BBVA | RESEARCH

Europe Economic Outlook

Third Quarter 2014
Europe Unit

- After a below-forecast first half of the year in the eurozone, the more positive direction of economic policies, particularly the new measures introduced by the ECB, should support stronger growth in 2015.
- The growth should spread to all member states, and the differences between them should narrow as the structural reforms in the periphery start to bear fruit.
- The stress tests continue to be the key factor in the second half of the year.
- However, the risks continue to be to the downside, and these are now joined by the possible consequences for the eurozone of the conflict in Ukraine.

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Closing date: 4 August 2014

1 Editorial

The eurozone economy has now posted growth for five consecutive quarters since its second recession, but growth is very slow and slightly below our expectations, which were already conservative. In the first quarter, eurozone GDP growth was 0.2% QoQ, and it does not appear to have accelerated in the second quarter.

The reasons behind these disappointing results are well-known, and are the consequence of high financial leverage on the part of governments and economic agents in many countries in the eurozone, and deficiencies in financing channels as a consequence of the economic crisis. In addition, in recent quarters, there has been uncertainty regarding growth in the emerging markets (which now appears to be resolved) and more recently the risks linked to geostrategic conflicts in the Middle East and (with more impact on Europe) in Ukraine, which have affected external trade and the recovery of confidence in the first half of the year. The advanced economies have been more responsible for driving eurozone exports recently, and internal demand is showing signs of recovery, but not sufficiently strongly to support a more decided recovery.

However, there is good news in terms of economic policy. In addition to the relaxation of the deficit targets last year, which imply a very much less restrictive fiscal policy for the eurozone as a whole this year, there are the monetary policy measures taken by the ECB in June: a further cut in the repo rate (to 0.15%), a negative depo rate (-0.1%), and above all, additional liquidity measures. Of these, the long-term (two-year) liquidity injection linked to the supply of credit (TLTRO) from September could have a significant impact on credit and GDP. This has not led us to revise our growth forecasts, which we are maintaining at 1.1% this year and 1.9% next year, but does enable us to eliminate the downside bias to our previous forecasts for 2015 due to the uncertainties regarding the appreciated value of the euro and external growth. This more positive economic policy scenario, linked to the progress made on the banking union, could give rise to a considerably more optimistic scenario in 2015, particularly if – as we expect – there are no significant surprises in the results of the stress test and the AQR due to be published after the summer, and that will enable us to draw a much clearer map of the banking sector at the end of the year.

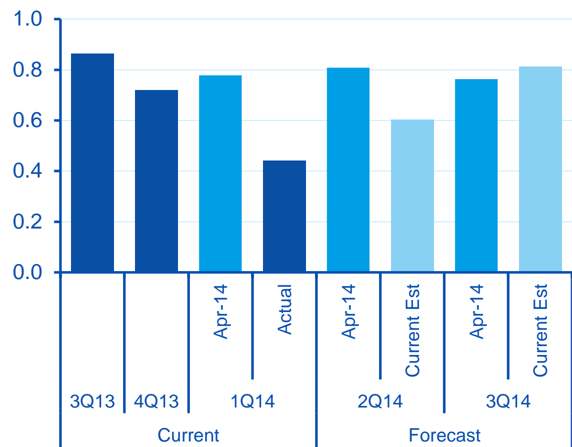
By country, the recovery continues to reveal growth in core and peripheral Europe. Germany still has the best growth outlook, although a deterioration of economic relations with Russia could affect it more than the rest of the eurozone. Meanwhile, on the periphery, Spain is growing faster than the other countries, with GDP growth of more than 2.3% in 2015. France and Italy continue to post very weak figures for many variables, but in a more promising scenario in terms of their respective structural reforms, which could have a significant impact in the medium term. At present, these reforms are linked to a discussion with the new European Commission on European fiscal policy, but we think this is unlikely to hinder their introduction (or produce a substantial change in the real tone of fiscal policy at a European level).

The risks to this recovery scenario continue to be biased to the downside, and in external terms are linked to the potential conflict with Russia and to lower external growth, and also to a certain extent to the Fed's exit from its expansionist policy. From the domestic point of view, the risks continue to be associated to the stress tests, and now to the efficacy of the ECB's new measures. An additional negative shock for any of these reasons could translate into a return to recession and possibly deflation in Europe, although in the latter case there are still additional measures that could be taken, particularly by the ECB in terms of quantitative easing. In principle, the probability of this scenario is relatively low.

2 A slower global recovery in a complex environment

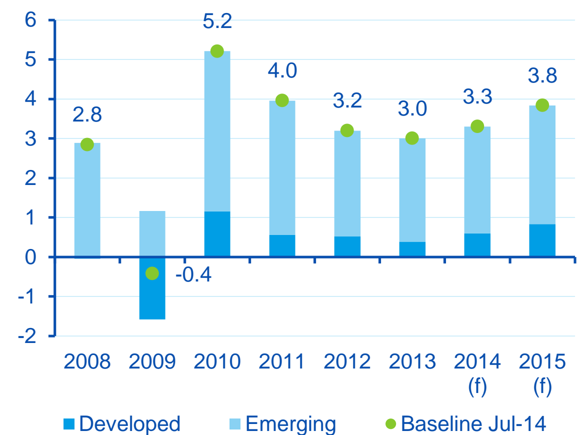
The slowdown in global growth in the first part of 2014 has already ended. The most recent indicators of confidence and financial volatility are consistent with a gradual improvement (Figure 2.1), which should enable worldwide growth to reach 3.3% in 2014, 0.3pp higher than in 2013. Maintaining favourable global financing conditions and supporting economic demand policies will help growth to accelerate faster in 2015 at rates close to 3.8% (Figure 2.2), with an increase in the contribution made by the more developed economies, which could gradually start positioning themselves for the withdrawal of the exceptional stimulus of the last few years. The uncertainty within this baseline scenario continues to the downside. On the one hand, geopolitical risks events, while not causing disruption to economic activity, are cropping up everywhere, and as such increasing uncertainty. It is hard to assess the economic impact of geopolitical occurrences, and not only because of the inherent difficulty in predicting their outcomes, intensity and scope of influence. We also have to take into account the different means of action this type of risks have on decision-making by economic agents. These range from future growth and savings expectations to effective interruptions of the flows of goods and services, including financial contagion to assets and geographies that in principle are less directly linked to an outbreak of tension. On the other hand, doubts about the global impact on capital flows and asset prices caused by the proximity of interest-rate hikes in the US (see our Global Economic Outlook Third Quarter 2014) remain.

Figure 2.1
Global GDP (% QoQ), BBVA Research estimates and forecast



Source: BBVA Research

Figure 2.2
Global GDP growth (%)



Source: BBVA Research

In terms of the major economic areas, the risk of a hard landing in China, predicted by some a few months ago, is receding, thanks to the improvement in exports and in fiscal and monetary support measures. Increased external demand and the brake put on the appreciation of the yuan have helped exports to recover, while monetary policy has been relaxed by cutting the bank reserve ratios, thus favouring credit. Shadow banking sector controls and plans to liberalise the more regulated part of the banking sector are enabling most of this new financing to be provided by the latter segment. This combination of supervisory measures and simultaneous liberalisation to help traditional banking entities compete should enable the deleveraging process to take place in an orderly manner, without any sharp corrections. Finally, more focused fiscal policy measures than on other occasions have also been introduced, above all in reaction to the increase in infrastructure spending. All in all, our outlook is for a

very controlled deceleration, with growth easing to 7% in 2015, from 7.7% in 2013. In short, an economic rebalancing, with a moderate increase in debt, for which the authorities have the room for manoeuvre provided by their high level of reserves and control of their current account, together with high levels of private savings and relatively low public-sector debt.

