

THE SPANISH ECONOMY: RECENT DEVELOPMENTS AND OUTLOOK

Luis María Linde

Governor

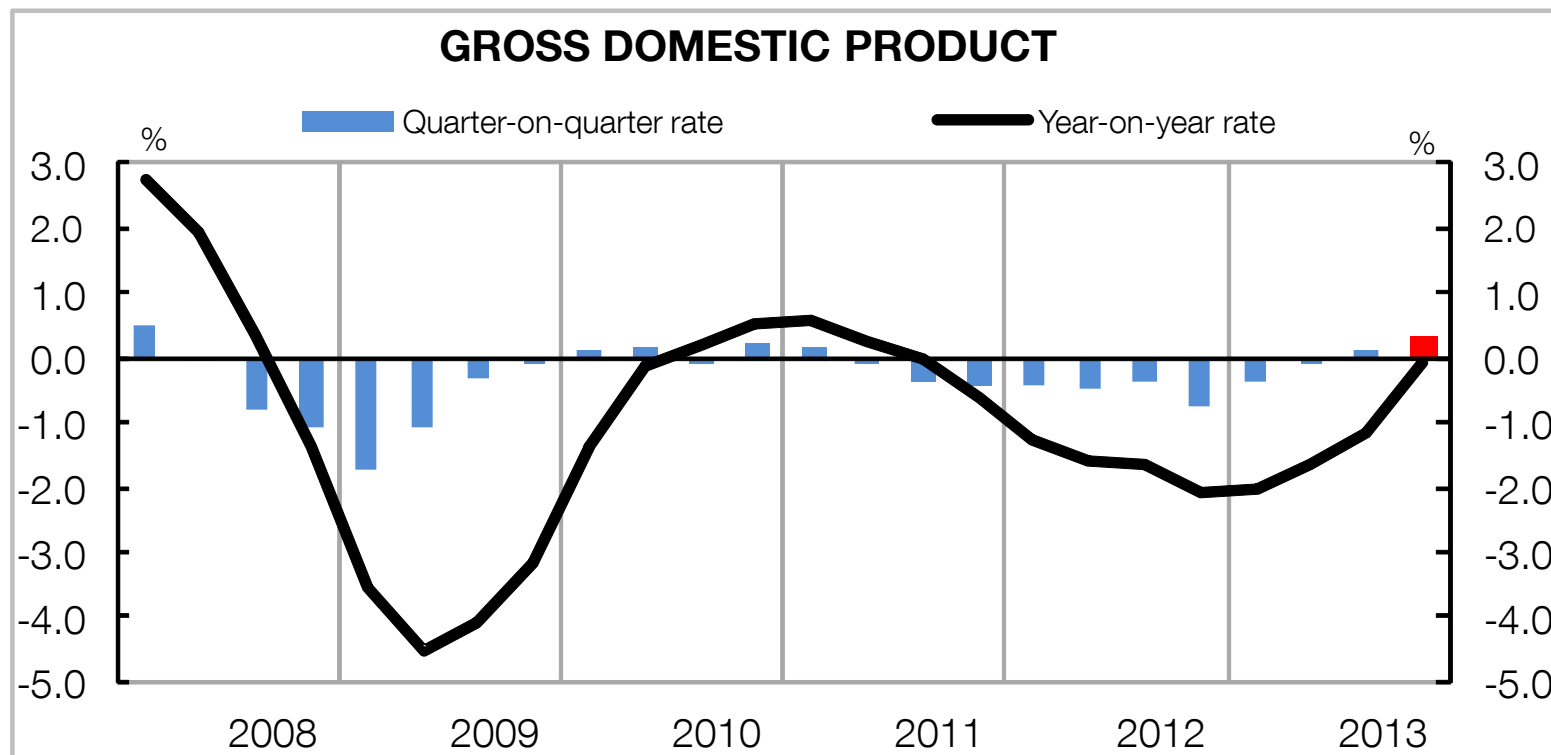
Círculo de Empresarios

11 February 2014

THE RETURN TO POSITIVE GDP RATES



The Spanish economy faced a difficult double-dip recession from which it is gradually emerging.

