

RESUMING GROWTH IN SPAIN: THE CHALLENGES AHEAD

José Luis Malo de Molina
Director General

SPAIN ECONOMIC FORUM

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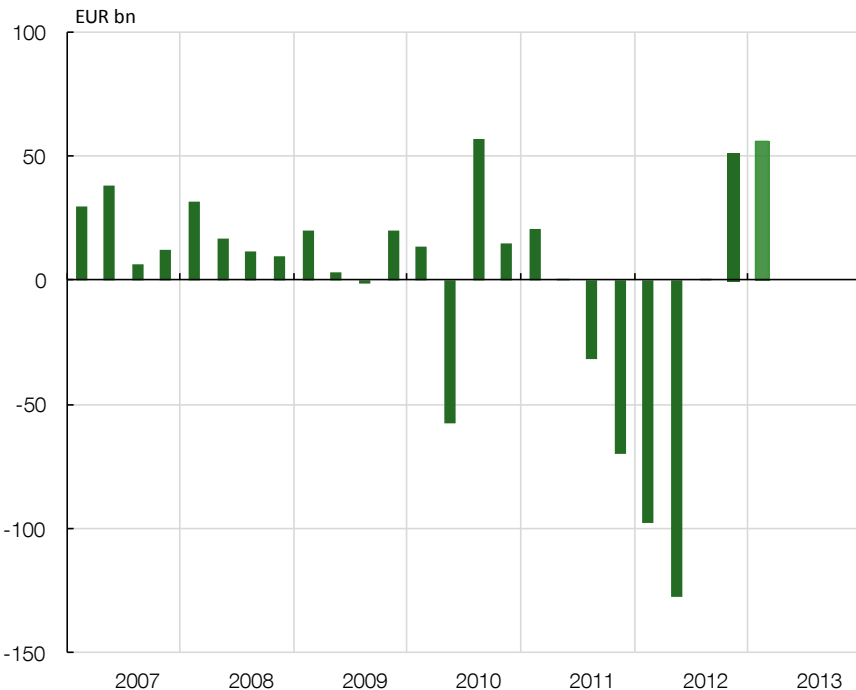
DG ECONOMICS, STATISTICS AND RESEARCH

THE SPANISH ECONOMY IS EMERGING FROM A SUDDEN STOP IN ITS EXTERNAL FINANCING



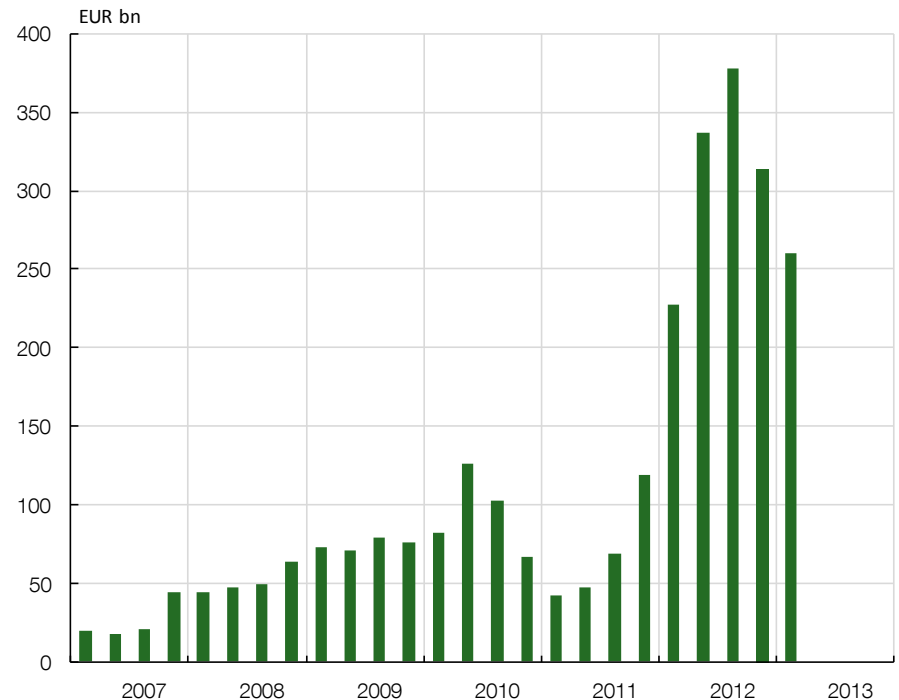
The relieving of financial tensions has ended the choking of external financing.

SPANISH ECONOMY FINANCING (a)



SOURCE: Banco de España.
a. Excluding Banco de España.

