

# ECONOMIC OUTLOOK IN THE EURO AREA AND IN SPAIN

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Governor

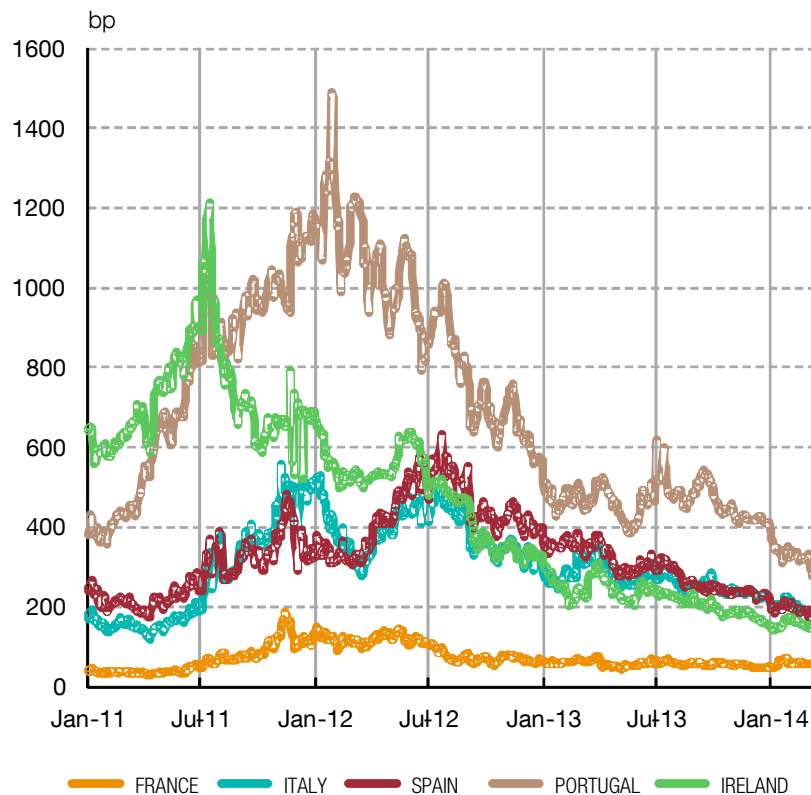
ABC

Madrid  
26 March 2014

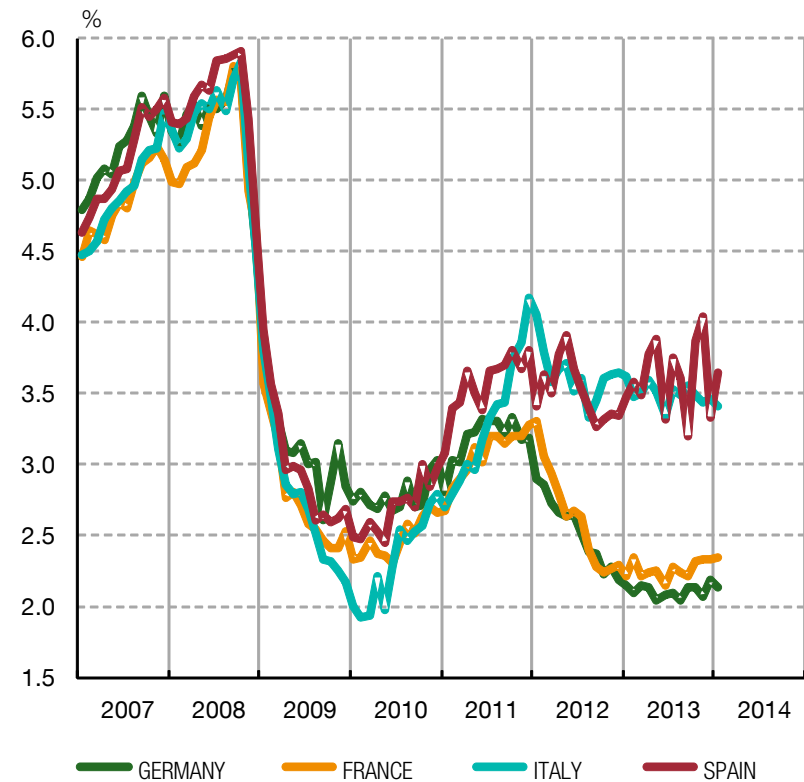


Financial tensions are easing in the euro area, but the degree of fragmentation is still excessive.

SOVEREIGN SPREADS OVER THE GERMAN 10-YEAR BENCHMARK



INTEREST RATE ON BANK LOANS TO NON-FINANCIAL CORPORATIONS





Forecasts point to a progressive firming of the recovery, though growth rates will be only moderate.