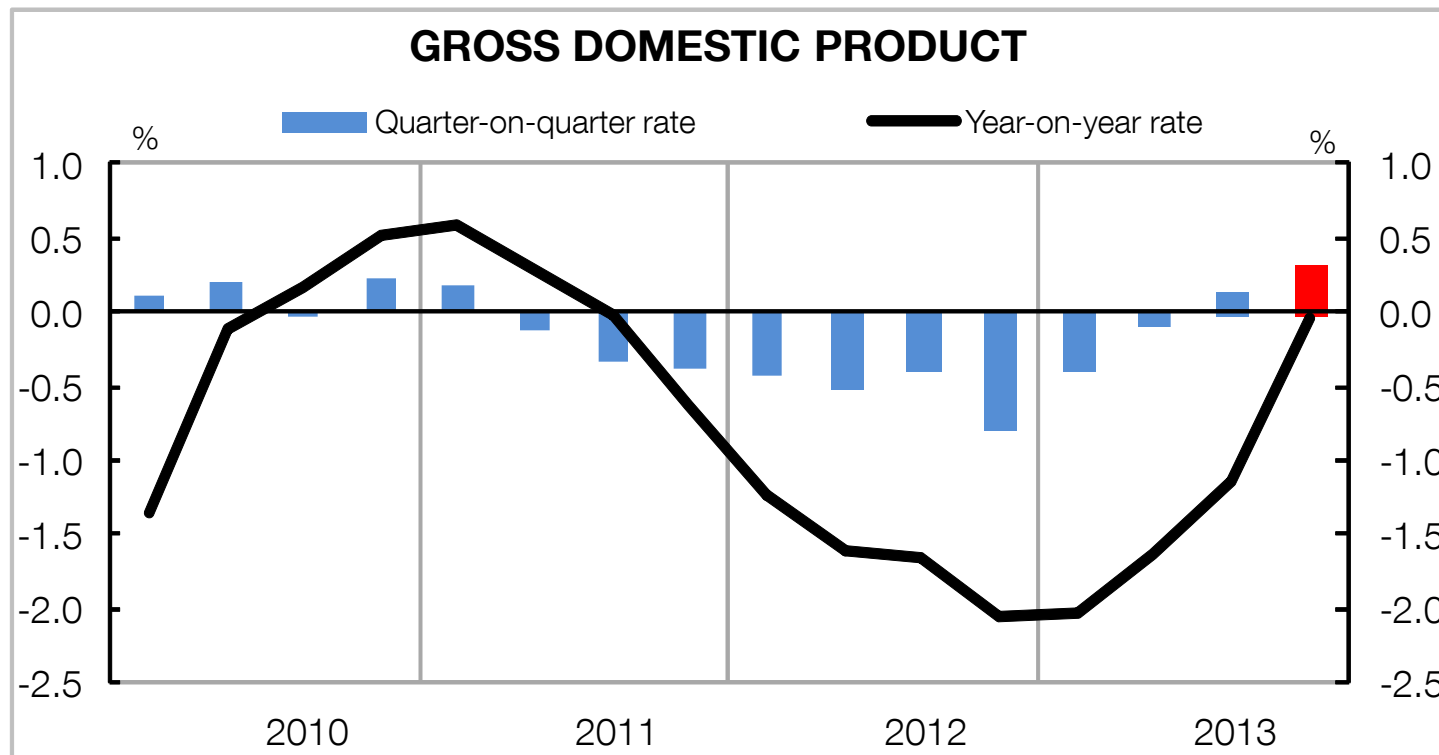


➤ In 2013 Q4, the level of GDP was still 7.1% below that in 2008 Q1.

THE RETURN TO POSITIVE GDP RATES



The Spanish economy moved into a phase of gradual recovery from the summer of 2013.



➤ Positive quarter-on-quarter rates of **GDP growth** in the second half of 2013, following nine consecutive quarters of contraction.



Firmer activity is underpinned by a relatively broad base of factors.

Underpinning the recovery are:

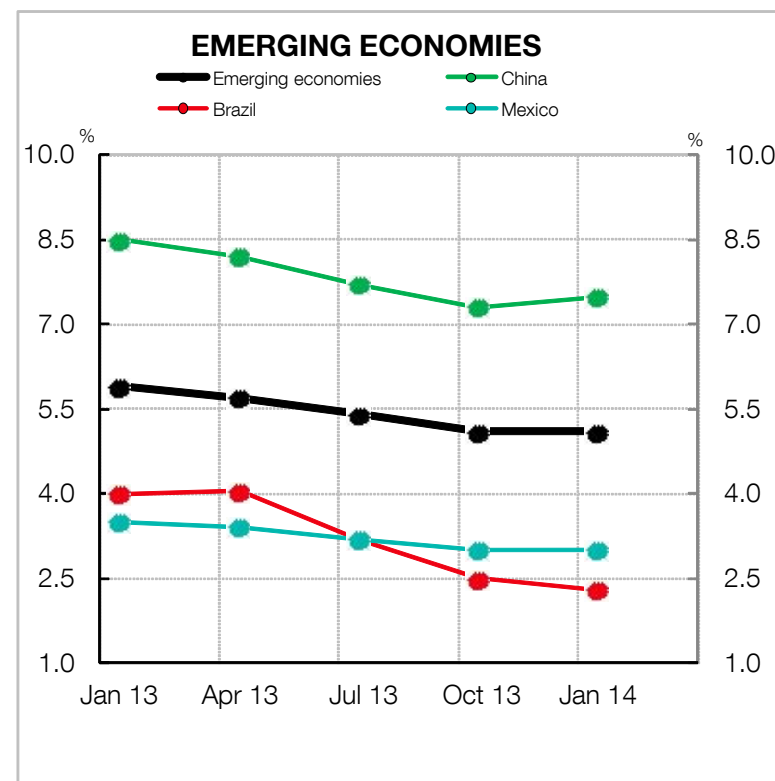
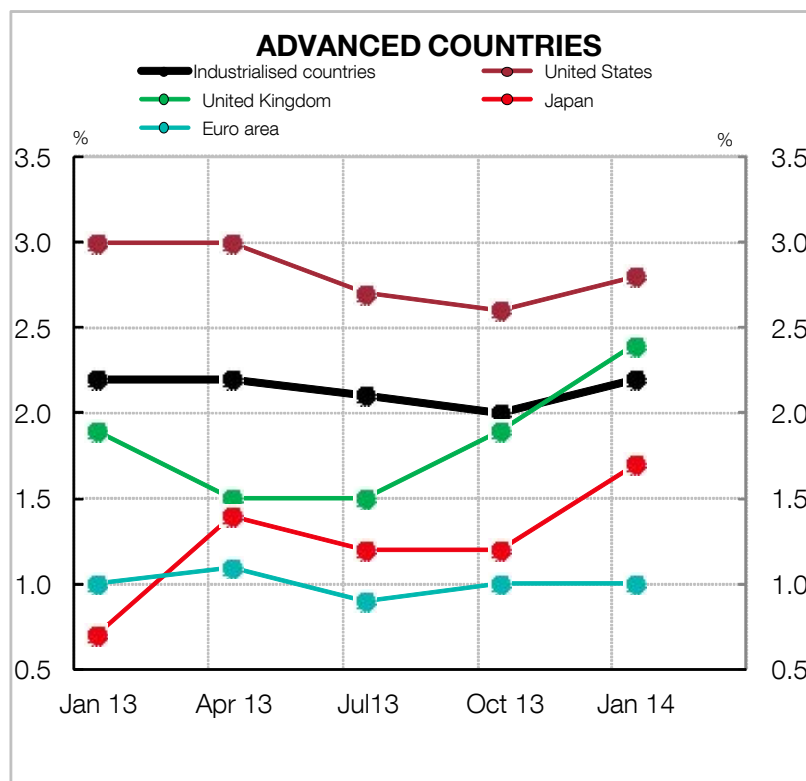
- ✓ A generally favourable external environment
- ✓ A progressive normalisation of the financial environment, which contributes to reducing uncertainty
- ✓ An improvement in employment and the related outlook, supported by wage moderation
- ✓ Some slackening in the pace of fiscal consolidation

THE EXTERNAL ENVIRONMENT: RECOVERY AND RE-BALANCING OF THE GLOBAL ECONOMY



The recovery is taking root in the developed economies, including the euro area, our main trading partner; but growth prospects in the emerging economies are worsening.

