BBVA Research

Europe

Economic Outlook

Second Quarter 2010

Economic Analysis

- World environment: challenges ahead for a sustained recovery.
- The sovereign bond crisis, the lack of restructuring in the financial sector and the end of temporary stimulus will put a break on the recovery of domestic demand, but world trade growth and euro depreciation will partly compensate for it.
- Monetary policy to remain adequately acomodative until at least the end of 2011.
- The fiscal consolidation challenge ahead is important, but the risk of a sizeable negative effect on growth is small.

Contents

Closing date: June 17, 2010

1. World Enviroment: Challenges ahead for a sustained recovery

The international environment outside the euro area is driven by the positive cyclical impulses from emerging countries and the US, although there are still some lingering doubts about the robustness of global growth

The cyclical situation has improved significantly over the last few quarters, driven by the recovery in emerging market economies and the US. Global trade is growing at 7% and we forecast a 4.2% global growth for 2010. Notwithstanding, a number of developments have put into question the robustness of global growth outside the eurozone. In advanced economies, doubts have focused on the risk that the withdrawal of policy support and financial regulatory reforms could hamper the recovery. In addition, increased market volatility stemming from Europe and a new bout of increased risk aversion could dent the recovery of the financial sector, with negative spillovers to economic activity. The risk of overheating in some key emerging countries (especially in Asia) could also translate into a disorderly turnaround of highly accommodative macroeconomic policies. Finally, rising geo-political risk on the Korean peninsula in late May also affected negatively market confidence.

Following the short-term impulse from unprecedented fiscal and monetary expansion worldwide, the sustainability of the recovery is not fully guaranteed beyond 2010, mainly in developed countries

While economic recovery at the beginning of 2010 is widespread, its intensity varies a great deal across countries. This is the result of the different degrees to which their fiscal and monetary policies have been eased. These policies have been particularly instrumental in providing impulses to the cyclical upturns in China and the US. At the same time, emerging economies are benefiting from the strength of their own domestic demand. As a result, in these economies the recovery looks more sustained. Conversely, in developed countries, as expansionary policies fade away, doubts about the sustainability of the recovery beyond 2010 are growing.

Growing divergence in monetary exit strategies ahead: A gradual approach in the US and a not one-size-fits-all strategy across emerging markets

A very gradual path of interest rates hikes by the Fed is envisaged. Early rate hikes by the Fed are expected by the beginning of 2011 with rates slightly above 1% at the end of 2011. Although economic growth may prove sluggish in 2010 and later, the risk of a major reversion of the current dynamics is rather limited in the US, with incipient inflationary pressures looming. In the case of emerging economies' monetary policies, there is no doubt about the need for a tightening stance given increasing risks of overheating in some countries. Given their cyclical divergences, exit strategies will vary across countries. In some countries, if the tightening of monetary policy and other measures are not fully implemented soon, macroeconomic imbalances will build up.

Markets have shown the limits of countercyclical fiscal policies. Economies with high public debt and limited private deleveraging are highly vulnerable to an upward movement in interest rates and higher risk premiums

Despite the huge rescue package in Europe, substantial risk premiums remain amid uncertainty about fiscal consolidation paths. Increasing contagion has been a clear result of the fragility of the current scenario. Economic history is fraught with examples of undue contagion from some countries spreading to others in the aftermath of a crisis. In these cases, geographical linkages or cyclical similarities matter more than the differences in fundamentals. In fact, the current episode of contagion is not fully justified either by the direct financial channel triggered by the Greek crisis or by any similarity in fundamentals. Though its justification may be open to discussion, to cope with pressures from international investors, there is a compelling need for some countries to enhance credibility.

Long-run fiscal consolidation is the major challenge for developed countries, especially at a time when an increase in perceived risk has exacerbated financial market nervousness

There are growing concerns about the long-run consequences of rising public debt levels. This will inevitably give rise to upward pressures on real interest rates and increase risk premiums for a protracted period. Even if recent contagion gradually fades away, increasing discrimination across countries depending on the credibility of their fiscal stance will prevail. In regimes averse to heightened risk, financial markets exacerbate its forward-looking behaviour.

The lack of a decisive restructuring in the banking sector and the coming regulatory process might jeopardise the recovery

Uncertainty stemming from the financial sector is mainly twofold. The sluggish restructuring of the financial industry, particularly in Europe, will lead to a creditless recovery. This is a growing concern since both historical episodes and empirical evidence show the importance of credit channels in the early stages of economic upswings. There is also much uncertainty regarding the ongoing regulatory reform. The most likely outcome is one requiring significant increases in capital and liquidity requirements. This could hinder the ability of the banking sector to provide credit in coming years.

2. Forces shaping the recovery

The end of the fiscal stimulus in Europe was expected to lower growth at the beginning of this year. Now the need of consolidation in public sector budgets, accelerated by markets' pressure in some countries, will put a break to growth, though not by much

The debate over fiscal policy has turned around rapidly, in moving from worries about a World deep depression that had to be partly fought with fiscal tools, to preoccupation about excessive public deficits and debts. At the end of 2008, with an ongoing deep recession in World trade and activity, there was a consensus built on the need of a strong fiscal stimulus at the global and European level –with some initial reticence in Germany, which ended up nonetheless approving the largest stimulus within the EU. The goal of the coordinated plan was to avoid depression and deflation. During the course of 2009 it was evident that some elements of that fiscal help were conducive to higher growth, in particular help in the automobile sector and, in Germany, subsidies to employment. Those were the most apparent elements of fiscal plans but, probably, many other measures had a (less visible) impact.

Once the effect of the stimulus helped to avoid the worst and lifted growth in Europe around the third quarter of the year (somewhat before than we thought), we cannot expect much help from the fiscal side in 2010–although in Germany and France some of the measures approved are still in place- and the focus has moved to the exit strategy and its effects on activity. Most countries presented consolidation plans to Brussels at the end of 2009 with the aim of reaching a deficit below 3% of GDP around 2013, and more recent moves have been aimed at giving content to those plans, providing details for deficit reduction which, in general, will start in 2011, although for some South-European countries the adjustment will start already this year.

The effect of consolidation on GDP growth will likely not be large, as negative demand effects might be compensated by positive non-keynesian effects on confidence and activity through a reversed crowding out mechanism, especially on Southern countries were deficits stand much higher and the potential gains are also larger. In addition, much of this fiscal consolidation is not a surprise, since the deficit reduction once the recovery started was already incorporated in growth projections. Only in those cases where the cuts are faster than projected there is an impact –though for the Spanish economy our calculations are of a limited effect (4 decimal points between 2010 and 2011 due to newly approved cuts of 1.5 pp of GDP).

The lack of restructuring in the European financial sector, especially as compared to the U.S., has been one of the main factors we saw behind the slow recovery in Europe since the green shoots emerged a year ago. This view has not changed

The green shoots observed in the global economy one year ago Europa Watch coincided with the publication of stress tests for major US banks, suggesting that such an exercise of transparency and the subsequent acceleration of banking restructuring in the US *vis-à-vis* the EU has played a role in the differential pace of growth between the two economies over the past year. When our last publication on the eurozone was released (Europa Watch, November 2009) we considered than the lack of restructuring in the European banking system was behind the sluggishness in the recovery. This seems to have been the case, as credit in the eurozone –especially that to non-financial corporations- is very weak or in the negative territory, though it is not clear yet to what extent this responds to demand factors rather than restraints on credit. The lack of transparency of stress tests carried out in Europe has added to uncertainties in the recent sovereign crisis and will continue to be an important factor hindering growth in coming quarters.