GROWTH FORECASTS FOR THE EURO AREA				
	2013	2014	2015	2016
<b>ECB</b>				
<b>March 2014</b>	-0.4	1.2	1.5	1.8
December 2013	-0.4	1.1	1.5	
<b>European Commission</b>				
<b>February 2014</b>	-0.4	1.2	1.8	
November 2013	-0.4	1.1	1.7	
<b>IMF</b>				
<b>January 2014</b>	-0.4	1.0	1.4	
October 2013	-0.4	1.0	1.4	1.5
<b>Consensus Forecast</b>				
<b>March 2014</b>	-0.4	1.1	1.4	
February 2014	-0.4	1.0	1.4	



Inflation is expected to continue at levels below, though not necessarily close to, 2%.

INFLATION FORECASTS FOR THE EURO AREA				
	2013	2014	2015	2016
<b>ECB</b>				
<b>March 2014</b>	<b>1.4</b>	<b>1.0</b>	<b>1.3</b>	<b>1.5</b>
December 2013	1.4	1.1	1.3	
<b>European Commission</b>				
<b>February 2014</b>	<b>1.4</b>	<b>1.0</b>	<b>1.3</b>	
November 2013	1.5	1.5	1.4	
<b>IMF</b>				
<b>October 2013</b>	<b>1.5</b>	<b>1.5</b>	<b>1.4</b>	<b>1.5</b>
<b>Consensus Forecast</b>				
<b>March 2014</b>	<b>1.4</b>	<b>0.9</b>	<b>1.3</b>	
February 2014	1.4	1.0	1.4	



A projections exercise in the initial phase of the recovery.

- **General background to these projections:**

- Notable reduction in uncertainty, with significant headway in the normalisation of financial markets and a progressive improvement in employment.
- Pick-up in private domestic demand, though household spending will advance at a modest pace while deleveraging of the sector continues.
- Exports will remain buoyant, conditional upon the assumption that external markets will progressively recover.

- The central scenario projects a **firming of growth in the Spanish economy** over the projection horizon, with **possible moderate downside risks**.

# PROJECTIONS OF GDP AND OF THE DEMAND COMPONENTS (I)



The recovery is expected to take root with:

- a growing contribution of domestic demand
- an easing in the contribution of external demand (with greater buoyancy of both exports and imports)

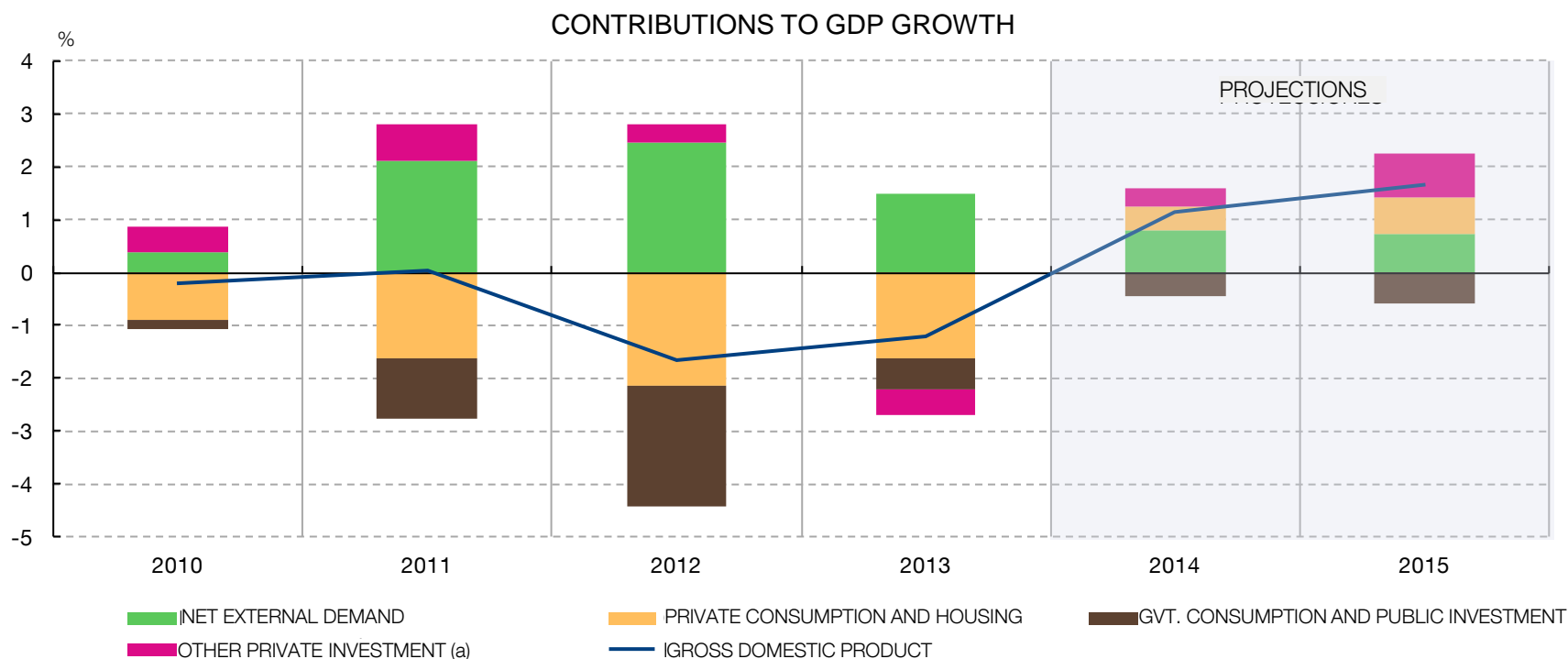
Annual rate of change in volume terms and % of GDP	Projection					
	2010	2011	2012	2013	2014	2015
GDP	-0.2	0.1	-1.6	-1.2	1.2	1.7
Private consumption	0.2	-1.2	-2.8	-2.1	1.1	1.2
Government consumption	1.5	-0.5	-4.8	-2.3	-1.5	-2.5
Gross fixed capital formation	-5.5	-5.4	-7.0	-5.1	0.0	4.2
<i>Investment in capital goods</i>	4.3	5.3	-3.9	2.2	6.3	7.5
<i>Investment in construction</i>	-9.9	-10.9	-9.7	-9.6	-4.4	1.7
Exports of goods and services	11.7	7.6	2.1	4.9	5.1	6.1
Imports of goods and services	9.3	-0.1	-5.7	0.4	3.0	4.4
National demand (contribution to growth)	-0.6	-2.1	-4.1	-2.7	0.3	0.9
Net external demand (contribution to growth)	0.4	2.1	2.5	1.5	0.8	0.7

