BBVA Research

Spain Economic Outlook

3Q21

Creating Opportunities

Key points Global

GDP outlook

Global GDP will grow by 6.3% in 2021 and by 4.7% in 2022, after dropping by approximately 3.2% in 2020. Economic reopening, favored by both increased vaccination rates and stimuli, has facilitated rapid recovery and strengthened prospects for global growth.

Inflationary pressures

Higher growth has been accompanied by surprisingly high inflation. Moderation is expected, as supply reacts to the recent increase in demand, but inflation will remain above expectations and above rates from the previous decade.

Economic policy

The focus will remain on supporting growth. Overall, fiscal policy will continue to be expansionary and interest rates will likely remain unchanged until 2023. Inflation also restricts central banks' room for maneuver, which will soon begin the process of withdrawing monetary stimulus.

Risks

Inflationary pressures could turn out to be more persistent, further complicating economic policy management and jeopardizing the recovery scenario. Despite lower epidemiological risks, new coronavirus strains and slow vaccination rates in some countries continue to be of concern.

Key points Spain

2021 GDP outlook

GDP growth outlook for 2021 is revised upward from 5.5% to 6.5%. The surprise increase in goods exports in 1Q21 did not prevent the economy from contracting as expected, although this was somewhat less than projected.

Back to growth

Data for 2Q21 points to a return to growth (between 2.3% and 3.3% quarterly). The end of the state of emergency, progress made in vaccination and the easing of restrictions, among others, have led to growth of private consumption, primarily in services.

GDP growth

In 2022, GDP growth could reach 7.0%. Disease control, the use of family savings, the approval of the Recovery Plan, the arrival of NGEU funds, ECB support measures and a high amount of unused production capacity would be behind this upswing.

Risks

Upward growth in the short term, to the extent that the disease is kept under control. In the medium term, the skew will depend on the reforms adopted in the coming months and the speed and efficiency with which European funds are implemented. Moreover, growth should be consistent with environmental sustainability goals.

Research

01

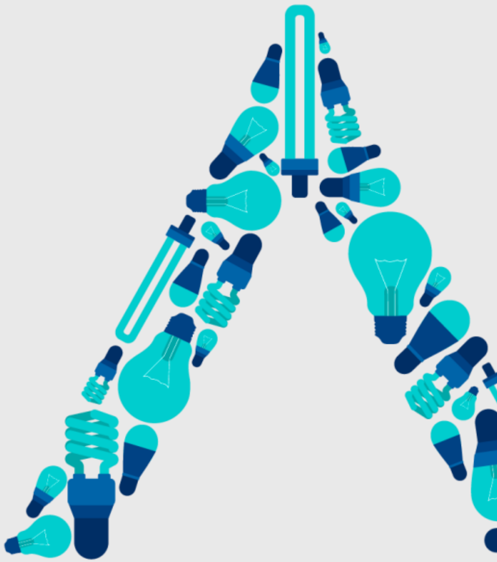
Global Economic Outlook 3Q21

Creating Opportunities

The recovery is gaining momentum, favored by an increasing control of the pandemic and policy stimuli, but inflation is a rising source of concern

RECENT EVOLUTION OF THE GLOBAL ECONOMY

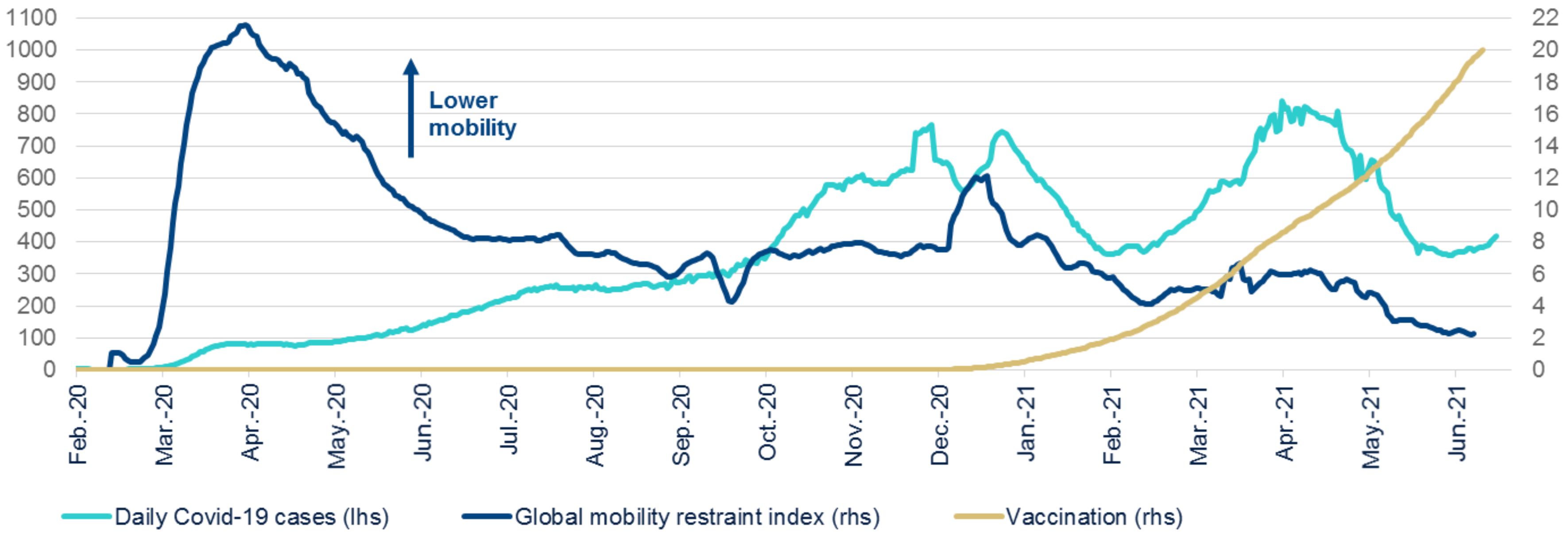
Covid-19	Acceleration of vaccination; declining infections despite new strains.
Activity and inflation	Solid recovery; significant rebound of inflation.
Economic policy	Focus on growth, but the withdrawal of stimuli by the Fed and the ECB is getting closer.
Financial markets	A more complex environment, despite the still ample global liquidity.



The acceleration of vaccination has paved the way for a reduction of infections and an economic reopening, mainly in developed countries

WORLD: DAILY CODIV-19 CASES, POPULATION VACCINATED AND MOBILITY RESTRAINT INDEX (*)

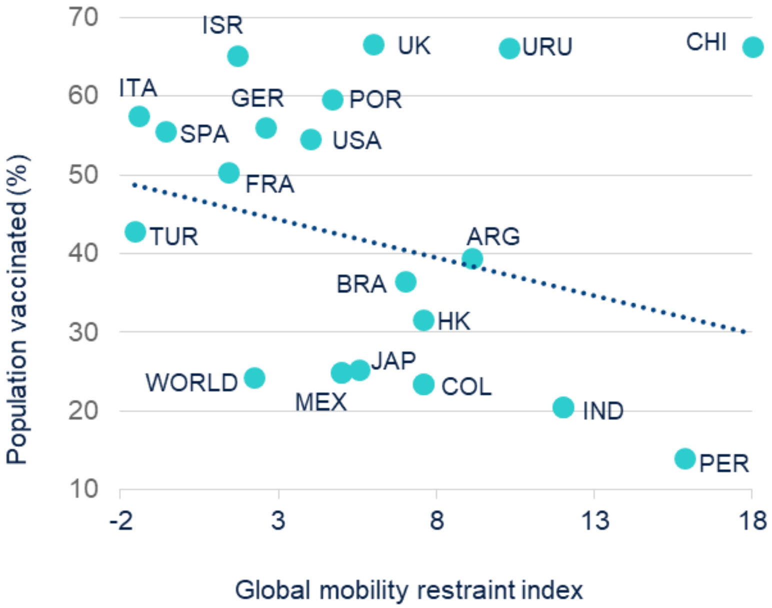
(THOUSANDS OF CONTAGIONS, 7-DAY MOVING AVERAGE; SHARE OF THE POPULATION WITH AT LEAST ONE DOSE OF THE ANTI-COVID VACCINES; MOBILITY RESTRAINT: 7-DAY MOVING AVERAGE)



(*) The mobility restraint index reflects changes with respect to the period of reference (January 3 to February 6 2020). Higher values represent lower mobility. Vaccination data does not include figures for China.
Source: BBVA Research based on data by John Hopkins University, Google and Our World in Data.

Vaccination has already reached much of the population in the US and Europe, and is accelerating in emerging countries

POPULATION VACCINATED AND MOBILITY RESTRAINT (*)
SHARE OF THE POPULATION WITH AT LEAST ONE DOSE OF THE VACCINES; MOBILITY RESTRAINT INDEX: 7-DAY MOVING AVERAGE)

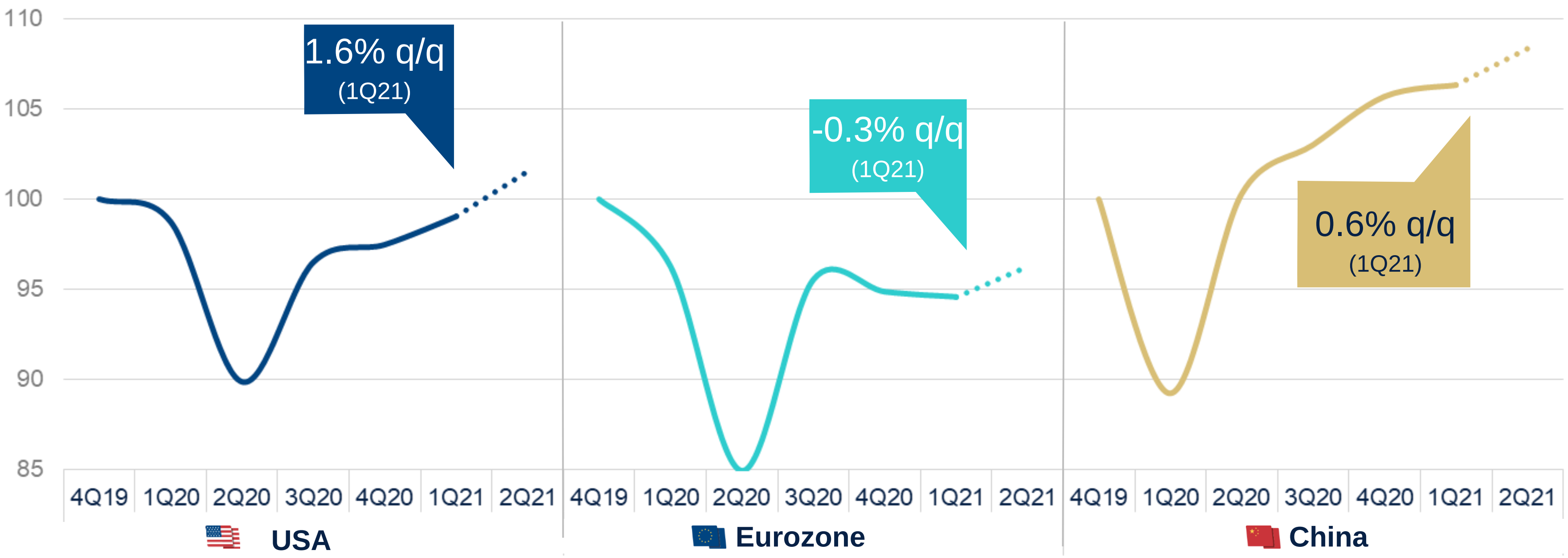


- Vaccination has reduced infections and increased mobility in the US and Europe.
- Vaccine inoculation has recently accelerated in Latin America, although infections remain at high levels.
- Recent outbreaks in countries with advanced vaccination (UK, Israel, Spain, Chile, etc.) maintain the concerns about new strains.
- Still, the available evidence suggests that the main vaccines are effective against the new variants of the coronavirus.

