

THE RECOVERY OF THE SPANISH ECONOMY

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**Lunch colloquium of the Asociación para el Progreso de la
Dirección (APD Zona Levante – Valencia)**

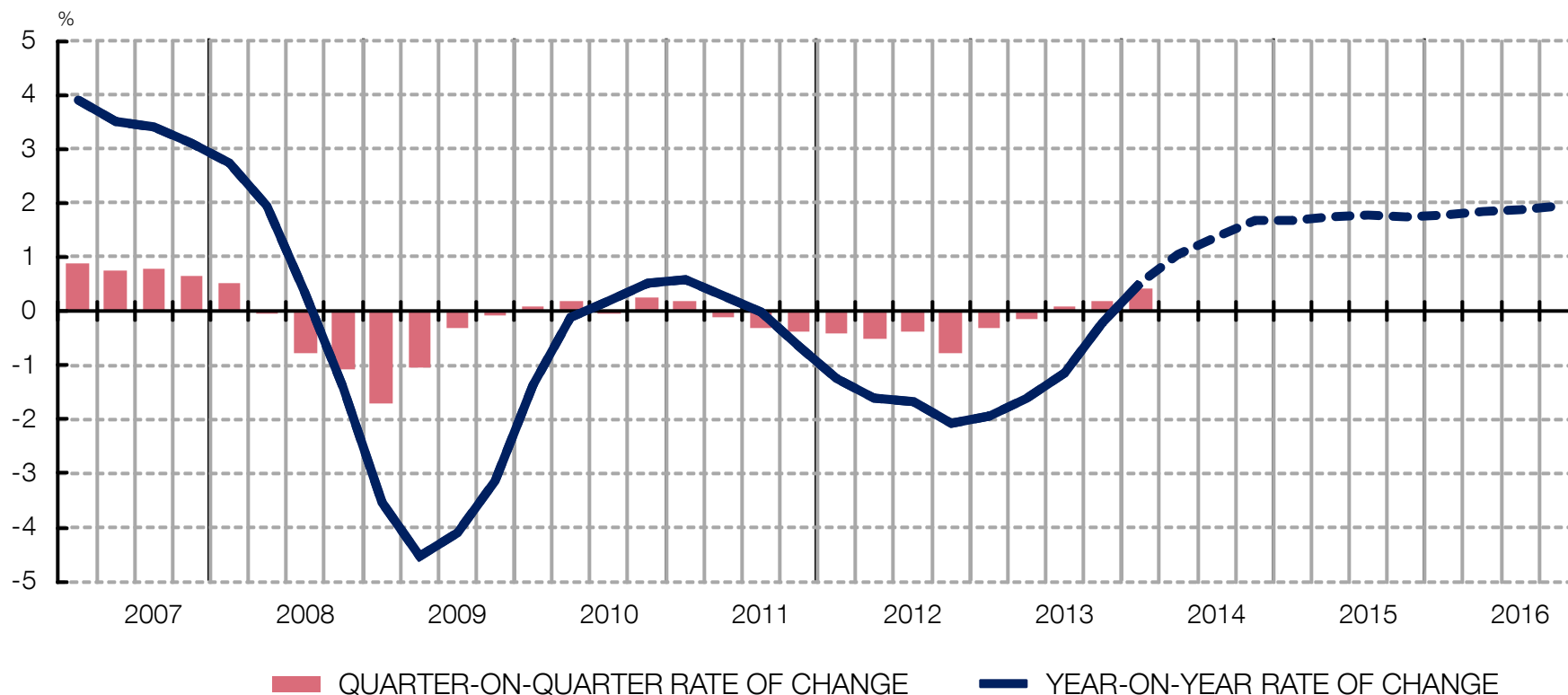
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THE SPANISH ECONOMY HAS ENTERED A PHASE OF RECOVERY



In mid-2013 the Spanish economy exited the double-dip recession which marked the crisis and activity is now on a path of gradual recovery.

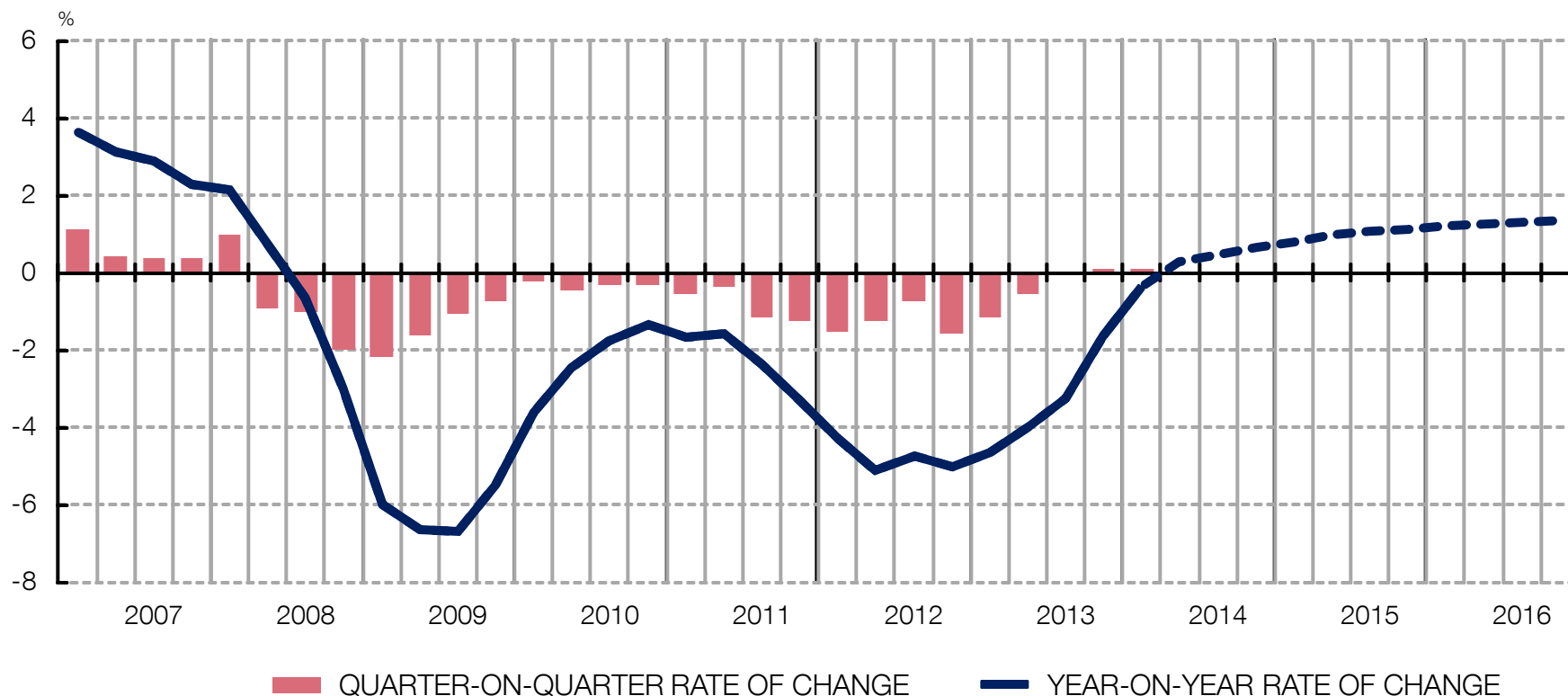
GDP: RECENT COURSE AND PROJECTION



AND HAS CROSSED THE CRITICAL JOB-CREATION THRESHOLD

The long period of job destruction gave way to modest job creation at the end of 2013, which has continued in 2014 and will foreseeably become more firmly entrenched in 2015-2016.