In the US, the fall in GDP during the first quarter of 2014 was mainly due to transitory factors, but the intensity of the correction made us revise our growth forecasts downward for 2014 from 2.5% to 2%. The most recent information on the situation shows that the US economy has recovered from the intense, but transitory, effect of the bad weather and from the steep fall in the accumulation of stocks. There is greater uncertainty about the perspective of monetary tightening by the Fed and, in particular, about the global market impact this will have on financial markets. The Fed will stop expanding its balance sheet in October, starting a phase in which rates and monetary measures will be determined based on the incoming information about the strength of the economic cycle and the anchoring of inflationary outlooks. In our most likely scenario, the first rise in the Fed funds rate will be in 3Q15, with a bias towards this happening closer to the middle of that year. In this scenario, the US central bank's communication policy on its view of the economic situation will become more important; as such, an increase in global financial market uncertainty is also a possibility.

In the other areas, GDP growth is expected to hold in Japan at slightly above 1% in 2014 and 2015. In Latin America, we forecast an acceleration in activity to 2.5% in 2015 (1.6% in 2014) thanks to improvements expected principally in Mexico and in the Andean economies, supported by a favourable foreign environment worldwide.

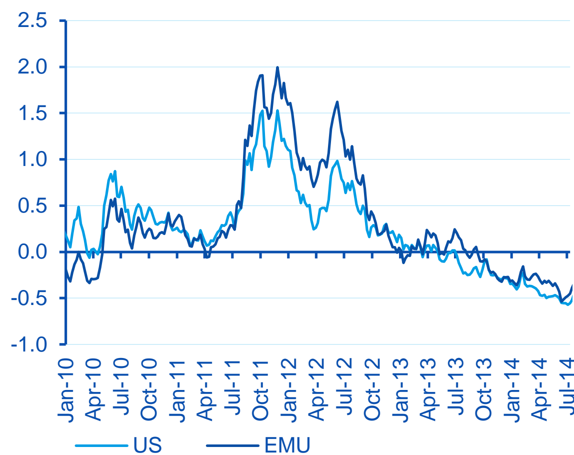
3 Eurozone: a more favourable economic policy, while banking union proceeds and financial conditions improve

The eurozone economy performed slightly worse than expected over the first half of the year, with a sluggish recovery of 0.2% QoQ on average. The disappointment is partly due to what would seem to be a temporary factor, that is, the first-quarter slump in international trade, which to some extent appears to be associated with geopolitical conflicts in the Middle East and the Ukraine. Aside from the European elections and the subsequent debates on the makeup of the new Commission, which dominated European policy news in recent months, the main news regarding eurozone economic policy over the last quarter was the ECB's approval of a set of monetary policy measures that may provide a decisive boost to the recovery in lending in the last quarter of the year, and thus ensure a swifter recovery. This was accompanied by progress in banking union, on schedule and, looking forward over the coming months, the key factor will be the release of the results of the AQR and stress tests, although we are not expecting any major surprises in this respect. Lastly, while there were few changes in fiscal policy, it remains to be seen how the infrastructure investment plans demanded by France and Italy will be developed, plans which Commission President Jean-Claude Juncker referred to again in his speech.

The bouts of stress in recent months were only moderately reflected by the financial markets, which were supported by the ECB measures

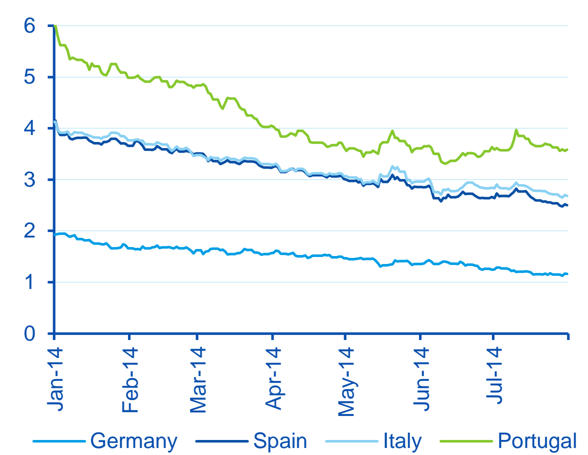
One of the predominant themes in the financial markets in 2Q14 was the low level of volatility and the low level of risk aversion (Figure 3.1), even during the recent weeks in which geopolitical risk increased in various hotspots at once. In an environment where central banks are providing high levels of global liquidity and tail risks worldwide have diminished, financial stress has eased and, in the particular case of developed economies such as the eurozone, has returned to 2008 levels.

Figure 3.1
Financial tensions Index



Source: BBVA Research

Figure 3.2
10yr Bond yields (%)



Source: BBVA Research

Furthermore in Europe, the package of measures adopted by the ECB helped bolster markets, given that the measures were a positive surprise to the market and helped to support the ECB's forward guidance. These measures marginally reduced the refi interest rate (by 10bp to 0.15%; introducing a negative deposit rate of -0.1%), suspended the sterilisation of SMP bond-buying operations and, above all, boosted the ECB's liquidity policy. The extension of the full-allotment policy (unlimited supply of liquidity) until December 2016

exceeded expectations, and the four-year liquidity operations associated with private-sector lending (TLTROs) may entail a significant (cheap) source of financing for eurozone countries, especially the periphery, with a positive impact on activity (Box 1).

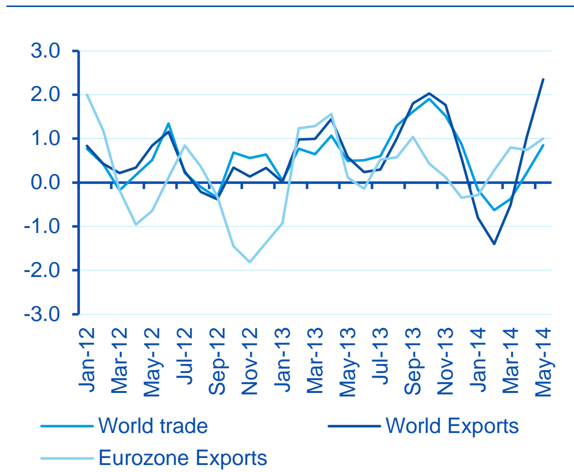
These two factors combined to cause a considerable drop in sovereign debt yields (both US and German) over the quarter. The yield on the German Bund came in under 1.2% (vs. close to 2% at the start of the year and around the 1.6% level in March). The drop in yields on US debt was more moderate, leading the spread between the US and Europe to widen considerably in favour of US assets. In summary, in June long-term interest rates on risk-free assets came in 30bp to 40bp below initial forecasts. For the second half of the year, we expect the cyclical improvement and the Fed's announcement of its exit strategy to lead to a gradual rise in long-term interest rates. Nevertheless, the flight-to-safety effect may continue to weigh on markets while geopolitical uncertainty continues.

Yields also fell in virtually all peripheral countries (with the exception of Portugal, which was caught up in the fears over Banco Espirito Santo) (Figure 3.2). The yield on the 10-year Spanish bond, for example, is around 2.6% (vs. 4% at the start of the year and 3.5% towards the end of the first quarter). Consequently, the risk premium flirted with the sub-120bp level, but recently climbed to the 130-150bp range due to partial contagion from the situation in Portugal. Assuming no negative surprises associated with the stress tests or political risk events, we expect the risk premium to continue moderating gradually from now to the end of the year.

External sector will be favourable, notwithstanding the seemingly transient first-quarter fall in world trade

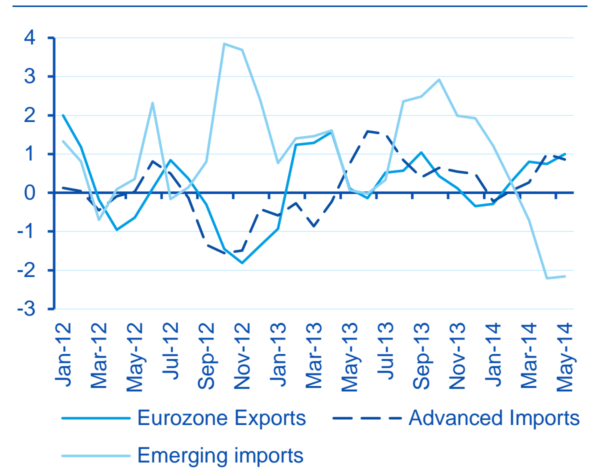
World trade hit a snag around February (Figure 3.3), centred on emerging countries and lower US growth caused by temporary factors, which did not appear to directly affect the eurozone, given that the first quarter of 2014 is precisely when European exports recovered from the slump in 2H13 (Figure 3.4).

