Europe Flash

European Commission Forecasts: Spring 2012

Bottom line: The European Commission (EC) economic outlook, envisaging a mild recession in the eurozone as a whole with significant heterogeneity across countries, is in line with our projections. For Spain, the EC foresees a weaker scenario for GDP than in our own projections along with a worse public deficit, though the latter is due largely to not including measures that have not been yet confirmed (new measures by regional governments) or whose impact is uncertain (privatizations, fighting tax fraud, one-offs).

- **The EC sees the eurozone contracting slightly in 2012 (-0.3%)**
  The EC spring forecasts envisage a slight contraction of GDP in the eurozone in H1-12, to be followed by sluggish growth in H2-12, with the moderate recovery possibly being stronger over 2013 (1%). Overall, this economic outlook is in line with our forecasts (-0.2% in 2012 and 0.9% in 2013). The EC also highlights that renewed financial strains in recent weeks suggest that the stabilization cannot be taken for granted yet, and that pernicious interaction between weak sovereigns, weak banks and weak GDP is still among the biggest risk to the outlook. Regarding the public sector, the budget deficit is expected to continue declining from a deficit of 4.1% in 2011 to 3.2% in 2012 and 2.9% in 2013.

- **The Spanish economy is expected to contract by -1.8% in 2012 and -0.3% in 2013**
  These figures are slightly below those included in our macroeconomic scenario (-1.3% and +0.6%, respectively) In this regard, the forecast differences may derive from the differences in the assumptions. The EC estimates that the labor market reform will not have a short-term positive impact on employment, while it does not acknowledge the positive effect that the suppliers' payment programme could have on GDP (up to 1% point in 2012 according to our estimates). For details on our own view regarding these measures see the latest edition of Spain Economic Outlook (available here in Spanish).

- **Deficit expected at 6.4% of GDP in 2012, but excluding measures that are under preparation**

  Regarding the public sector, the Spanish General Government deficit is projected to be 6.4% of GDP in 2012, above the target presented by the government in the Stability and Growth Programme 2012-2015 (5.3%). According to our estimates, to achieve this target the fiscal adjustment required would be around 5.1 pp to GDP -taking into account that the effect of economic downturn on the deficit could be around 2 pp of GDP. In this context, measures have been announced for an amount of 4.4 pp of GDP. Nonetheless, from these, the Commission has chosen not to include measures such as the expected impact of the fiscal amnesty and additional measures to fight tax fraud "given the uncertainties involved in estimating the additional revenue created by (them)" which the government estimates at around 0.5% of GDP. Furthermore, the Government has already announced it is working on a privatizations plan, which along with new measures to be incorporated into regional governments' rebalancing plans (next week) and the reversal of several one-off items (about 0.4 pp of GDP of increased expenditure in 2011), should provide a sufficient margin to achieve the target of 5.3% of GDP at end-2012. The European Commission, as a rule, only incorporates those policy measures that have been approved or specified in detail, hence the lack of improvement for 2013 (6.3% of GDP).

Chart 1

Growth and public sector forecast: EC, BBVA Research and Stability Programmes

		GDP growth			General government net lending/borrowing (% of GDP)		
		2011	2012	2013	2011	2012	2013
Eurozone	Ameco Spring '12	1.5	-0.3	1.0	-4.1	-3.2	-2.9
	BBVA		-0.2	0.9		-3.0	-2.0
Germany	Ameco Spring '12	3.0	0.7	1.7	-1.0	-0.9	-0.7
	Submitted SGP		0.7	1.6		-1.0	-0.5
	BBVA		0.7	1.6		-0.6	-0.4
France	Ameco Spring '12	1.7	0.5	1.3	-5.2	-4.5	-4.2
	Submitted SGP		0.7	1.8		-4.4	-3.0
	BBVA		0.5	1.1		-4.5	-3.0
Italy	Ameco Spring '12	0.4	-1.4	0.4	-3.9	-2.0	-1.1
	Submitted SGP		-1.2	0.5		-1.2	0.1
	BBVA		-1.5	0.1		-1.6	-0.5
Spain	Ameco Spring '12	0.7	-1.8	-0.3	-8.5	-6.4	-6.3
	Submitted SGP		-1.7	0.2		-5.3	-3.0
	BBVA		-1.3	0.6		-5.3	-3.0
Greece	Ameco Spring '12	-6.9	-4.7	0.0	-9.1	-7.3	-8.4
			n/a	n/a		n/a	n/a
	BBVA				-9.2	-4.9	-4.1
Portugal	Ameco Spring '12	-1.6	-3.3	0.3	-4.2	-4.7	-3.1
	Submitted SGP		-3.0	0.6		-4.5	-3.0
	BBVA		-2.9	0.0		-4.6	-3.3
Ireland	Ameco Spring '12	0.7	0.5	1.9	-13.1	-8.3	-7.5
	Submitted SGP		0.7	2.2			
	BBVA				-13.0	-12.7	-11.9
UK	Ameco Spring '12	0.7	0.5	1.7	-8.3	-6.7	-6.5
	Submitted SGP		0.8	2.0		-5.8	-5.9
	BBVA		0.5	1.4		-5.9	-5.8

Source: Eurostat and BBVA Research

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