The sovereign debt crisis over the last two months will have an effect on confidence and, in some countries, on financing costs. This will also affect the domestic demand component of the recovery

The sovereign crisis of the last two months has started to change the outlook of the eurozone economy for the near future, although it is still early to tell to what extent. The reduction in confidence indicators in May is a first sign, although it is true that sentiment indicators were already at high levels and were expected to moderate further or fall. More obvious will be the impact from falling stock prices on consumption through a wealth effect, although such an impact is expected to be relatively minor. Apart from the closeness of markets for some parts of the private sector in several European countries, the most important channel will operate through the financing costs, once the higher spreads experienced by some countries' public debt are translated into higher financing costs to other parts of the economy. Though official rates are low, higher spreads are hitting when the recovery has not arrived in some of these countries, and is exacerbated by the very low inflation levels, that make real interest rates even higher.

The scenario of an export-led recovery has been somewhat stronger than we projected. Now the euro depreciation, which has taken the euro-dollar rate close to its long-term equilibrium, will help further

Recent growth in the eurozone has been led by exports, with domestic demand flat or in negative territory in several eurozone countries. Healthy growth in emerging markets and higher than expected growth in the US have been behind this development. Now, a positive effect from the recent sovereign crisis on growth in the eurozone will come through a lower level of exchange rate. The recent euro depreciation is an accelerated move towards a level which is close to the long-term equilibrium level of the currency (between 1.10 and 1.25 $/€ on our calculations), and thus such a move is very likely to be permanent. An euro-dollar exchange rate 10% below our previous expectation could imply a real effective depreciation of around 6%, which would translate in higher exports and growth of several decimal points in the first two years after the shock, more than compensating the negative effect from the fiscal contraction.

Reform in Europe may also help on the positive side, although more on a longer term basis. As often in the history of European integration, crises are driving the EU to further cooperation –in this case on the fiscal front

One of the key elements in the EU agreement to approve the European Stabilization Fund is the setup of a working group that will proposed (preliminary in June with final conclusions in October) possible reforms of economic coordination in Europe, in the understanding that part of the problem associated to higher deficits in many EU countries is linked to the lack of fiscal discipline. Although such reform is not easy (there are issues related to sovereignity losses and procyclicality of sanctions), there is little doubt that the measures that will come up afterwards will imply higher and better fiscal coordination, probably complemented by some wider mechanism to control future imbalances, not only in the public but also in the private sector.

The effect of such reforms on growth are uncertain, but clearly if the outcome is of more integration in Europe it will have a positive impact on the economic growth in the medium and long term, and also in the short term through a confidence effect. Additional structural reforms linked to the consolidation process (currently being approved or under discussion on labour markets or pensions, for instance) are also a by-product of the sovereign crisis which will have positive effects on future growth.

Box 1. The Developments of the sovereign crisis in Europe

The 2008 global financial crisis imposed strains on the EMU, even if these were not apparent in the initial stages. Greece, probably the weakest link in the single currency area, ran for years large fiscal and current account deficits that even rose further with the onset of the financial crisis. The decision to conceal the rapid deterioration of the country's fiscal conditions until 2010 extended rapidly the sovereign debt crisis to other countries, affecting with particular virulence South European economies.

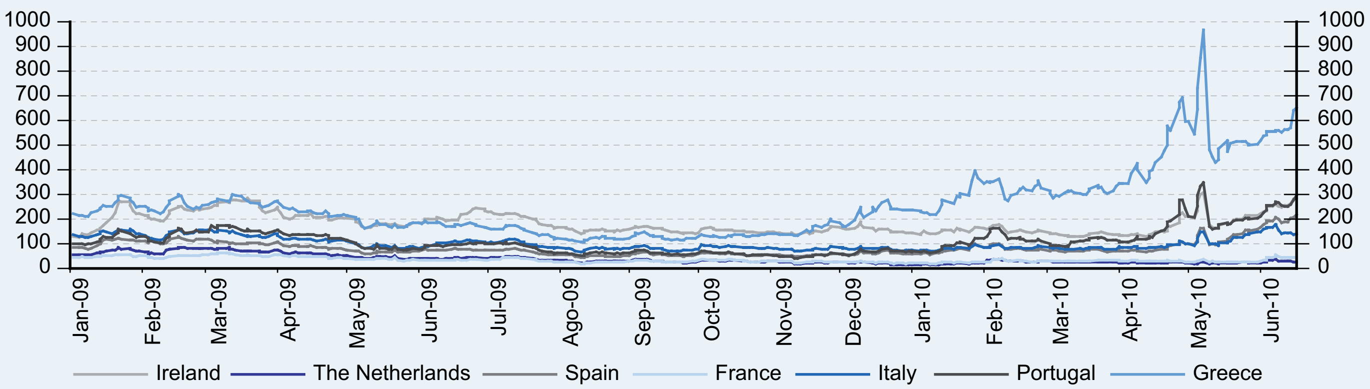
Fearing a new collapse in global financial markets, on April 11, the ECB and the International Monetary Fund (IMF) presented a €45 billion rescue plan for Greece to give time to the Greek government to develop a program of fiscal austerity. By late April, it was clear that the rescue package was insufficient as southern European debt dropped in value along with the euro. Signs of contagion emerged (inside and beyond the eurozone) as Standard & Poor's (S&P) downgraded Greek debt to junk status on April 27 and also downgraded Portuguese debt by two notches. On April 28, S&P downgraded Spanish debt from AAA to AA–. In this context, another ECB-IMF package for Greece was announced on May 2 (€110 billion) with the aim of stabilizing the situation that was rapidly getting out of control as spreads in peripheral countries rocketed. Nevertheless, at this stage, market participants had already developed concerns about other European countries who were felt to share some of Greece's problems: external deficits, high public debt and low growth prospects. Accordingly, despite the announcement of the Greek program, contagion to these countries and to the European financial system continued. The initial reaction of European authorities was mild. On May 6, after a regularly scheduled meeting of the ECB Governing Council, the ECB president Jean-Claude Trichet announced that ECB purchases of government bonds had not been discussed, prompting additional stress on sovereign debt markets. As it became evident that contagion was spiralling, the European Union, the ECB and IMF finally assembled an stabilization mechanism over the May 8–9 weekend. This stabilization mechanism provides for funds up to €750 billion, to be financed jointly by a SPV (whose debt will be guaranteed by member states) and the IMF. Also, the ECB announced the start of a program to purchase sovereign debt. Overall, this solution seems well designed and it had an initial positive impact. However, after many months of timid reactions and growing mistrust among investors, it failed to completely stabilize markets. Contradictory messages by European policymakers (such as the explicit opposition of ECB Board Members to extend bond purchases) resulted in a gradual increase of stress in sovereign markets.

The progression of facts, denials, rumours, comments and political inaction defines largely the European sovereign crisis. On this point, it is worth mentioning that the crisis was not inevitable. It sprang mainly from the failure to implement the fiscal discipline required within the eurozone; nonetheless, it was also exacerbated by the lack of coordination and political leadership among European countries when the first signs of stress on Greece appeared. The role of the ECB is rather controversial as some of its moves during the crisis –such as its initial refusal to purchase large amounts of southern European sovereign debt– paved the way for rising financial tensions. On this point, the ECB should reach the conclusion, as the Fed did in the past, that a substantial expansion of its balance sheet will be required to restore a normal functioning of capital and money markets.

The crisis also underlines another important lesson: the lack of fiscal discipline and policy coordination along with political inaction compromises the credibility of the euro as a European project.

Chart 1

Sovereign spreads: 10yr bond (bps)



Source: BBVA Research

3. A very slow recovery, while uncertainty increases

Although slowly, the eurozone economy has been recovering thanks to temporary factors

The eurozone economy ended its deep downturn in the third quarter of last year, with GDP growing at 0.4% q/q. However, GDP growth slowed in the following two quarters (0.1% in Q409 and 0.2% q/q in Q110) as the temporal fiscal stimulus, most visible in the car scrapping schemes, public investment plans or temporary tax reductions, started to fade and rigorous weather conditions in Northern European countries also affected negatively economic activity.

