditure. Meanwhile, investment in machinery and equipment is still being supported by the strength of exports and the progressive recovery of domestic demand.

Perspectives for 2014 and 2015: Better fundamentals in the Spanish economy point to continued recovery during 2014 and 2015 (1.1% and 1.9% YoY respectively). Robust growth is still expected in exports, but internal demand will gradually gain ground, with a sustained increase in private consumption. Meanwhile, the labour market is showing unmistakeable signs of improvement and, for the first time since the crisis began, net employment will be created in the next two years, although the unemployment rate will still remain high.

Fiscal policy: The deficit in the public sector as a whole stood at 6.6% of GDP at the end of 2013, meaning that the stability target has virtually been reached and that fiscal policy will be somewhat less restrictive than previously expected. In particular, this ought to reduce uncertainty about the impact that fiscal consolidation is having on Spain. So, good public revenue performance, more favourable debt-servicing conditions and the cyclical improvement in some expenditure components may mean that the deficit target is reached in 2014. For this year and 2015, BBVA Research forecasts that public spending control policies will continue in line with the 2014 Budget programme. Helped by the improved economic environment and less pressure from financial markets, total public sector spending is expected to continue tightening at an average rate of just above 0.6pp of GDP a year. As a result, the 2014 deficit will come in at around 5.8% of GDP, in line with the budgetary stability target. In order to meet the target of 4.2% of GDP agreed for 2015, BBVA Research estimates that the Spanish government would have to announce additional measures, equivalent to 1.0% of GDP.

5. Tables

Table 5.1
Eurozone forecasts (% YoY)

	2010	2011	2012	2013	2014	2015
GDP at constant prices	**1.9**	**1.6**	**-0.6**	**-0.4**	**1.1**	**1.9**
Private consumption	1.0	0.3	-1.4	-0.7	0.8	1.3
Public consumption	0.6	-0.1	-0.6	0.1	0.3	0.7
Gross Fixed Capital Formation	-0.6	1.8	-3.8	-2.9	3.1	5.1
Inventories (*)	0.6	0.2	-0.5	-0.1	0.0	0.0
Domestic Demand (*)	**1.2**	**0.7**	**-2.1**	**-1.0**	**1.0**	**1.8**
Exports (goods and services)	11.4	6.7	2.7	1.4	3.1	4.2
Imports (goods and services)	9.8	4.7	-0.8	0.0	3.1	4.6
External Demand (*)	**0.7**	**0.9**	**1.5**	**0.6**	**0.1**	**0.0**
Prices and Costs						
CPI	1.6	2.7	2.5	1.4	0.9	1.3
CPI Core	1.0	1.7	1.8	1.3	1.0	1.2
Labour Market						
Employment	-0.5	0.3	-0.7	-0.9	0.1	0.7
Unemployment rate (% of labour force)	10.0	10.1	11.3	12.0	11.9	11.4
Public Sector						
Surplus (+) / Deficit (-) (% GDP)	-6.2	-4.1	-3.7	-3.0	-2.6	-2.1
Public debt (% GDP)	85.7	88.2	93.0	95.2	95.9	95.5
External Sector						
Current Account Balance (% GDP)	0.0	0.1	1.2	2.3	2.2	2.1

(*) Contribution to GDP growth
Source: BBVA Research

Table 5.2
Macroeconomic forecasts: GDP growth (% YoY)

	2011	2012	2013	2014	2015
United States	1.8	2.8	1.9	2.5	2.5
Eurozone	1.6	-0.6	-0.4	1.1	1.9
Germany	3.4	0.9	0.5	1.8	2.0
France	2.0	0.0	0.3	0.9	1.5
Italy	0.6	-2.4	-1.8	0.7	1.4
Spain	0.1	-1.6	-1.2	1.1	1.9
UK	1.1	0.3	1.7	2.8	2.4
Latin America *	4.1	2.6	2.3	2.3	2.5
Mexico	4.0	3.7	1.1	3.4	3.0
Brazil	2.7	1.0	2.3	2.0	1.6
EAGLES **	6.7	5.0	5.3	5.3	5.6
Turkey	8.5	2.4	4.0	1.5	5.1
Asia Pacific	6.1	5.2	5.2	5.0	5.2
Japan	-0.5	1.5	1.5	1.1	1.3
China	9.3	7.7	7.7	7.2	7.0
Asia (exc. China)	3.8	3.5	3.3	3.5	3.9
World	4.0	3.2	3.0	3.4	3.8

* Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela
** Brazil, China, India, Indonesia, Mexico, Russia, Turkey
Forecast closing date: 30 April, 2014
Source: BBVA Research