(*) The mobility restraint index reflects changes with respect to the period of reference (January 3 to February 6 2020). Higher values represent lower mobility. Vaccination data does not include figures for China.
Source: BBVA Research based on data by John Hopkins University, Google and Our World in Data.

Growth accelerates somewhat more than expected in the US, restarts in Europe, and remains high in China despite the recent moderation

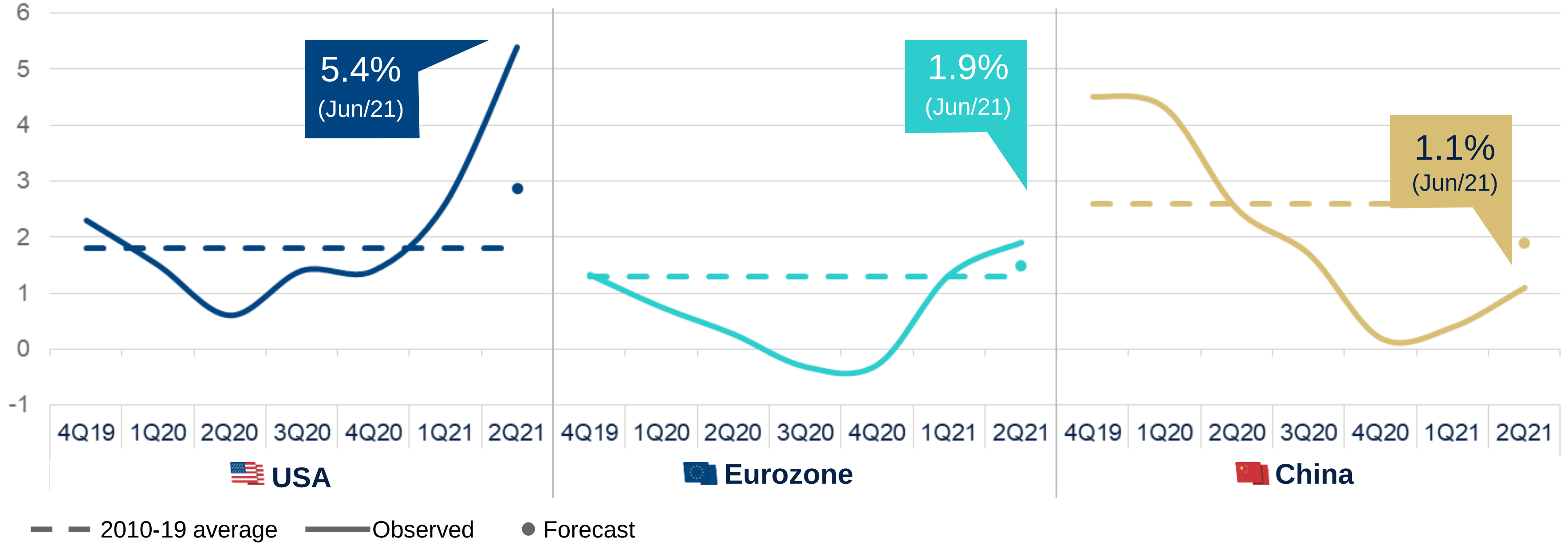
REAL GDP LEVEL (*)
(4Q19=100)



(*) Observed data till 1Q21. 2Q21: BBVA Research forecasts.
Source: BBVA Research based on local statistics.

Inflation surprises to the upside, mainly in the US, driven by the reopening, supply bottlenecks and commodity prices

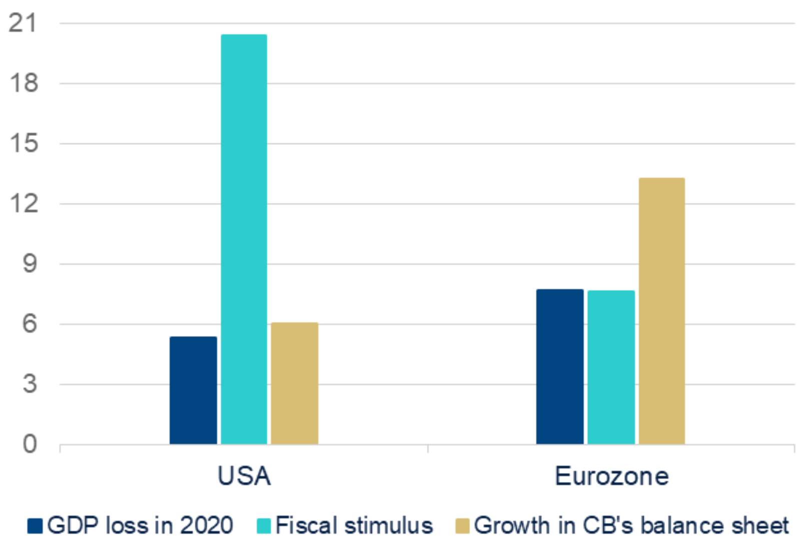
INFLATION: CPI (*)
(Y/Y %, END OF PERIOD)



(*) Forecast: BBVA Research Apr/21 estimations.
Source: BBVA Research based on local statistics.

Inflation and significant fiscal stimuli increase the pressure on central banks, which, however, remain focused on the recovery

GDP LOSS IN 2020 AND STIMULI FROM 2021(*)
(PP, % OF GDP)

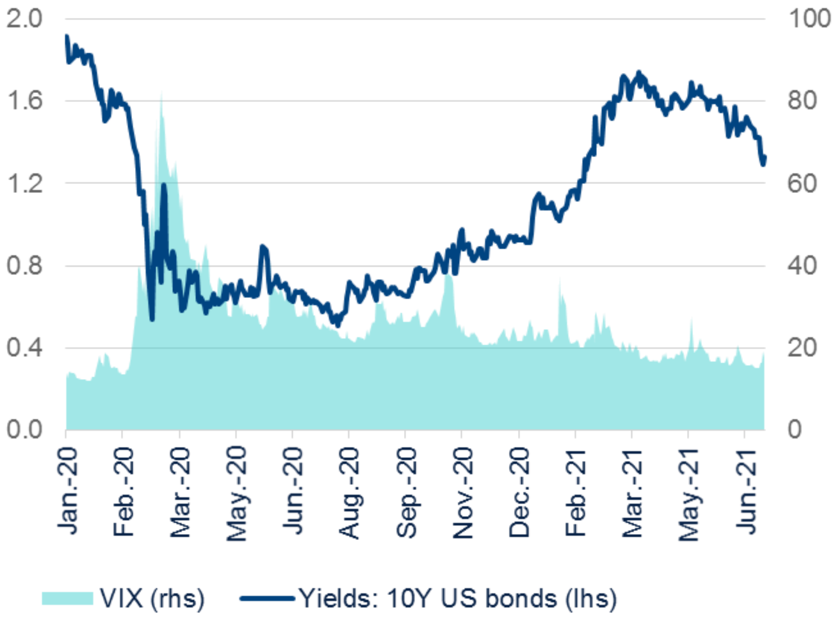


(*) GDP loss in 2020: difference between forecast GDP before the crisis and the actual data. Fiscal stimuli: US: USD 0.9tn approved in Dec/20, USD 1.9tn approved in Mar/21, and further USD 1.5tn expected ahead; UE: NGEU and measures announced by the main countries in the region. Central bank's balance sheet: expected accumulated expansion between the end of 2020 and the end of 2022.
Source: BBVA Research.

- The Fed has suggested that it will soon begin to discuss tapering bond purchases and that it will bring forward rate hikes, but not until 2023.
- Political debate in the US about additional fiscal stimuli, possibly less significant than anticipated and more focused on investment.
- In Europe, after the approval of the NGEU, the details for its implementation are being finalized; suspension of fiscal targets in 2021-22 increases scope for further stimulus.
- The ECB maintains a high rate of asset purchases; strategic review: "symmetric" inflation target of 2%.

Markets are more convinced that the Fed will act to control inflation; the prospect of stimulus withdrawal generates volatility

10-YEAR US BOND YIELD AND VIX
(%, INDEX)



Source: BBVA Research based on data by Bloomberg.

- Short-term bond yields have risen in the US on the prospect of higher rates in early 2023 (or earlier).
- Long-term bond yields have fallen on the view that inflation will be controlled, the stabilization of growth expectations and lower bond supply.
- The rise in short-term rates has appreciated the US dollar and generated volatility ...
- ... but global liquidity continues to back equity markets, certain risk assets and moderate flows into emerging markets.