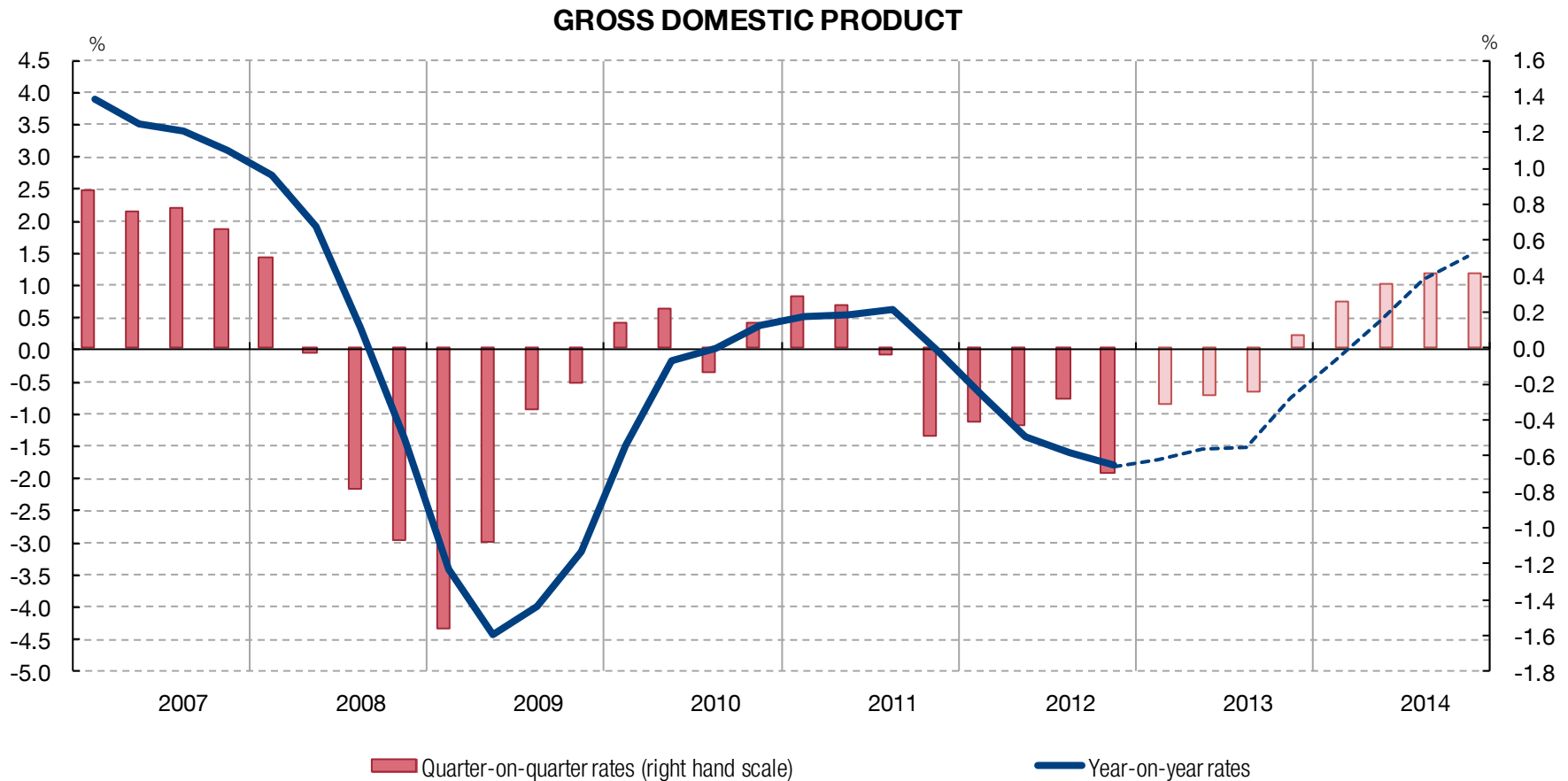
EUROSYSTEM BALANCE. NET LENDING TO SPANISH CREDIT INSTITUTIONS



A DOUBLE-DIP RECESSION



The Spanish economy is in the depths of a double-dip recession, which is expected to ease only gradually