IMF GROWTH FORECASTS FOR 2014

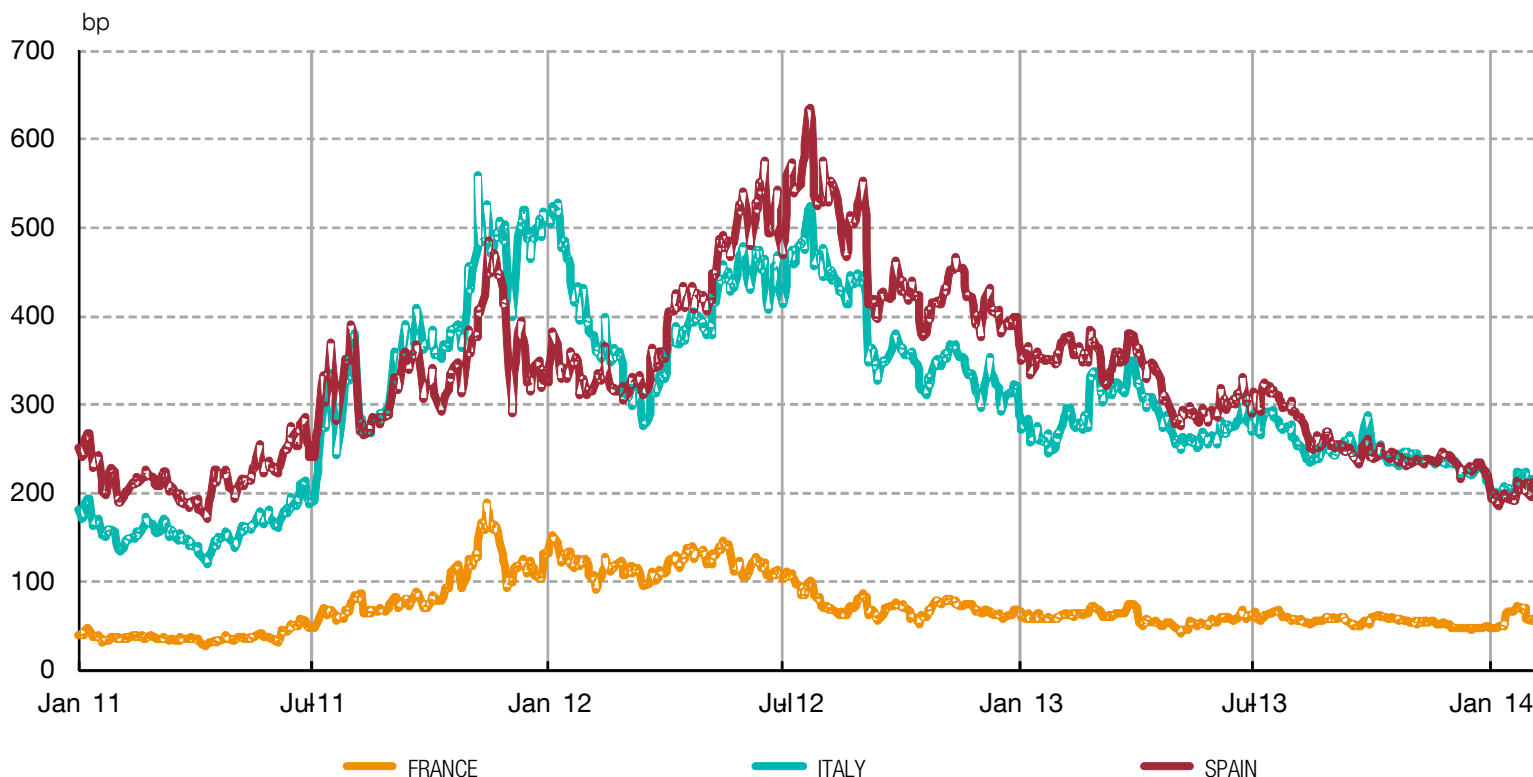


FINANCIAL CONDITIONS: GRADUAL IMPROVEMENT



The degree of tension has abated significantly, but financial market fragmentation persists in the euro area, meaning that the Spanish economy's financing conditions remain excessively restrictive.

SOVEREIGN SPREADS OVER THE GERMAN 10-YEAR BENCHMARK

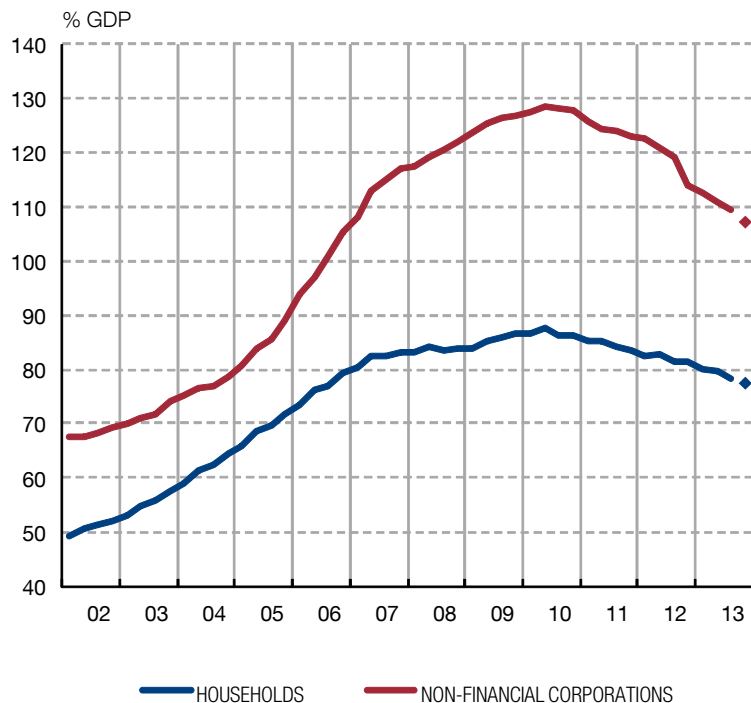


OVERINDEBTEDNESS IS BEING CORRECTED

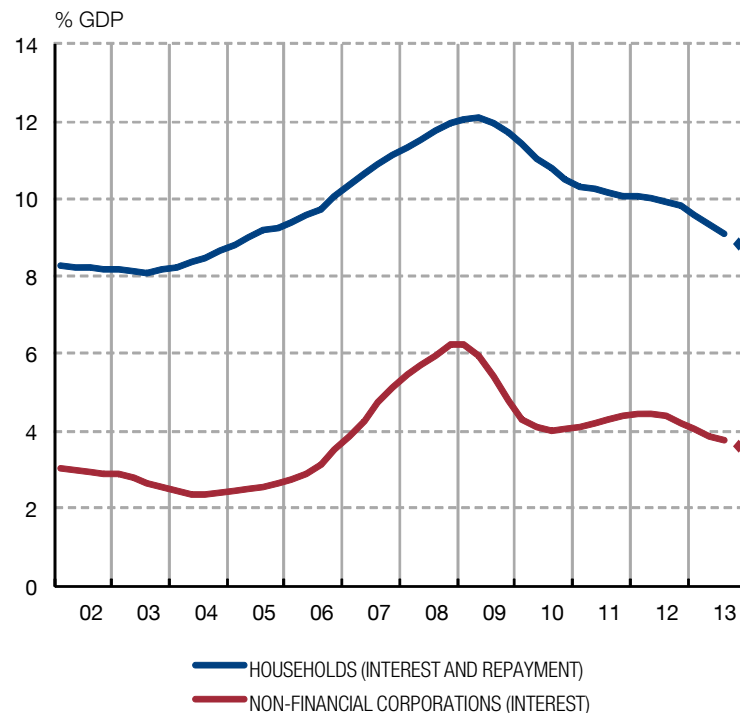


The ongoing deleveraging of households and firms has continued, and the debt burden of both sectors has continued to decline.