Figure 3.3
World growth (% 3Mo3M)



Source: CPB Netherlands and BBVA Research

Figure 3.4
EMU: exports and external demand (% 3Mo3M)



Source: CPB Netherlands and BBVA Research

For the coming quarters, we continue to expect sustained growth in the rest of the world, which in turn should continue supporting the eurozone's external sector. The US recovered in the second quarter of the year, while China's economy seems to be holding on to its growth expectations, with no downside risks having materialised. Outside the eurozone, Europe's growth outlooks remain strong in the United Kingdom

and the rest of the EU countries, although the main risks lie in the potential impact of the conflict in the Ukraine on the region as a whole. While these risks seem to be limited for the time being, they could snowball if economic sanctions between the EU and Russia escalate.

With respect to EURUSD, the euro has continued to depreciate, a trend that began in May, when the ECB virtually pre-announced the more accommodative monetary policy that it ultimately approved, taking even the markets by surprise. This trend partially reversed in June but has recently resumed, as the markets began to discount a continuation of different monetary policies on either side of the Atlantic: the Fed is expected to end its third phase of quantitative easing in October and will soon begin to talk about an exit strategy, while the ECB will hold its first two bank liquidity auctions in September and December. In terms of capital flows, the portfolio inflows that had been increasingly favourable for the eurozone vs. the US have started to moderate, and non-commercial positions have turned (now short in euros). We expect the depreciation trend to continue and even intensify over the second half of the year. Toward the end of this year, EURUSD might trade at around 1.31, more in line with its fundamentals, which would entail further support for European exports.

Box 1. The mechanics of the targeted longer-term refinancing operations (TLTROs)

On 5 June 2014 the ECB announced that it will be conducting a series of TLTROs, at a cost of 10bp above the prevailing refi rate at the time the TLTRO takes place (currently it would be 0.25%) and with a maximum maturity of 4 years (maturing in September 2018). The aim of the TLTROs is to enhance the functioning of monetary policy transmission by supporting bank lending to households (excluding loans for house purchases) and corporates. The TLTROs have two main parts:

1. One in which banks will be allowed to borrow up to 7% of their stock of loans to the private sector, excluding mortgages, as of April 2014; these will be conducted in two operations on 18 September and on 11 December 2014;
2. The second, in which banks can borrow additional amounts in six quarterly operations starting in March 2015 and ending in June 2016. These additional amounts are conditional on banks providing net lending in excess of bank-specific benchmarks and it is limited to three times the difference between the net lending and the benchmark.

Benchmarks are calculated taking into consideration the evolution of eligible net lending in the 12-month period to 30 April 2014. For banks with positive growth the benchmark is zero and they can borrow 3x any positive growth.

For banks in the process of deleveraging, there are two benchmarks: (1) one for the March 2015 auction which corresponds to 9x average monthly net lending from April 2013 to April 2014 (which corresponds to the nine months elapsed since April 2014 to January 2015 - which is the date of the most recent data available to borrow funds in March); and (2) 12x average monthly net lending from April 2013 to April 2014. This second benchmark will be constant for each bank for the five auctions starting in June 2015.

There will be mandatory early repayments in September 2016 if banks borrow funds and their eligible net lending from April 2014 to April 2016 is below the benchmark. Banks may be forced to repay funds borrowed in the two initial TLTROs as well as funds borrowed in subsequent TLTROs. These early repayments do not have any penalty attached. This lack of penalty implies that the probability of a substantial take-up of liquidity is high.

We have estimated the potential impact of the new injection of liquidity on activity, using a structural VAR model that includes credit and GDP. Assuming that the new liquidity is fully used for the provision of new credit, the impact on GDP would be between 0.1pp and 0.5pp in 2015, depending on the take-up (Figure 3.5). We have not fully incorporated this effect in our projections, as the effect is uncertain; but the new ECB measures introduce a clear upward bias to it, which would mostly be reflected in 2015.

Release of bank AQR and stress test results will mark the year-end

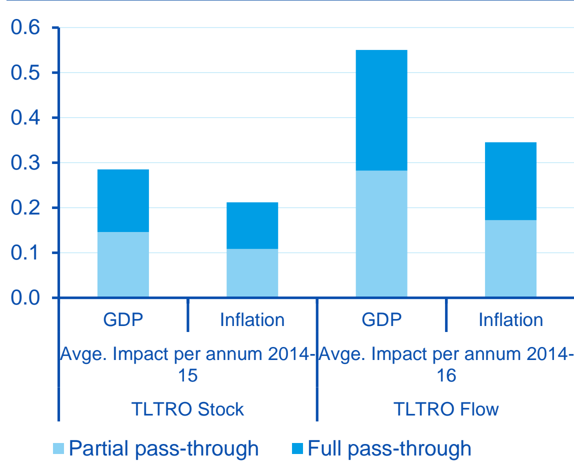
The steps taken towards banking union are on schedule and, from an institutional point of view, stand as the most important factor in helping the eurozone emerge from the crisis. After the approval of the Single Resolution Mechanism (SRM) in March of this year, the measures recently adopted were the establishment of the Single Resolution Board and the Eurogroup's political decision to allow the ESM to directly recapitalise European banks. While this decision will probably not have practical consequences in repairing capital shortfalls at any institutions determined to have capital needs after the stress tests (given the buffers of first, private funds, and second, national public funds), it nevertheless represents a move towards separating banking risk from sovereign risk.

The results of the tests will be published in early September. We expect that the additional capital needs will be relatively moderate for the European banking system overall, and that they will be met by either the market or, where applicable, national funds. Further ahead, the common supervision for a large part of the European financial system will begin in October, which should help to strengthen the recovery of financial and credit flows in the Eurozone from 2015 forward.

Fiscal policy continues to be less restrictive, while the debate on an investment plan remains in progress

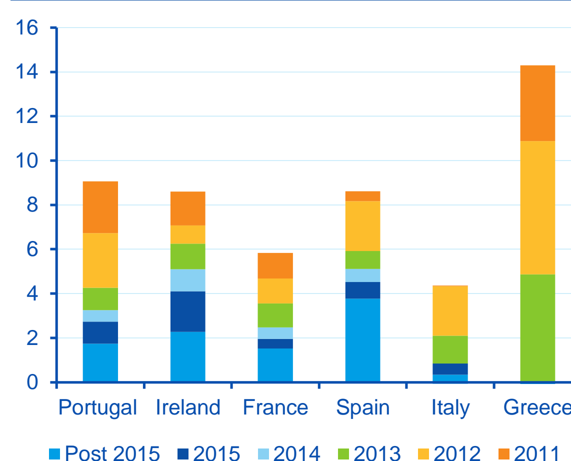
The tone of domestic fiscal policy remains unchanged after the mid-2013 easing of deficit targets which, in practical terms, entailed a much smaller structural deficit reduction for 2014 versus past years (Figure 3.6). Various governments have announced tax-cutting measures for 2014 and 2015 (Spain, France, Italy), generally compensated for by improved budget results or by offsetting measures (especially in the case of France). In principle, we do not expect significant deviations from fiscal targets in 2014.