SOURCES: Banco de España and National Statistics Institute (INE).

## PROJECTIONS OF GDP AND OF THE DEMAND COMPONENTS (II)



- Household spending will be restricted by moderate growth in income and by deleveraging.
- Public spending will continue to be impacted by the fiscal consolidation.
- Business investment will rise in light of lesser uncertainty and the easing in financial tensions, among other factors.

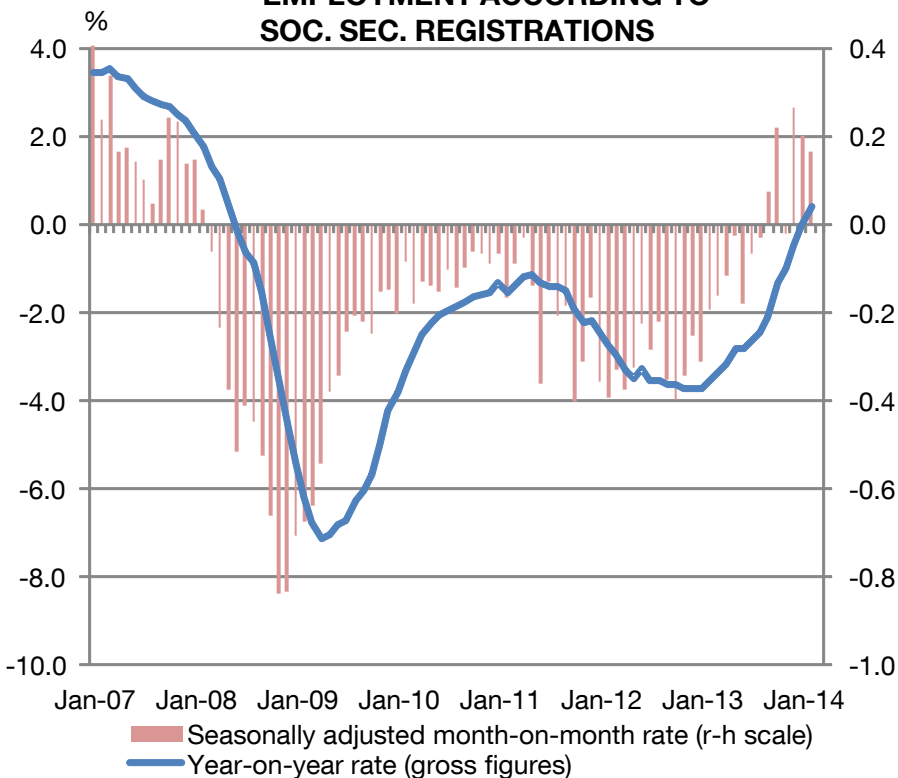


## CORRECTION OF IMBALANCES: THE LABOUR MARKET

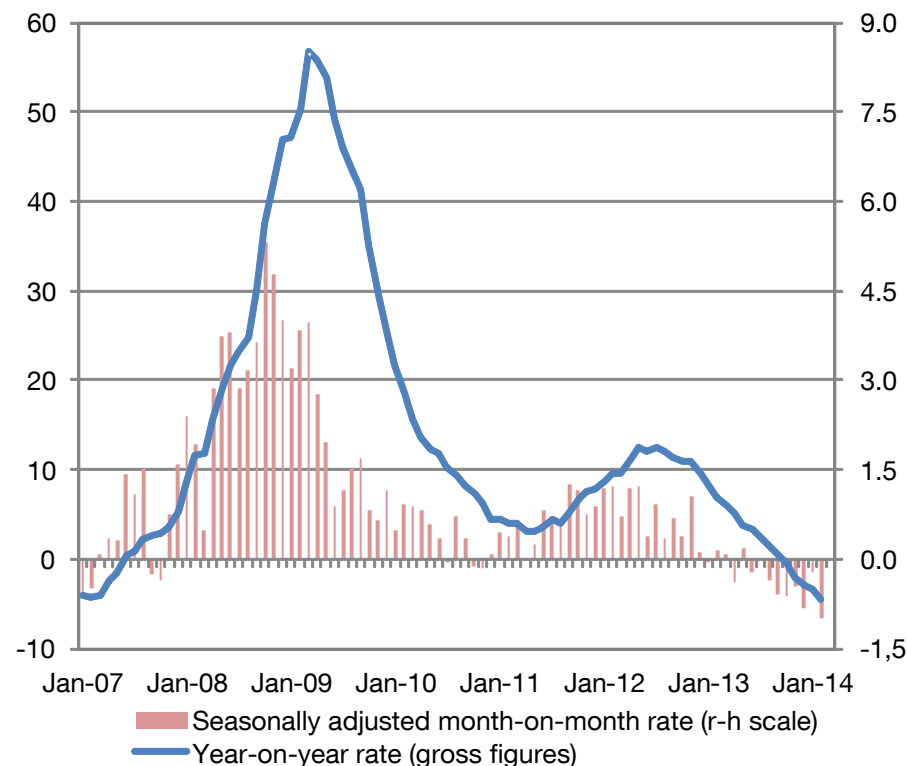


Social security registrations have continued to increase in the opening months of 2014 and the pace of decline of registered unemployment has stepped up. This trajectory is projected to continue over the two-year period 2014-2015.