Table 5.3

Macroeconomic forecasts: Inflation (avg.) (% YoY)

	2011	2012	2013	2014	2015
United States	3.1	2.1	1.5	1.8	2.2
Eurozone	2.7	2.5	1.4	0.9	1.3
Germany	2.5	2.1	1.6	1.3	1.6
France	2.3	2.2	1.0	1.1	1.2
Italy	2.9	3.3	1.3	0.7	1.2
Spain	3.2	2.4	1.4	0.3	0.9
UK	4.5	2.8	2.6	1.9	2.0
Latin America *	8.1	7.6	8.9	11.8	10.8
Mexico	3.4	4.1	3.8	4.0	3.5
Brazil	6.6	5.4	6.2	6.4	5.8
EAGLES **	6.5	4.8	5.1	4.8	4.7
Turkey	6.2	8.7	7.6	8.2	5.3
Asia Pacific	4.9	3.4	3.5	3.6	3.8
Japan	-0.3	0.0	0.4	2.2	1.5
China	5.4	2.6	2.6	2.6	3.3
Asia (exc. China)	4.6	4.0	4.2	4.4	4.1
World	5.1	4.2	3.8	3.9	4.0

* Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela
** Brazil, China, India, Indonesia, Mexico, Russia, Turkey
Forecast closing date: 30 April, 2014
Source: BBVA Research

Table 5.4

Macroeconomic forecasts: Current account (% GDP)

	2011	2012	2013	2014	2015
United States	-3.0	-2.7	-2.3	-2.6	-2.2
Eurozone	0.1	1.2	2.3	2.2	2.1
Germany	5.7	7.0	7.5	6.7	7.0
France	-2.0	-2.3	-1.6	-1.7	-1.6
Italy	-3.1	-0.7	0.8	1.1	0.9
Spain	-3.7	-1.2	0.8	1.3	1.5
UK	-1.6	-4.6	-3.3	-2.8	-2.3
Latin America *	-1.0	-1.6	-2.5	-2.5	-2.4
Mexico	-1.1	-1.2	-1.8	-2.0	-2.0
Brazil	-2.1	-2.4	-3.7	-3.7	-3.5
EAGLES **	-0.1	-0.1	-0.1	0.1	0.2
Turkey	-9.9	-7.6	-7.0	-5.8	-6.3
Asia Pacific	1.5	1.0	1.4	1.9	1.9
Japan	2.2	1.0	0.7	1.5	2.0
China	1.8	2.3	2.0	2.5	2.8
Asia (exc. China)	1.2	0.1	1.0	1.4	1.2

* Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela
** Brazil, China, India, Indonesia, Mexico, Russia, Turkey
Forecast closing date: 30 April, 2014
Source: BBVA Research

Table 5.5
Macroeconomic forecasts: Government deficit (% GDP)

	2011	2012	2013	2014	2015
United States	-8.7	-6.8	-4.2	-3.1	-2.7
Eurozone	-4.1	-3.7	-3.0	-2.6	-2.1
Germany	-0.8	0.2	0.0	0.0	0.0
France	-5.3	-4.8	-4.3	-3.8	-3.0
Italy	-3.8	-2.8	-3.0	-2.6	-2.0
Spain *	-9.1	-6.8	-6.6	-5.8	-5.1
UK	-7.8	-6.3	-5.8	-5.8	-4.4
Latin America **	-2.2	-2.3	-2.6	-3.5	-2.9
Mexico	-2.7	-2.6	-2.3	-4.1	-3.6
Brazil	-2.6	-2.5	-3.3	-3.8	-3.4
EAGLES ****	-2.3	-2.9	-2.9	-3.4	-3.3
Turkey	-1.4	-2.1	-1.2	-2.2	-1.6
Asia Pacific	-3.7	-3.7	-3.6	-3.6	-3.4
Japan	-10.0	-9.5	-10.0	-8.5	-8.0
China	-1.1	-2.1	-1.9	-2.5	-2.5
Asia (exc. China)	-5.4	-4.8	-4.8	-4.3	-4.0

* Excluding aid to financial sector
** Fiscal year from 1 April to 31 March
*** Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela
**** Brazil, China, India, Indonesia, Mexico, Russia, Turkey
Forecast closing date: 30 April, 2014
Source: BBVA Research

Table 5.6
Financial variables

Official interest rates (end-period) (%)	2011	2012	2013	2014	2015
United States	0.25	0.25	0.25	0.25	0.50
EMU	1.00	0.75	0.25	0.25	0.25
China	6.56	5.75	6.00	6.00	6.00
10-year interest rates (avg.)(%)					
United States	2.8	1.8	2.3	3.0	3.7
EMU	2.6	1.6	1.6	1.7	2.4
Exchange rates (avg.)					
(US Dollar per national currency)	0.72	0.78	0.75	0.74	0.75
United States (EUR per USD)	1.39	1.29	1.33	1.35	1.33
EMU	1.60	1.59	1.56	1.65	1.69
UK	79.7	79.8	97.6	108.0	117.1
Japan	6.46	6.31	6.20	6.11	5.91