Baseline scenario: a faster recovery going forward, with higher inflation and increasing challenges for central banks

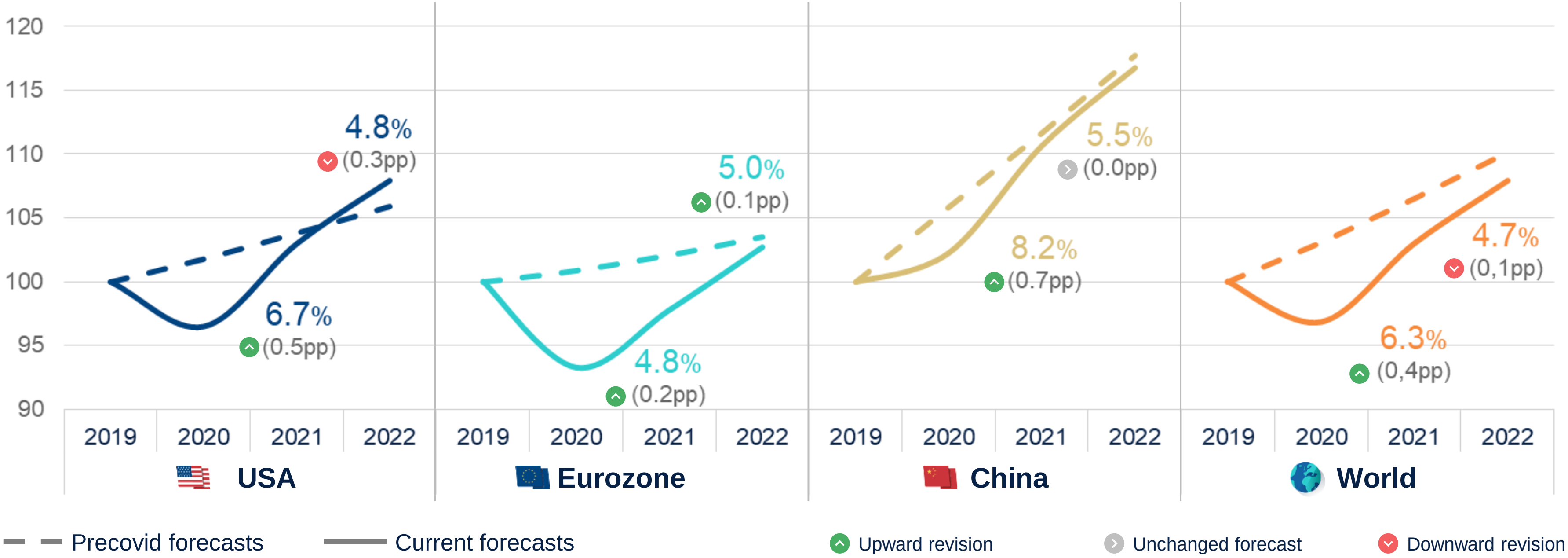
GLOBAL ECONOMIC PROSPECTS

Covid-19	Convergence towards "normality", first in developed and later in emerging countries.
Activity and inflation	Stronger growth; higher inflation than in recent past, with upside risks.
Economic policy	Tapering in 2022, stable rates until 2023 (risk of earlier hikes), and expansionary fiscal policy in developed economies.
Financial markets	Higher pressure on risky assets and EMs, given the process of withdrawal of stimuli.

Global growth will be stronger than expected in 2021 and will ease in 2022

REAL GDP

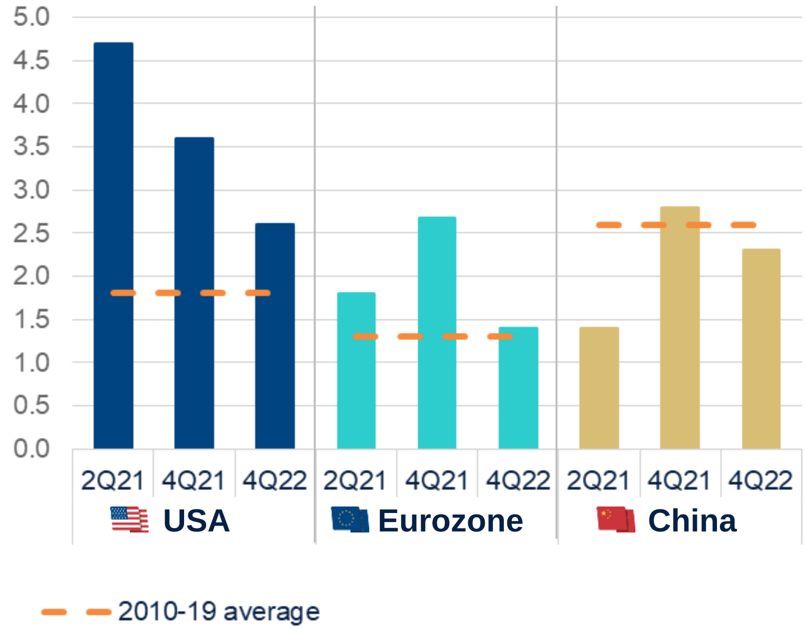
(LINES: GDP LEVEL 2019=100, FIGURES: GROWTH FORECASTS AND, BETWEEN PARENTHESIS, CHANGE WITH RESPECT TO PREVIOUS FORECASTS)



Source: BBVA Research.

Inflation in the US and Europe is expected to slow down, but it will remain above the previous decade's levels, in an environment of increasing risks

INFLATION: CPI
(Y/Y %, PERIOD AVERAGE)

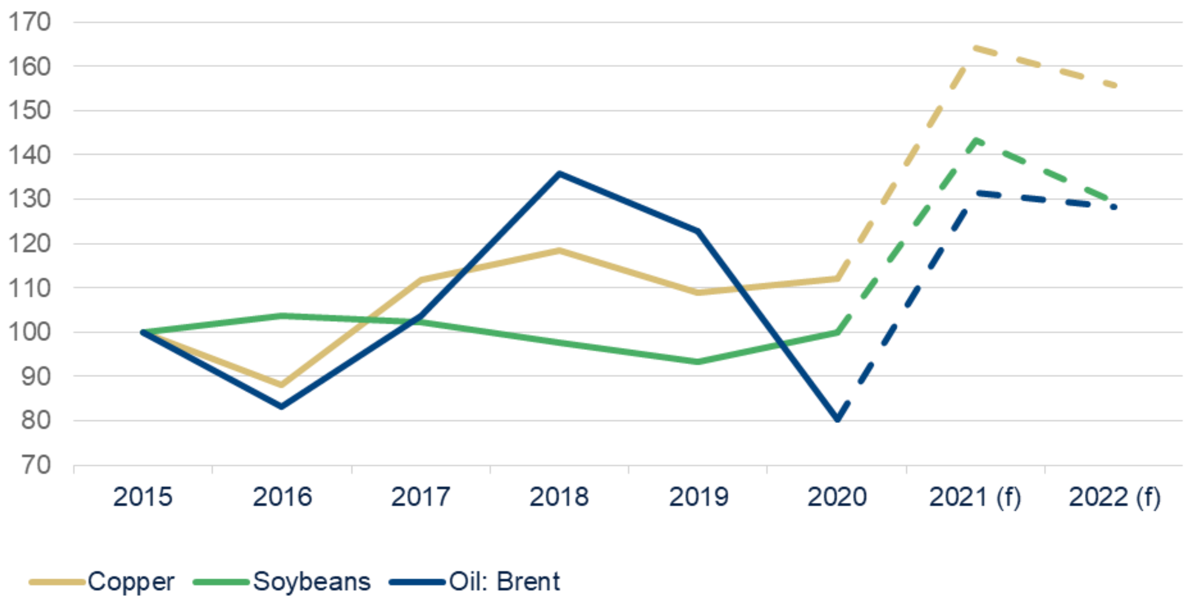


Source: BBVA Research.

- Expected moderation of inflation
  - more favorable base effects
  - lower commodity prices
  - bottlenecks will ease on greater supply
  - absence of widespread wage pressures
- Inflation "normalization": above 2010-19 levels
  - CBs more tolerant with inflation
  - more supportive fiscal, social and labor policies
  - trade protectionism
  - energy transition and change in relative prices
  - labor market tensions
- In China, inflation will rise moderately on demand recovery and less positive base effects.
- Monetary and fiscal policies will be key for the future inflation dynamics.

Commodity prices have increased more than expected, mostly on the back of high demand, but should ease -remaining high though- as supply catches up

COMMODITY PRICES: ANNUAL AVERAGES
(ÍNDEX: 2015 = 100 AVERAGE)



	2021 (f)	2022 (f)
COPPER ($ per ton)	4.1	3.9
SOYBEAN ($ per lb)	502	454
BRENT ($ per barrel)	69	67

(f) Forecast.
Source: BBVA Research.

Economic policies remain focused on supporting growth, but monetary policy keeps also an eye on inflation, and will gradually shift to exit policies

	PROSPECTS FOR MONETARY POLICY	PROSPECTS FOR FISCAL POLICY
US	Tapering in the beginning of 2022 and stable interest rates until 1Q23 (slightly earlier than expected)	Additional stimulus of around 7% of GDP, more long-term and investment-focused than previous bills
Eurozone	Accommodative stance and scale down of bond purchases (PEPP) from Sep/21 New strategy: “symmetric” inflation target of 2%;	NGEU: minor short-term impact; potentially greater in the long run Fiscal rules: suspended at least in 2021-22
China	Unchanged rates in 2021-22; lower dynamism of credit and regulatory tightening	Gradually less expansionary

Risks: inflationary pressures increase the room for policy mismanagement and open the door for more negative macroeconomic scenarios

INFLATIONARY RISKS

on larger demand pressures, slow supply response or unanchoring of expectations, specially if central banks don't react timely to inflationary pressures.

FINANCIAL RISKS

particularly in public and private debt markets, and in emerging economies (weaker exchange rates, earlier hikes of local policy rates), mostly if central banks overreact (or markets perceives this way) to inflationary pressures.

EPIDEMIOLOGIC RISKS

new strains, slow vaccination in EMs...

OTHER RISKS

evolution of accumulated savings, investment and potential GDP, social unrest, deglobalization, strategic rivalry between the US and China...