**EMPLOYMENT ACCORDING TO  
SOC. SEC. REGISTRATIONS**



**REGISTERED UNEMPLOYMENT**

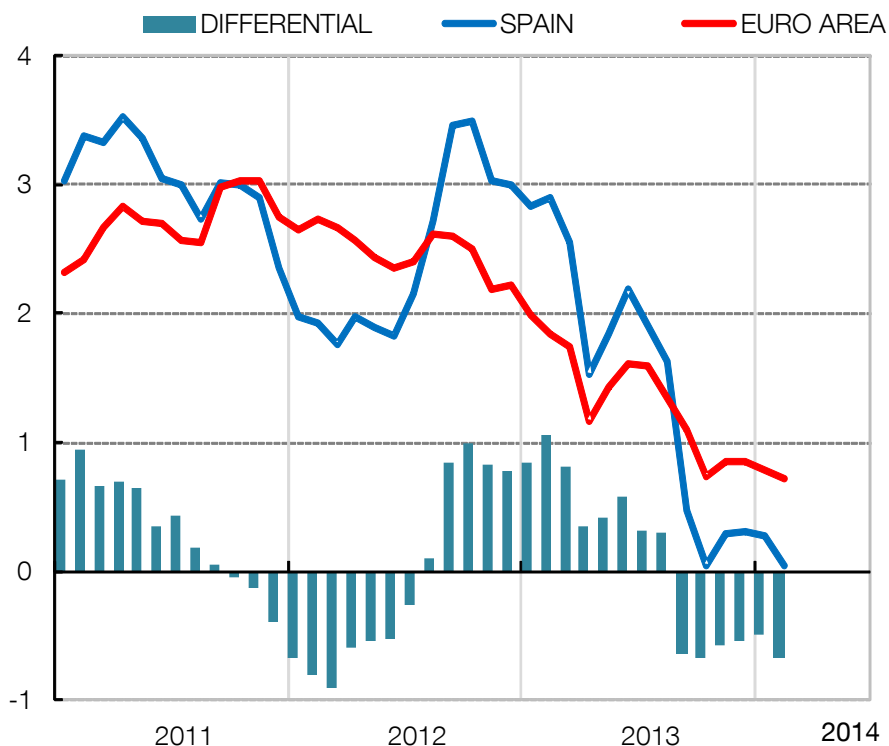




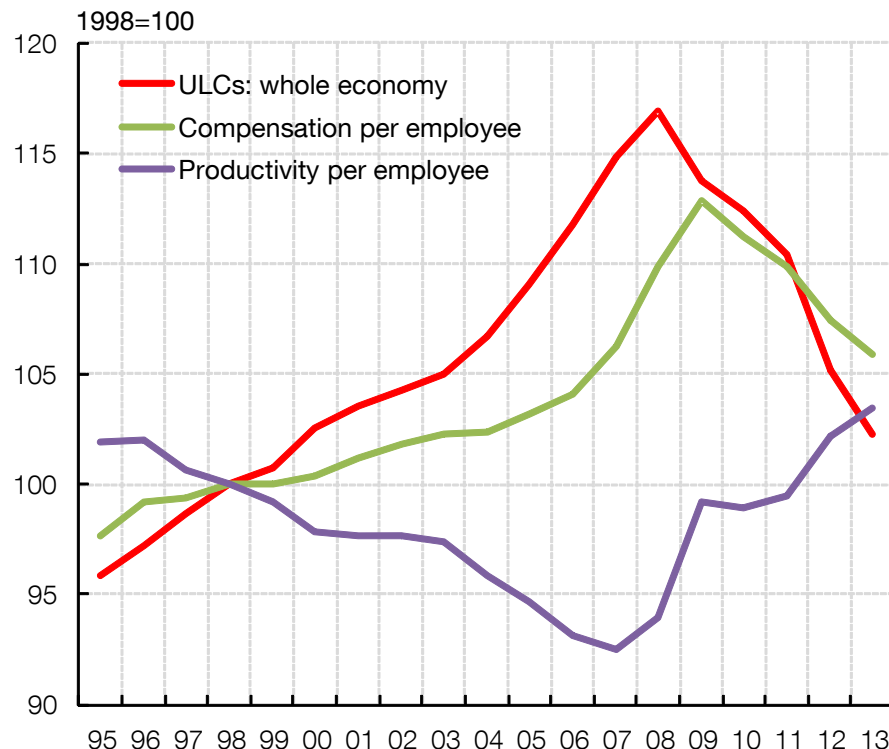
# CORRECTION OF IMBALANCES: COMPETITIVENESS

The restoring of the competitiveness lost in the last upturn has continued in 2013 and will run into 2014-15.

