Economy...
at glance

March 2019

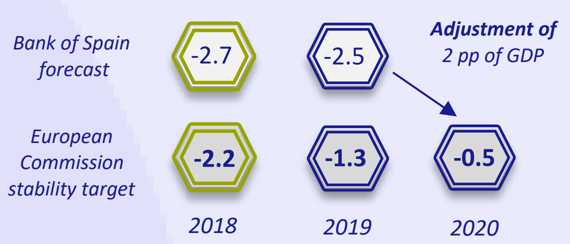
Public accounts

In January, the debt of public administrations reached €1.17 trillion, reporting a year-on-year increase of 2.6%, above the growth of the Spanish economy (2.4% in Q4 2018). Currently, the debt-to-GDP ratio is 97.4%, 2pp over the target set for 2019 (95.4% of GDP).

Whereas, BBVA Research forecasts a public deficit of 2.7%* of GDP in 2018 which is 0.5% over the stability target negotiated with the European Commission (2.2%) and would place public spending at 41.6% of GDP (vs 41% 2017) and public income in 38.9% (37.9% 2017). This budgetary evolution confirms the lack of progress in the fiscal consolidation of the Spanish economy mainly due to the increase in spending, the absence of structural reforms, and no improvements in competitiveness.

This scenario could further exacerbate if the Bank of Spain's forecast that the public deficit is 2.5% of GDP in 2019 is actually confirmed, as it would require an adjustment of around €24.2 billion (2% of GDP) to achieve the goal of reducing public deficit by 0.5% in 2020.

Public deficit, Spain
% of GDP



*According to the estimates of Bank of Spain.
Source: *Círculo de Empresarios* based on BBVA Research and Bank of Spain, 2019

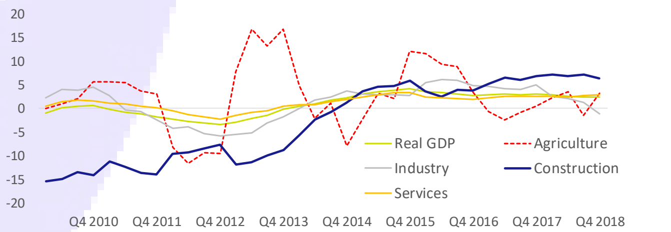
Construction sector

Since 2017, construction leads growth among the Spanish GDP sectors. Specifically, in Q4 2018 it recorded a year-on-year increase of 6.3%, exceeding by more than 3pp those of agriculture and services (3.2% and 2.9%, respectively). In contrast, the industrial sector fell by 1.1%*.

This evolution is mainly explained by the increase in public works (7.4% year-on-year in Q4 2018 after having recorded negative rates in the previous quarters) and building (3.5%). A trend that is also apparent in some of its leading indicators:

- New construction permits increased by 24.7% year-on-year in December 2018.
- Employment creation increased as the number of Social Security affiliates rose by 6.7% in February 2019.

GDP evolution by sector, Spain
% YoY change

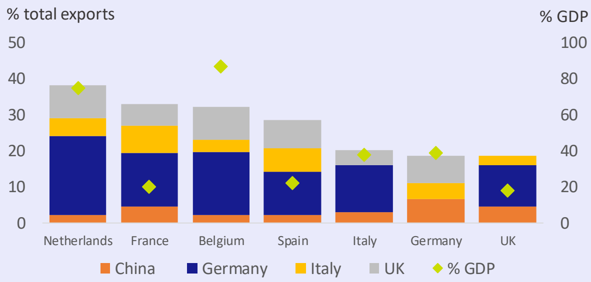


* In 2018, the industrial sector went into recession after accumulating two consecutive quarters of negative growth.
Source: *Círculo de Empresarios* based on INE,2019

Goods trade

Exports of goods stagnated in January, reporting a year-on-year change of 0% (€23.4 bn), predominantly due to the exposure of the Spanish economy to the uncertainty of Brexit and the slowdown in the German economy. In particular, intra-community exports were reduced by 1%, while no progress was made in extra-community exports (0%).

Exports of goods by countries, 2017
%



Source: *Círculo de Empresarios* based on OECD,2019

Germany's situation

According to the latest forecasts of The Ifo Institute, the German economy will grow by 0.6% in 2019 which is 0.5pp below the estimate by the European Commission and 0.1pp of the OECD.