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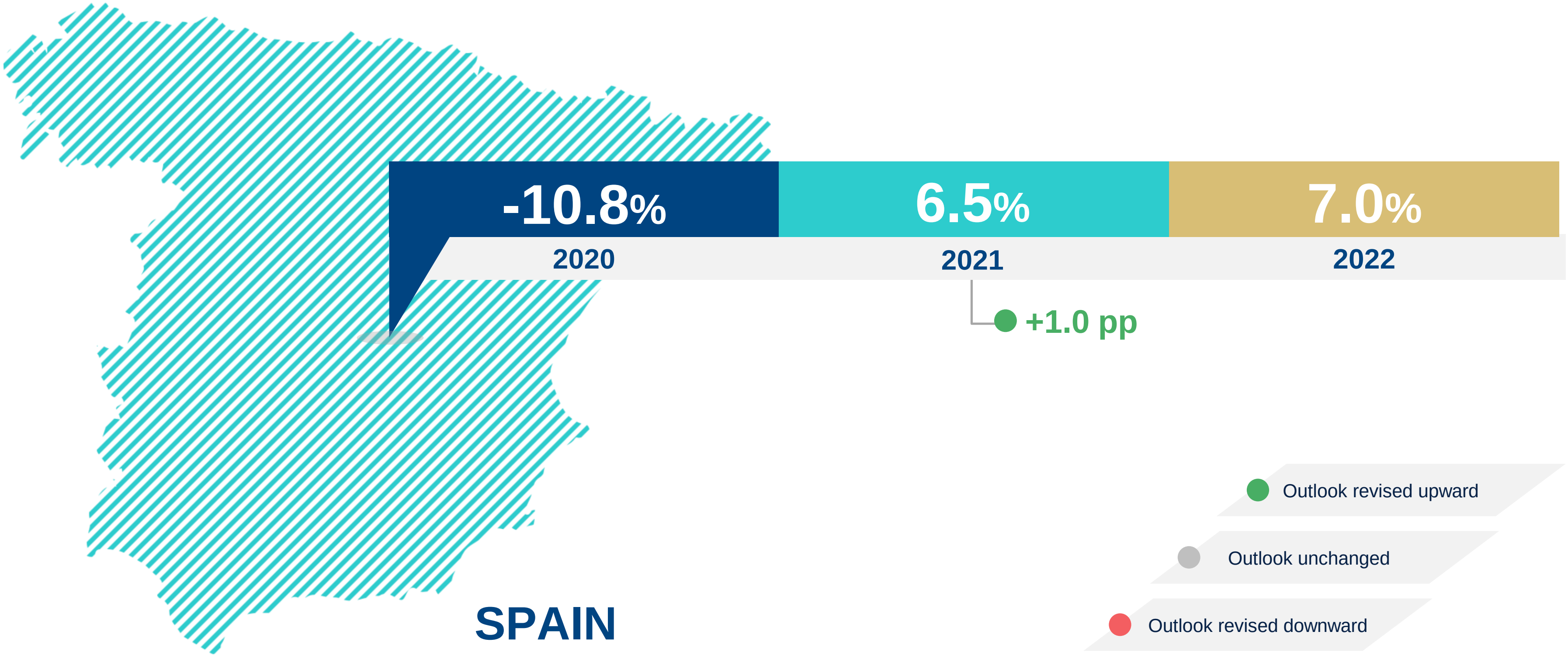
02

Spain Economic Outlook 3Q21

Creating Opportunities

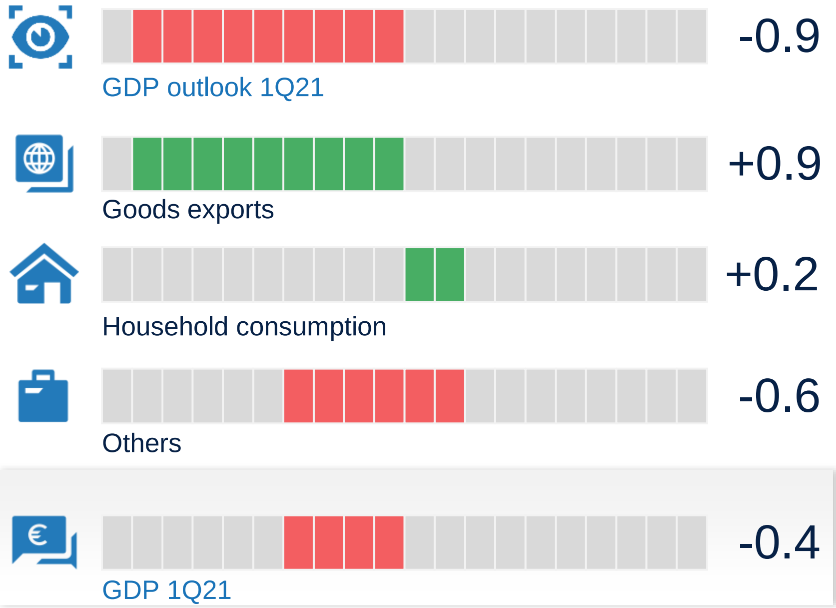
Growth in 2021 is revised upward and is maintained in 2022



GDP fell in 1Q21, but slightly less than expected

Goods exports and private consumption were better than anticipated

CONTRIBUTION TO OUTLOOK ERROR FOR QUARTERLY GROWTH OF GDP IN 1Q21
(PERCENTAGE POINTS)



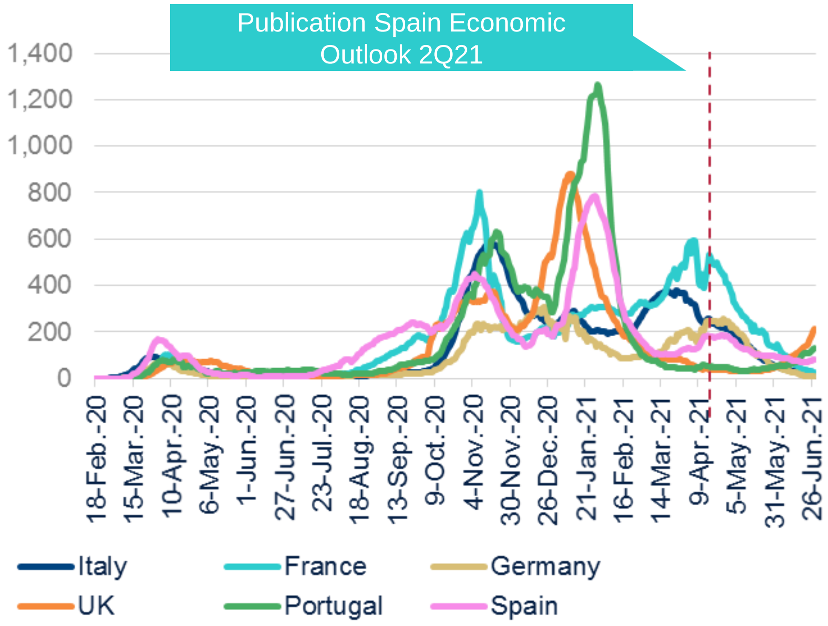
Source: BBVA Research based on INE data.

- As expected, GDP fell in 1Q21.
- Part of the outlook error is explained by the information bias at the time of estimation.
- The components that evolved better than expected were those related to goods exports, household consumption and investment in machinery and equipment.
- On the contrary, investment fell due to the unfavorable trends in construction. Public consumption stagnated, and foreign tourism fell more than expected.

GDP fell in 1Q21, but slightly less than expected

At the time of forecasting, uncertainty was high due to the 4th wave

EUROPE: NEW COVID-19 INFECTIONS
(CASES PER MILLION INHABITANTS, AVERAGE OF LAST 7 DAYS)



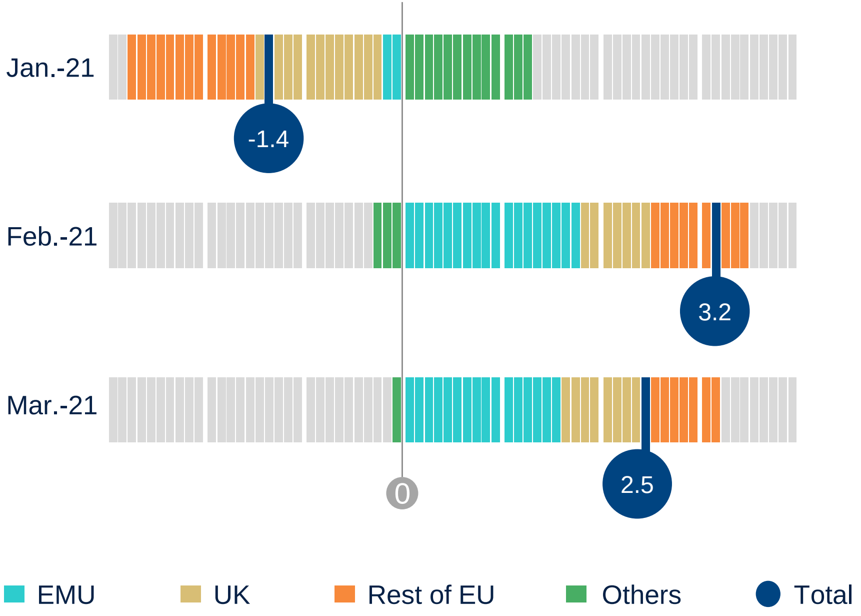
Source: BBVA Research based on data from Johns Hopkins University.

- When the previous forecasts were made, COVID-19 infections were on the rise.
- However, these were close to the ceiling, both in Spain and in other neighboring countries, although cases such as France could not be ruled out.
- Data available at the time pointed to a contraction in both external demand and household consumption, which was not as intense as expected.

GDP fell in 1Q21, but slightly less than expected

Export data for February and March surprised by trending upward

CONTRIBUTION TO THE GROWTH OF GOODS EXPORTS BY DESTINATION
(PERCENTAGE POINTS AND MoM%, SWDA, CURRENT)



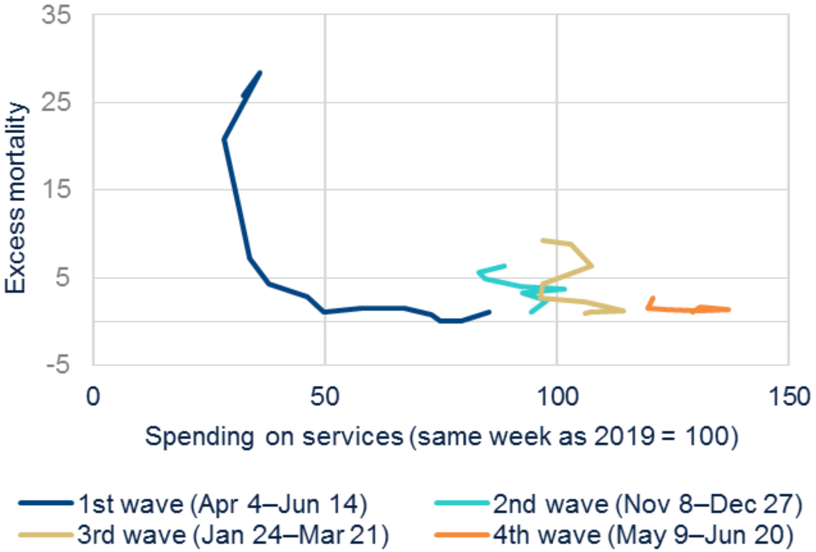
Source: BBVA Research based on Foreign trade (Datacomex).