Figure 3.5
EMU: impact of an increase in credit from TLTROs (pp)



Partial use: credit expands by around 2% of GDP.
Full use: credit expands by over 4% of GDP.
Source: BBVA Research

Figure 3.6
Structural public deficit adjustment 2010-15 (% GDP)



Source: BBVA Research

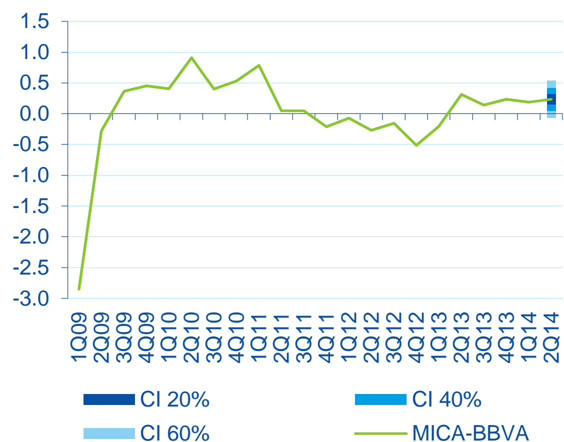
The fiscal policy debate was reinforced by Italian and French (principally) government pressure for a more expansionary fiscal policy for the eurozone overall. On the one hand, there is debate on further easing of deficit rules (perhaps excluding certain expenditures, such as investment or R&D), although no specific proposals have been made. On the other hand, in debates prior to the European elections and in his speech, incoming President JC Juncker made proposals designed to encourage investment in infrastructure at a European level, especially in transportation and energy. Juncker proposed a EUR300bn programme over the next five years (3.1% of annual Eurozone GDP). What is not clear, however, is what share of the programme would be publicly funded and what share would be funded by the reallocation of resources from other budget items. Further decisions on both issues will probably not be made until the new Commission takes office in November, and are unlikely to have a significant impact on activity in 2015.

4 Outlook: moderate growth in 2014, gaining momentum in 2015

The economic recovery in the eurozone as a whole continued in the first half of the year at a weak but steady rate, supported by accommodative economic policies (expansive in monetary policy and with a more neutral tone in fiscal policy), improved financial conditions and confidence, in a context of stability in the labour market and low inflation, as described in the previous chapter. All this implies that internal demand has a bigger role to play, making a positive contribution to growth, although support from external demand faded in the first quarter as a result of the deceleration in some emerging economies and the accumulated appreciation of the euro.

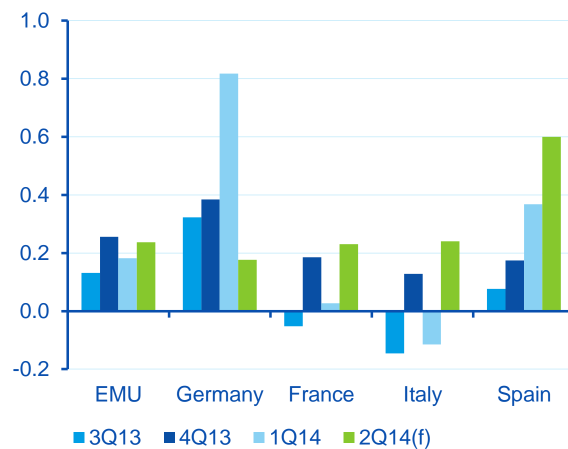
Our short-term MICA-BBVA model estimates quarterly GDP growth of 0.2% QoQ in the second quarter in the eurozone (Figure 4.1), similar to that in the first. The only data available for the third quarter are the July confidence indicators and these suggest that economic growth is gaining some traction, up to around 0.4% QoQ in the second quarter. By countries (Figure 4.2), the recovery is looking solid on the periphery, gaining ground in Spain (0.6% QoQ, up from 0.4% QoQ in 1Q14) and in Italy (0.2% QoQ, up from -0.1% QoQ). Growth in the German economy was significantly more moderate (0.2% QoQ after 0.8% QoQ), once transitory factors from the first quarter faded, although robust fundamentals point to solid growth in the second half of the year. Doubts remain over the French economy (0.2% QoQ after 0% QoQ in 1Q) which might indicate increased uncertainty over economic policy in our forecast horizon, although we acknowledge that the French government's most recent economic policy should support growth in the medium term.

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



Source: Eurostat and BBVA Research

Figure 4.1
EMU: GDP growth by countries (% QoQ)



Source: Eurostat and BBVA Research

Moderate growth and low inflation in the first part of the year led the ECB to take a series of additional measures in their June meeting, mainly designed to foster the availability of credit for companies and households (Box 1), while cutting interest rates once again. This is the principal change to the fundamentals of growth during the last three months (Section 3), together with the likelihood of using the flexibility provided for in the revised Stability and Growth Pact to avoid the introduction of more restrictive fiscal policies. Despite rather below expectations economic growth in the first half of the year (with a carry-over effect of around -0.2pp on growth this year), our models indicate that this will be offset by the likely positive effect of these

measures (between 0.1pp and 0.5pp in 2014-15). Therefore, we stick to our scenario of 1.1% GDP growth in 2014 as a whole, with a recovery that will gain traction during 2H14, in which domestic demand will start to replace the leadership of exports.

For 2015, we are also sticking to our forecast of 1.9% growth, driven by increased investment and the consolidation of recovery in private consumption. Nevertheless, these forecasts imply that by the end of 2015, GDP will only have climbed back to its pre-crisis levels (those of 1Q08) and the output gap will still be negative.

Gradual recovery of private consumption …

The available indicators suggest that the slow growth in private consumption since the middle of last year continued into the second quarter. Consumer confidence improved significantly over the quarter as a whole, supported by the gradual improvement in the labour market since the end of 2013 and by higher expectations for the coming quarters, for both employment and financial conditions over the next year. This is already materialising, with another boost in retail sales to May, as well as an uptick in new car registrations, and points to another increase in private consumption of around 0.3% QoQ in 2Q14.

Over the forecast horizon, support for private consumption continues to strengthen, given that the improved expectations for the labour market, with employment increasing slightly this year, will be reflected in an increase in compensation per employee, in an environment of low inflation and improved access to consumer credit. This should bring about an increase in disposable household income in 2014 and 2015 (1.1% and 1.4% respectively). Altogether, private consumption could increase by around 0.7% in 2014 and 1.4% in 2015.

… sustained by the gradual improvement in the labour market …

The slow and steady improvement in the job market since the last quarter of 2013 is in a great degree thanks to the slight increase in employment for the second consecutive quarter (0.1% QoQ in 4Q13 and 1Q14), as well as the stagnation in the active population, which had the effect of reducing the unemployment rate by around 0.4pp to 11.5% in June (after the downward revision of previous data). The rate of economic growth forecast in our scenario means that moderate job creation will continue in the coming quarters (around 0.1%-0.2% QoQ). In the year as a whole, therefore, it could rise by around 0.5% (-0.8% in 2013), assuming a moderate increase in productivity (0.6%), and will be reflected in a fall in unemployment of around 0.3pp to stand at just over 11.5% in 2014. By 2015, the more robust growth in activity (0.5% QoQ) will be mainly sustained by a strong increase in investment, which will imply a new uptick in productivity (a little over 1%) which will limit job creation (0.8%) and be mirrored by a slow fall in the unemployment rate.

… and low inflation over the forecast horizon

Discounting the volatility of prices over the last few months because of the difference between the date of the Easter holidays this year and last, inflation has remained relatively stable at 0.5% YoY since the end of the first quarter, a deceleration from the 0.8% YoY in previous months, and another surprise to the downside vs. our forecasts three months ago. This was mainly due to the fall in prices in the more volatile components (fresh food, particularly, and energy), since core inflation (excluding energy and fresh food) was practically unchanged at 0.9% YoY, as we expected, given that the increased inflation in services offset the fall in non-energy industrial goods prices.