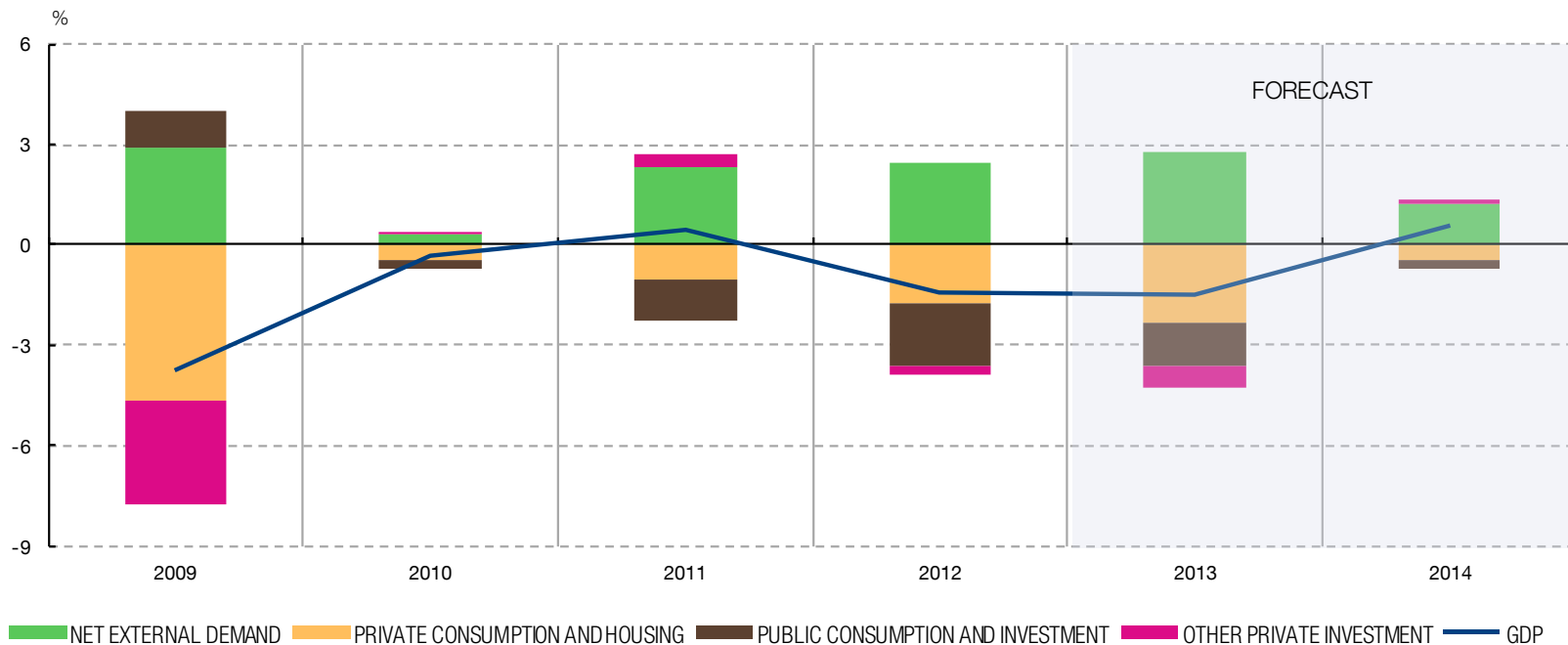


SOURCES: INE and Banco de España

PROJECTIONS OF GDP AND OF THE COMPONENTS OF DEMAND



The weakness of domestic demand will be progressively offset by the contribution of net external demand



THE ABILITY TO OVERCOME THE CRISIS AND OF GROWTH TO RECOVER DEPENDS ON PROGRESS IN MAKING OUTSTANDING ADJUSTMENTS



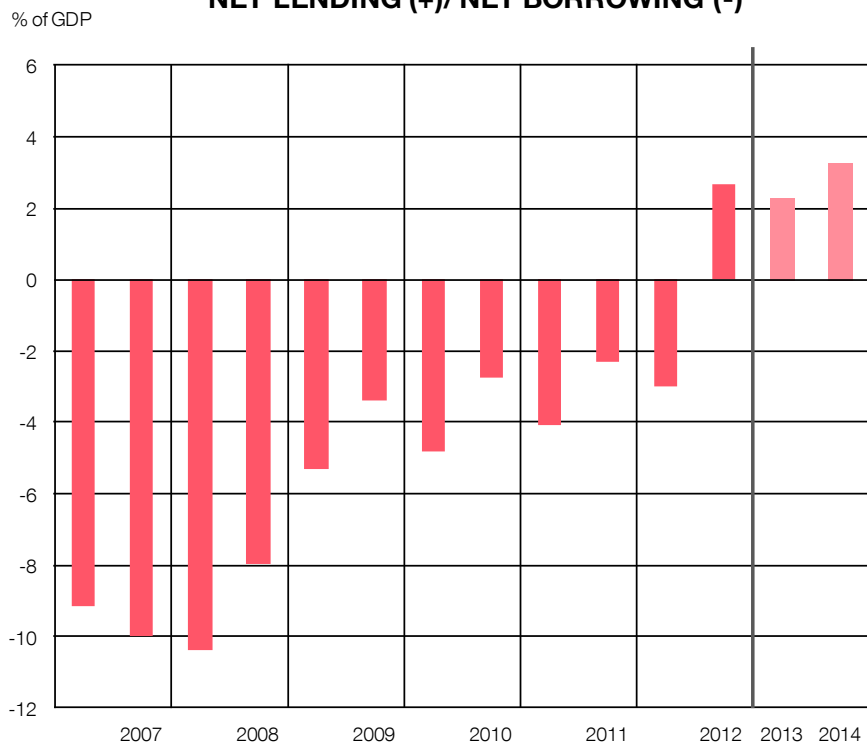
- **Correction of the external imbalance and normalisation of the external financing of the economy.**
- **Curbing job destruction and commencing the absorption of unemployment.**
- **Fiscal consolidation and public debt sustainability.**
- **Completion of bank restructuring.**
- **Deleveraging by firms and households.**