- The magnitude of the deviation in goods exports alone explains much of the outlook error.
- The outlook used data up to January, which showed the negative impact of infections on domestic demand in the EMU and the effect of *Brexit*. This reversed over the following two months.
- Recovery has been widespread by type of good, but was especially strong in intermediate goods.

GDP fell in 1Q21, but slightly less than expected

The impact that waves of infection had on the services sector has declined

CARD SPENDING ON SERVICES AND EXCESS MORTALITY*
(SAME WEEK IN 2019 = 100 AND # OF DEATHS/100,000 INHABITANTS)



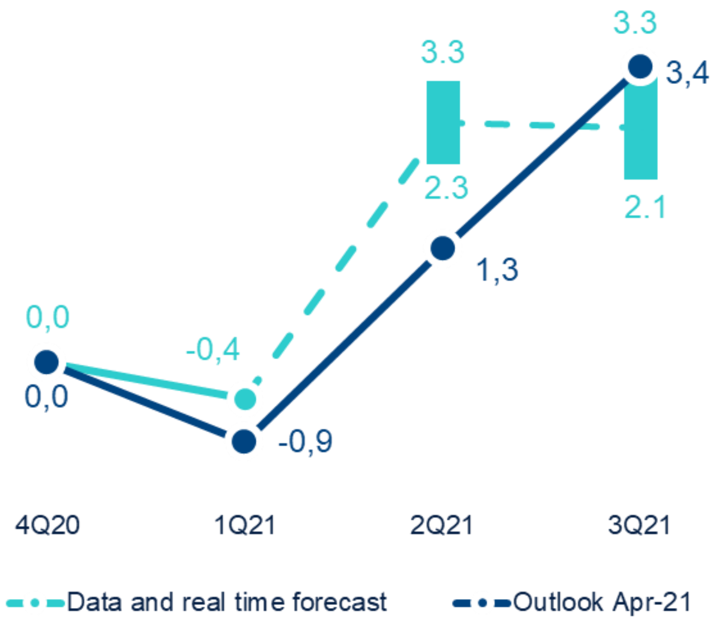
*Spending with BBVA-issued cards plus spending by non-customers at BBVA POS.
Excess mortality is the difference between deaths in the reference week (published by INE) and median deaths in the same week over the previous 18 years.
Source: BBVA Research based on INE and BBVA data.

- In terms of fundamentals, disposable household income and real estate wealth performed better than expected.
- In any case, during the quarter, declines were observed in most indicators, particularly in card spending and durable goods (vehicles).
- The only component that showed significant growth was services, which would explain part of the outlook error and shows that both the third and fourth waves of COVID-19 in Spain would have had less impact than expected.

GDP growth in 2Q21 would be higher than expected three months ago

GDP growth could be between 2.3 and 3.3% quarterly

GDP VARIATION
(% Q/Q)



Source: BBVA Research, based on INE and BoS data.

- The fourth wave of COVID-19 had a lower peak and a shorter duration than previous waves. In addition, the household savings rate did not fall as expected and the forced accumulated savings increased.
- The end of restrictions (primarily the state of alarm) and reduced uncertainty about infections led to growth in consumption, particularly in services.
- An intense recovery was observed in the restaurant and tourism sectors, especially on a national level.

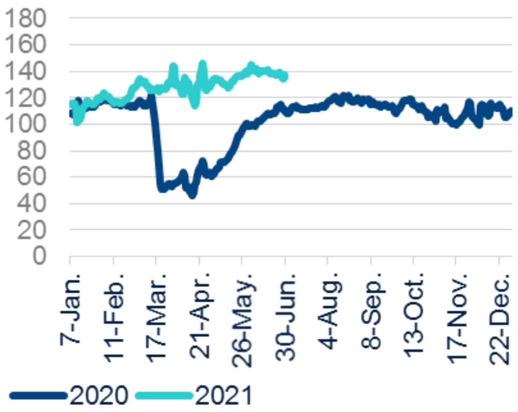
GDP growth in 2Q21 would be higher than expected three months ago

Easing restrictions and improving fundamentals drive spending on services

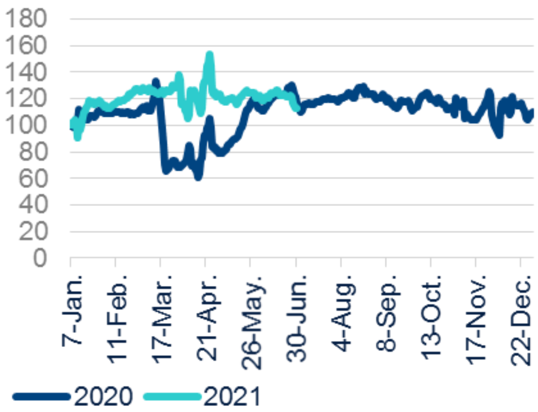
COMPOSITION OF SPENDING WITH SPANISH CARDS*

(SAME WEEK IN 2019 = 100)

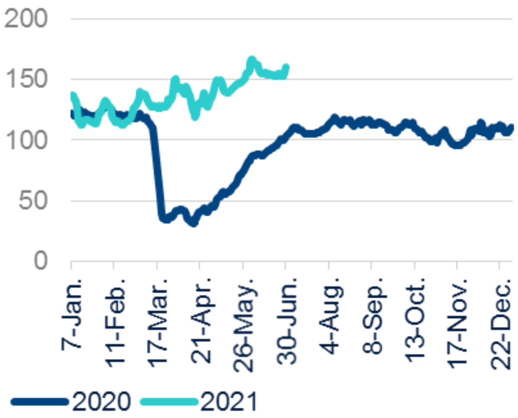
TOTAL



GOODS



SERVICES



*Spending with BBVA-issued cards plus spending by non-customers at BBVA POS.
A purchase is classified as goods or services based on the business activity, not the product purchased. It is therefore only an approximation of the spending structure.
For more information, see The COVID-19 impact on consumption in Spain in real time and high definition
Source: BBVA Research based on BBVA data.

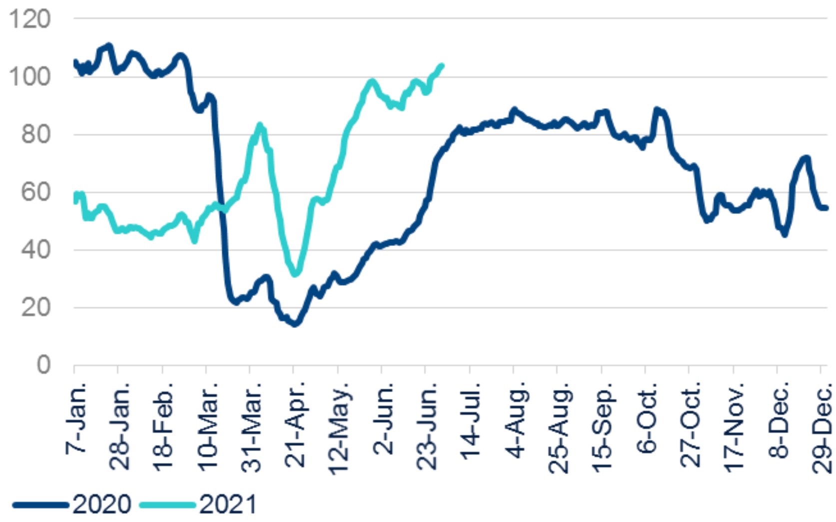
In addition to the end of the state of emergency, the increase in consumption is explained by a reduction in savings and improvement in employment, which has particularly benefited bars and restaurants, accommodation, transport and leisure.

GDP growth in 2Q21 would be higher than expected three months ago

Easing restrictions and improving fundamentals drive spending on services

IN-PERSON SPENDING WITH CARD OCURRING OUTSIDE THE USUAL PROVINCE OF RESIDENCE*

(COMPARED TO SAME WEEK IN 2019 = 100)



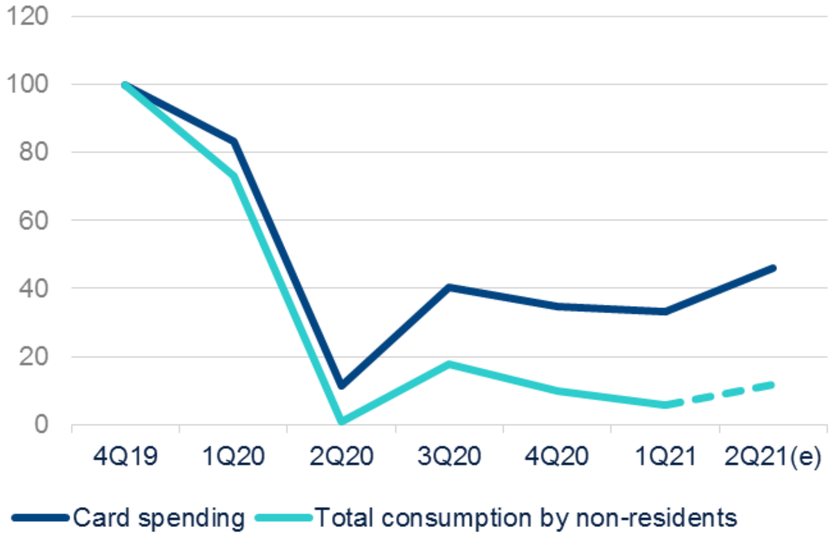
*Spending with BBVA-issued cards. Includes spending abroad by Spanish residents.
Easter Holy Week Dates: 2019: Apr 13–Apr 21; 2020: Apr 4–Apr 12; 2021: Mar 27–Apr 4.
For more information, see Analysis of national tourist flows in real time
Source: BBVA Research based on BBVA data.

- The removal of restrictions and the end of the state of alarm have increased people's spending outside their usual province of residence.
- Reduced uncertainty regarding health indicators could allow spending by domestic tourists to exceed levels observed the previous year.
- In addition, restrictions on travel to other destinations, particularly in the Eurozone, will redirect resources toward domestic tourism.