DEBT RATIOS



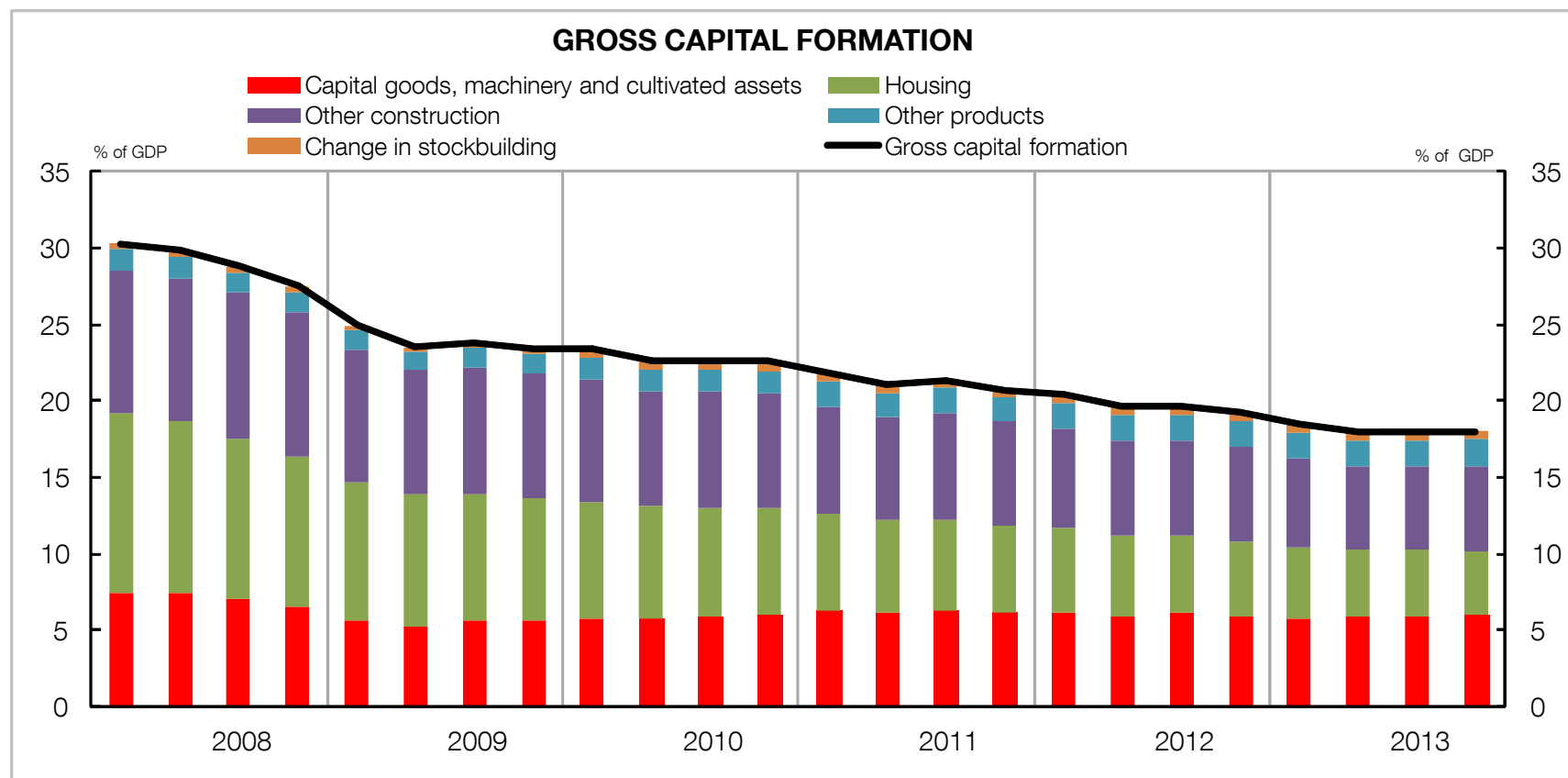
DEBT BURDEN



THE DECLINE IN GROSS CAPITAL FORMATION HAS BECOME MOST SEVERE



The process has been particularly pronounced in investment in construction and housing.