EMPLOYMENT: RECENT COURSE AND PROJECTION



WHAT FACTORS EXPLAIN THE ABOUT-FACE IN THE SPANISH ECONOMY?



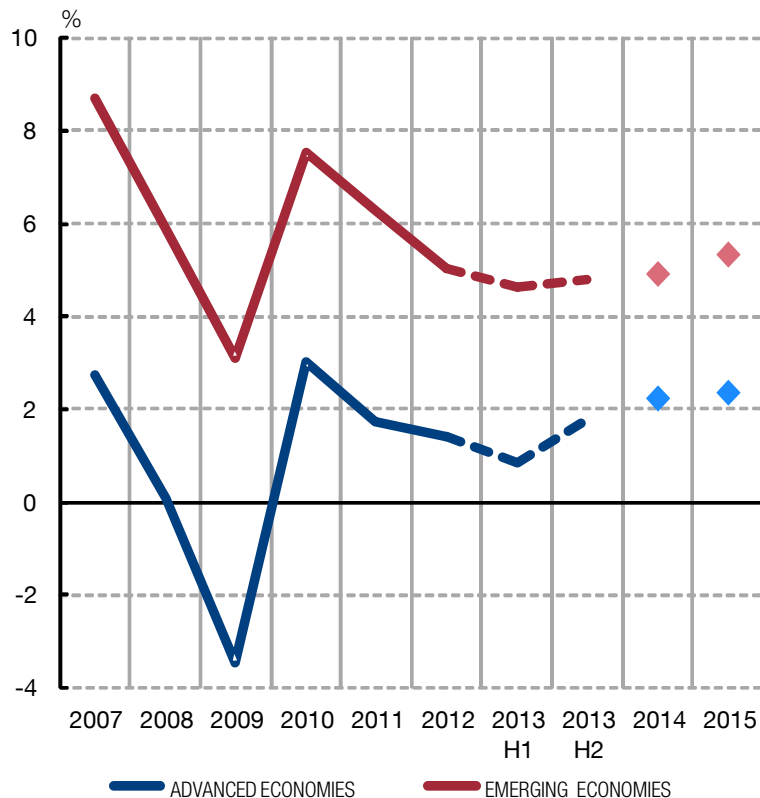
The recovery of the Spanish economy was favoured by a number of positive stimuli received from abroad.

But it would not have been possible without the progress made in the process of internal adjustment.

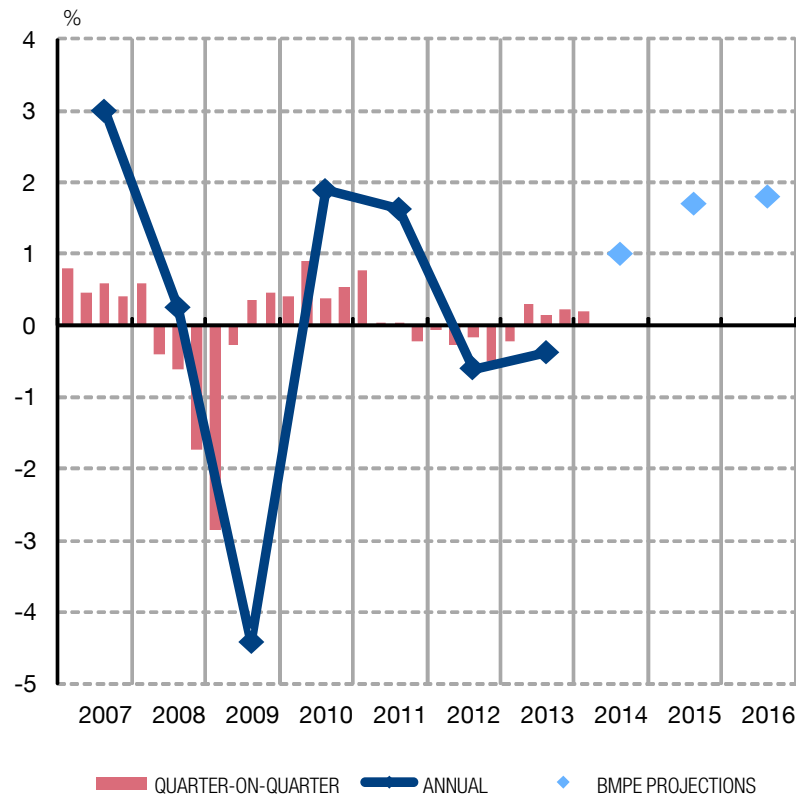
EXTERNAL STIMULI: THE PICK-UP IN GLOBAL ACTIVITY FAVOURED EXPORTS AND IMPROVED CONFIDENCE

In the second half of the year, growth picked up in the advanced economies and, more particularly, in the euro area, which exited the recession.

GROWTH OF WORLD GDP



GROWTH OF EURO AREA GDP



ACTIONS OF EUROPEAN GOVERNMENTS WHICH ALSO CONTRIBUTED TO CREATING A MORE CONFIDENT CLIMATE



European governments adopted important measures nationally and in relation to the governance and functioning of the euro area.

At national level:

- Progress was made in fiscal consolidation processes (the budget deficit of the euro area decreased to 3% of GDP in 2013 from a peak of 6.4% in 2009).
- Reforms were undertaken in the economies subject to greatest pressure.
- The financial assistance programmes for Ireland and Portugal ended.
- The programmes for Cyprus and Greece proceeded favourably.