GDP growth in 2Q21 would be higher than expected three months ago

Easing restrictions and improving fundamentals drive spending on services

IN-PERSON SPENDING WITH FOREIGN CARDS AND NON-RESIDENT CONSUMPTION
((SAME QUARTER IN 2019 = 100)



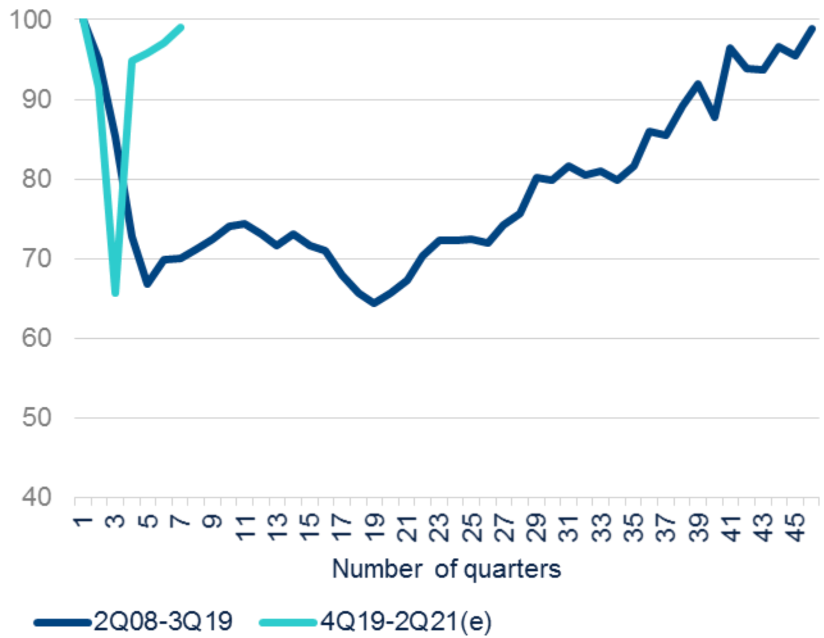
(e): Estimate for final consumption of non-residents.
Note: purchases with foreign-issued cards at BBVA POS.
Source: BBVA Research, based on BBVA and INE figures.

- Progress in controlling the pandemic in Spain and in tourists' countries of origin, the increase in international travel and improvement of the European economy are driving the recovery of foreign-tourist spending, especially in the regions that depend most on it.
- In any case, this recovery still remains at very low levels: foreign-tourist credit card spending in Spain would have increased during 2Q21, representing approximately 50% of the total observed during that quarter in 2019.

GDP growth in 2Q21 would be higher than expected three months ago

Investment in machinery and equipment would have almost recovered to precrisis levels

INVESTMENT IN MACHINERY AND EQUIPMENT
(INDEX: 2Q08=100 and 4Q19=100)



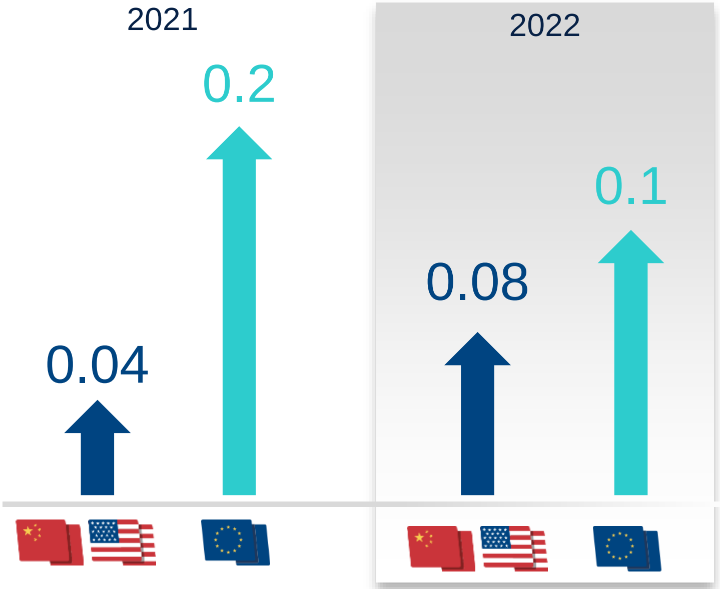
(e): Estimate
Source: BBVA Research based on INE data.

- An improved international context and expansion expectations are behind growth in gross capital formation in machinery and equipment.
- Improved confidence, capital goods imports and the registration of vehicles suggest that investment in machinery and equipment could have increased again during the second quarter of the year (2.5% Q/Q).
- As a result, this component would be the first to recover to precrisis levels and would bring forward future increases in productivity.

In 2022, GDP could recover to precrisis levels

Increased progress in global activity will boost exports of goods and services

SPAIN: DIRECT IMPACT OF THE GROWTH REVISION IN THE EMU, USA AND CHINA ON GDP
(PERCENTAGE POINTS OF ANNUAL GROWTH RATE)



Source: BBVA Research.

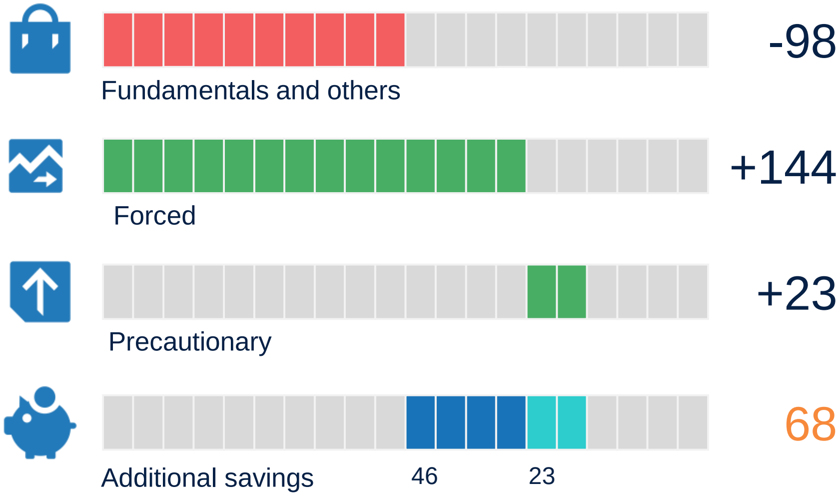
- The international environment will remain favorable thanks to vaccination progress and the implementation of demand policies.
- Current data points to higher GDP growth than was expected three months ago for the primary economic areas (US, China and EMU).
- This positive momentum and these fiscal expansion measures, primarily in the US economy, but also in the Eurozone, should support the growth in sales of goods and services on a global level.

In 2022, GDP could recover to precrisis levels

Significant accumulated savings could boost consumption

ADDITIONAL SAVINGS IN 1Q21 WITH RESPECT TO PRECRISIS LEVELS (4Q19)

(BILLIONS OF EUROS)



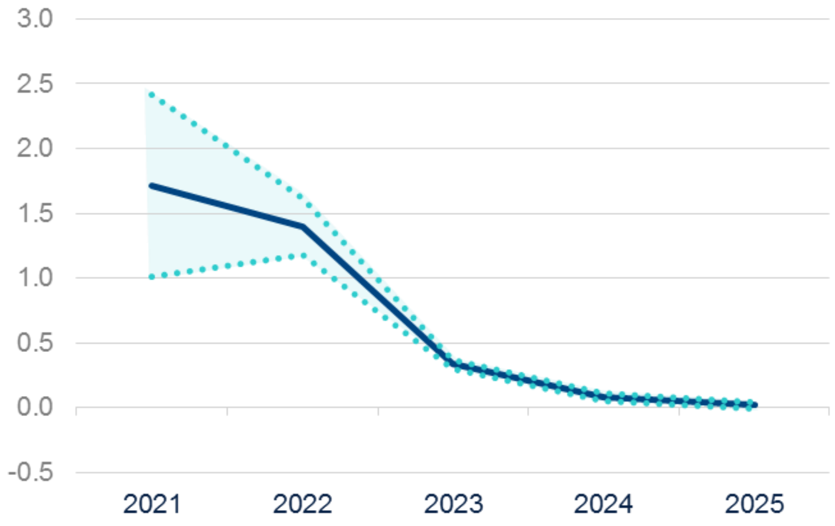
Source: BBVA Research based on INE data.
For more details on savings components estimation, see: Spanish household savings in times of the pandemic, BBVA Research Observatory, May (2021).

- It is estimated that the reduction in income and wealth during the crisis should have reduced household savings by approximately EUR 98 billion between 4Q 2019 and 1Q 2021.
- However, "forced savings" (due to restrictions) would have increased by EUR 144 billion over the same period. Resources saved for precautionary reasons (EUR 23 billion) must also be added to this figure, which yields net accumulated savings of EUR 68 billion.
- This saving is higher than estimated up to 4Q20 (60 billion) and increases the likelihood of a strong recovery in consumption.

In 2022, GDP could recover to precrisis levels

Accumulated savings is expected to gradually become spending

ADDITIONAL HOUSEHOLD CONSUMPTION IN THE BASELINE SCENARIO IF ALL ADDITIONAL SAVINGS (EUR 68 BILLION) ARE PERCEIVED AS INCOME*
(PERCENTAGE POINTS)



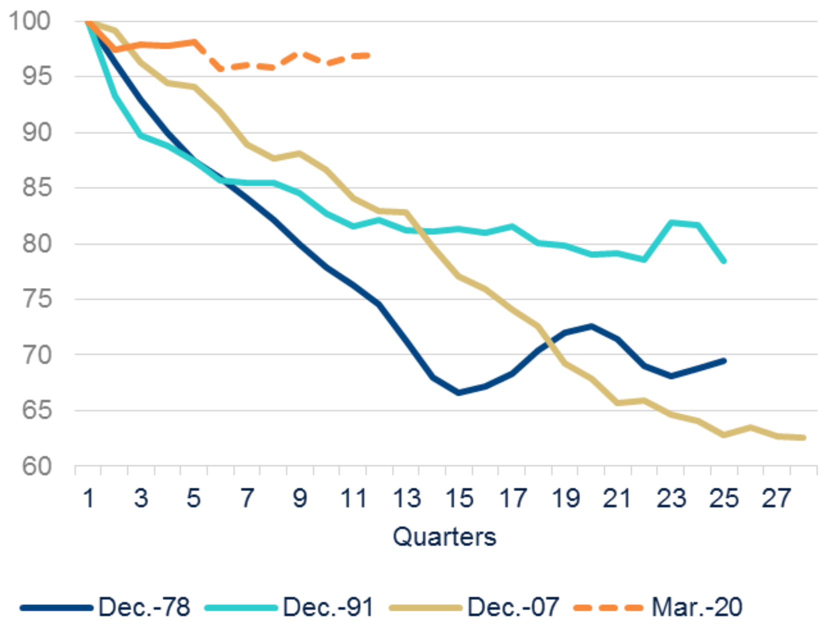
*Using an error correction model for consumption and assuming that this extra income would be distributed proportionally throughout 2Q21–1Q22. The dashed lines represent the confidence interval at 95% of the estimation of the error correction parameter.
Source: BBVA Research.