The detailed GDP breakdown shows that the ongoing eurozone recovery has been supported by several temporary factors. First, inventories contributed significantly to GDP growth, especially in the third quarter of 2009 and the first one of 2010, after the strong destockage recorded in previous quarters. Firms started a process of rebuilding inventories as industrial new orders, especially those from abroad, rose strongly. Second, the fiscal stimulus applied by national governments supported the recovery, although public consumption has also slowed in recent quarters as expansionary measures were withdrawn.

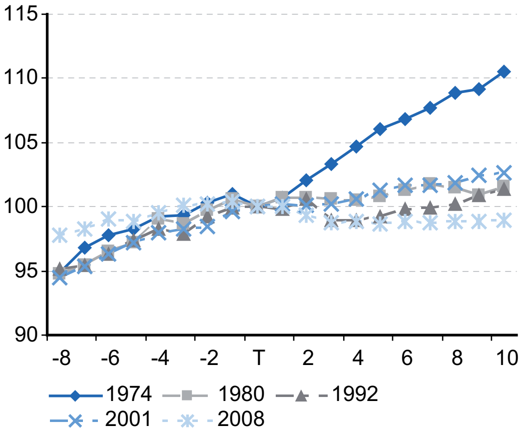
Domestic demand was subdued, due to the sharp contraction in investment and flat private consumption

Investment continued to fall, although the sharp decline observed in late 2008 has been muted in recent quarters. The low capacity utilization is behind this weakness, together with the high uncertainty surrounding the recovery, and has been reflected in lower demand for credit, with loans to non-financial corporations declining since the beginning of 2009, although at a slower rate in recent quarters. Overall, the business investment rate declined around 3pp since mid-2008, but remaining at high levels (20.4% of GDP in Q4 2009).

Against this background, the unemployment rate in the eurozone increased around 2.5pp since mid-2008 to hit 10% in February and remain virtually stable in March and April, with a slower deterioration pace since end-2009. In general, the labour market has behaved better than expected (we projected unemployment rate to reach 10.5 % in Q1 by end-2009), mainly due to measures taken by government to support employment, especially in Germany (subsidies to part-time employment in order to avoid layoffs). But behind this good behaviour, the worsening of different national labour markets has been very uneven, reflecting different labour market structures and sectoral composition (Chart 3).

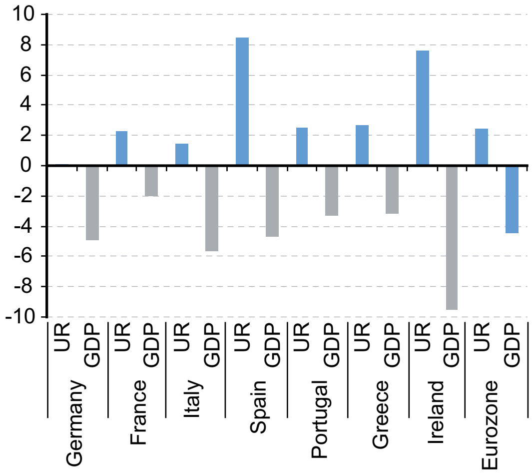
Job losses, coupled with lower growth in wages, resulted in lower households' disposable income which hit consumption despite the moderation of consumer prices. As a result, households' consumption has remained virtually flat since the second quarter of 2009 after a sharp fall recorded in the previous quarters. Particularly, private consumption contributed negatively to GDP growth in 2010 (-0.7pp) and it continued to hamper the upturn over the first quarter of current year (-0.1pp). In contrast with other economic downturns in the eurozone (Chart 2) the weakness of households' consumption is being much more protracted. The households' deleverage problem in the eurozone as a whole is not as important as in other economies, with a relative high saving ratio which increased by around 2pp to 15.7% until the second quarter of 2009 and declined only slightly in the second half of this year to 15.1%.

Chart 2
Eurozone: Private consumption in recent and previous upturn



(Index; T=100; T=start of recession)
Source: AWM, Eurostat and BBVA Research

Chart 3
Unemployment rate increase and GDP fall (since Q2 2008)



Source: Eurostat and BBVA Research

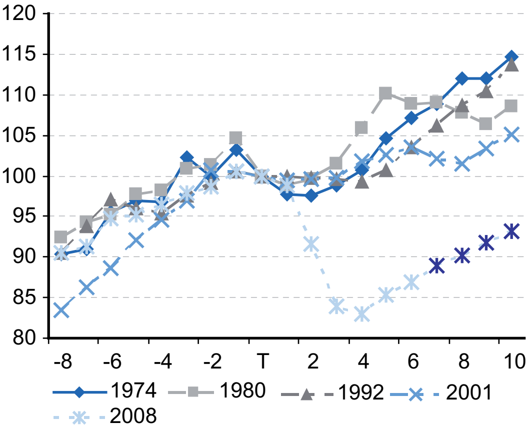
Strong exports supported for the strength of the industrial sector

Positive news came from stronger external demand, particularly from emerging economies. As a consequence, exports have become the main driver of the eurozone upturn (Chart 4). Particularly, net exports contributed positively to GDP growth since the second quarter of 2009 and thus cushioned the sharp decline of economic activity, after contributing negatively in previous quarters. However, net exports again contributed negatively to economic growth in the first quarter of 2010, despite the robust growth of exports, as imports also grew strongly. Given the weakness of investment and consumption, we attribute the surge in imports to the process of rebuilding inventories. In any case, the growth in external demand has supported the recovery of industrial sector, which continued to gain momentum as industrial output grew strongly in the first quarter of 2010 (3.8% over the last quarter of 2009 and around 7% since mid-2009).

The first steps of recovery are still modest and slower than in previous episodes

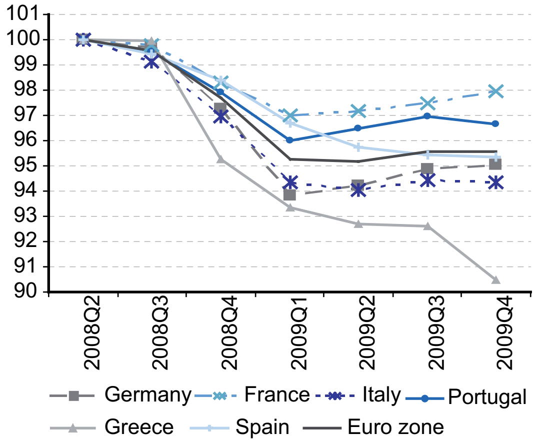
In sum, the first steps of the upturn, led by exports, have followed so far the pattern of previous recoveries, which should drive investment and finally result in employment increases. While the first part of this classical cycle has started to take place, there is more concern about the impact on investment, given credit restrictions, very large capacity underutilisation and increased risk aversion by firms. In addition, the smallest jobs loss in this downturn is mostly a result of government actions and also raises doubts on the effect on employment recovery. Overall, the eurozone recovery is being slower than in other regions, with member states bouncing back at different speeds (Chart 5).

Chart 4
Eurozone: Exports in recent and previous upturns



(Index; T=100; T=start of recession)
Source: AWM, Eurostat and BBVA Research

Chart 5
Member states economic growth



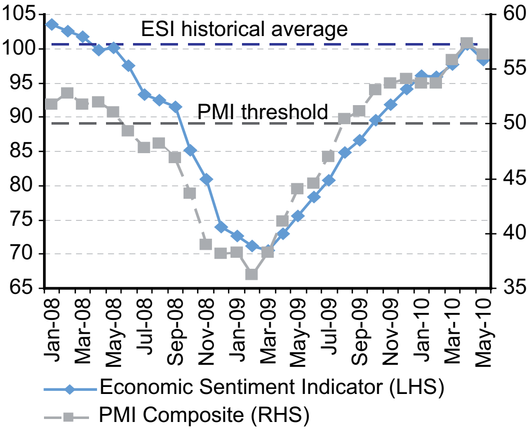
(Index,T=100,T=2008Q2)
Source: Eurostat and BBVA Research

Data available for the current quarter suggest that eurozone recovery is gaining momentum, but the sovereign debt crisis and the announcement of a fiscal retrenchment are beginning to weigh on economic agents' confidence, highlighting the fragility of the recovery

Both the economic sentiment indicator (ESI) and PMI composite in the eurozone fell in May, interrupting the upward trend observed since the second quarter of 2009 (Chart 6), but both remain for the first two months of Q2 well above levels printed in Q1, suggesting that the eurozone economy upturn continues to gain momentum in the current quarter. The less positive sentiment in the eurozone was somewhat expected, given the financial turmoil throughout the area, but these indicators highlight the fragility of economic upturn, pointing to a possible backslash in the second half of the year.