At the level of European institutions:

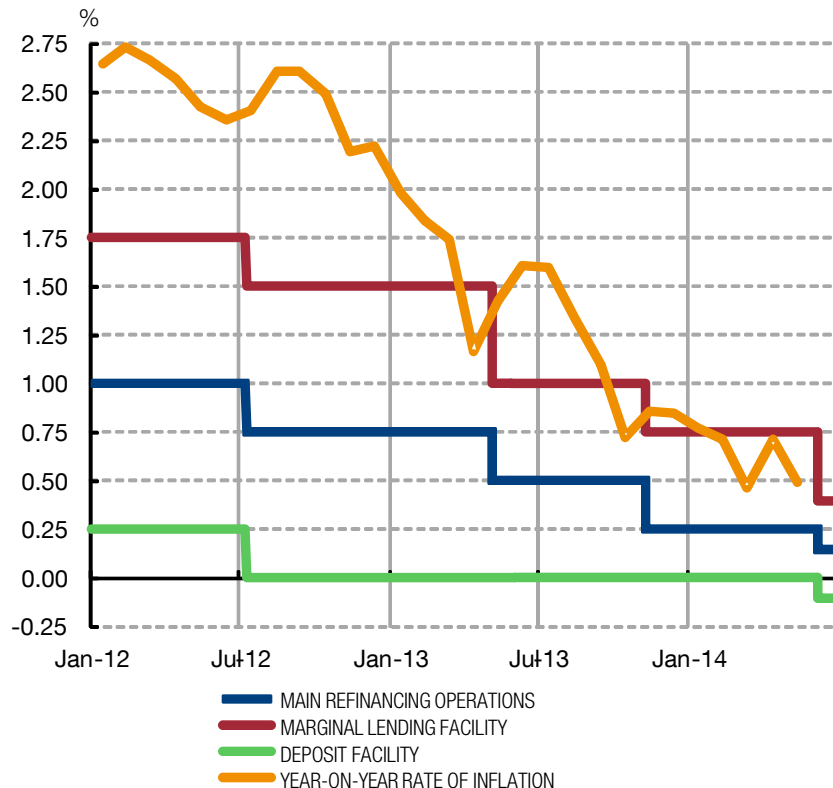
- The new procedures that arose from the governance reform were firmly established (European Semester, Macroeconomic Imbalance Procedure)
- The budget deficit targets were revised to attune them more closely to the cyclical conditions of each economy.
- The design of the SSM was completed and it will be fully operational at the end of this year.
- Significant progress has been made in the design of the SRM.

THE STRONGLY EXPANSIONARY MONETARY POLICY OF THE ECB AIDED THE RECOVERY IN EUROPE AND THE EASING OF STRAINS



The ECB maintained its strongly expansionary monetary policy stance through the use of conventional and non-conventional monetary policy measures.

IHICP AND ECB POLICY INTEREST RATES



Main measures adopted

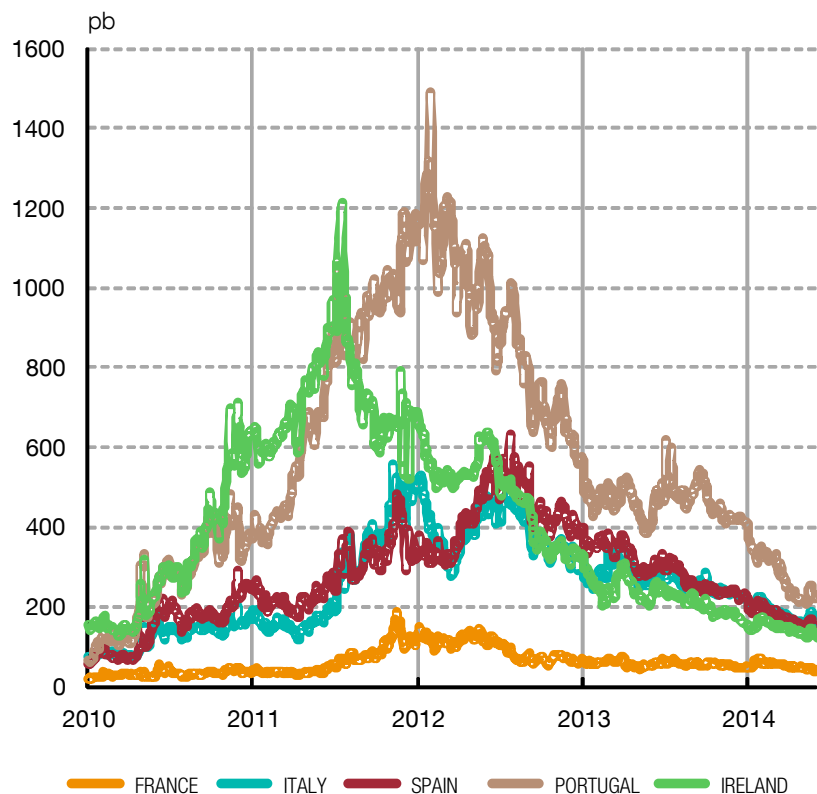
- Reduction of official rates on three occasions. Negative rates on the deposit facility.
- Introduction of forward guidance.
- New longer-term refinancing operations designed specifically to encourage lending.
- Prolongation of fixed-rate tenders with full allotment until at least end-2016.
- Transparency: extension of projection horizon and publication of accounts of meetings (the latter under consideration).

THE EASING OF STRAINS ON FINANCIAL MARKETS HAS BEEN EVIDENT

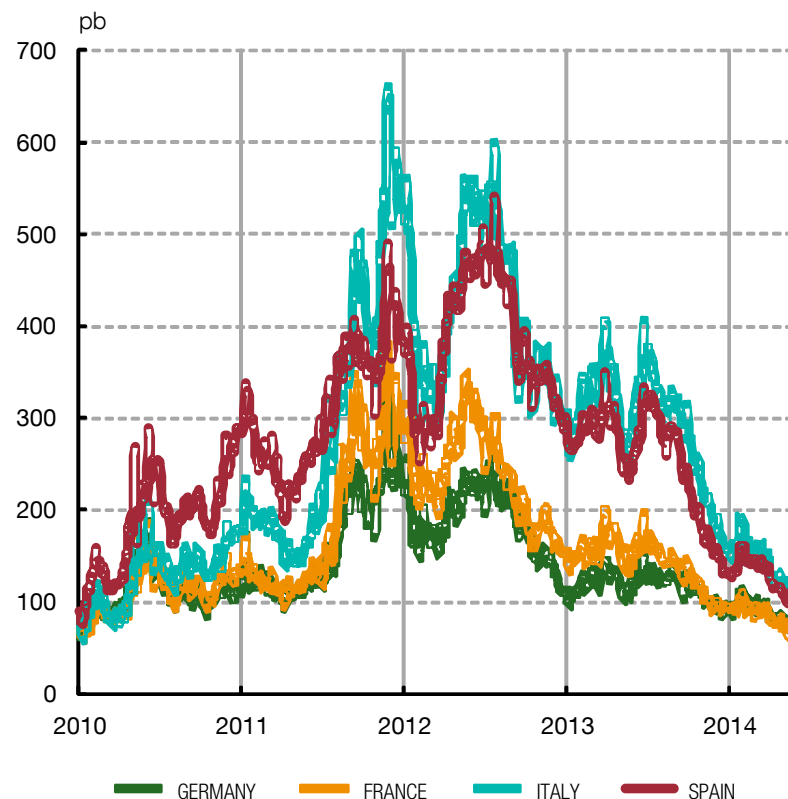


After summer, sovereign and bank risk premia moved onto a clear downward path.