- A portion of accumulated savings has already begun being used.
- If accumulated savings is perceived as increased household income, consumption could grow between 1.1% and 2.0% on average in 2021 and 2022.
- Although the services most affected by restrictions are those that show the effects of the use of these savings, the consequences are also evident in the purchase of homes.

In 2022, GDP could recover to precrisis levels

A portion of savings drives spending on housing

HOUSING PRICES IN REAL TERMS
(MAXIMUM FOR EACH CYCLE = 100)



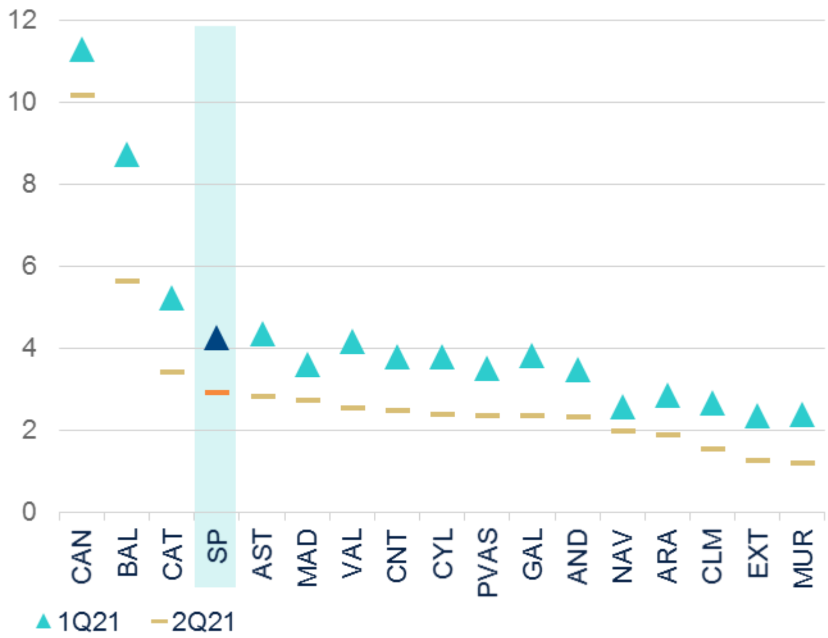
Source: BBVA Research, based on MITMA and INE figures.

- The low return on risk-free assets and changes in household preferences would redirect part of these funds toward residential investment.
- Between January and April 2021, the new home purchase credit showed the best annual start since 2010. For its part, the sale of single-family homes increased by 62% Y/Y in the first five months of 2021.
- The fundamentals of the sector are better than in the past: the price is approximately 20% below historical highs, its adjustment has been lower than that of other recessions, there are no imbalances and businesses and households show a better financial situation.

In 2022, GDP could recover to precrisis levels

Extension of the ERTE plan is welcome, though a transformation is needed

SOCIAL SECURITY ENROLLEES COVERED UNDER THE ERTE PLAN (% OF TOTAL ENROLLMENT)



Source: BBVA Research based on data from the Ministry of Inclusion, Social Security and Migration.

- There was a reduction in furloughed workers in 2Q21. But by the end of June, 450,000 workers enrolled in social security were still receiving assistance from Spain's Temporary Redundancy Plan (ERTE).
- The extension of the measure until September will help overcome an atypical tourist season, especially in the island autonomous communities.
- Some cases may be helping to sustain unviable businesses and jobs.
- It would be necessary to develop tools to reorient the careers of furloughed workers who are unlikely to return to their job.

In 2022, GDP could recover to precrisis levels

NGEU: certainty is needed on the progress of reforms and implementation of funds

The Recovery, Transformation and Resilience Plan is sufficient: the nearly 70 billion is equivalent to approximately 60% of nominal GDP decline between 2019 and 2020 (80% if we consider recovery since 3Q20).

It is ambitious in terms of its implementation period: it plans to distribute approximately 70% toward the end of 2022 and 30% in 2023.

The Plan contains an adequate diagnosis of the main problems within the Spanish economy and a distribution of resources in line with the digitization and environmental sustainability goals of *NextGenerationEU* (NGEU).

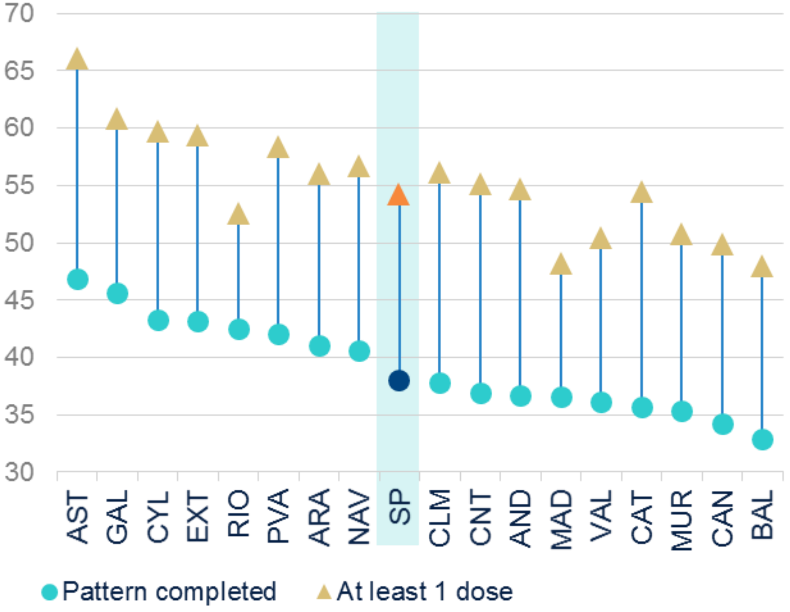
There are some weaknesses and omissions: there is no ex ante assessment of what is desired to be done, the implementation goals seem unrealistic and there is no clear, detailed, accessible timetable providing certainty regarding how to take advantage of the Plan.

What is perhaps most worrying is the vagueness and uncertainty surrounding the reforms to be undertaken in the coming years.

Risks

Disease control may accelerate growth, although uncertainty persists

SPAIN AND ITS AUTONOMOUS COMMUNITIES: FULLY IMMUNIZED POPULATION AND THOSE WITH AT LEAST ONE DOSE (%)



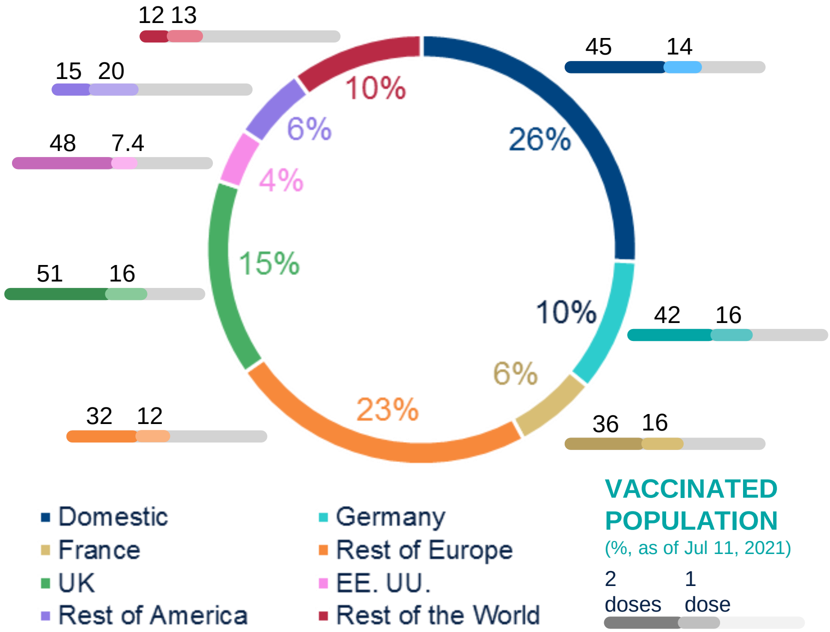
Source: BBVA Research based on Spanish Ministry of Health data. Data as of June 30.

- If the disease can be controlled, the forecasts will show upward biases. The strong growth seen in private spending could be higher than originally thought.
- The recovery of foreign tourism will be key in some regions that depend on it most.
- We must not lose sight of restrictions that may be implemented due to the increase in infections associated with new variants of COVID-19.

Risks

Vaccination rates in the main countries where tourists come from are progressing rapidly

DOMESTIC AND FOREIGN TOURIST SPENDING
(% TOTAL, AVERAGE 2016–2019)



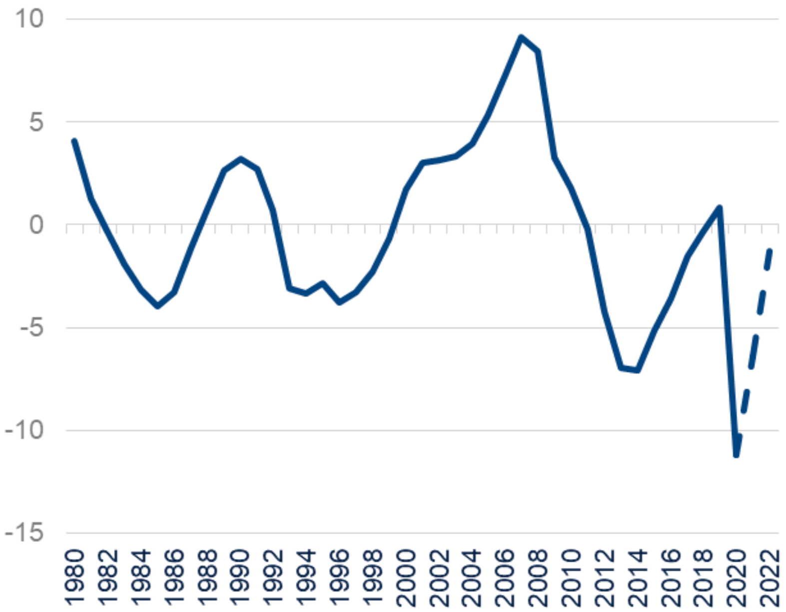
Source: BBVA Research based on INE data.