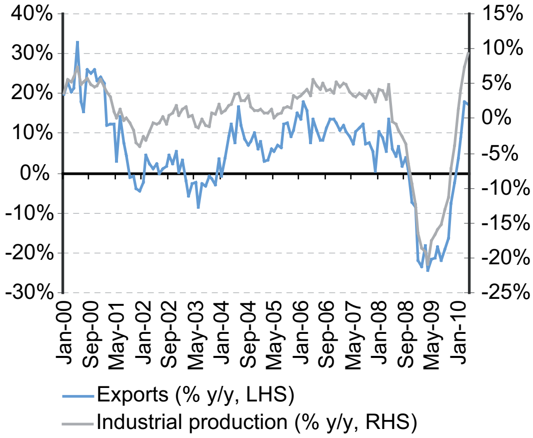
The upturn of the industrial sector is gaining momentum. The industrial PMI and the European Commission Survey showed mixed signs in May. The former declined, although is still clearly in expansionary levels, and the latter increased slightly. Both continued to show that exports new orders rose further and hiring intentions continued to increase. Overall, these figures do not change the view that the industrial recovery continues on track, although it is slowing its upward trend. The PMI figures also showed that the recovery in the service sector gathered further momentum in May, suggesting that the manufacturing-led recovery has continued to broaden out to the wider economy.

Chart 6
Eurozone: Economic confidence



Source: Eurostat, Markit Economies and BBVA Research

Chart 7
Eurozone: industrial sector and exports



Source: Eurostat and BBVA Research

The deterioration of the labour market has slowed, but is still not over, putting a brake on households' consumption spending. Eurozone unemployment rate increased slightly to 10.1% in April, after remaining stable at 10% in February and March. In Germany unemployment declined by 0.2pp to 7.1% in April, and national sources showed that German unemployment rate declined further in May.

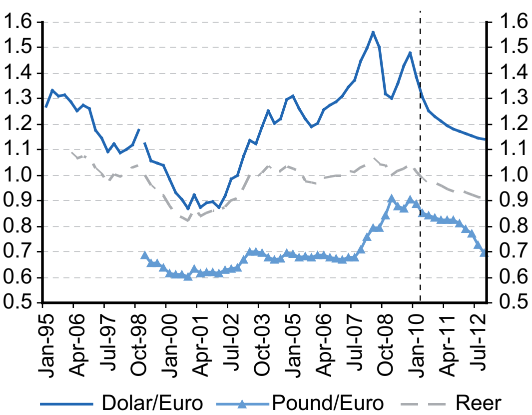
Consumer confidence in the eurozone fell again in May, as they expected both financial and economic situation over the next 12 months to worsen further. In addition, retail sales fell significantly in April, showing that private consumption will remain subdued or even decline somewhat in the current quarter. However mixed signs came from national data, with strong figures in Germany in April and softer ones in France. Overall, these figures suggest that private consumption will not contribute much to economic growth in the current quarter, although they should not be as negative as those recorded in previous quarters.

The global economy recovery and euro depreciation are supporting exports in Q2 (Chart 7 and 8). Confidence surveys are consistent with this view, showing a sustainable improvement of export order-book assessments. At national level, although German exports declined in April mainly due to a technical adjustment, the level of exports is still above the level observed in the first quarter on average. Looking forward, exports are expected to increase further in coming months, supported especially by the recent increase in export-books levels and by the euro depreciation, although the latter should have a full impact only in coming months.

Our synthetic activity indicator suggests GDP growth in Q2 should be stronger than that observed in Q1. Data available for the second quarter, although still limited and from confidence surveys, points to a rebound of 0.5% q/q (Chart 9), revealing some upside risks in the forecasts referred to in our baseline scenario (0.3% q/q). However, the high uncertainty arising from the sovereign debt market and strong fiscal retrenchment announced by member states should offset these upward bias, as they may materialize in a significant worsening of the economic agents' sentiment, offsetting partly the positive impulse of net exports.

Chart 8

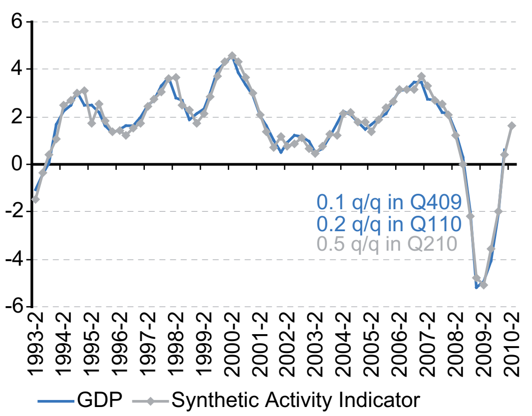
Eurozone: Exchange rate



Source: BBVA Research

Chart 9

Eurozone: Synthetic activity indicator (% y/y)



Source: Eurostat and BBVA Research

The outlook for 2010 and 2011 presents a very slow recovery, while uncertainty increases

The robustness of the recovery in the eurozone is yet to be tested, as some factors behind it were temporary and the support of exports will depend on the strength of the global recovery -we forecast a 4.2% global growth in 2010. Additionally, the fiscal tightening for the eurozone as a whole is likely to be very timid in 2010 (0.1% of GDP), because although some member states (Greece, Spain and Portugal) frontloaded fiscal adjustment measures, other countries will continue to stimulate their economies over the current year (Germany, the Netherlands, France). Therefore, the consolidation process is more an issue for 2011 and beyond. From national stability programmes, we estimate that the fiscal retrenchment is likely to be around 1.1% of GDP in 2011. Although fiscal multipliers are difficult to estimate and vary across models (*Europa Watch,* December 2008 and OECD May 2010)[1], an average estimation suggests that the fiscal consolidation process is likely to result in GDP being lower by around 0.1% in 2010 and 0.8% in 2011. In contrast, according to our simulations and to results from the OECD, a sustained 10% nominal effective depreciation should result in higher than expected GDP growth by around 0.5% in the first year and 1.3% in the second one. Overall, the depreciation of the euro should offset clearly the contractive effect from the fiscal consolidation, supporting the eurozone upturn. In addition, after June's meeting, the ECB stands ready to continue providing liquidity to financial system, suggesting that monetary policy should be accommodative in coming months, supporting a tighter fiscal stance and reducing the risk of a financial meltdown.

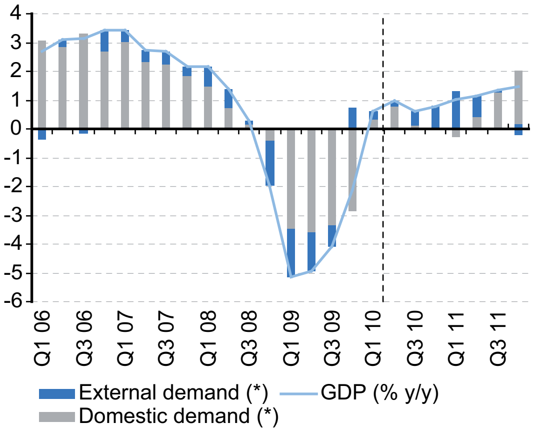
Taking into account all these factors, our forecasts envisage that eurozone GDP should increase moderately by 0.7% in 2010, supported by a net exports contribution of around 0.4pp. Regarding domestic demand, households' consumption spending is expected to remain stable, as consumers´ confidence should worsen again, with concerns on the sovereign debt market and the effect of fiscal retrenchment The labour market deterioration is not still over either (unemployment rate at 10.4% in 2010). Second, as the fiscal stimulus is fading, public consumption growth should slow to 1% in 2010 from 2.7% in 2009. Third, gross fixed capital formation is expected to fall further, given the very high rate of unused capital, the weakness of private demand, and the high degree of risk aversion. On average for the year it is projected to fall by -3.2%. Due to the sharp de-stocking recorded in 2009 and the strong process of restocking observed in Q1, inventories are assumed to contribute to growth with 7 decimal points. All in all, domestic demand should contribute with the other 0.3pp to GDP growth in 2010 (Chart 10).