SOVEREIGN SPREADS VIS-À-VIS GERMANY (10 YEAR)



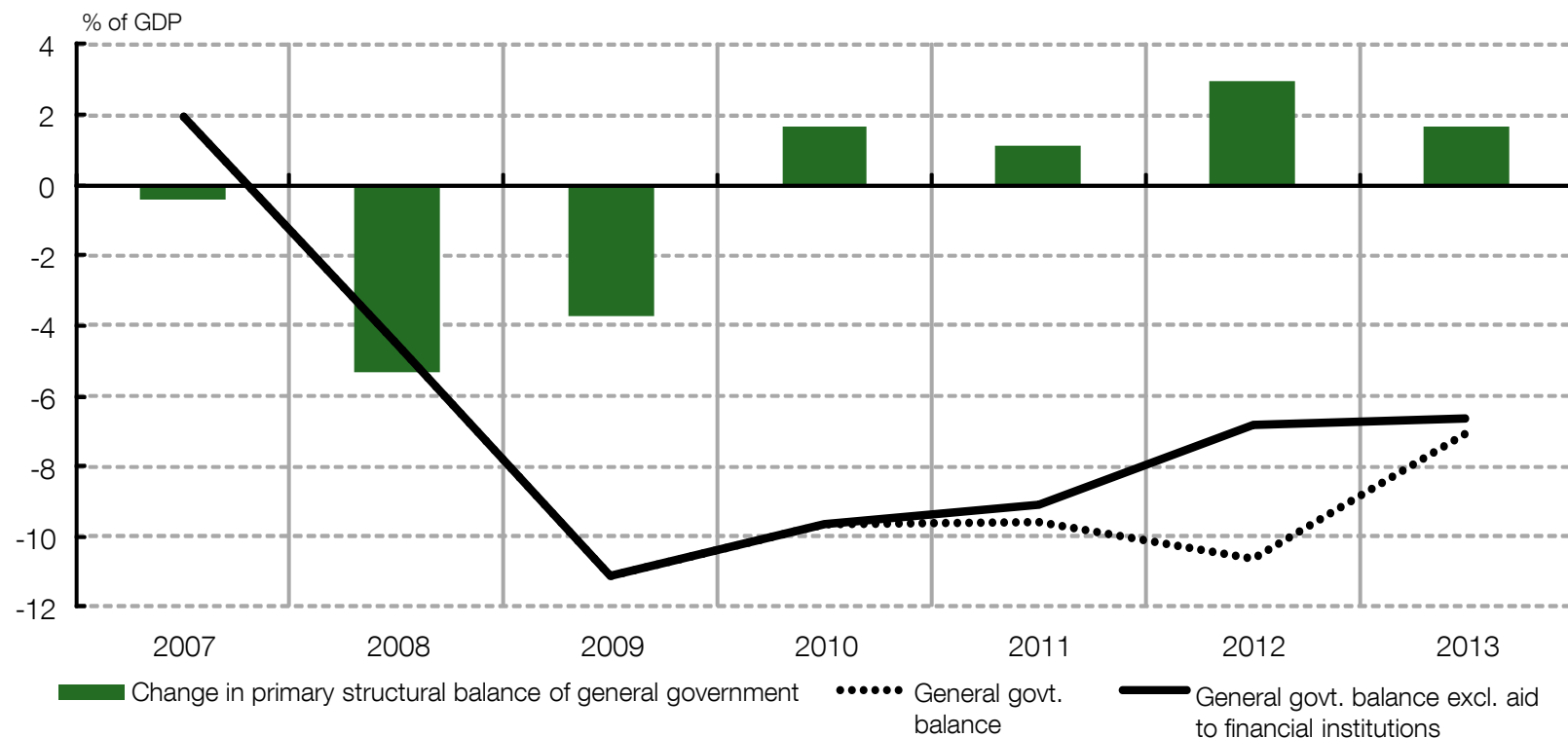
BANK RISK PREMIA (FIVE-YEAR CDS)



PROGRESS IN INTERNAL ADJUSTMENT: FISCAL CONSOLIDATION

The budget deficit stood at 6.6% of GDP in 2013 (excluding aid for the financial sector), with a fresh improvement in the primary structural balance.

BUDGET BALANCE OF GENERAL GOVERNMENT (NA) AND CHANGES

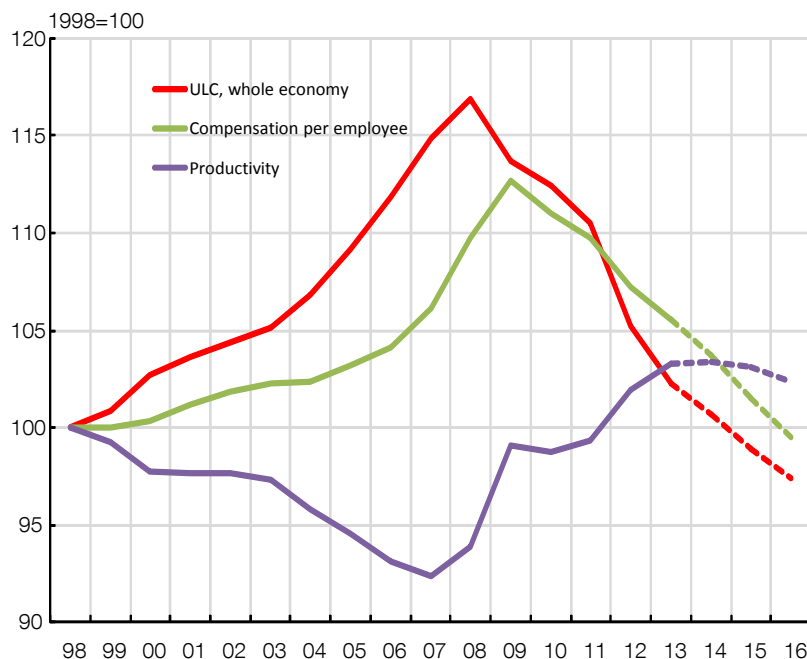


PROGRESS IN ADJUSTMENT OF COMPETITIVENESS (THROUGH INTERNAL DEVALUATION)

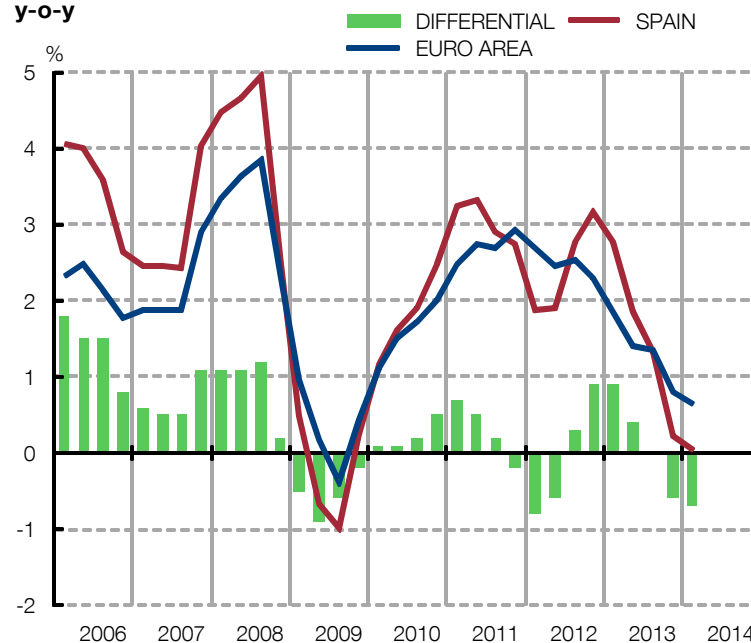


The moderation of costs and prices was maintained, allowing Spain to make headway in recovering the lost competitiveness vis-à-vis its main trading partners and in restoring a favourable inflation differential.