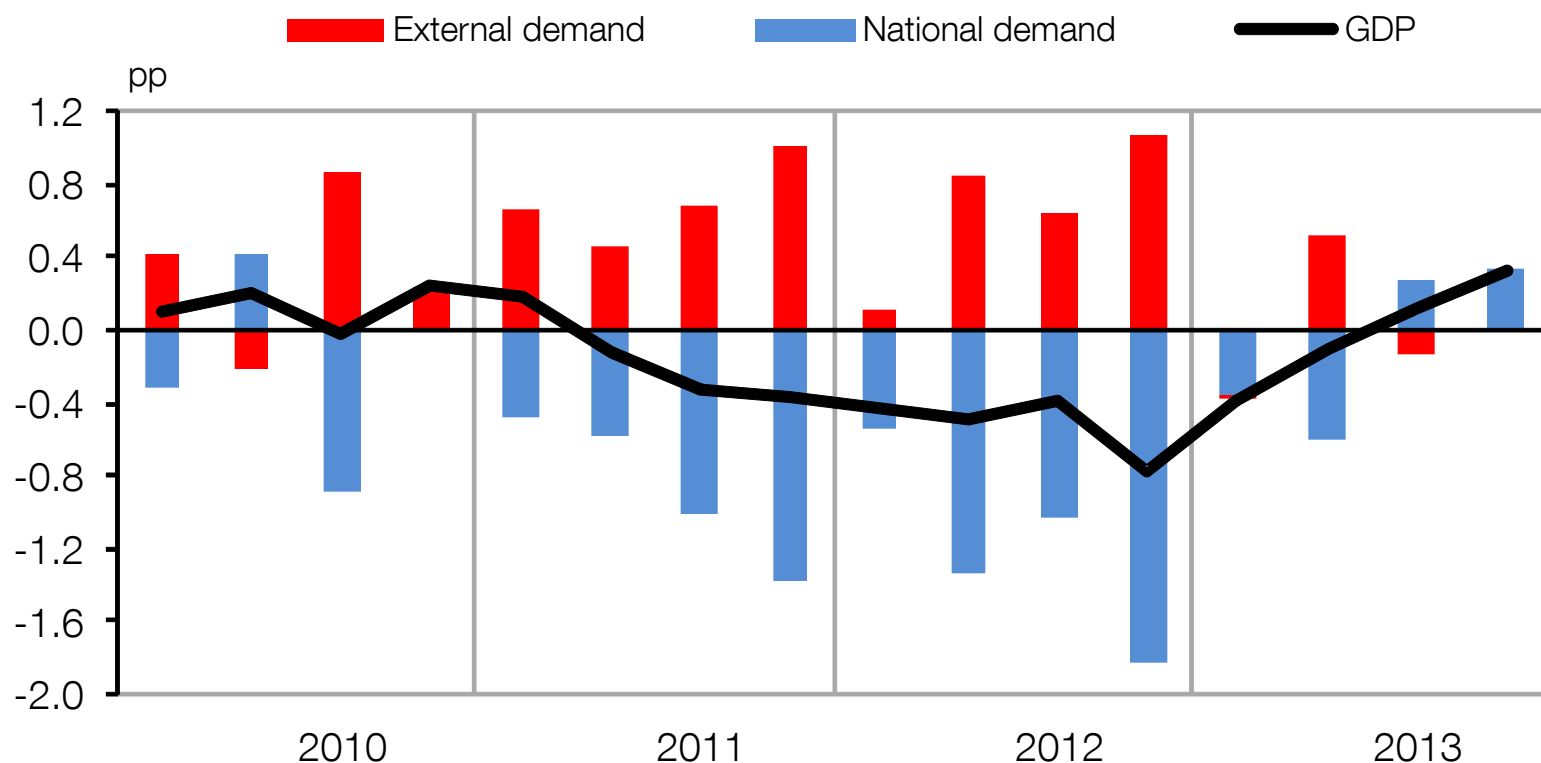


THESE DETERMINANTS PRESAGE THE RECOVERY IN NATIONAL DEMAND



There is a re-balancing of the contributions of external and national demand, with a slight pick-up in consumption and investment in equipment and some slowing in the fiscal adjustment following the revision of the adjustment path.