For 2011, eurozone economy is expected to grow by 1.3% with a more balanced growth pattern. On the one hand, investment is expected to grow again at a moderate pace (0.9%) while households' consumption should also increase moderately (0.6%), as employment is expected to increase slightly and wages will not grow by much. All in all, domestic demand should contribute with 0.8pp to GDP growth, while net exports adding another 0.5pp.

Uncertainty around these forecasts has increased recently. On the downside, problems in the sovereign debt market and the need to undertake substantial fiscal retrenchment in the eurozone economies are beginning to weigh on economic agents' confidence and could result in much lower private consumption in the second half of the year. Additionally, tensions in financial markets could lead to higher financing costs to firms and households, with adverse impact on real activity. On the upside, a more pronounced upturn in the global demand coupled with the euro depreciation could boost exports even more than expected.

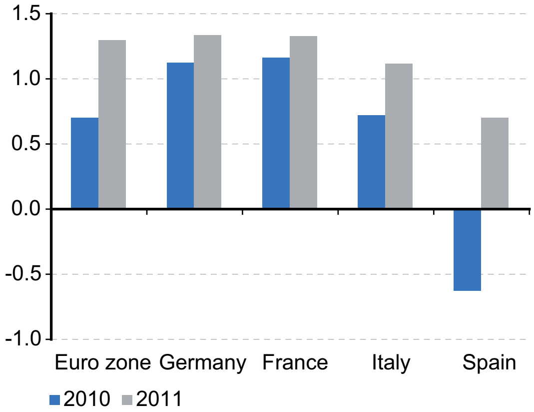
1: Herve, k. et all (2010): *"The OECD´s New Global Model"*,OECD, Working Paper Nº768.

Chart 10
Eurozone: GDP growth and contributions



Note: (*) Conntribution to yoy GDP growth
Source: Eurostat and BBVA Research

Chart 11
Economic growth in large member states (% y/y)



Source: Eurostat and BBVA Research

Heterogeneous recovery across member states

Eurozone countries are returning to growth at different speeds, with differences between North and South European countries, but with no major discrepancies in the largest three countries (Chart 11). Germany and France are expected to grow above the average, but still with a moderate 1.1% and 1.2% in 2010 respectively. In spite of showing similar growth rates, there are clear differences in its composition. German growth will be supported primarily by net exports due to the openness of its economy, although the impact of both the depreciation on the euro and the global economy recovery will not be huge, as 65% of its exports are destined to eurozone countries. Regarding domestic demand, both investment and public spending are expected to increase in 2010 at mild rates in Germany (1% and 1.3%, respectively), while households' consumption will fall by around 1% after sharp declines posted since the third quarter last year. In France, economic growth will be based on a greater contribution of domestic demand (0.9pp) derived from modest growth in both private (0.8%) and public consumption (1.5%), while net exports will contribute slightly to the other 0.2pp. Italy is expected to grow more slowly, at about the same rate as the eurozone as a whole, with weak rates in most of its components and negative ones in investment. In Spain, the ongoing adjustment in the economy will result in a negative growth of -0.6% in 2010, with a fall in both private consumption, due to high unemployment and the increase in VAT, and investment, due to a severe fall in housing sector (Spain Economic Outlook, Second Quearter 2010). However, the fall in domestic demand should be cushioned by the positive contribution of net exports.

4. Monetary policy to remain adequately accomodative until at least the end of 2011

The ECB will implement the exit strategy as gradually as possible, although ready to support the financial system

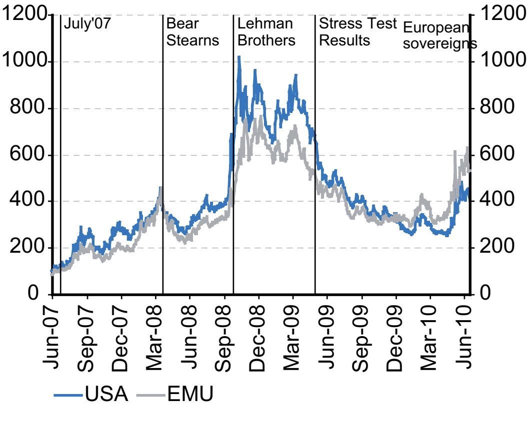
After the appearance of green shoots in the Spring of 2009, and with clearly positive growth in the third quarter of the year, the ECB started to design the process of liquidity withdrawal in December, announcing the end of the 6 and 12 months auctions with full allotment and reversing 3 months ones to variable rate auctions in March. Weekly and monthly full allotment operations were maintained. However, the ECB's exit strategy was interrupted by increasing tensions in financial markets (Chart 12) linked to the Greek crisis and the reversal of stockmarket gains started by the end-2009. Since then, the ECB has taken several steps in order to maintain financial stability, which de facto implied a relaxation of monetary policy.

First, the ECB came back the sustainability problems of public finances in Greece relaxing collateral rules for its debt in March. Second, as Greek problems triggered higher risks in sovereign debt market in other euro zone economies, the ECB decided after its meeting in May to buy both public and private debt to reduce tensions in secondary markets of sovereign debt. Although further details of the Securities Market Programme have not been disclosed, Mr. Trichet said that the programme would be there as long as sovereign risks hamper the monetary policy transmission channel. In practice, however, the bond purchases have been limited so far. In addition, three further LTROs auctions with full allotment have been announced for July, August and September, and thus the liquidity provided in the September operation will extend beyond the date when full allotment at weekly auctions is guaranteed (October). In this way, the ECB is both facilitating the financing of several banking institutions in Europe, which have been cut off from normal financing as the sovereign crisis has increased risk aversion, and at the same time is facilitating the transition once the very large one year operation carried out in July 2009 is reversed in June 2010, avoiding that lower liquidity translates into higher EONIA rates (Chart 13).

In sum, latter decisions have provided a strong signal from the ECB that it stands ready to continue providing liquidity to banks and to ensure the functioning of the financial system, given the exceptional circumstances involved and despite the hawkish rhetoric by some of its members. However, these measures still leave some open questions, such as the evolution of EONIA rates in coming months and its pace of normalization towards the official interest rate. The latest announcement of liquidity injections should be delay the possible increase in the EONIA rate.