EXTERNAL REBALANCING: COMPETITIVENESS GAINS AND EXTERNAL FINANCING



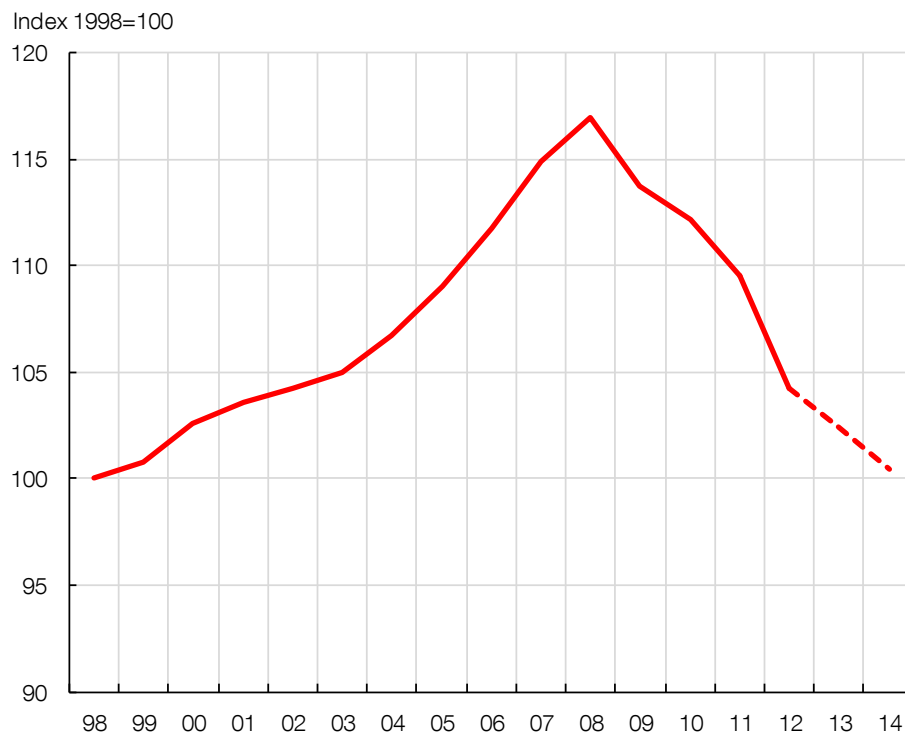
Progress in **correcting the external imbalance** has been significant thanks to **competitiveness improvements**

NET LENDING (+)/ NET BORROWING (-)



SOURCES: INE and Banco de España.

RELATIVE ULC: SPAIN VERSUS EURO AREA



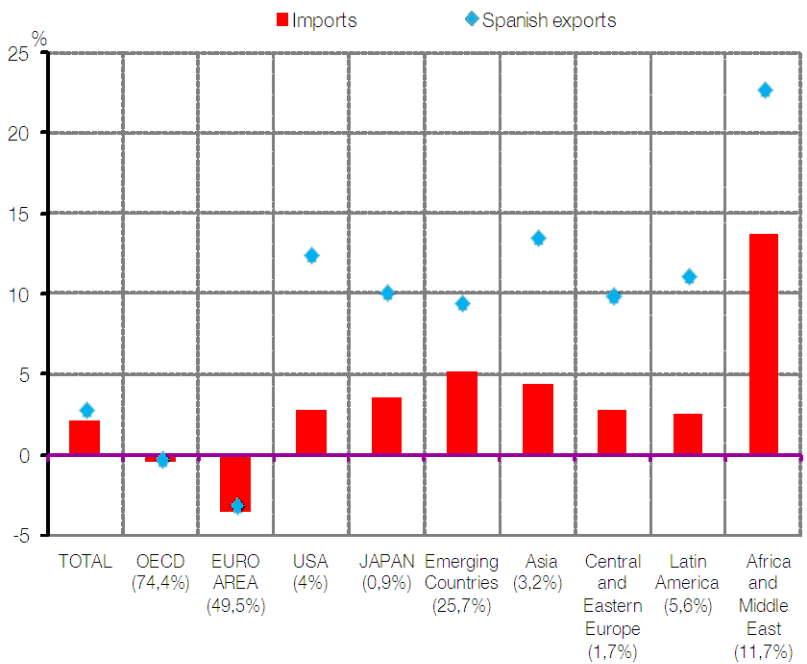
SOURCES: Eurostat and ECB.