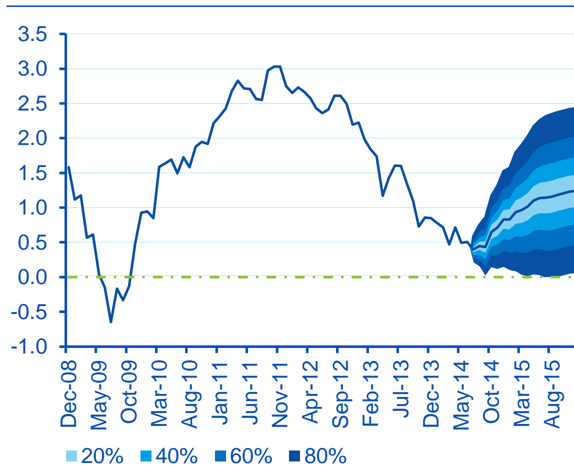
Over the forecast horizon, inflation should remain well below the ECB's target, with a slow upward trend at the end of the year, since, despite expectations that the recovery will gain traction by the second half of the year, it will continue to be limited by a negative output gap, a high rate of unemployment and the absence of wage pressures. Specifically, inflation has moderated again, down to 0.4% YoY in July and should remain

relatively stable throughout the third quarter, before increasing at the end of the year to rates of around 0.8% YoY, driven by the changing prices of more volatile components.

Turning to core inflation, our forecasts suggest that it will remain relatively stable at around 0.9% YoY for the rest of the year. As a consequence, we have reviewed downwards our headline inflation forecasts, both for 2014 and for 2015 by 0.3pp and 0.2pp, respectively, to 0.6% and 1.1%, while we are maintaining our forecasts for core inflation practically unchanged at 0.9% and 1.1%, for 2014 and 2015 respectively.

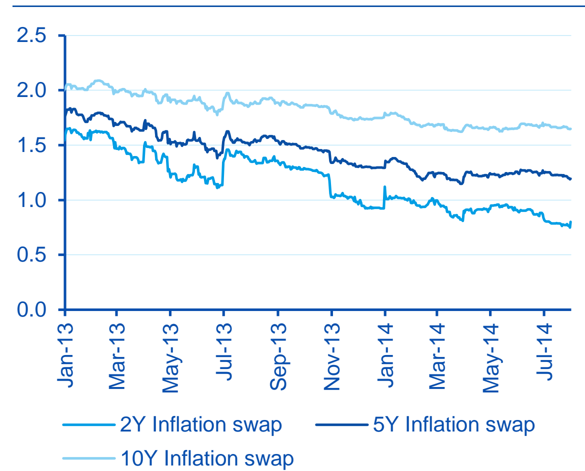
Despite this downward revision, our scenario continues to assign a very low probability to a deflationary episode (around 10%) (Figure 4.3), particularly after the latest measures adopted by the ECB in June (which could mean an increase of around 0.2pp in the inflation rate between 2014 and 2015), as long as the bank continues working on a quantitative easing programme should medium-term inflation expectations (Figure 4.4) become unanchored from their price stability target.

Figure 4.3
EMU: HICP inflation (% YoY)



Source: Eurostat and BBVA Research

Figure 4.4
EMU: inflation swaps (%)



Source: Bloomberg and BBVA Research

Higher investment is crucial for a return to solid growth, especially in 2015…

The gradual improvement in domestic fundamentals, together with the strength of external demand, underpinned the consolidation of the recovery in investment from the second quarter of last year onwards, with rates of growth of around 3% annualised on average during the second half. Nevertheless, data from the first quarter showed a certain moderation in the rate at which investment is rising, rather more than expected, while the data available for the second quarter, particularly relating to industry, were rather disappointing and suggest that investment is continuing to increase, but at a slower rate.

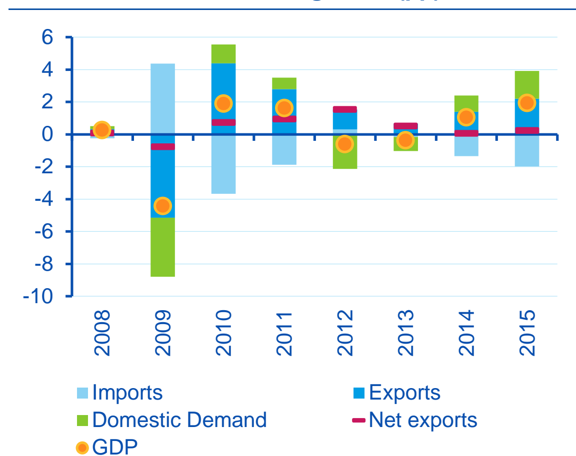
Even so, some of the factors which might have caused this moderation seem to have disappeared during the second quarter, while domestic factors, which ought to drive it, continue to strengthen. The sustained increase in business margins over the last year, together with the normalisation of companies' capacity utilisation, plus greater ease of access to funding and lower costs of the same, should be visible in an accelerated rate of expansion in investment, particularly next year.

Thus, our scenario includes higher investment throughout 2H14, to be consolidated in 2015 and to result in 2.5% growth in investment in 2014 and 4.6% in 2015, driven mainly by the investment in productive goods, while investment growth in construction will be more moderate.

… so the role of exports continues to be essential

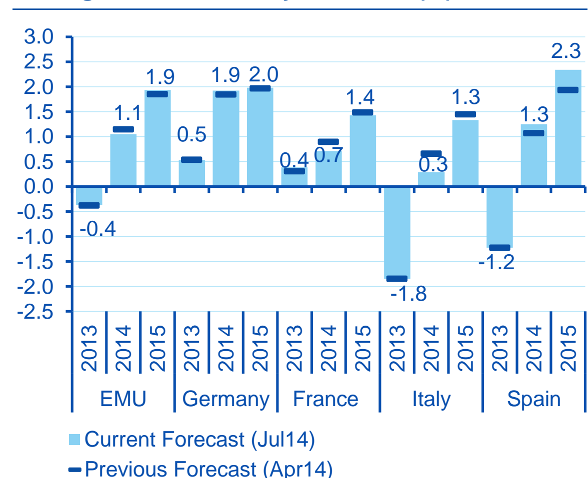
After the (expected) moderation in exports in the first quarter of the year, data available for the second quarter are mixed, anticipating moderate progress in external sales this quarter too, but suggesting that this moderation may have been temporary. On the one hand, nominal exports for April and May show a slowdown in growth over the first quarter (0.1% after 1.1% QoQ), although this is due, above all, to the monthly falls in March and April, while in May exports rose again (0.6% MoM). In addition, note that foreign sales prices have been falling since the beginning of 2013, so real exports to May will have grown by around 0.5% over 1Q14. On the other hand, world trade data available to May are more optimistic, since trade has grown at more robust rates (at around an annualised 3.8%) after the severe slowdown at the end of last year and the falls at the beginning of this year (Figure 3.3). Furthermore, the recovery in activity in developed economies has also been visible in the increased demand for products from the eurozone (Figure 3.4), offsetting the fall in those from emerging markets. Finally, although the increase in geopolitical tensions has stoked uncertainty about the performance of external demand, orders from outside the region continue to anticipate a degree of acceleration in foreign sales in coming quarters, particularly since companies in the eurozone are witnessing gains in competitiveness both inside and outside the European Union.

Figure 4.5
EMU: Contribution to YoY growth (pp)



Source: Eurostat and BBVA Research

Figure 4.6
EMU: growth forecast by countries (%)



Source: Eurostat and BBVA Research

For the next few quarters, our scenario is that the deceleration seen in some emerging economies will be offset by greater progress in developed economies, for which reason we stick to our forecasts of global growth of 3.3% and 3.8% in 2014 and 2015, respectively. In addition, the measures adopted by the ECB should be reflected in an euro depreciation (of around 4.4% in 2015 against the dollar). In short, we have kept practically unchanged our forecast that exports should return to growth at a fairly strong rate (our forecast is for 3% in 2014 and 4.6% in 2015, compared to average growth of 6% between 1995 and 2008), enough to drive investment along the entire forecast horizon. Nevertheless, the contribution of net exports to GDP growth in the eurozone as a whole will lose relative importance (0.1pp in 2014 and 0.2pp in 2015, compared to an average of 0.9pp on average between 2010 and 2013), since imports will also increase significantly as a result of increased purchases linked to investment and greater momentum in private consumption (Figure 4.5).