Chart 12

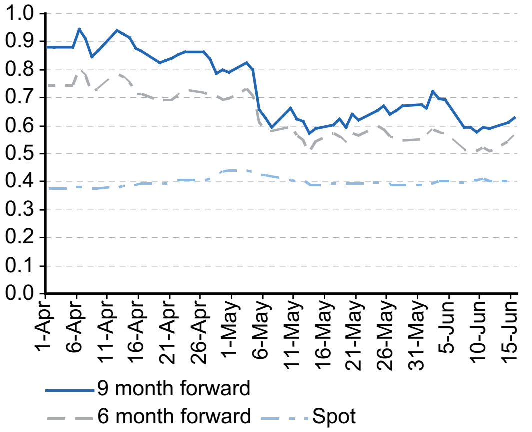
Financial tension indicator



(100=January 2007)
First normalized principal component of the following series: OIS spread, implicit volatility, and banking and corporate CDS spread.
Source: BBVA Research

Chart 13

OIS 3 month rates implicit in OIS swaps



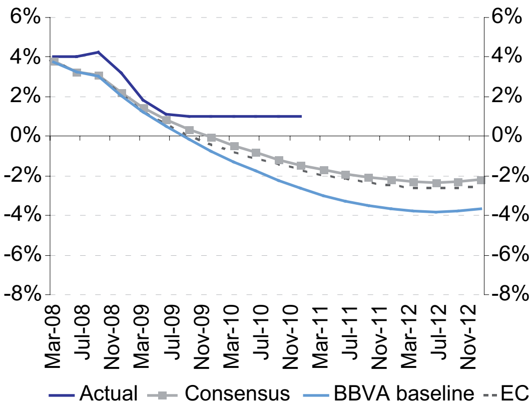
Source: BBVA Research

Refi interest rate to be unchanged until end-2011, helping to sustain activity as inflation is under control

Looking forward, we expect the ECB to keep the official refi rate unchanged until the last quarter of 2011. First, inflation will not be a problem in the euro zone (Chart 15), as core components are expected to remain subdued due to the weakness of domestic demand. If anything, core inflation has been more moderate than expected in recent months. Although import prices, and specially energy prices, may increase in coming months as a consequence of the euro depreciation and commodity prices may also increase if the recovery in the world economy is confirmed, we expect energy inflation to remain moderate next year due to base effects. Second, with inflation under control, the ECB should boost the economic activity with a looser monetary polity that would allows the recovery of credit and help bringing about the necessary strong fiscal retrenchment, partly offsetting its contractionary effect on economic growth.

Chart 14

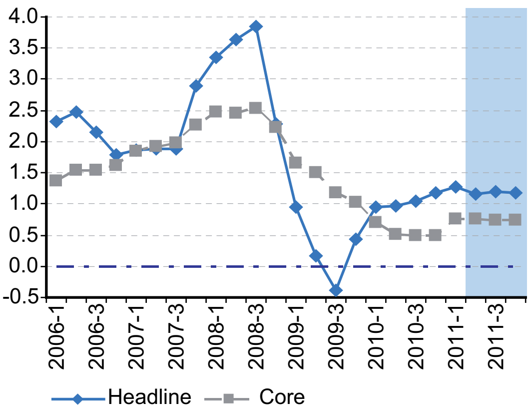
Forward-Looking Taylor Rule: EMU



Source: Eurostat, EC, Consensus and BBVA Research

Chart 15

Eurozone: Inflation (% y/y)



Source: Eurostat and BBVA Research

5. The fiscal consolidation challenge ahead is important, but the risk of a sizeable negative effect on growth is small

The recession, the response to it with a stimulus and lower revenues of a permanent nature have resulted in sharp increases of public deficits

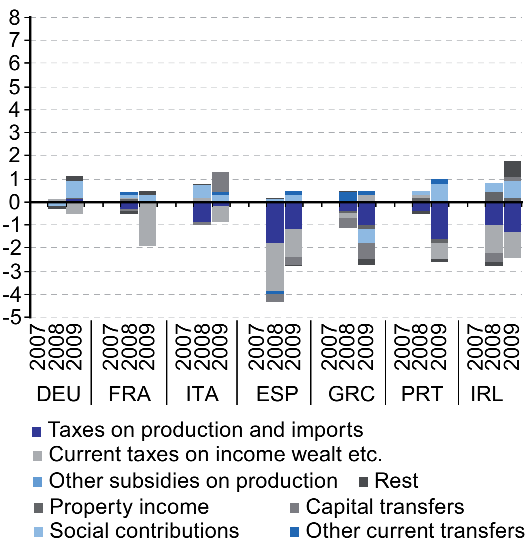
The recession of 2008-2009 and the subsequent fiscal policy reaction have been associated to a sharp increase of budget deficits in advance countries, and not least in European countries. For the eurozone as a whole the fiscal deficit widened from -2% of GDP in 2008 to -6.2% in 2009. Budget deficits have also translated into a rapid increase of the debt ratios in an environment of weak growth, rising concerns on their medium term sustainability. In 2009 eurozone government debt increased up to 78.7% of GDP from 69.4%. Once the recession was over, the debate over fiscal policy shifted from the need of a stimulus to how to carry out the fiscal consolidation needed to bring deficits back to manageable figures.

The rapid deterioration of budget deficits is explained both by cyclical and structural components and, within these, the stimulus is not the largest factor, as structural deficits have deteriorated independently from the stimulus, especially in economies with bubbles in credit or the housing sector, such as Spain, Ireland or, outside of the eurozone, the United Kingdom. Only in Germany, France and Spain the stimulus have a sizeable impact on the rise of the deficit.

This is also seen on the distribution of larger deficits between higher expenditures or lower revenues (Chart 16 and 17), where the pattern varies across European economies and shows some of the underlying structural characteristics of the European economies. While revenues as percentage of GDP remained almost unchanged in France, Germany and Italy, they fell substantially in other economies such as Greece, Portugal and Spain. In Spain, UK and Ireland a big share of the increase in revenues where linked to growth in particular sectors, such as real estate, and therefore part of the large loss of revenues is not expected to come back with the recovery and will rise structural deficits.

Chart 16

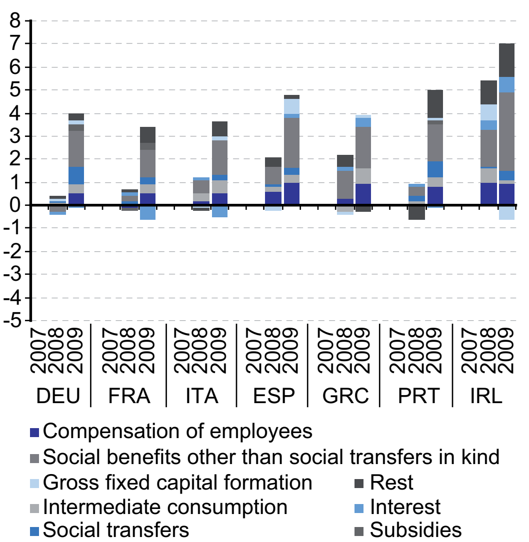
General Government Fiscal revenues. Annual variation in pp



Source: Eurostat and BBVA Research

Chart 17

General Government Expenditure Annual. variation in pp



Source: Eurostat and BBVA Research

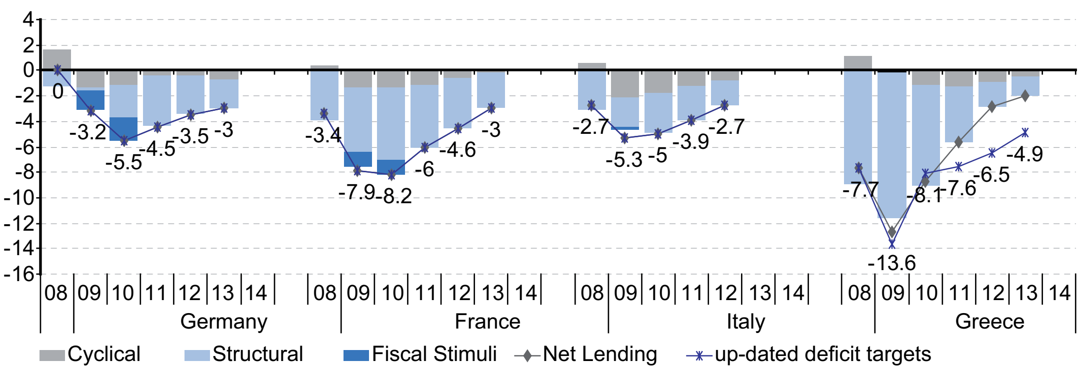
The increase in expenditure has been driven by the automatic stabilizers and the temporary stimulus measures. As expected, the major contributors to the expenditure rise are social contributions (that on average for the eurozone account for 45% of the expenditure), in particular where unemployment rates have increased. The other big expenditure item is the compensation to employees (which for the eurozone as a whole accounts for 20% of total expenditure and 10% of nominal GDP), although this item is not so particularly related to the cycle.