WITH EXPORT SHARE GAINS IN ALMOST ALL AREAS

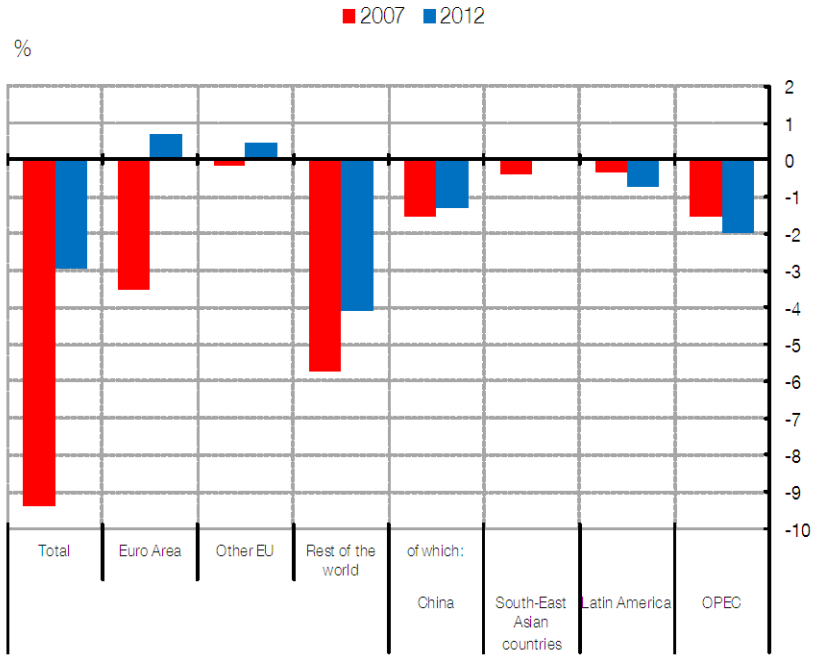


And surpluses with the euro area and the EU as a whole, as well as with south-east Asian countries.