CONTRIBUTIONS TO QUARTER-ON-QUARTER GROWTH

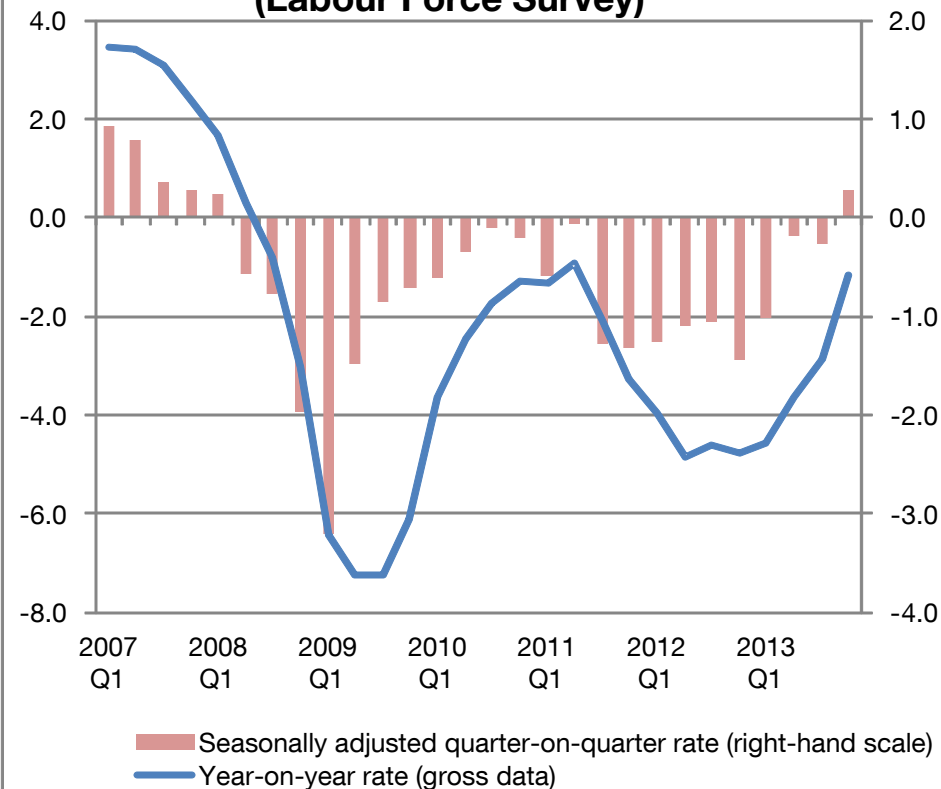


THE RECENT LABOUR MARKET PERFORMANCE HAS BEEN A PLUS

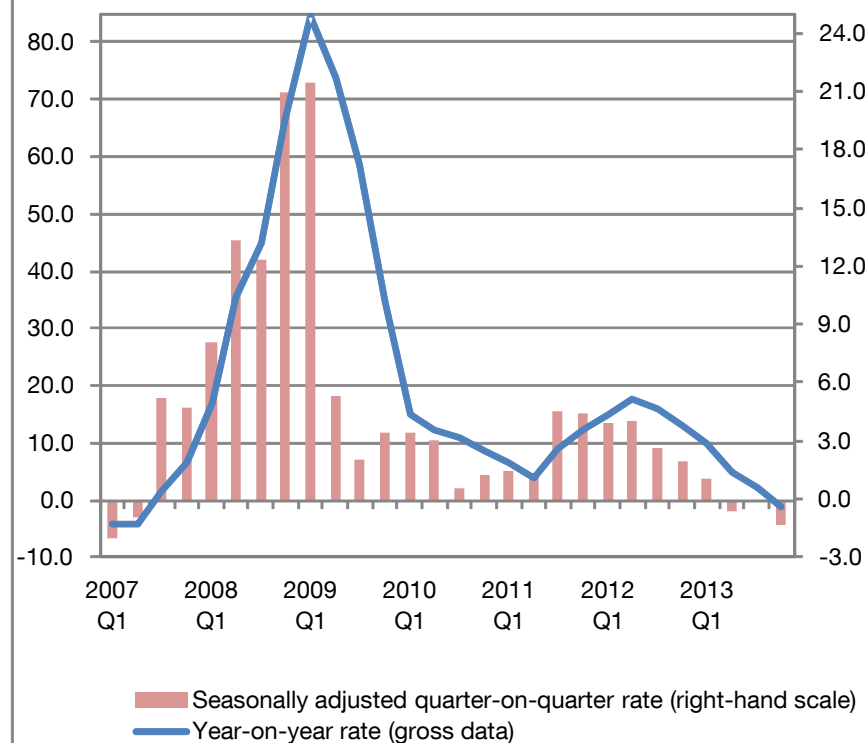


The first job creation in quarterly terms and the first year-on-year decline in numbers unemployed since the start of the crisis were seen in Q4.

Employment according to the EPA (Labour Force Survey)



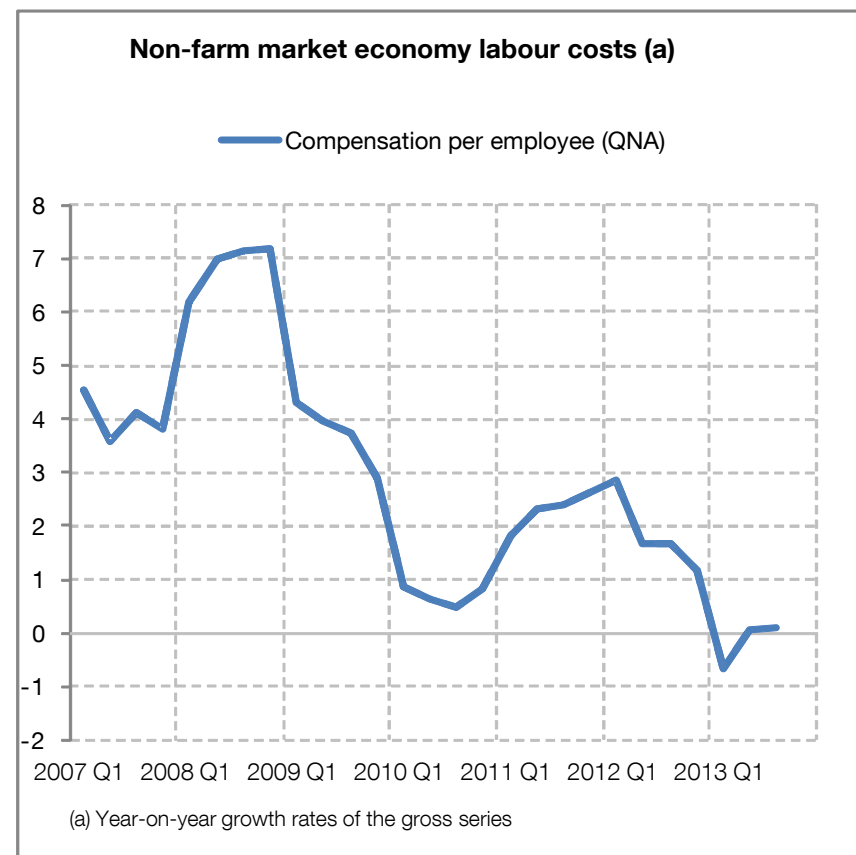
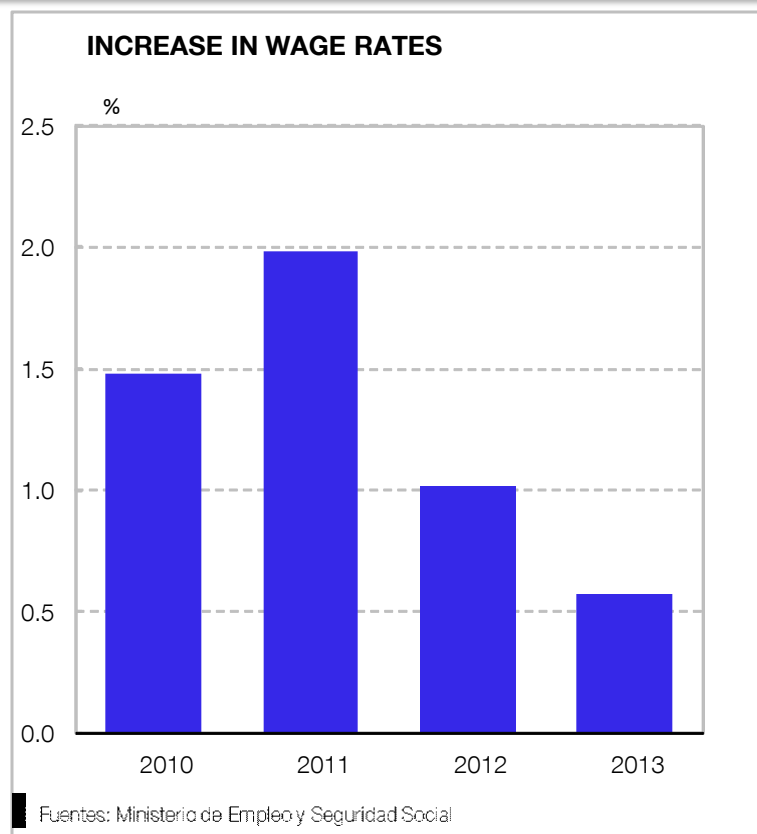
Unemployment according to the EPA (Labour Force Survey)



WAGE MODERATION IS PROVING SIGNIFICANT...



Boosted largely by the labour market reform, which is prompting a greater adjustment of working conditions to firms' specific situation.