RELATIVE LABOUR COSTS: Spain vis-à-vis the euro area



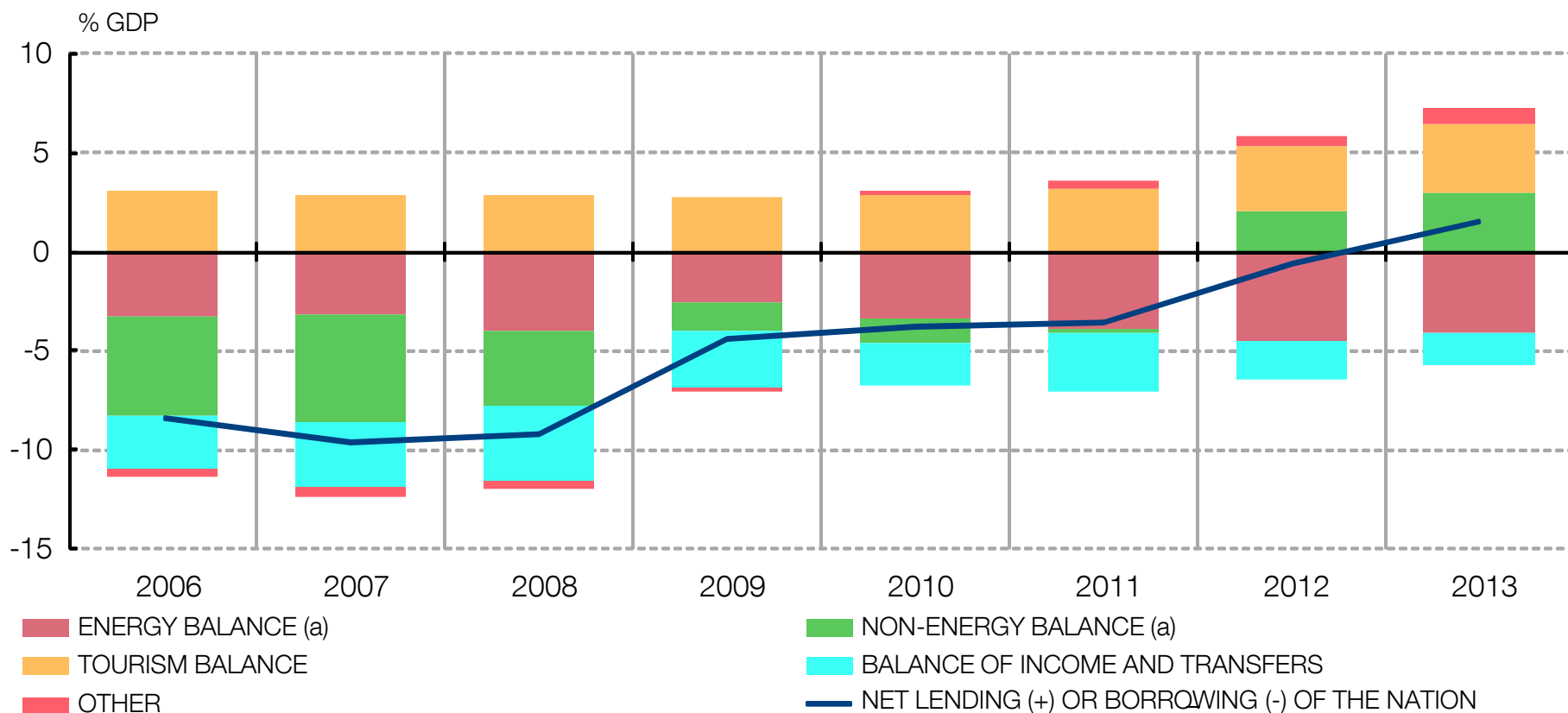
**HICP: OVERALL INDEX
y-o-y**



PROGRESS IN EXTERNAL ADJUSTMENT



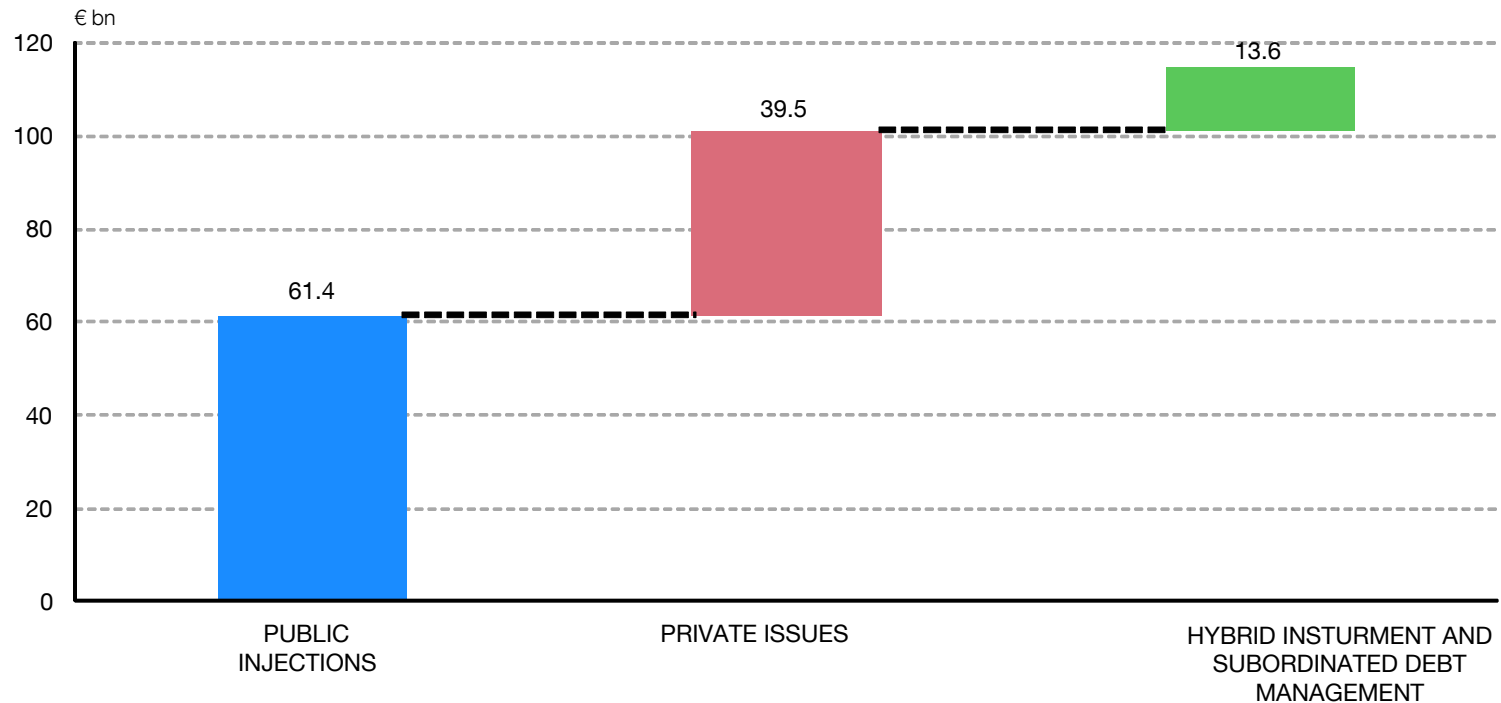
The end of 2013 saw the first positive external balance of the euro era, due mainly to the non-energy trade surplus and the positive performance of tourism.