Generalised recovery throughout the eurozone, but at different speeds

The weak but steady recovery in the eurozone as a whole at the beginning of the year masked different rates of growth between member states, with stasis or a slight contraction in activity in France and Italy (somewhat worse than expected), but a robust rate of progress in Spain and Germany. Figures available to date indicate that even though quarterly growth rates may have converged in 2Q14 towards 0.2% QoQ (except in Spain, where growth was stronger), the differences will remain throughout the second half. Altogether, we have revised our growth forecasts to the upside for both Spain and for Germany (Figure 4.6), which will grow by 1.9% and 1.3% in 2014 and a little above the eurozone average in 2015 (2% and 2.3%, respectively). By contrast, we now expect slightly weaker growth in Italy and France in 2014 (0.3% and 0.7%, respectively) and in 2015 (1.3% and 1.4%, respectively) (see detailed analysis of member states).

Although the risks continue to be to the downside

Even though the principal changes in the factors underlying our forecasts have been positive, above all because of an economic policy which is more favourable to economic growth, the balance of risks in our economic scenario continues to be tilted to the downside. One risk is that the ECB measures to encourage lending do not produce the desired results. Linked to this, worse results than expected in the banking stress tests could trigger a market reverse, in such a way that they intensify the as yet unresolved problem of sovereign-banking risk and financial fragmentation. As a result, the recovery may be much weaker and the low rates of inflation more persistent, increasing the risk of deflation and the debt burden. There are more diverse risks at a country-by-country level (political problems leading to a lack of reforms in Italy and France, deterioration of public accounts in peripheral countries), but in general their impact will be limited.

There are also important risks stemming from outside the eurozone, such as the increase in geopolitical tensions (in Ukraine, Iraq and Syria) as well as the likelihood of slower growth in the US and/or China; alternatively, if the US economy performed better than expected, there is the possibility of a disorderly withdrawal from the Federal Reserve’s ultra-expansive monetary policy. The risk that probably feels closest to the eurozone at the moment is the crisis in the Ukraine and the sanctions against Russia. Taken together, and despite a much brighter and more positive outlook in the eurozone than a year or two ago, the risk of a relapse into a crisis situation, possibly accompanied by deflation, has not disappeared.

Eurozone member states: detailed analysis

Germany: solid growth sustained by the strength of domestic fundamentals

GDP: +1.9% in 2014, +2.0% in 2015

Recent data: as forecast in last quarter's report, the rate of growth will slow in 2Q14 (0.2% after 0.8% QoQ in 1Q14). The industrial production data to May are negative and investment could contract after the strong rise at the start of the year due to the momentum in the construction sector, in particular, which has benefited from favourable weather conditions. On the other hand, private consumption will also moderate in the second quarter, reflected in the fall in retail sales, despite a record low unemployment rate, relatively low inflation and very high consumer confidence levels. The foreign sector will take over from internal demand as the main engine of growth: exports will continue to grow at a relatively stable rate, but imports will fall, after increasing notably in 1Q14. As a result, net exports will make a positive contribution to growth, after the negative surprise of 1Q14 (-0.9pp).

Outlook for 2014 and 2015: for 2014 as a whole, however, Germany's domestic fundamentals will be the key to its economic growth, and again in 2015, with investment increasing at high rates (+5.2% and +4.8%, respectively). The positive trend in the labour market will help to increase private consumption and net exports will play a marginal role, given that the increase in imports, fuelled by the momentum in domestic demand, will offset the stability in the export sector.

Fiscal policy: after the surplus in 2012 (0.1% of GDP) and balanced accounts in 2013 (0% of GDP), we continue to forecast that the central government accounts will remain balanced in 2014 and 2015 and that public debt will fall to approximately 72.5% of GDP in 2015, in line with our earlier forecast. On the other hand, the fiscal accounts in 2014 and 2015 will retain their modest structural surplus (around 0.5% of GDP).

France: the recovery is taking time to settle. The recent economic policy measures should help growth

GDP: 0.7% in 2014, 1.4% in 2015

Recent data: after the stagnation in 1Q14, the key confidence and activity indicators have confirmed the fragility of the recovery in France. Economic sentiment surveys, both the French and the Commission's own, together with the PMIs, especially in manufacturing, have given early indicators of the contraction in industrial production recorded to May, which may be holding back the recovery in investment. By contrast, the uptick in household consumption spending is being reflected in improved retail sales, also bolstered by low inflation, and despite deteriorating household confidence over the last few months. In terms of the external sector, the persistent trade deficit is the result of the loss of competitiveness which the government is endeavouring to correct by introducing new fiscal incentives. Altogether, we forecast little growth in 2Q14 (0.2% QoQ).

Outlook for 2014 and 2015: the recovery will continue to be driven by internal demand. Private consumption should increase (by 0.5% and 1.2%, respectively) supported by still-moderate inflation and by the stable labour market; the contribution made by public consumption will decline, affected by budgetary restrictions, while investment will return to growth gradually, benefiting from recent economic policy measures. Finally, growth in exports will be offset by the increase in imports, supported by the improvement in domestic demand, and we thus do not expect a significant contribution from the foreign sector.

Fiscal policy: after the European Commission's estimate that the deficit target for 2014 would be missed by 0.2pp of GDP (EUR4bn), the French government presented a package of measures which, according to our calculations, will be enough to ensure the deficit agreed with the EC (3.8% of GDP) is achieved. We also stick to our deficit forecast for 2015 (-3% of GDP), in line with the cuts announced between 2014 and 2017 (EUR50bn), together with the lower taxes and reduced labour charges (-EUR30bn). However, these measures do not appear to be enough to bring the structural deficit below 1% in 2017, and will only manage to cut it to 1.6% of GDP (as against the 0.3% target). Public debt will be around 95.6% of GDP in both 2014 and 2015.

Italy: slow recovery underway supported by structural reforms

GDP: +0.3% in 2014, +1.3% in 2015

Recent data: the strong contribution to growth made by net exports since the end of 2013 is starting to taper, since, while exports are growing at a constant rate, imports are starting to increase slightly. In contrast, we may be seeing signs of a mild recovery in private consumption: timid growth in spending for the first time since 2011, stimulated in part by tax cuts for those with the lowest incomes, but retail sales remain sluggish, despite improved consumer confidence. The change in the labour market, with a still high unemployment rate (12.6%), continues to limit spending capacity. On the other hand, industrial production to May has been weak, after stagnating in the first quarter, particularly because of the moderation in export orders. These figures offer a scenario with slight growth in 2Q14 (0.2% QoQ), after the negative surprise in 1Q14 (-0.1% QoQ).

Outlook for 2014 and 2015: our forecasts show a recovery that remains weak throughout 2014, picking up speed next year (0.3% and 1.3%, respectively). Strong growth is expected in exports, but the gradual recovery of internal demand will cause a sustained increase in imports, which will translate into a small contribution from the external sector to growth. The tax cuts and the high level of confidence should sustain the gradual increase in private consumption, whereas public growth is still subject to restrictive fiscal policy. The recent reforms should improve business confidence and, as a consequence, boost investment (+0.3% and +3.3% in 2014 and 2015, respectively).

Fiscal policy: according to the latest budget execution figures (central government to June), the accumulated deficit represents 2.6% of GDP (0.1pp less than a year ago), mainly because the spending cuts are not being accompanied by higher fiscal revenues. We have revised our forecasts for the 2014 and 2015 deficits (by +0.1 and +0.2pp respectively to 2.7% and 2.2% and with a bias to the upside if we include the budget execution up to June, although the deficit will not exceed 3% of GDP. We still consider the degree of fiscal tightening necessary for structural breakeven to be around 1.6% of GDP in 2014. However, the main concern continues to be the high volume of public debt (132.6% of GDP in 2013), which, according to the government's forecasts, should peak in 2014 at around 134.9% of GDP, subsequently falling to 133.3% in 2015, bearing in mind the published privatisations calendar.