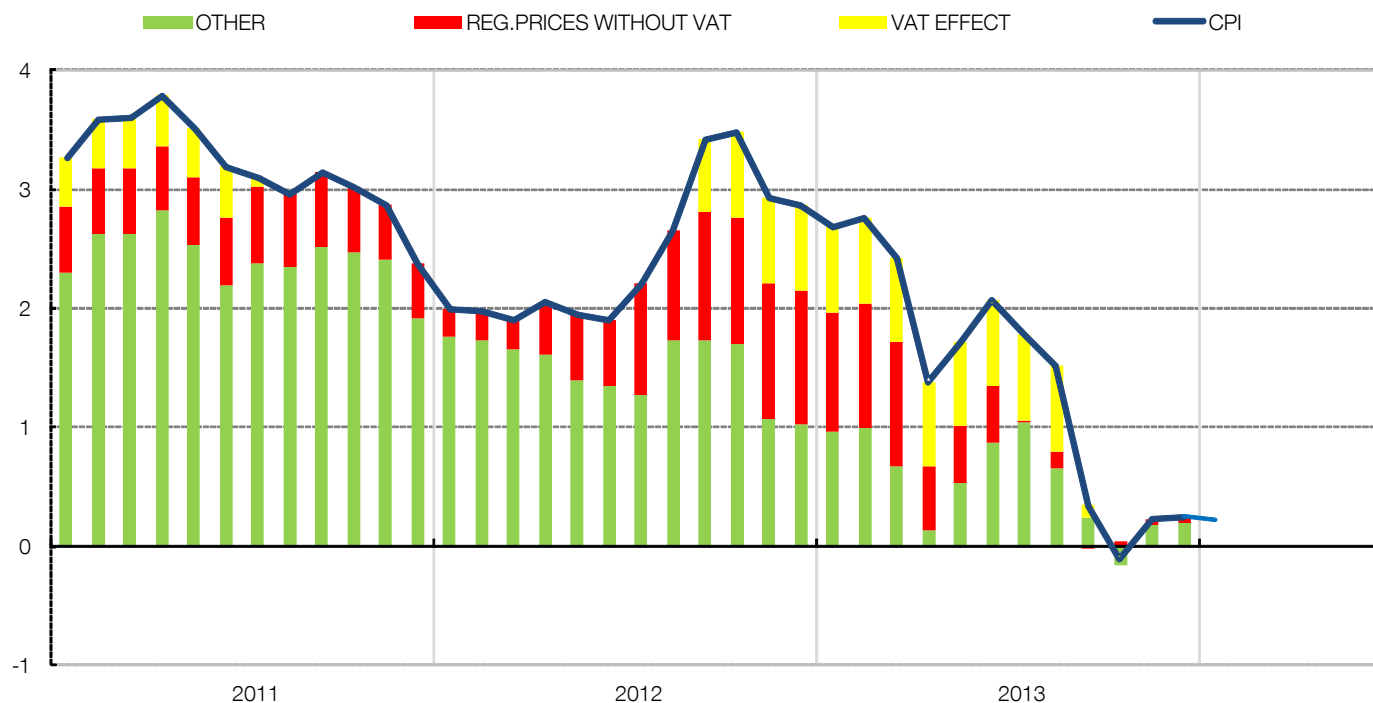


...IN A SETTING OF PRICE STABILITY



The slowdown in inflation has intensified since September, due especially to base effects (administered prices and VAT rises). Limited pass-through of indirect tax rises owing to cyclical weakness and headway in disindexation.

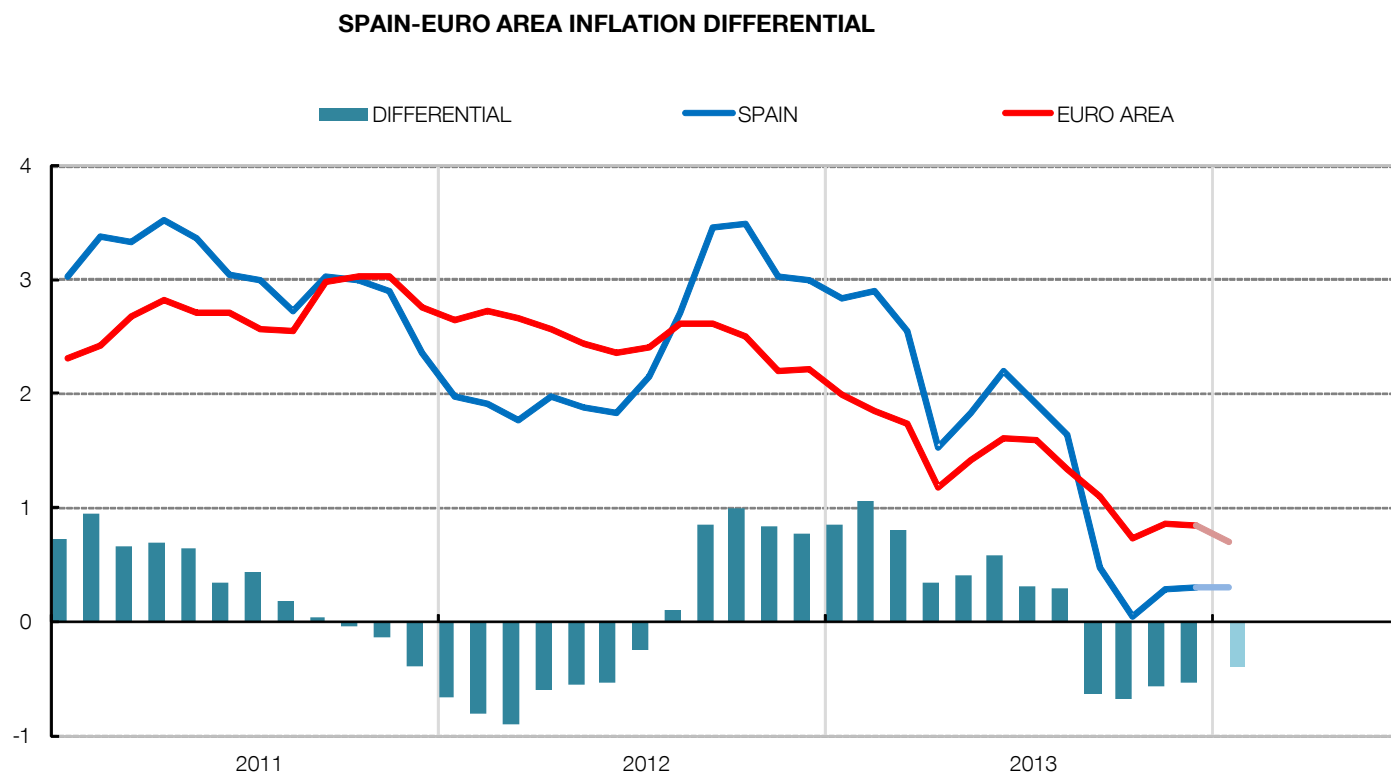
CONTRIBUTIONS TO THE YEAR-ON-YEAR RATE OF THE CPI