DECISIVE PROGRESS IN RESTRUCTURING AND RECAPITALISATION OF THE BANKING SYSTEM

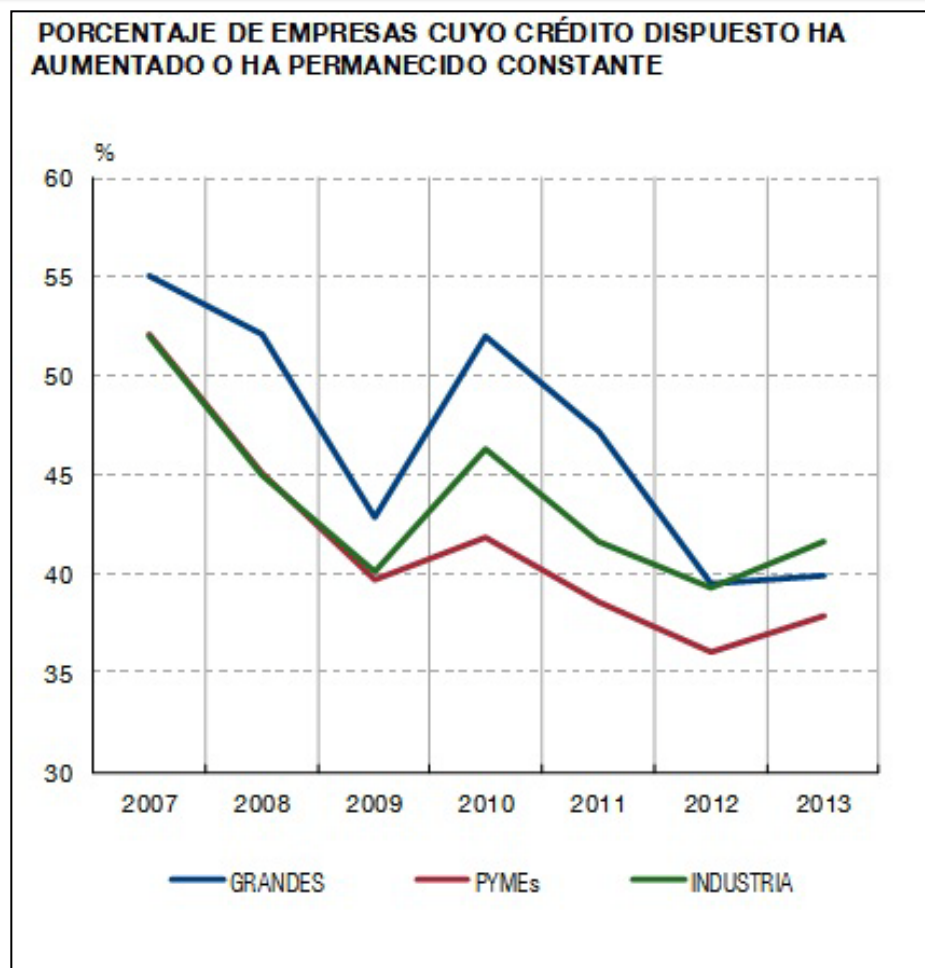
The Spanish economy has made a considerable public and private effort to recapitalise its banking system

RECAPITALISATION OF SPANISH BANKS



DELEVERAGING ACCOMPANIED BY SHIFTS IN THE COMPOSITION OF CREDIT

The credit crunch at aggregate level is compatible with shifts in the composition of credit towards sounder firms



THE LEGACY LEFT BY THE CRISIS WILL BE DIFFICULT TO OVERCOME



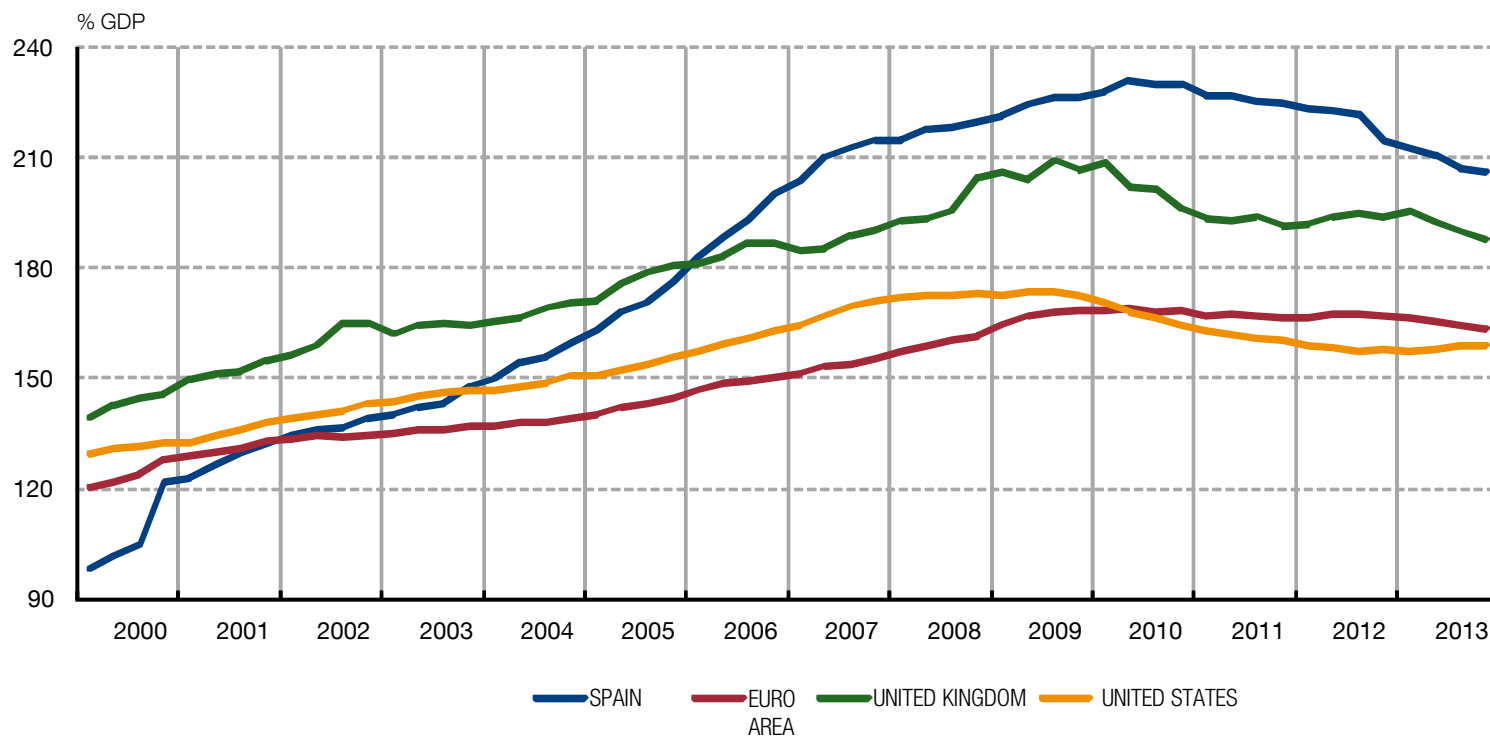
- Private-sector debt
- Fall in and scant growth of GDP
- Unemployment
- Imbalance in public finances (deficit and debt)