## SPAIN/EURO AREA INFLATION DIFFERENTIAL



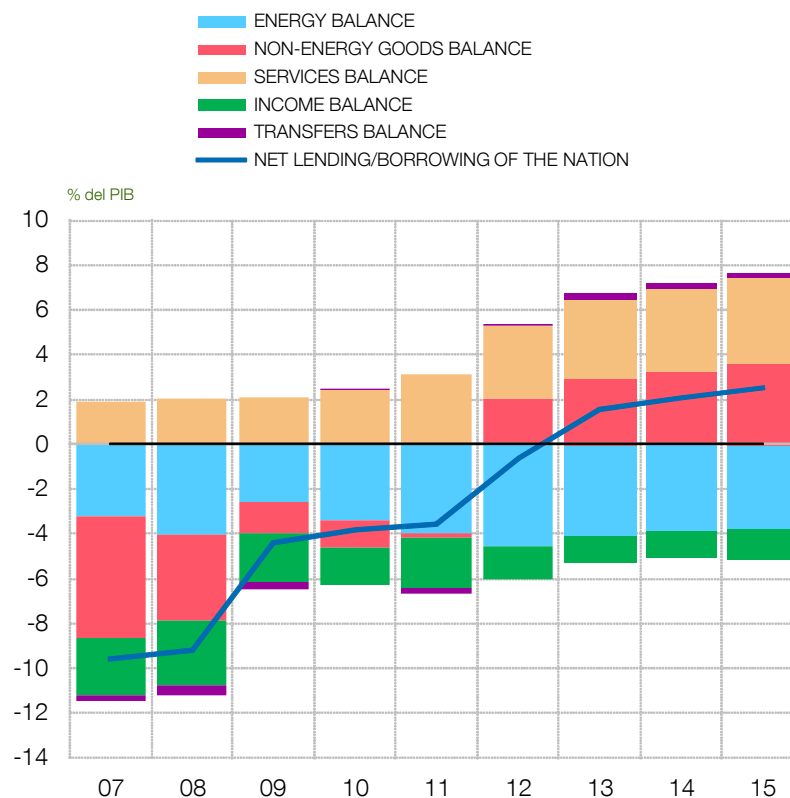
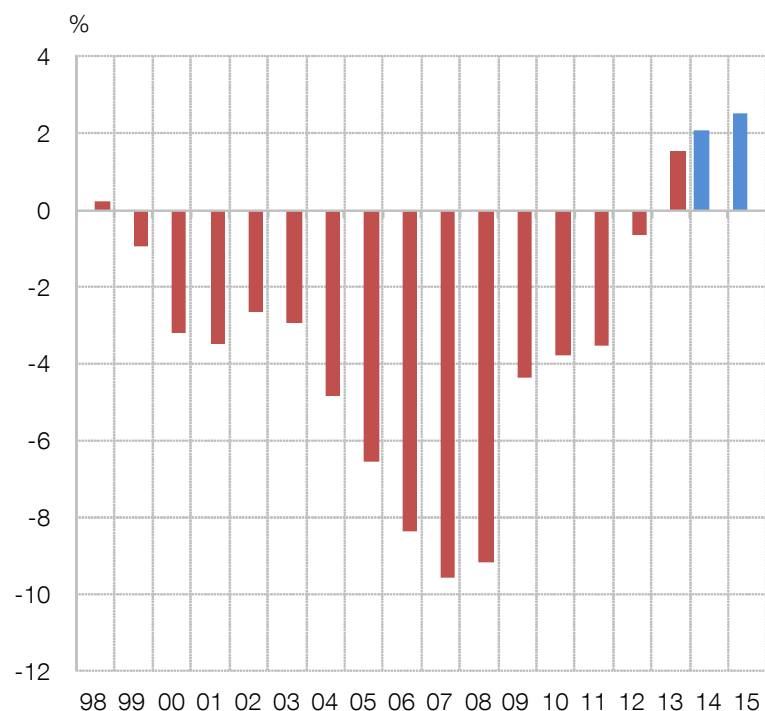
## RELATIVE UNIT LABOUR COSTS: SPAIN VS. EURO AREA



## CORRECTION OF IMBALANCES: NET LENDING/BORROWING

The pick-up in external