The adjustment is taking place in general in line with the Stability programmes, not faster

Most governments are now involved in the definition of their exit strategies for fiscal policy. The pace of adjustment was already defined at the beginning of this year, when they presented their stability and growth plans to Brussels, which were approved, targeting in general 2013 as the year when the deficit should be back below the 3% Maastricht level. The exceptions are countries such as Ireland or the U.K., with higher deficits and slightly longer deadlines. Most of the plans that have been announced since then provide the details of how the adjustment will be done, but do not change the pace of adjustment (Chart 18 and 19). The only exceptions are Portugal and Spain, which responding to the sovereign crisis have defined a more frontloaded adjustment, and Greece, which after the EU-IMF intervention is indeed proposing a slower adjustment (the original was too fast and therefore not credible).

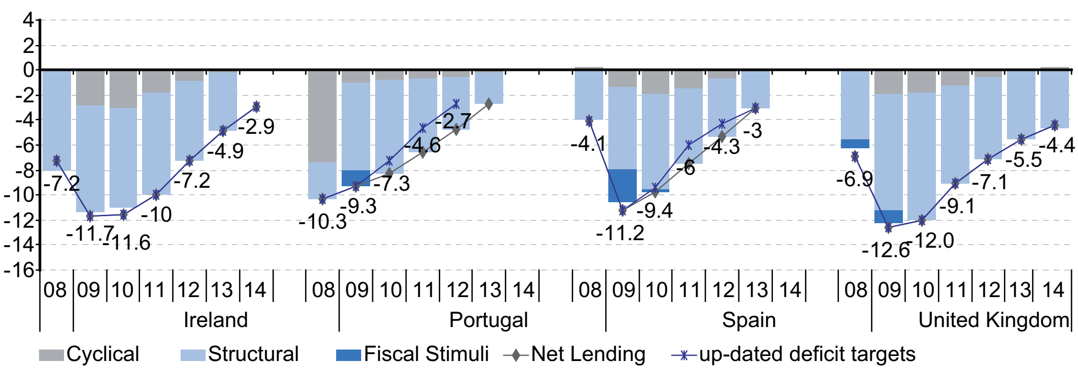
France, Germany and Italy will start their consolidation efforts only in 2011. France and Germany had indeed additional stimulus measures taken in 2009 to be implemented in 2010. Germany has targeted a reduction of 10 bn euro per year up to 2016, with cuts in the public wage bill, some welfare spending and suppression of subsidies, although they have not been definitively approved. France has provided no details on the measures to be implemented, although a pension reform is under discussion. In the case of Italy, which has a relatively small deficit to reduce as it implemented no stimulus and did not enjoy of a boom in credit or housing, it has anticipated a 24 bn euro deficit reduction for 2011 and 2012 with measures slightly tilted towards expenditure reduction of local authorities, and revenue measures focused on fighting tax evasion (which raises doubts about their implementation).

Chart 18
Fiscal deficits projected paths



Source: National Sources, European Commission and BBVA Research

Chart 19
Fiscal deficits projected paths



Source: National Sources, European Commission and BBVA Research

Under market pressure, Portugal, Greece and Spain are implementing austerity measures already effective in 2010 (Chart 18 and 19). The structure of expenditure reduction and revenue increases are quite balanced.

In the UK the recently formed Liberal-Conservative coalition after the elections on the May 6th has shown its compromise to reduce the deficit, although the initial cut in expenditures is quite small and should be taken as a sign of austerity rather than as a real try (6bn GBP or 0.4% of GDP for this fiscal year). Soon an Emergency Budget will be presented with a longer term consolidation plan, but in principle the deadline for consolidation (fiscal year 2014-2015) is long and the target for that year (over 4% of GDP) is still large. The Irish government, on the other hand, presented a very detailed programme at the beginning of the year, starting to adjust its fiscal deficit already in 2010 and achieving the 3% deficit just in 2014. Although the consolidation pace is not particularly frontloaded, the fact that it took already measures in 2009 and was the first government to cut public wages has allowed it to gain credibility.

Several risks ahead for fiscal consolidation, although none of them very large

There are at least four types of risks associated to the pace of consolidation, some of them clearly behind the negative response of markets in the ongoing stress on sovereign debt:

1. Interest rate risk: higher than projected interest rates could imply higher deficits for those countries with high debt levels. Under our calculations, given the low official interest rates expected and the low turnover of debt, it would require sustained and large spread levels to result in sizeable effects on the deficit for some countries. Once there is the possibility of intervention through the EU stabilization fund, the probability of such an event is small.
2. Cyclical risk: Growth projections embedded in national deficit projections are not particularly high, with the exception of Ireland and France. Even in those cases the impact on the consolidation pace would not be large. However, a double-dip recession is a risk and would imply a delay of one or two years in meeting the target.
3. Related to the cyclical risk, there is a much debated risk that the consolidation plans will affect growth and this in turn fires back inducing higher cyclical deficits. This effect is embedded in our projections, which takes into account a mild effect of the adjustment.
4. An implementation risk: This was higher several months ago, when most of the details of the Stability and Growth Pact were not spelled out, than it is now. In the case of Portugal, Spain and Greece most of the measures have been detailed and some of them already approved. Germany and Italy have provided also information of what to cut, but measures are still to be approved (in the case of Germany) and is not sure they will yield their objectives (in the case of Italy). In France and the UK most of the information is still to come, although so far the British government has shown much more determination to reform the budget than the French one.

Overall, the adjustments ahead are unprecedented in recent European history (as well as the deepness of the crisis was unprecedented), and there remain doubts on its delivery. However, given the bad experience of high deficits in the 80s and the success story of the 90s (when fiscal discipline yielded in positive effects on interest rates and the possibility of creating the euro), there seems to be a general feeling across EU governments that the adjustments are urgent and necessary.

Tables

Summary of forecasts

Table 1
Euro Area (YoY)

	2007	2008	2009	2010	2011
GDP at constant prices	**2.8**	**0.4**	**-4.1**	**0.7**	**1.3**
Private consumption	1.6	0.3	-1.2	0.1	0.6
Public consumption	2.3	2.2	2.7	1.0	0.5
Gross Fixed Capital Formation	4.6	-0.9	-10.9	-3.2	0.9
Inventories (*)	0.0	0.1	-0.8	0.7	0.2
Domestic Demand (*)	**2.4**	**0.5**	**-3.3**	**0.3**	**0.8**
Exports (goods and services)	6.3	0.7	-13.2	7.4	7.6
Imports (goods and services)	5.5	0.8	-11.9	6.4	6.8
External Demand (*)	**0.4**	**0.0**	**-0.8**	**0.5**	**0.4**
Prices and Costs					
CPI	2.1	3.3	0.3	1.0	1.2
CPI Core	2.0	2.4	1.3	0.5	0.7
Labour Market					
Employment	2.0	1.1	-1.8	-0.5	0.3
Unemployment rate (% of labour force)	7.5	7.6	9.4	10.4	10.6
Public Sector					
Surplus (+) / Deficit (-) (% GDP)	-0.6	-2.0	-6.3	-6.6	-5.2
External Sector					
Current Account Balance (% GDP)	0.1	-1.1	-0.8	-0.6	-0.5

* Contribution to growth
Source: BBVA Research

Table 2
International environment (YoY)

	Real GDP growth (%)					Inflation (%) *				
	2007	**2008**	**2009**	**2010**	**2011**	**2007**	**2008**	**2009**	**2010**	**2011**
US	2.1	0.4	-2.4	3.0	2.5	2.9	3.8	-0.4	2.0	1.8
China	14.2	9.6	8.7	9.8	9.2	4.8	5.9	-0.7	3.1	3.3
Latam**	5.8	4.0	-2.5	4.6	4.0	6.0	9.0	7.4	6.3	6.4