THE PRIVATE-SECTOR DELEVERAGING PROCESS HAS CONTINUED



Spanish firms and households have continued to reduce their debt levels, although they remain high

DEBT RATIO OF NON-FINANCIAL PRIVATE SECTOR

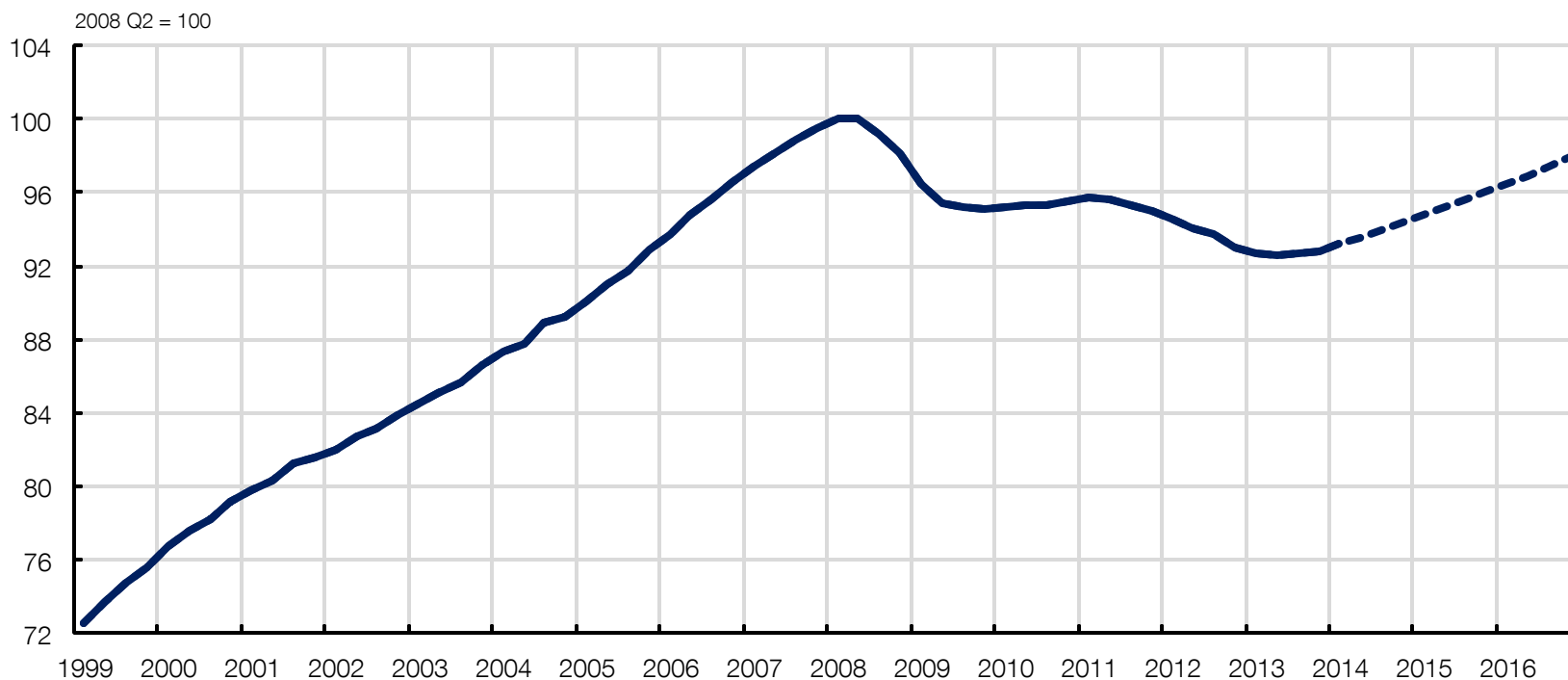


THE LEGACY OF THE CRISIS WILL CONDITION THE STRENGTH OF THE RECOVERY, ITS GROWTH POTENTIAL AND....



The loss of economic activity with respect to the pre-crisis period is still very high and several years will be needed to return to the GDP level of 2008