Spain: the recovery accelerates, supported by domestic and foreign factors

GDP: +1.3% in 2014, +2.3% in 2015

Recent data: the Spanish economy grew by 0.6% QoQ in 2Q14, accelerating from 0.4% QoQ in 1Q14. The partial leading indicators show that both domestic demand and net external demand have made positive contributions to quarterly growth (around 0.3pp in both cases). The private sector accounts for most of the recovery in domestic demand: on the one hand, growth in household spending has been driven by the increase in disposable income and the net financial wealth of households, the positive changes in consumer confidence and the growth in consumer credit. On the other hand, the recovery of exports and higher internal demand has underpinned the good performance of investment in machinery and equipment.

Outlook for 2014 and 2015: in 2014 activity will grow by 1.3% and in 2015 will accelerate to 2.3%, 0.2pp and 0.4pp above our previous forecasts due to the more expansive nature of fiscal and monetary policy. Private internal demand will remain at the forefront of growth in the short term: private consumption will benefit from the recovery of employment and the lack of inflationary pressures, while the expansion of final demand will continue to stimulate productive investment, despite the moderation in exports during 2014. Meanwhile, the increasingly important role played by domestic demand will be reflected in increased imports, limiting the contribution of the external sector to growth.

Fiscal policy: the tone of fiscal policy will be marked by the measures linked to the public-sector reforms and, above all, by the announcement of the tax reforms. For 2014, we forecast that the positive effects of growth will offset the structural increase in spending on social benefits and interest on public debt, which will bring the deficit down by around 0.9pp of GDP. The impact of the fiscal tightening measures of earlier years will keep the public deficit down by a little over 0.2pp of GDP. The 2014 deficit will be around 5.5% of GDP, in line with the budget stability target and around 4.5% in 2015, slightly above the target (4.2%). In short, the negative impact on growth of fiscal consolidation will soften in 2014: lower fiscal pressure is expected, while the adjustment in public consumption will moderate in the second half of 2014, leaving it virtually unchanged over the year as a whole (-0.1%). According to our forecasts, the contractive tone will disappear from fiscal policy in 2015.

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	-0.6	0.7	1.4
Public consumption	0.6	-0.1	-0.6	0.1	0.4	0.7
Gross Fixed Capital Formation	-0.6	1.7	-3.8	-2.8	2.5	4.6
Inventories (*)	0.6	0.2	-0.5	0.0	0.0	0.0
Domestic Demand (*)	**1.2**	**0.7**	**-2.1**	**-0.9**	**1.0**	**1.7**
Exports (goods and services)	11.4	6.7	2.7	1.5	3.0	4.6
Imports (goods and services)	9.8	4.7	-0.8	0.4	3.2	4.6
External Demand (*)	0.7	0.9	1.5	0.5	0.1	0.2
Prices and Costs						
CPI	1.6	2.7	2.5	1.4	0.6	1.1
CPI Core	1.0	1.7	1.8	1.3	0.9	1.1
Labour Market						
Employment	-0.5	0.4	-0.7	-0.8	0.5	0.8
Unemployment rate (% of labour force)	10.0	10.1	11.3	12.0	11.7	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: Gross Domestic Product

(End of period, YoY rate)	2011	2012	2013	2014	2015
United States	1.8	2.8	1.9	2.0	2.5
Eurozone	1.6	-0.6	-0.4	1.1	1.9
Germany	3.4	0.9	0.5	1.9	2.0
France	2.1	0.4	0.4	0.7	1.4
Italy	0.6	-2.4	-1.8	0.3	1.3
Spain	0.1	-1.6	-1.2	1.3	2.3
UK	1.1	0.3	1.7	2.9	2.5
Latin America *	4.1	2.6	2.4	1.6	2.5
Mexico	3.9	3.8	1.1	2.5	3.5
Brazil	2.7	1.0	2.5	1.3	1.6
EAGLES **	7.3	5.5	5.3	5.1	5.4
Turkey	8.9	2.4	3.8	2.5	4.2
Asia Pacific	6.1	5.2	5.2	4.1	4.1
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	3.4	1.8	2.0
World	4.0	3.2	3.0	3.3	3.8

* Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
** Brazil, China, India, Indonesia, Mexico, Russia and Turkey.
Forecast closing date: 4 August 2014.
Source: BBVA Research and IMF

Table 5.3

Macroeconomic forecasts: Inflation

(Annual average, YoY rate)	2011	2012	2013	2014	2015
United States	3.1	2.1	1.5	1.9	2.2
Eurozone	2.7	2.5	1.4	0.6	1.1
Germany	2.5	2.1	1.6	0.9	1.5
France	2.3	2.2	1.0	0.7	1.0
Italy	2.9	3.3	1.3	0.4	0.9
Spain	3.2	2.4	1.4	0.1	0.9
UK	4.5	2.8	2.6	1.7	1.7
Latin America *	8.0	7.6	8.9	12.2	10.9
Mexico	3.4	4.1	3.8	3.9	3.5
Brazil	6.6	5.4	6.2	6.4	6.1
EAGLES **	6.5	4.9	5.2	4.8	4.8
Turkey	6.4	8.7	7.6	8.3	5.8
Asia Pacific	4.9	3.4	3.5	2.9	3.0
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	3.1	2.7
World	5.1	4.2	3.8	3.9	4.0

* Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
** Brazil, China, India, Indonesia, Mexico, Russia and Turkey.
Forecast closing date: 4 August 2014.
Source: BBVA Research and IMF

Table 5.4

Macroeconomic forecasts: Current Account

(End of period, % GDP)	2011	2012	2013	2014	2015
United States	-3.0	-2.8	-2.4	-2.3	-2.1
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	0.3	1.1
UK	-1.6	-4.6	-3.3	-2.8	-2.3
Latin America *	-1.0	-1.6	-2.5	-2.5	-2.3
Mexico	-1.1	-1.3	-2.1	-1.7	-1.9
Brazil	-2.1	-2.4	-3.7	-3.7	-3.5
EAGLES **	-0.2	-0.2	-0.2	0.1	0.3
Turkey	-9.9	-7.6	-7.0	-6.0	-6.0
Asia Pacific	1.4	1.1	1.5	1.9	1.9
Japan	2.0	1.0	0.7	1.5	2.0
China	1.9	2.3	2.1	2.5	2.8
Asia (exc. China)	1.0	0.3	1.1	1.4	1.2

* Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
** Brazil, China, India, Indonesia, Mexico, Russia and Turkey.
Forecast closing date: 4 August 2014.
Source: BBVA Research and IMF

Table 5.5

Macroeconomic Forecasts: Government Balance

End of period, % GDP	2011	2012	2013	2014	2015
United States	-8.7	-6.8	-4.1	-3.0	-2.7
EMU	-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	-2.7	-2.2
Spain *	-9.1	-6.8	-6.6	-5.5	-4.5
UK **	-7.8	-6.3	-5.8	-5.8	-4.4
Latin America ***	-2.2	-2.3	-2.7	-3.7	-2.9
Mexico	-2.7	-2.6	-2.3	-4.1	-3.6
Brazil	-2.6	-2.5	-3.7	-3.9	-3.4
EAGLES *****	-2.4	-2.9	-3.0	-3.4	-3.3
Turkey	-1.4	-2.1	-1.2	-2.2	-1.6
Asia Pacific	-3.7	-3.8	-3.6	-3.6	-3.4
Japan	-9.8	-8.7	-8.4	-8.5	-8.0
China	-1.3	-2.2	-1.9	-2.5	-2.5
Asia (exc. China)	-5.3	-5.0	-4.9	-4.3	-4.0

* Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
** Brazil, China, India, Indonesia, Mexico, Russia and Turkey.
Forecast closing date: 4 August 2014.
Source: BBVA Research and IMF

Table 5.6

Financial variables

Macroeconomic Forecasts: Official Interest Rates (End of period)	2011	2012	2013	2014	2015
United States	0.25	0.25	0.25	0.25	0.50
Eurozone	1.10	0.75	0.25	0.15	0.15
China	6.56	6.00	6.00	6.00	6.00
Macroeconomic Forecasts: 10-year government bond yield (Annual average)					
United States	2.8	1.8	2.4	2.8	3.3
Germany	2.6	1.5	1.6	1.5	2.1
Macroeconomic Forecasts: Exchange Rates (Annual average)					
EUR-USD	0.72	0.78	0.75	0.74	0.78
USD-EUR	1.39	1.29	1.33	1.35	1.29
GBP-USD	0.62	0.63	0.64	0.60	0.59
JPY-USD	79.8	79.8	97.6	105.0	116.0
CNY-USD	6.46	6.31	6.20	6.15	6.02

Forecast closing date: 4 August 2014.
Source: BBVA Research and IMF

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	1.5	1.7
Public consumption	3.2	3.0	1.3	1.0	1.0	0.4	1.3	0.9
Gross Fixed Capital Formation	0.6	-11.6	5.2	7.1	-1.3	-0.7	5.2	4.8
Inventories (*)	-0.1	-0.7	0.5	-0.1	-0.6	0.2	0.0	0.0
Domestic Demand (*)	**0.9**	**-2.0**	**2.2**	**2.7**	**-0.2**	**0.7**	**2.1**	**1.9**
Exports	2.3	-13.0	14.8	8.1	3.8	1.1	3.5	4.0
Imports	3.0	-7.8	12.3	7.5	1.8	1.6	4.4	4.5
Net exports (*)	**-0.1**	**-3.0**	**1.7**	**0.7**	**1.1**	**-0.2**	**-0.1**	**0.1**
GDP	**0.8**	**-5.1**	**3.9**	**3.4**	**0.9**	**0.5**	**1.9**	**2.0**
Inflation	**2.8**	**0.2**	**1.2**	**2.5**	**2.1**	**1.6**	**0.9**	**1.5**

(*) 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	0.4	0.3	1.8	0.4	-0.4	0.3	0.5	1.2
Public consumption	0.8	2.4	1.2	1.0	1.6	1.9	1.1	0.5
Gross Fixed Capital Formation	1.0	-9.0	1.9	2.1	0.3	-0.8	0.9	3.1
Inventories (*)	-0.3	-1.6	0.4	1.3	-0.4	-0.2	0.0	0.0
Domestic Demand (*)	**0.3**	**-2.6**	**2.0**	**2.1**	**-0.2**	**0.3**	**0.7**	**1.3**
Exports	-0.1	-11.0	8.6	7.1	1.2	2.4	2.7	3.2
Imports	0.7	-9.2	8.5	6.6	-1.2	1.9	2.5	2.6
Net exports (*)	**-0.2**	**-0.3**	**-0.1**	**0.0**	**0.6**	**0.1**	**0.0**	**0.1**
GDP	**0.1**	**-2.9**	**1.9**	**2.1**	**0.4**	**0.4**	**0.7**	**1.4**
Inflation	**3.2**	**0.1**	**1.7**	**2.3**	**2.2**	**1.0**	**0.7**	**1.0**

(*) 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	0.0	0.8
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	0.3	3.3
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**	**-0.1**	**1.1**
Exports	-2.8	-17.7	11.2	6.9	2.0	0.0	2.8	3.7
Imports	-2.9	-13.6	12.3	1.4	-7.1	-2.9	1.6	3.5
Net exports (*)	0.0	-1.2	-0.4	1.5	2.6	0.8	0.4	0.2
GDP	-1.2	-5.5	1.7	0.6	-2.4	-1.8	0.3	1.3
Inflation	**3.5**	**0.8**	**1.6**	**2.9**	**3.3**	**1.3**	**0.4**	**0.9**

(*) Contribution to growth.
Source: BBVA Research

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

Rate YoY	2008	2009	2010	2011	2012	2013	2014	2015
Private consumption	1.3	-2.3	2.5	-3.3	-5.3	-1.7	0.9	1.3
Public consumption	0.3	4.7	0.1	-5.0	-4.7	-1.8	-0.9	-1.4
Gross Fixed Capital Formation	-0.3	-8.6	-3.1	-10.5	-14.4	-6.3	1.1	3.6
Inventories (*)	0.0	-1.1	0.9	-0.2	0.1	-0.1	0.6	0.0
Domestic Demand (*)	**0.9**	**-3.6**	**2.0**	**-5.6**	**-6.9**	**-2.5**	**1.1**	**1.0**
Exports	-0.1	-10.9	10.2	6.9	3.2	6.1	3.6	6.2
Imports	2.3	-10.0	8.0	-5.3	-6.6	3.1	4.6	4.7
Net exports (*)	-1.0	0.6	-0.1	4.4	3.7	1.1	-0.4	0.6
GDP	-0.1	-2.9	1.9	-1.1	-3.2	-1.4	0.8	1.6
Inflation	**2.7**	**-0.9**	**1.4**	**3.6**	**2.8**	**0.4**	**0.1**	**0.8**

(*) 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	1.9	2.0
Public consumption	5.9	3.7	1.5	-0.5	-4.8	-2.3	0.1	0.6
Gross Fixed Capital Formation	-4.7	-18.0	-5.5	-5.4	-7.0	-5.1	1.2	4.9
Equipment and other products	-2.9	-23.9	4.3	5.3	-3.9	2.2	8.4	7.3
Construction	-5.8	-16.6	-9.9	-10.8	-9.7	-9.6	-4.3	2.8
Housing	-9.1	-20.4	-11.4	-12.5	-8.7	-8.0	-3.5	4.9
Other construction	-1.6	-12.2	-8.4	-9.2	-10.6	-10.9	-4.9	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**	**1.4**	**2.2**
Exports	-1.0	-10.0	11.7	7.6	2.1	4.9	4.7	6.5
Imports	-5.2	-17.2	9.3	-0.1	-5.7	0.4	5.1	6.4
Net exports (*)	**1.4**	**2.9**	**0.4**	**2.1**	**2.5**	**1.5**	**0.0**	**0.2**
GDP	**0.9**	**-3.8**	**-0.2**	**0.1**	**-1.6**	**-1.2**	**1.3**	**2.3**
Inflation	**4.1**	**-0.3**	**1.8**	**3.2**	**2.4**	**1.4**	**0.1**	**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	2.2	2.1
Public consumption	2.2	0.6	0.5	0.0	1.6	0.7	0.5	-0.1
Gross Fixed Capital Formation	-6.9	-16.7	2.8	-2.4	0.8	-0.8	8.0	6.6
Inventories (*)	-0.2	-1.5	1.2	0.4	-0.6	0.2	0.0	0.0
Domestic Demand (*)	**-1.6**	**-6.1**	**2.1**	**-0.1**	**0.8**	**1.7**	**2.6**	**2.3**
Exports	1.1	-8.7	6.7	4.5	1.7	0.5	1.0	3.8
Imports	-1.7	-10.7	7.9	0.3	3.4	0.2	0.0	3.2
Net exports (*)	**0.9**	**0.9**	**-0.5**	**1.2**	**-0.5**	**0.1**	**0.3**	**0.2**
GDP	**-0.8**	**-5.2**	**1.7**	**1.1**	**0.3**	**1.7**	**2.9**	**2.5**
Inflation	**3.6**	**2.2**	**3.3**	**4.5**	**2.8**	**2.6**	**1.7**	**1.7**

(*) Contribution to growth.
Source: BBVA Research

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