WORLD IMPORTS
Real rates of change
2012



Trade balance by geographical area
as % of GDP

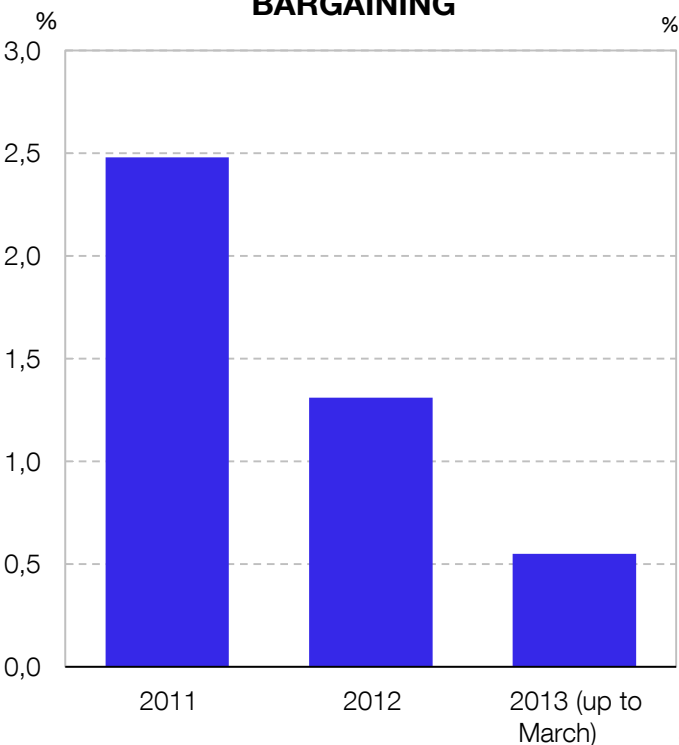


IMPROVING COMPETITIVENESS IS FUNDAMENTAL TO OVERCOMING THE SEVERE LABOUR MARKET CRISIS

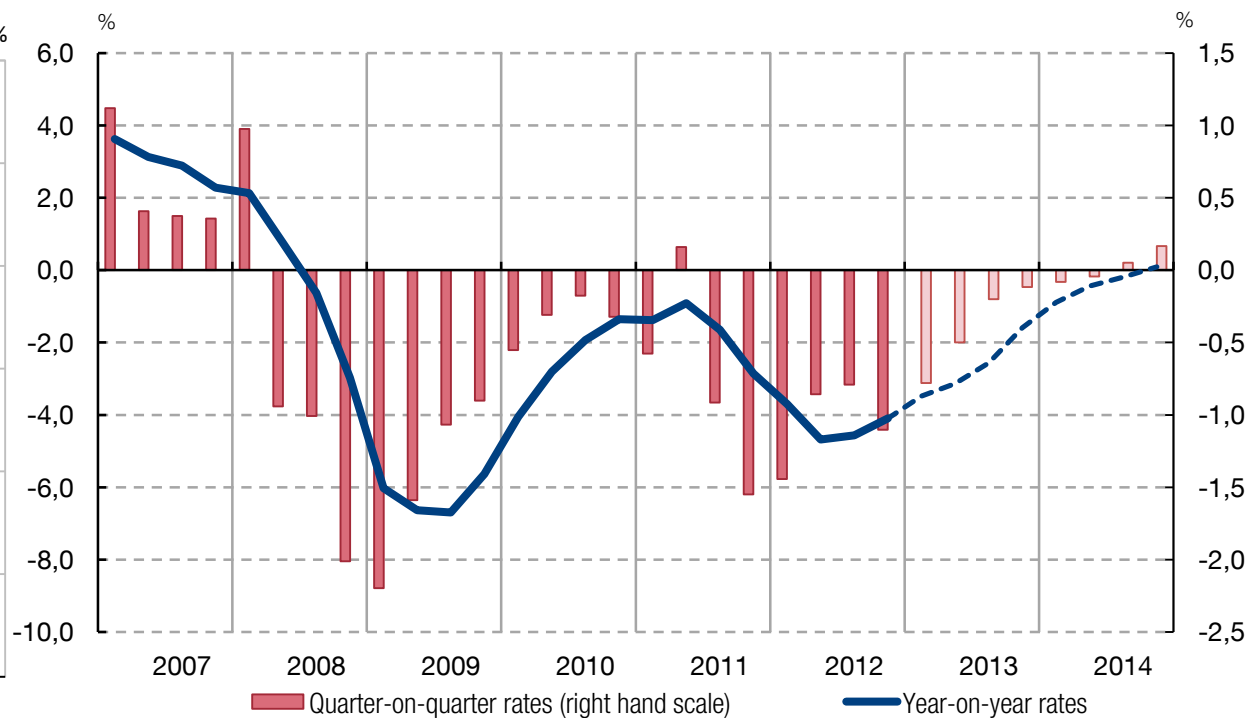


Labour market reform has improved the labour-market adjustment mechanism but its effects need time

AGREED WAGES IN COLLECTIVE BARGAINING



EMPLOYMENT GROWTH

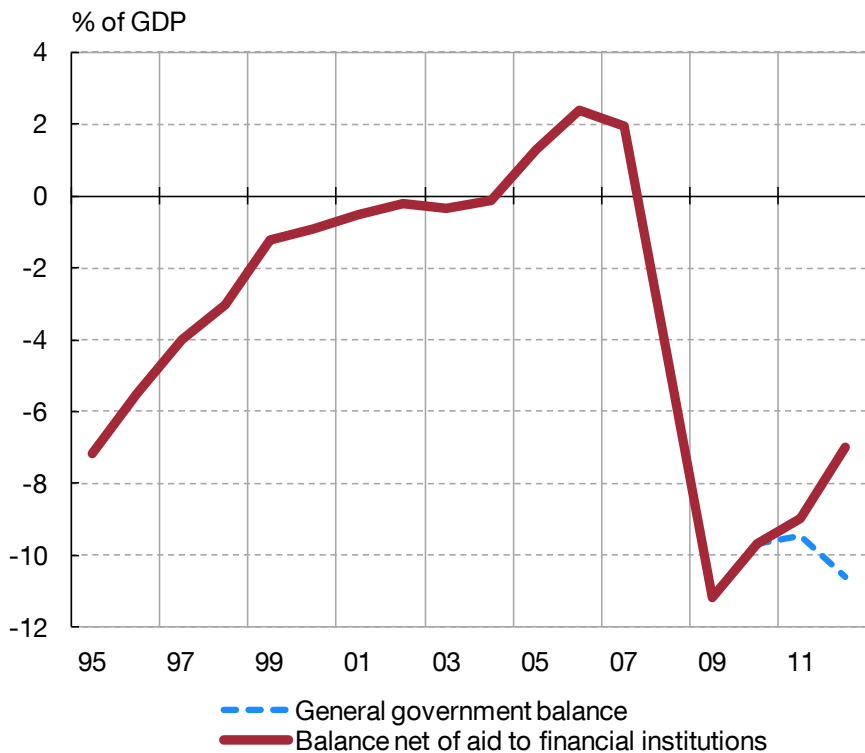


FISCAL CONSOLIDATION IS AN INDISPENSABLE CONDITION FOR RE-ESTABLISHING CONFIDENCE AND GROWTH

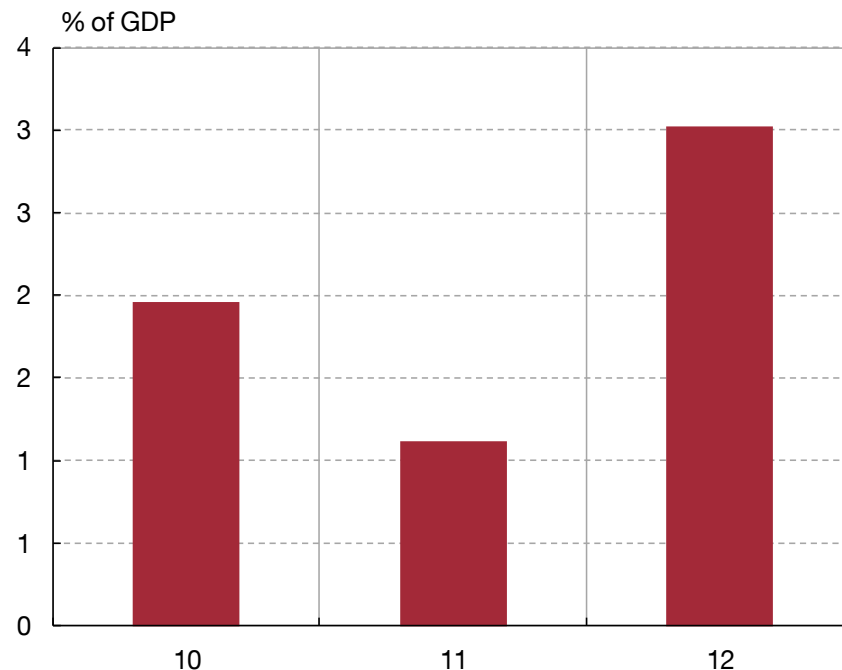


Since 2009 the general government deficit has been reduced by 4.2 pp of GDP and by more than 6 pp when adjusted for the cyclical position and interest payments

GENERAL GOVERNMENT BALANCE



CHANGE IN THE CYCLICALLY ADJUSTED PRIMARY BALANCE (excl. aid to financial institutions)



SOURCES: IGAE and Banco de España.