markets and the gains in share are conducive to the improvement in the nation's net lending continuing, despite the cyclical recovery in imports.

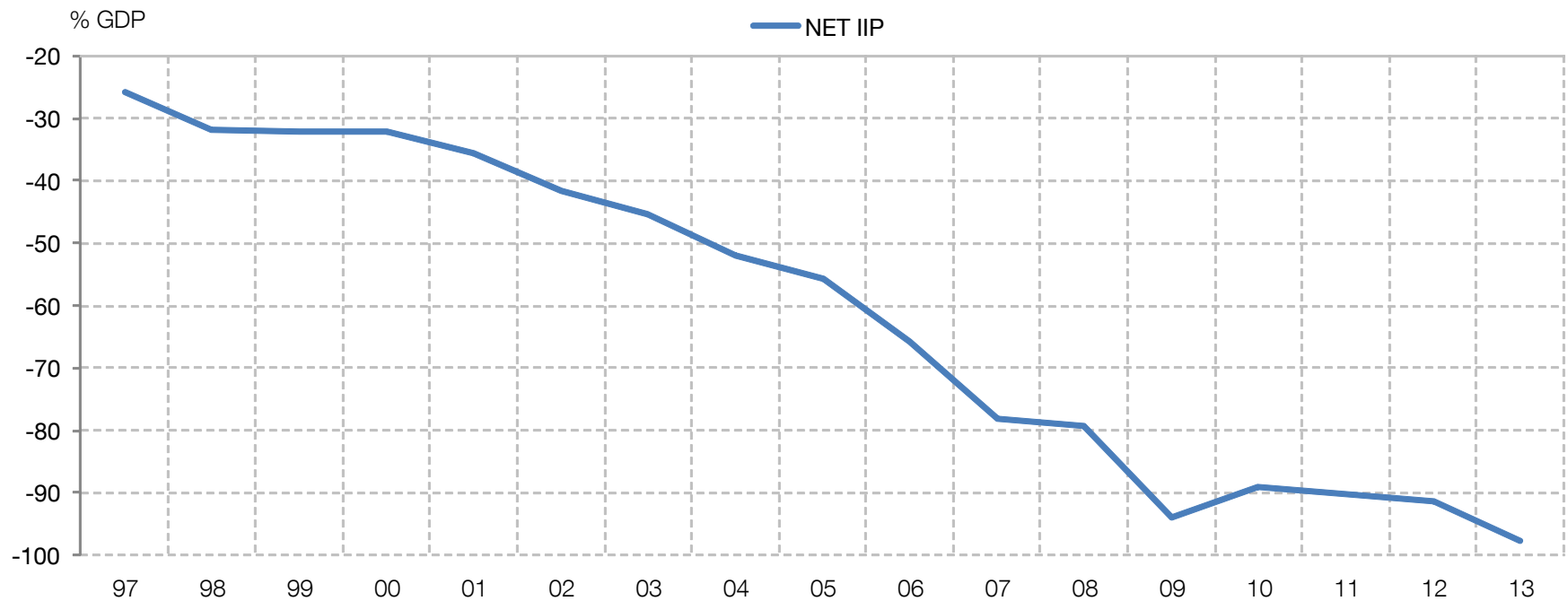
**NET LENDING(+)/BORROWING(-) OF THE NATION  
(% GDP)**