GDP AT CONSTANT PRICES: BEHAVIOUR SO FAR AND OUTLOOK

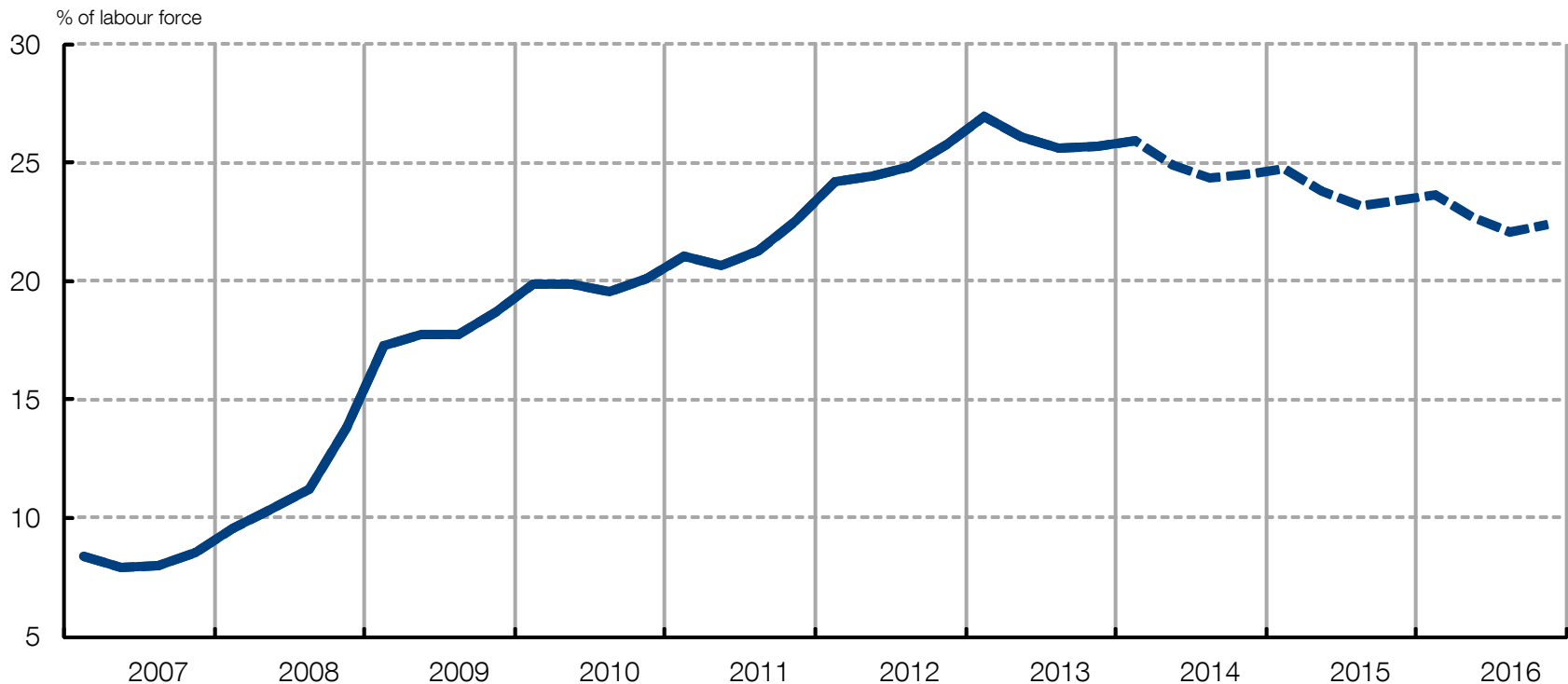


...THE ABILITY TO ABSORB UNEMPLOYMENT, FOCUSING ON YOUNG PEOPLE AND UNSKILLED LABOUR



The unemployment level will fall slowly and an increase in its structural component must be avoided

UNEMPLOYMENT RATE: RECENT COURSE AND OUTLOOK

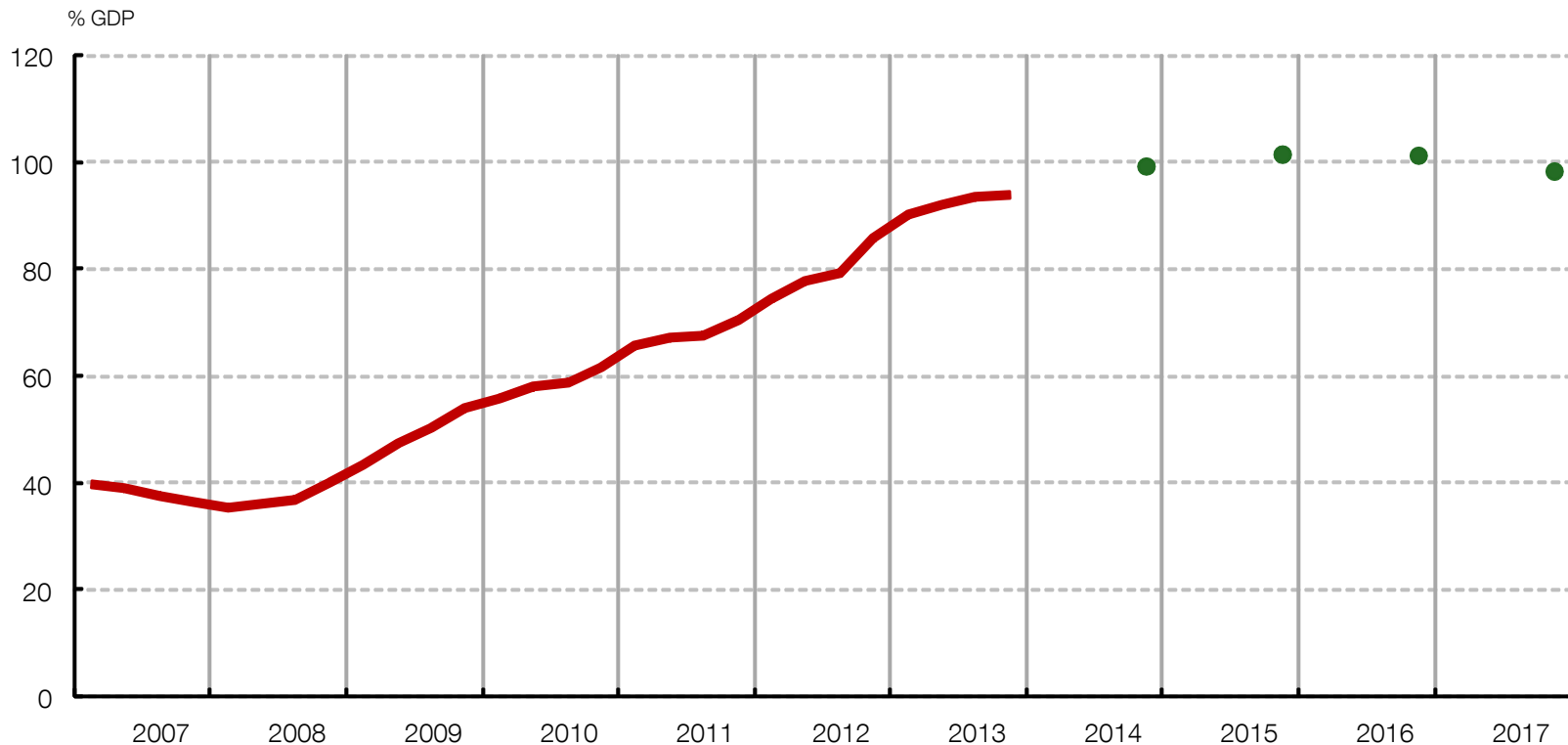


THE SUSTAINABILITY OF PUBLIC FINANCES IS AN ESSENTIAL INGREDIENT FOR THE DELEVERAGING OF THE ECONOMY



The public debt ratio continued to increase in 2013 to 93.9% of GDP. According to the SGP, strict compliance with fiscal targets will allow this trend to be reversed from 2015.

GENERAL GOVERNMENT DEBT (EDP) IN SPAIN





THANK YOU FOR YOUR ATTENTION