Forecast closing date: 30 April, 2014
Source: BBVA Research

Table 5.7

Germany: GDP growth and inflation forecasts (% YoY)

	2008	2009	2010	2011	2012	2013	2014	2015
Private consumption	0.7	0.3	1.0	2.3	0.7	1.0	1.4	1.6
Public consumption	3.2	3.0	1.3	1.0	1.0	0.7	1.3	0.9
Gross Fixed Capital Formation	0.6	-11.6	5.2	7.1	-1.3	-0.5	4.2	5.0
Inventories (*)	-0.1	-0.7	0.5	-0.1	-0.6	0.0	0.0	0.0
Domestic Demand (*)	**0.9**	**-2.0**	**2.2**	**2.7**	**-0.2**	**0.5**	**1.8**	**1.9**
Exports	2.3	-13.0	14.8	8.1	3.8	1.0	3.6	3.9
Imports	3.0	-7.8	12.3	7.5	1.8	1.0	4.2	4.5
Net exports (*)	**-0.1**	**-3.0**	**1.7**	**0.7**	**1.1**	**0.0**	**0.0**	**0.0**
GDP	**0.8**	**-5.1**	**3.9**	**3.4**	**0.9**	**0.5**	**1.8**	**2.0**
Inflation	**2.8**	**0.2**	**1.2**	**2.5**	**2.1**	**1.6**	**1.3**	**1.6**

(*) Contribution to growth
Source: BBVA Research

Table 5.8

France: GDP growth and inflation forecasts (% YoY)

	2008	2009	2010	2011	2012	2013	2014	2015
Private consumption	0.2	0.4	1.5	0.5	-0.3	0.4	0.9	1.2
Public consumption	1.2	2.6	1.8	0.5	1.4	1.8	0.6	0.5
Gross Fixed Capital Formation	0.1	-10.4	1.2	3.0	-1.2	-2.1	1.5	2.5
Inventories (*)	0.3	-1.3	0.2	1.1	-0.9	0.0	0.0	0.0
Domestic Demand (*)	**0.1**	**-2.6**	**1.8**	**2.1**	**-0.9**	**0.4**	**0.9**	**1.3**
Exports	-0.6	-11.9	9.0	5.6	2.5	0.7	1.9	3.2
Imports	0.6	-9.5	8.6	5.3	-0.9	1.0	1.8	2.6
Net exports (*)	**-0.3**	**-0.5**	**-0.1**	**0.0**	**1.0**	**-0.1**	**0.0**	**0.1**
GDP	**-0.2**	**-3.1**	**1.6**	**2.0**	**0.0**	**0.3**	**0.9**	**1.5**
Inflation	**3.2**	**0.1**	**1.7**	**2.3**	**2.2**	**1.0**	**1.1**	**1.2**

(*) Contribution to growth
Source: BBVA Research

Table 5.9

Italy: GDP growth and inflation forecasts (% YoY)

	2008	2009	2010	2011	2012	2013	2014	2015
Private consumption	-0.8	-1.6	1.5	-0.3	-4.0	-2.6	0.1	1.2
Public consumption	0.6	0.8	-0.4	-1.3	-2.6	-0.8	-0.6	0.5
Gross Fixed Capital Formation	-3.8	-11.8	0.5	-1.6	-8.1	-4.6	1.2	2.4
Inventories (*)	0.0	-1.1	1.1	-0.1	-0.5	-0.1	0.0	0.0
Domestic Demand (*)	**-1.2**	**-4.3**	**2.1**	**-0.9**	**-5.0**	**-2.6**	**0.2**	**1.3**
Exports	-2.8	-17.7	11.2	6.9	2.0	0.0	3.3	3.6
Imports	-2.9	-13.6	12.3	1.4	-7.1	-2.9	1.9	3.5
Net exports (*)	**0.0**	**-1.2**	**-0.4**	**1.5**	**2.6**	**0.8**	**0.5**	**0.2**
GDP	**-1.2**	**-5.5**	**1.7**	**0.6**	**-2.4**	**-1.8**	**0.7**	**1.4**
Inflation	**3.5**	**0.8**	**1.6**	**2.9**	**3.3**	**1.3**	**0.7**	**1.2**

(*) Contribution to growth
Source: BBVA Research

Table 5.10
Portugal: GDP growth and inflation forecasts (% YoY)