Restored confidence has been conducive to the return of capital flows, but the international investment position remains too high.

NET INTERNATIONAL INVESTMENT POSITION

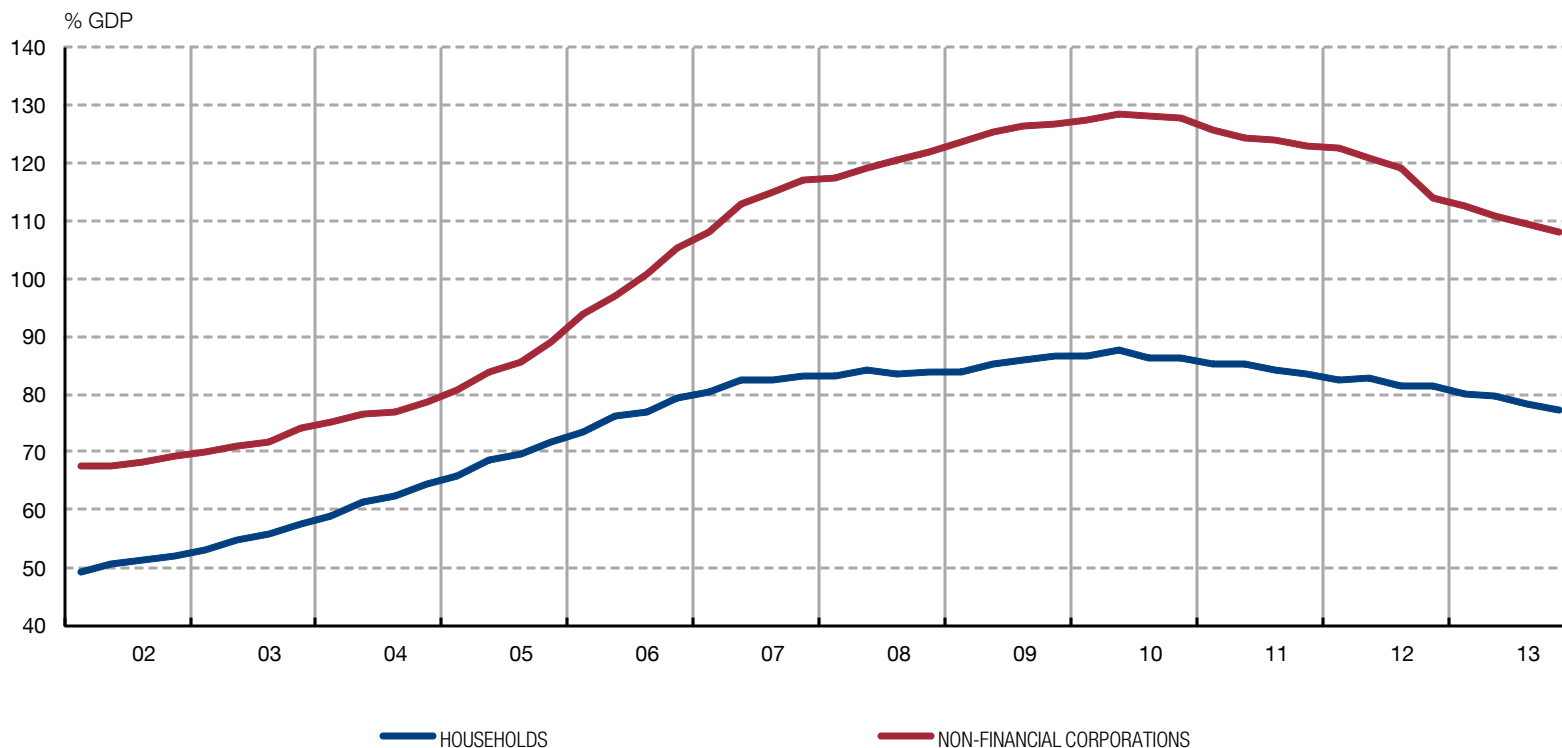


# CORRECTION OF IMBALANCES: PRIVATE OVERINDEBTEDNESS



The deleveraging of households and firms continues, although debt levels are still excessive and credit continues to bear the brunt of the adjustment