- Recovery of foreign tourism is slower than domestic tourism recovery.
- The speed of recovery will depend on the evolution of the pandemic and the vaccination process in each country, as well as the sector's ability to adapt and meet current requirements and preferences.
- Fortunately, the vaccination process is moving faster in countries with the highest tourist spending in Spain, such as the United Kingdom and Germany.

Risks

Price pressures will continue, although they are not expected to persist

SPAIN: PRODUCT GAP
(% POTENTIAL GDP)



Source: BBVA Research based on INE data.

- Inflation is rising, primarily because of the energy component.
- Companies are absorbing increased inflation via margins, thus making any price pressure temporary.
- There are short-term upward biases due to shortages in some intermediate components and the recovery of services, particularly accommodation and travel.
- But the economy remains far from its potential, and for the moment, an uncontrolled price spiral is not expected.

Risks

Pension reform improves adequacy, but still does not address sustainability

The discouragement of early retirement and promotion of late retirement are welcome. However, these appear to be insufficient to offset the expected increase in life expectancy over the next three decades. It would have been preferable for these incentives to form part of a comprehensive system that ensured actuarial balance and allowed for flexible retirement.

Pensions will be revalued with inflation, but no compensatory measures have been taken to ensure that the system is financially balanced, as required by the Pension Revaluation Index.

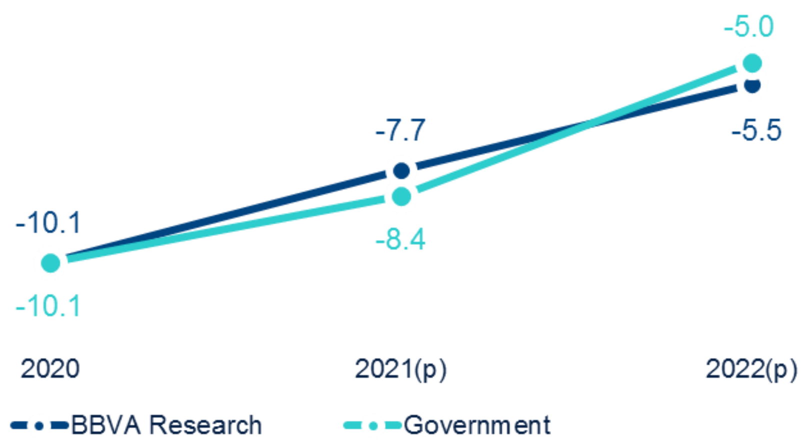
The sustainability factor is also replaced by a future intergenerational equity factor, the details of which are not yet known and which will take effect beginning in 2027. In some ways, this will mean less generosity if it is to meet its objective.

Contrary to the principle of separation of sources, certain contributory benefits are transferred to the State, while part of the unemployment contributions are allocated to the payment of pensions.

Risks

With the suspension of tax rules, public deficit will remain high

SPAIN: PUBLIC ADMINISTRATION DEFICIT
(% GDP)



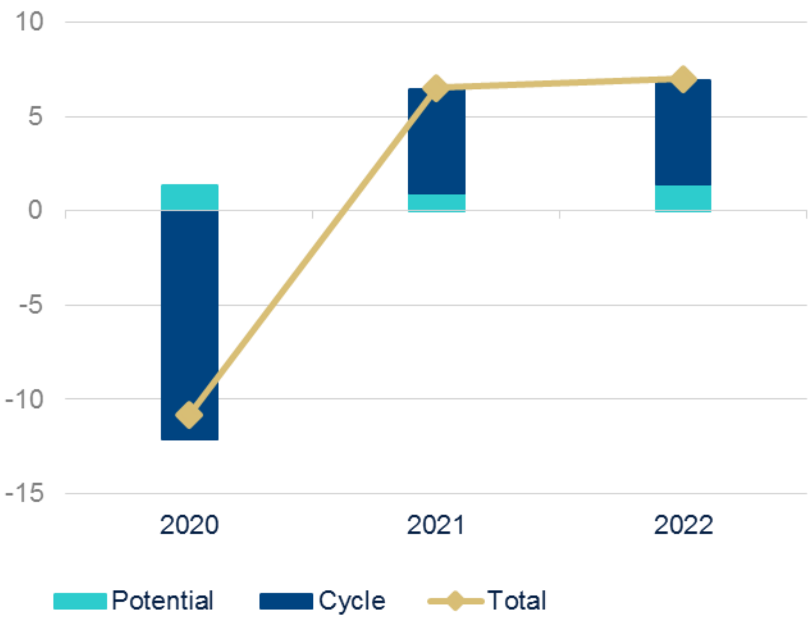
Source: BBVA Research based on Bank of Spain, Ministry of the Treasury and INE data.

- The government's deficit and public debt forecasts for 2021 are somewhat more pessimistic than those of BBVA Research. Unlike the economic scenario, the public accounts scenario has comprised "consistent policies" since 2022, and only resources and expenditures committed in the 2021 PGE have been included.
- It does not include the effect of reforms being examined, such as those related to pensions or taxes.
- The "structural" (interest-free) primary deficit, which remains high at approximately 3% of GDP, and the significant level of indebtedness contribute to the fragility of the situation.

Risks

Most of the recovery is cyclical

BREAKDOWN OF GDP GROWTH
(PP)



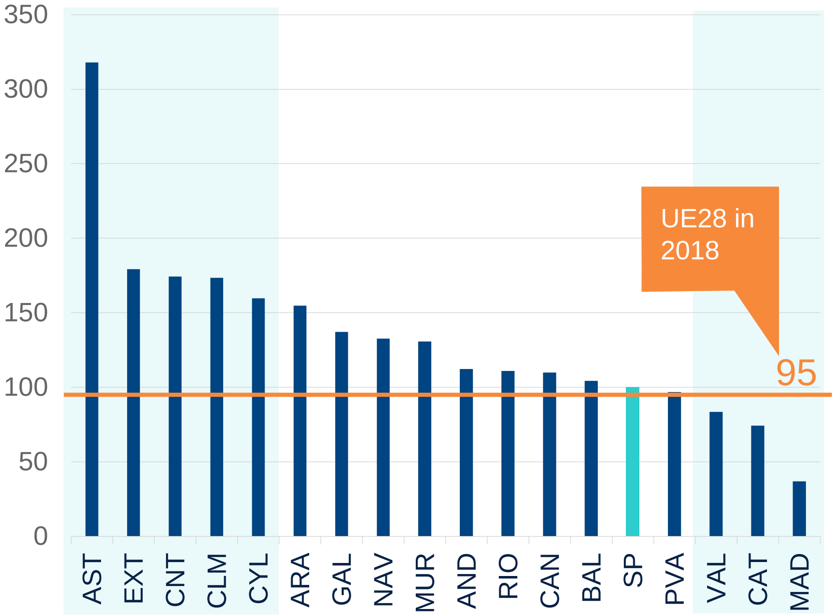
Source: BBVA Research.

- The potential growth of the Spanish economy is reduced, standing slightly above 1%. Without ambitious reforms that remain over time, most growth will be temporary.
- There is a period of favorable conditions that should be used to implement reforms that should be used to implement reforms that reduce unemployment, increase productivity and ensure the sustainability of public accounts.
- Opens the way to transform the economy by making it more digitized and sustainable.

Risks

Increased growth must be consistent with environmental goals

SPAIN: GHG EMISSIONS INTENSITY BY AUTONOMOUS COMMUNITY* (SPAIN, 2019 = 100)



The most relevant emitters are geolocated. For other emissions, the Ministry of Environment (MITECO) chooses an up/down distribution based on the best available information. See here.
Source: BBVA Research, based on MITECO and INE figures.

- The intensity of greenhouse gas emissions in Spain varies greatly by region.
- Only three Autonomous Communities have an emissions intensity of greater than 10 pp below Spain as a whole: the Valencian Community, Catalonia and Madrid. Sector specialization matters.
- However, to assess the relative vulnerability of the transition, we must consider that less intensive Communities "import" emissions from the rest of the country from the purchase of both energy as well as goods and services.

Risks

Not addressing the necessary measures

REFORM AGENDA

The Spanish Government must present a reform agenda in the coming months, which will have to be approved by the European Commission.

THERE IS A LOT AT STAKE IN SPAIN

On one hand, because it is in its own interest to seize this opportunity to create the conditions for a more vigorous and sustainable recovery.

CREDIBILITY AT STAKE

The ECB's intention to prevent the fragmentation of sovereign-debt markets may be disputed if any member of the monetary union fails to meet its commitments.

BBVA Research

03

Forecasts

Forecasts

% y/y	2019	2020	2021 (p)	2022 (p)
National final consumption expenditure	1.3	-8.2	6.1	5.6
Private consumption	0.9	-12.1	7.4	6.7
Public consumption	2.3	3.8	2.8	2.5
Gross fixed capital formation	2.7	-11.4	9.7	16.4
Equipment and machinery	4.4	-13.0	16.7	12.4
Construction	1.6	-14.0	5.0	18.8
Housing	4.1	-16.6	4.0	13.5
Domestic demand*	**1.4**	**-8.8**	**6.6**	**7.6**
Exports	2.3	-20.2	12.2	17.2
Exports of goods	0.8	-8.9	10.0	13.0
Exports of services	5.5	-43.7	19.6	30.4
Final consumption by non-residents in Spain	2.7	-75.9	54.7	99.1
Imports	0.7	-15.8	13.6	20.0
External demand*	**0.6**	**-2.0**	**-0.1**	**-0.5**
Real GDP at market prices (mp)	**2.0**	**-10.8**	**6.5**	**7.0**

* Contribution to GDP growth.
(f): Forecast.
Source: BBVA Research based on INE and BdE.

Forecasts

% y/y	2019	2020	2021 (p)	2022 (p)
Employment (full-time equivalent)	2.3	-7.5	5.6	3.3
Employment, based on Labor Force Survey	2.3	-2.9	1.9	3.6
Unemployment rate (% of labor force)	14.1	15.5	15.7	14.2
CPI (annual average)	0.7	-0.3	2.0	1.2
GDP deflator	1.4	1.0	1.3	1.5
Public deficit (% GDP)	-2.9	-10.1	-7.7	-5.5

(f): Forecast.
Source: BBVA Research based on INE and BdE.

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