REFORMS HAVE BEEN MADE TO THE INSTITUTIONAL FRAMEWORK AND TO THE PENSION SYSTEM



Incorporation of **fiscal limits** into the **Constitution**

Approval of the **Budgetary Stability and Financial Sustainability Law**, in force since May 2012

- Setting of structural deficit and public debt targets
- Application to all levels of the general government
- Improvements in transparency and in mechanisms of control

Preparations are being made in order to set up an **independent fiscal authority**

And in the pension system the retirement age has been raised from 65 to 67 and the number of years used to calculate the regulatory base has been increased (from 15 to 25).

Conditions for **early and partial retirement** have been tightened.

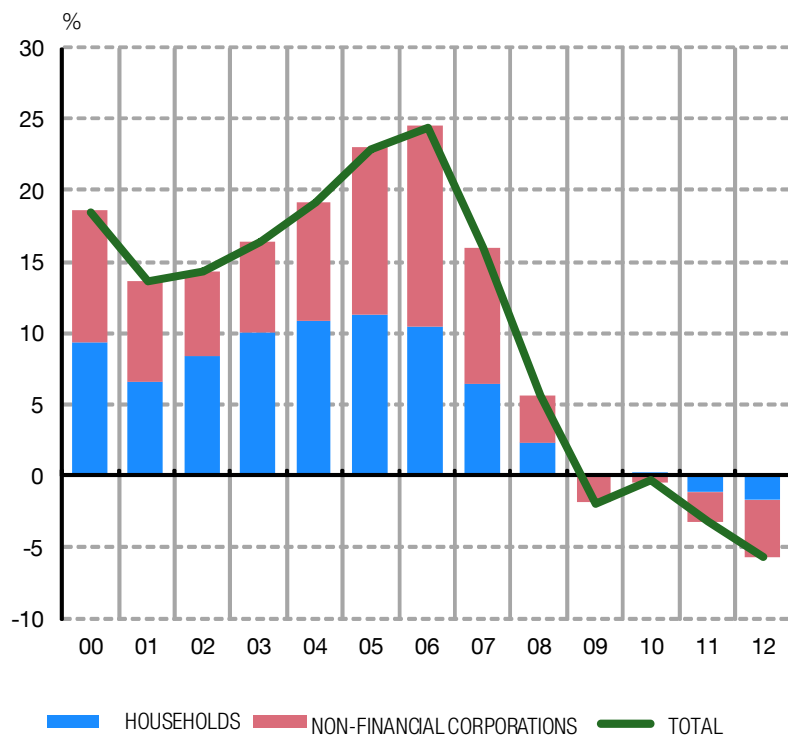
Preparatory work in order to **define the sustainability factor** has started.

REDUCTION OF PRIVATE DEBT

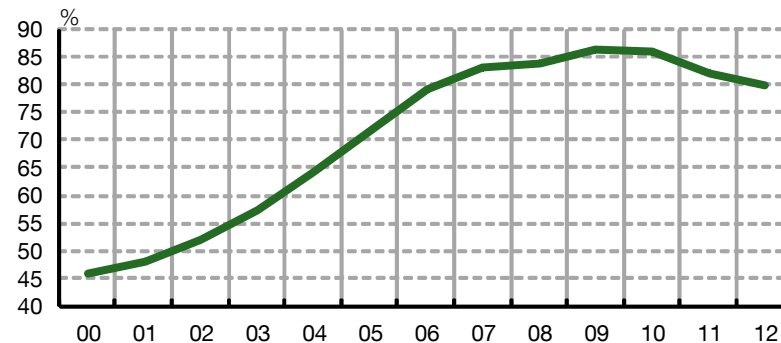


Progress is being made in the process of deleveraging of Spanish firms and households

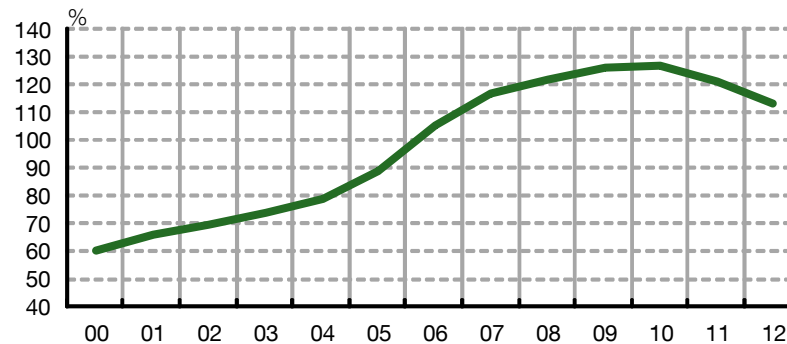
CREDIT (Year-on-year growth and contributions)