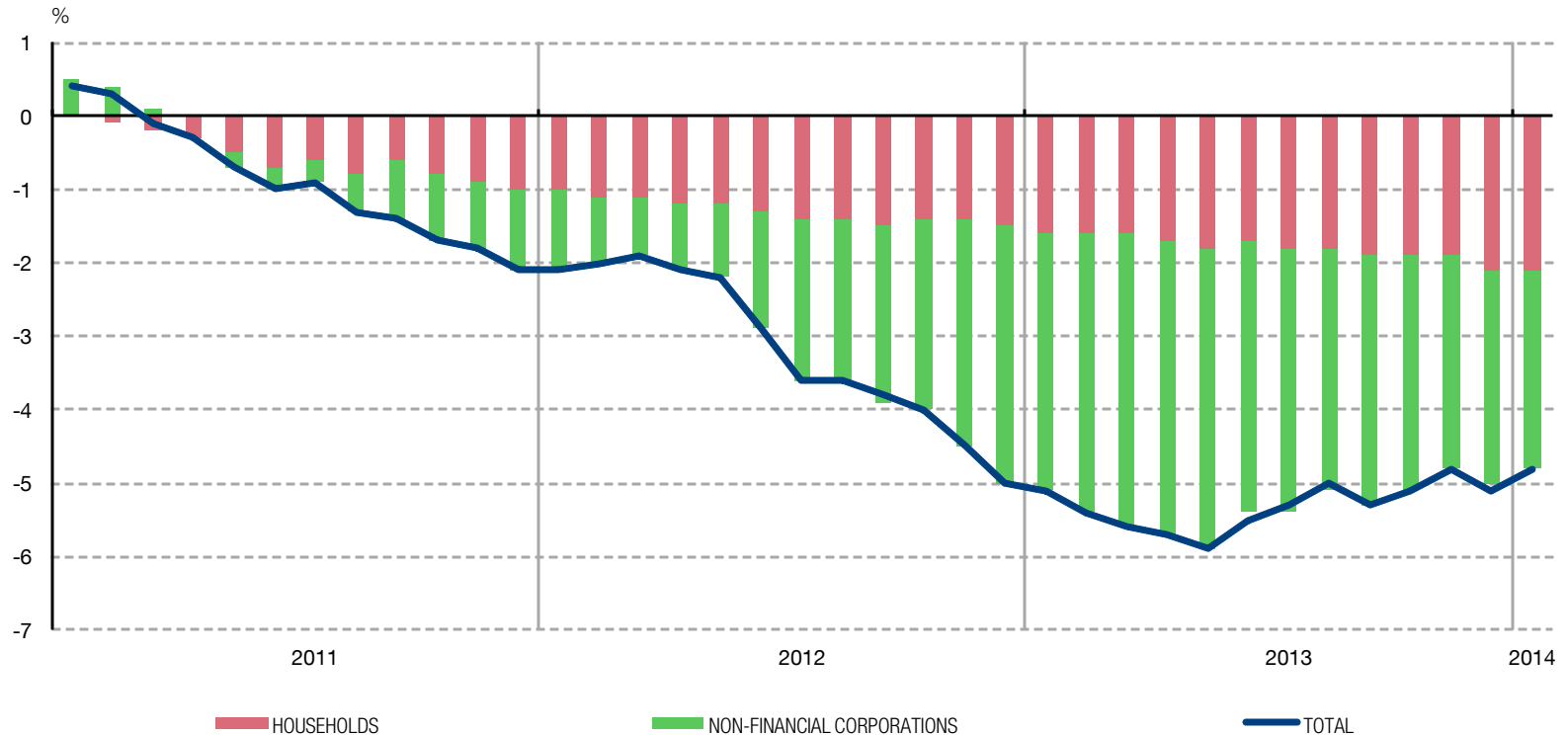
## DEBT RATIOS





The contraction in lending to households has, however, stabilised and, in the case of firms, the tendency of financing has reversed.

**FINANCING OF HOUSEHOLDS AND NON-FINANCIAL CORPORATIONS**  
(Year-on-year growth and contributions)





THANK YOU FOR YOUR ATTENTION