WHICH WILL CONTINUE THROUGHOUT THIS YEAR



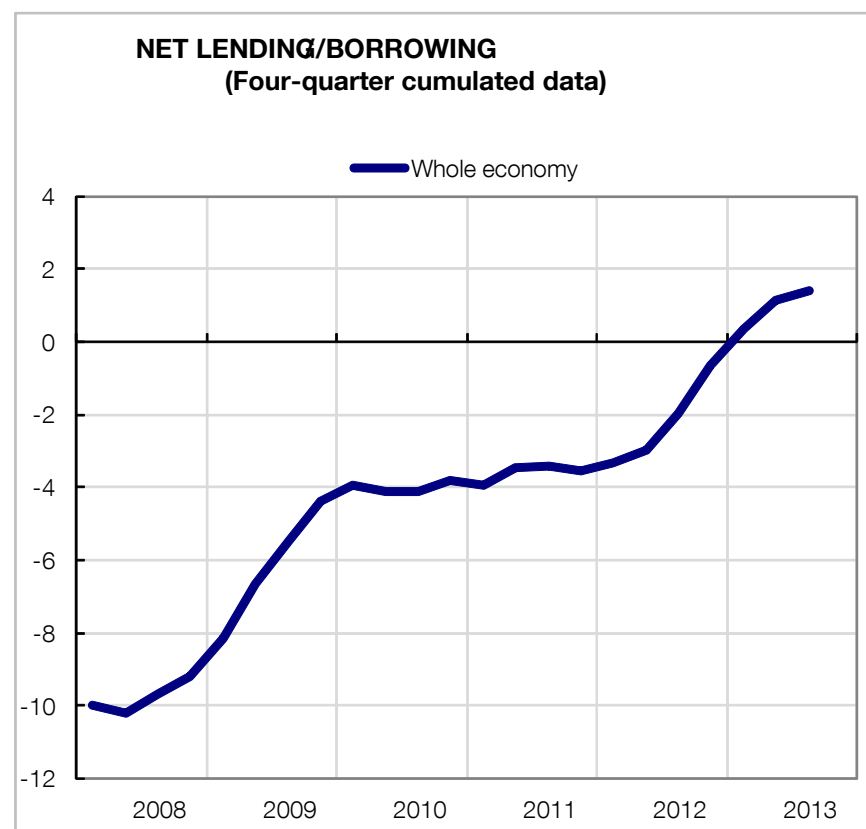
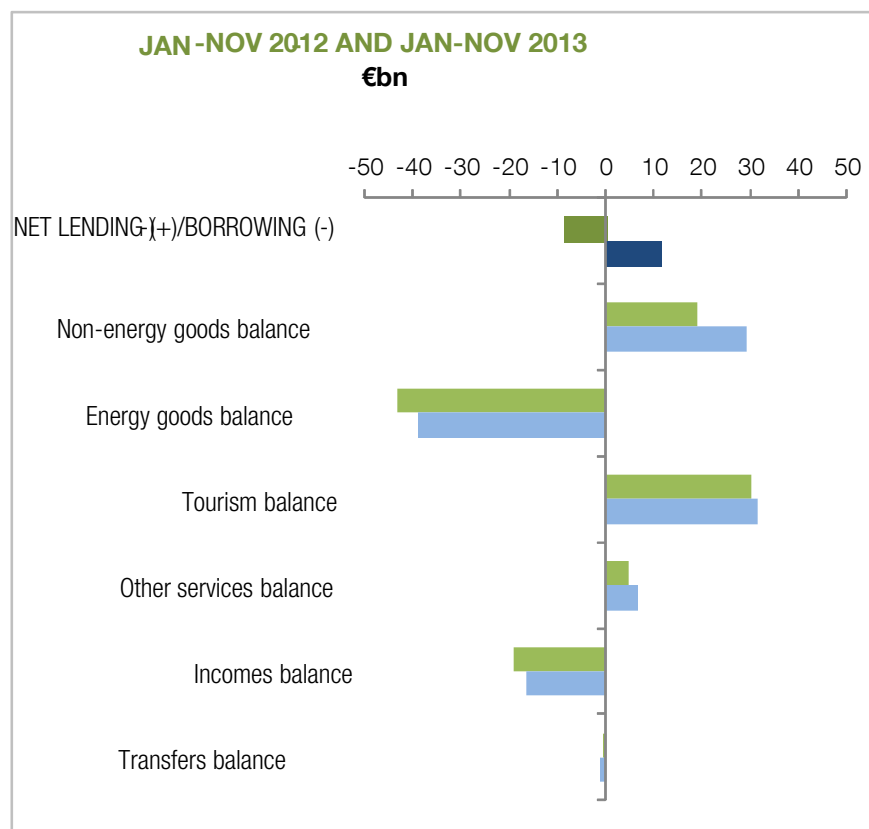
Low inflation is expected, enabling the negative differential with the euro area to be maintained.



ADJUSTMENT OF THE EXTERNAL IMBALANCE



Restored competitiveness has provided for a most significant correction of the external imbalance, resulting in a surplus for the first time since 1997. The improvement was underpinned above all by the non-energy goods balance.





Reform momentum has continued in recent months, taking in the pensions system, greater flexibility in the use of part-time contracts and the law on disindexation. The reforms are helping bolster the recovery.

- The law on pensions system reform, which will substantially help their sustainability, came into force in December.
 - Along with regulating the Sustainability Factor, it decisively defines the Revaluation Index, which ensures that, as from the very shortest term, system expenses are in step with revenue.
- The law on disindexation will help price-setting respond to the changes in relative demand or in costs, favouring competitiveness and employment.
 - The law will limit increases in public prices to the related cost developments and will help decouple price revisions in private contracts from the course of the CPI.

THE PROSPECTS OF EXITING THE CRISIS HAVE IMPROVED BUT ARE NOT FREE FROM UNCERTAINTY



The factors that have allowed the recent improvement are expected to remain in place in the coming quarters. However, key challenges remain.

- Looking ahead, the recovery will foreseeably strengthen as financial conditions progressively normalise and as the improved labour market outlook leads to domestic demand gaining greater traction.
- The strength of the recovery will depend on the response to the challenges ahead:
 - continuation of the adjustment in relative prices, which would see the culmination of the ongoing recovery of the losses in competitiveness during the expansionary phase;
 - headway in budgetary consolidation, which must pursue the goal of stabilising the debt ratio;
 - the maintenance of reform momentum.