HOUSEHOLD DEBT (DEBT/GDP)



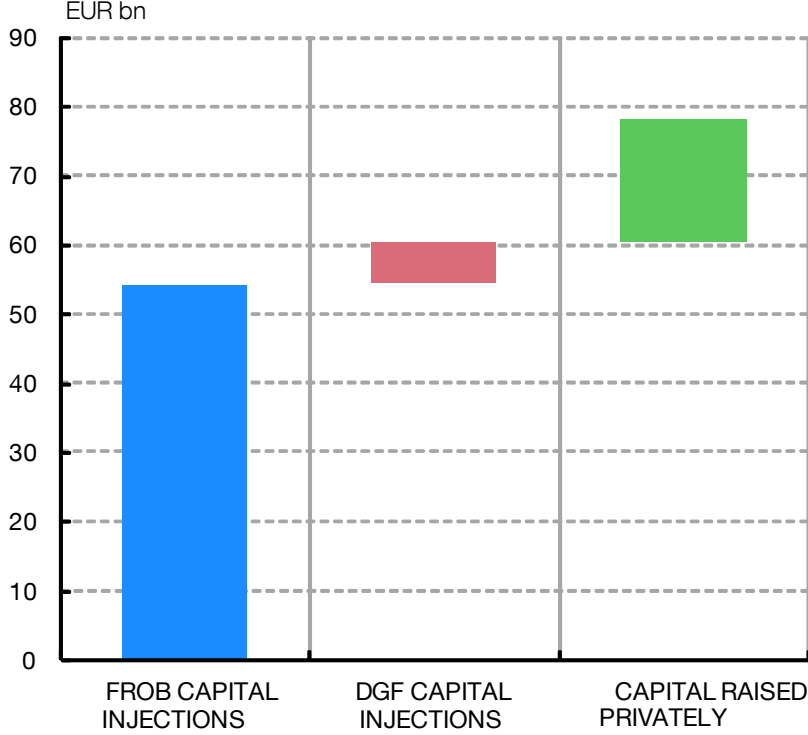
DEBT OF NON-FINANCIAL CORPORATIONS (DEBT/GDP)



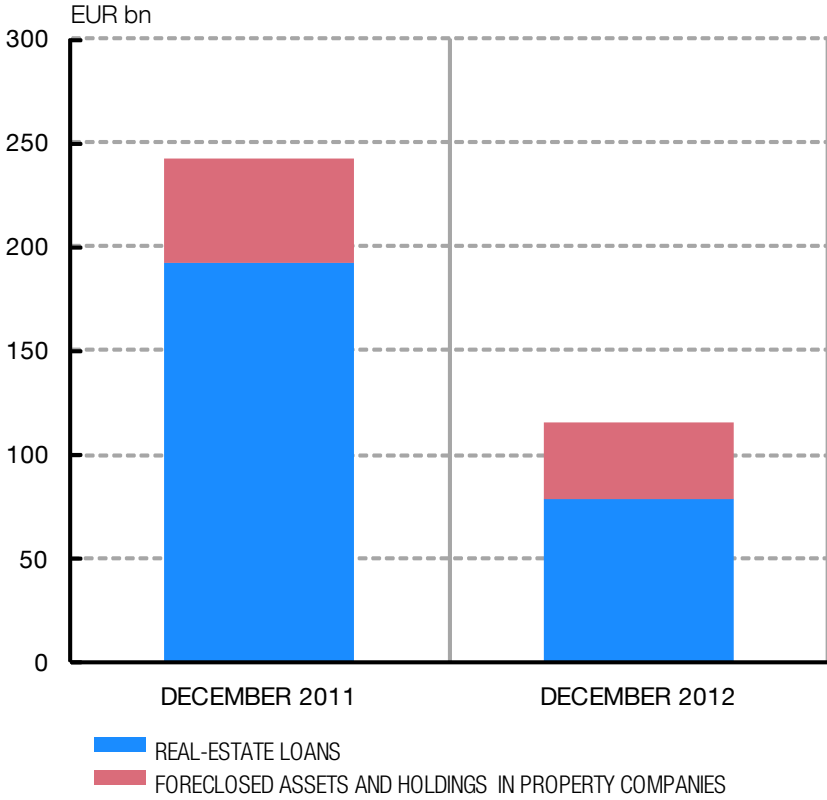
DECISIVE STEPS HAVE BEEN TAKEN TO RECAPITALISE THE BANKS, WITH LARGE SCALE EFFORTS



INCREASES IN CAPITAL DURING THE CRISIS



NET EXPOSURE OF PROVISIONS TO THE PROPERTY SECTOR





THANK YOU FOR YOUR ATTENTION

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