* Inflation forecast: average
** Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela
Source: BBVA Research

Table 3
Financial variables

	Official rate (%, end period)					10 year interest rate (%, average)				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
Eurozone*	4.00	2.50	1.00	1.00	1.25	4.23	3.99	3.26	3.30	3.62
US	4.33	0.63	0.25	0.13	1.25	4.63	3.65	3.24	3.86	4.26

	Exchange rate (US Dollar per national currency, average)					Brent (Dollar per barrel of brent, average)				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
EMU	1.37	1.47	1.39	1.29	1.19	72.7	95.7	62.9	75.5	79.8
United Kingdom	2.00	1.82	1.56	1.52	1.43					
China	7.61	6.95	6.83	6.70	6.39					

* 10 year interest rate refers to Germany bonds
Source: BBVA Research

Germany

Table 4
GDP growth and inflation forecasts

YoY rate	2007	2008	2009	2010	2011
Private consumption	-0.3	0.2	0.0	-0.8	0.6
Public consumption	1.7	2.0	3.4	1.3	0.8
Gross Fixed Capital Formation	5.3	2.3	-8.9	1.0	2.7
Inventories (*)	-0.2	0.5	-0.5	0.2	0.0
Domestic Demand (*)	**1.0**	**1.5**	**-1.7**	**0.2**	**1.0**
Export	7.8	2.4	-14.5	6.5	5.8
Import	5.0	3.9	-9.5	4.9	5.6
Net export (*)	**1.6**	**-0.5**	**-3.2**	**0.9**	**0.4**
GDP	**2.6**	**1.0**	**-4.9**	**1.1**	**1.3**
Inflation	**2.3**	**2.8**	**0.2**	**0.7**	**1.0**

(*) Contribution to growth
Source: BBVA Research

France

Table 5
GDP growth and inflation forecasts

YoY rate	2007	2008	2009	2010	2011
Private consumption	2.5	0.5	0.6	0.8	1.1
Public consumption	1.5	1.6	2.7	1.5	0.4
Gross Fixed Capital Formation	5.9	0.3	-7.0	-2.1	2.3
Inventories (*)	0.0	0.3	-1.9	0.5	0.1
Domestic Demand (*)	**3.4**	**0.4**	**-2.4**	**0.9**	**1.3**
Export	2.5	-0.8	-12.2	5.5	5.6
Import	5.7	0.3	-10.6	4.1	5.0
Net export (*)	**-1.0**	**-0.3**	**-0.2**	**0.2**	**0.0**
GDP	**2.3**	**0.1**	**-2.5**	**1.2**	**1.3**
Inflation	**1.6**	**3.2**	**0.1**	**1.3**	**1.4**

(*) Contribution to growth
Source: BBVA Research

Italy

Table 6
GDP growth and inflation forecasts

YoY rate	2007	2008	2009	2010	2011
Private consumption	1.1	-0.8	-1.8	0.7	0.9
Public consumption	0.9	0.8	0.6	0.2	0.2
Gross Fixed Capital Formation	1.3	-4.0	-12.2	-0.2	2.3
Inventories (*)	0.1	-0.3	-0.4	0.2	0.0
Domestic Demand (*)	**1.2**	**-1.4**	**-3.8**	**0.6**	**1.0**
Export	3.9	-3.9	-19.1	3.7	4.4
Import	3.3	-4.3	-14.6	3.1	3.8
Net export (*)	**0.2**	**0.1**	**-1.2**	**0.1**	**0.1**
GDP	**1.4**	**-1.3**	**-5.1**	**0.7**	**1.1**
Inflation	**2.0**	**3.5**	**0.8**	**1.6**	**1.8**

(*) Contribution to growth
Source: BBVA Research

Spain

Table 7
GDP growth and inflation forecasts

YoY rate	2007	2008	2009	2010	2011
Private consumption	3.6	-0.6	-5.0	-0.2	0.4
Public consumption	5.5	5.5	3.9	1.4	0.2
Gross Fixed Capital Formation	4.6	-4.4	-15.2	-8.8	-2.7
Equipment and other products	6.8	-2.7	-20.6	-7.9	-1.1
Construction	3.2	-5.5	-11.1	-9.4	-3.7
Housing	3.0	-10.3	-24.5	-16.5	-5.6
Other construction	3.3	-0.4	1.6	-4.3	-2.4
Inventories (*)	-0.1	0.1	0.0	0.0	0.0
Domestic Demand (*)	**4.4**	**-0.5**	**-6.4**	**-1.9**	**-0.4**
Export	6.6	-1.0	-11.3	5.3	5.6
Import	8.0	-4.9	-17.7	-0.2	0.9
Net export (*)	**-0.9**	**1.4**	**2.8**	**1.3**	**1.1**
GDP	**3.6**	**0.9**	**-3.6**	**-0.6**	**0.7**
Inflation	**2.8**	**4.1**	**-0.3**	**1.2**	**1.0**

(*) Contribution to growth
Source: BBVA Research

United Kingdom

Table 8
GDP Growth and inflation forecasts

YoY rate	2007	2008	2009	2010	2011
Private Consumption	2.1	0.9	-3.2	0.2	1.3
Public Consumption	1.2	2.8	2.0	1.7	-1.2
Gross fixed capital formation	7.8	-3.5	-14.9	-0.9	2.2
Inventories (*)	0.1	-0.4	-1.2	0.9	0.5
Domestic Demand (*)	**3.0**	**0.5**	**-4.2**	**0.4**	**0.9**
Export	-2.8	1.1	-10.6	4.3	5.0
Import	-0.7	-0.5	-11.9	5.2	2.8
Net Export (*)	**-0.6**	**0.5**	**0.7**	**-0.4**	**0.5**
GDP	**2.6**	**0.5**	**-4.9**	**1.0**	**1.9**
Inflation (avg)	2.3	3.6	2.2	2.7	1.7

(*) Contribution to growth
Source: BBVA Research

DISCLAIMER

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

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

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

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

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

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

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

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

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

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

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

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

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

Agustín García Serrador
+34 91 374 79 38
agustin.garcia@grupobbva.com

Elvira Prades
+34 91 537 79 36
elvira.prades@grupobbva.com

Financial Scenarios Unit
Daniel Navia Simón
+34 91 537 83 51
daniel.navia@grupobbva.com

Ignacio González Panizo
+34 91 374 67 61
Ignacio.gonzalez-panizo@grupobbva.com

BBVA Research

Group Chief Economist
José Luis Escrivá

Chief Economists & Chief Strategists:

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

Financial Scenarios
Daniel Navia
daniel.navia@grupobbva.com

Financial Systems
Ana Rubio
arubiog@grupobbva.com

Economic Scenarios
Juan Ruiz
juan.ruiz2@grupobbva.com

Regulatory Affairs
María Abascal
maria.abascal@grupobbva.com

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

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

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

Asset Management
Henrik Lumholdt
henrik.lumholdt@grupobbva.com

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

Spain
Miguel Cardoso
miguel.cardoso@grupobbva.com

Europe
Miguel Jiménez
mjimenezg@grupobbva.com

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

United States
Nathaniel Karp
nathaniel.karp@bbvacompass.com

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

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

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

Cross-Country *Emerging Markets* Analysis
Sonsoles Castillo
s.castillo@grupobbva.com

Pensions
David Tuesta
david.tuesta@grupobbva.com

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

South America
Joaquín Vial
jvial@bbva.cl

Argentina
Gloria Sorensen
gsorensen@bancofrances.com.ar

Chile
Alejandro Puente
apuente@grupobbva.cl

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

Peru
Hugo Perea
hperea@grupobbva.com.pe

Venezuela
Oswaldo López
oswaldo_lopez@provincial.com

Contact details

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