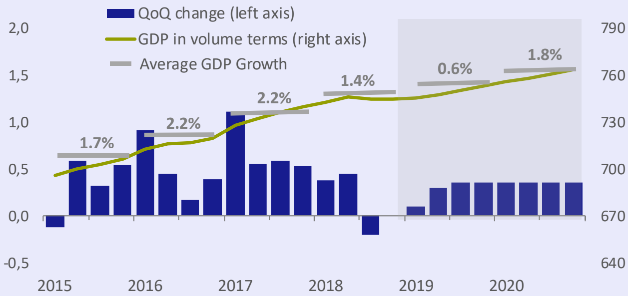
The slowdown in the German economy is in large part on account of the evolution of the industry which, since the second half of 2018, shows a weak growth rate, mainly due to:

- The slowdown in the automotive sector because of the adaptation to the new WLTP[1] emission regulations.
- The moderation of growth in China.
- The uncertainty generated by a new change in Trump's protectionist policy towards Europe and the Brexit negotiations.

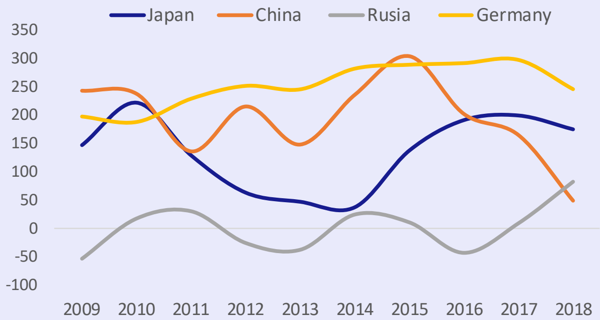
Likewise, the Bundesbank once again forecasts the stagnation of industrial activity in Q1 2019, as such, any progress in the German economy fundamentally relies on private consumption and construction, which is favoured by the rise in wages in a low inflation scenario.

Despite this deceleration, Germany continues to be the country with the largest current account surplus at a global level, although this fell by 5.9% year-on-year and stands at €246.3bn (7.4% of its GDP).

GDP growth, Germany
% and €bn



Countries with largest current account surplus in 2018
$bn



* Worldwide Harmonised Light Vehicle Test Procedure

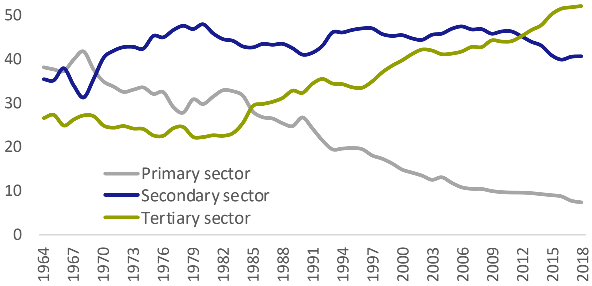
Source: *Círculo de Empresarios* based on Ifo Institute and Thomson Reuters, 2019

Chinese trade

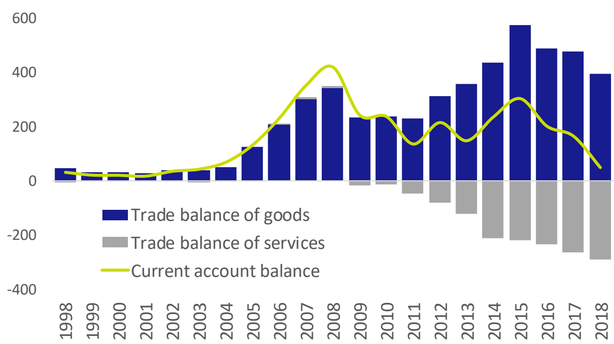
China reported an annual growth of 6.6% in 2018, the lowest since 1990, mainly due to the transformation of its production model to another one with greater technological intensity and with more prominence of private consumption of national products. In turn, the uncertainty generated by the trade war has had a negative impact on business investment and the foreign sector.

Specifically, China's current account balance plunged by 70.2% year-on-year to a record low since 2004 of $49bn (0.5% of its GDP). This trend is explained by the behaviour of trade deficit of services which widens at an average annual rate of 21.2% since 2014 and is not offset by the trade surplus of goods in the same period (3.8%). If this situation persists, then China, for the first time since 1993, would report a current account deficit in 2019.

GDP by sector, China
% of total



Current account balance, China
$bn



Source: *Círculo de Empresarios* based on Thomson Reuters, 2019