	2008	2009	2010	2011	2012	2013	2014	2015
Private consumption	1.3	-2.3	2.5	-3.3	-5.3	-1.7	0.4	0.8
Public consumption	0.3	4.7	0.1	-5.0	-4.7	-1.7	-1.8	-0.5
Gross Fixed Capital Formation	-0.3	-8.6	-3.1	-10.5	-14.4	-6.6	3.2	4.5
Inventories (*)	0.0	-1.1	0.9	-0.2	0.1	-0.2	0.0	0.0
Domestic Demand (*)	**0.9**	**-3.6**	**2.0**	**-5.6**	**-6.9**	**-2.6**	**0.4**	**1.1**
Exports	-0.1	-10.9	10.2	6.9	3.2	6.1	5.1	4.9
Imports	2.3	-10.0	8.0	-5.3	-6.6	2.8	3.1	4.1
Net exports (*)	**-1.0**	**0.6**	**-0.1**	**4.4**	**3.7**	**1.2**	**0.8**	**0.4**
GDP	**-0.1**	**-2.9**	**1.9**	**-1.1**	**-3.2**	**-1.4**	**1.2**	**1.5**
Inflation	**2.7**	**-0.9**	**1.4**	**3.6**	**2.8**	**0.4**	**0.2**	**0.9**

(*) Contribution to growth
Source: BBVA Research

Table 5.11
Spain: GDP growth and inflation forecasts (% YoY)

	2008	2009	2010	2011	2012	2013	2014	2015
Private consumption	-0.6	-3.7	0.2	-1.2	-2.8	-2.1	1.4	1.3
Public consumption	5.9	3.7	1.5	-0.5	-4.8	-2.3	-1.6	1.4
Gross Fixed Capital Formation	-4.7	-18.0	-5.5	-5.4	-7.0	-5.1	1.0	4.7
Equipment and other products	-2.9	-23.9	4.3	5.3	-3.9	2.2	7.9	6.9
Construction	-5.8	-16.6	-9.9	-10.8	-9.7	-9.6	-3.8	2.8
Housing	-9.1	-20.4	-11.4	-12.5	-8.7	-8.0	-3.4	4.9
Other construction	-1.6	-12.2	-8.4	-9.2	-10.6	-10.9	-4.0	1.1
Inventories (*)	0.1	-0.2	0.3	-0.1	0.0	0.0	0.0	0.0
Domestic Demand (*)	**-0.5**	**-6.7**	**-0.6**	**-2.1**	**-4.1**	**-2.7**	**0.7**	**1.9**
Exports	-1.0	-10.0	11.7	7.6	2.1	4.9	6.0	5.1
Imports	-5.2	-17.2	9.3	-0.1	-5.7	0.4	5.4	5.4
Net exports (*)	**1.4**	**2.9**	**0.4**	**2.1**	**2.5**	**1.5**	**0.4**	**0.0**
GDP	**0.9**	**-3.8**	**-0.2**	**0.1**	**-1.6**	**-1.2**	**1.1**	**1.9**
Inflation	**4.1**	**-0.3**	**1.8**	**3.2**	**2.4**	**1.4**	**0.3**	**0.9**

(*) Contribution to growth
Source: BBVA Research

Table 5.12
UK: GDP growth and inflation forecasts (% YoY)

	2008	2009	2010	2011	2012	2013	2014	2015
Private consumption	-1.0	-3.6	1.0	-0.4	1.4	2.2	2.1	2.1
Public consumption	2.2	0.6	0.5	0.0	1.6	0.7	0.9	-0.3
Gross Fixed Capital Formation	-6.9	-16.7	2.8	-2.4	0.8	-0.6	8.5	6.5
Inventories (*)	-0.2	-1.5	1.2	0.4	-0.6	0.0	0.0	0.0
Domestic Demand (*)	**-1.6**	**-6.1**	**2.1**	**-0.1**	**0.8**	**1.5**	**2.6**	**2.3**
Exports	1.1	-8.7	6.7	4.5	1.7	1.0	3.5	4.0
Imports	-1.7	-10.7	7.9	0.3	3.4	0.5	2.7	3.5
Net exports (*)	**0.9**	**0.9**	**-0.5**	**1.2**	**-0.5**	**0.2**	**0.2**	**0.1**
GDP	**-0.8**	**-5.2**	**1.7**	**1.1**	**0.3**	**1.7**	**2.8**	**2.4**
Inflation	**3.6**	**2.2**	**3.3**	**4.5**	**2.8**	**2.6**	**1.9**	**2.0**

(*) Contribution to growth
Source: BBVA Research

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