



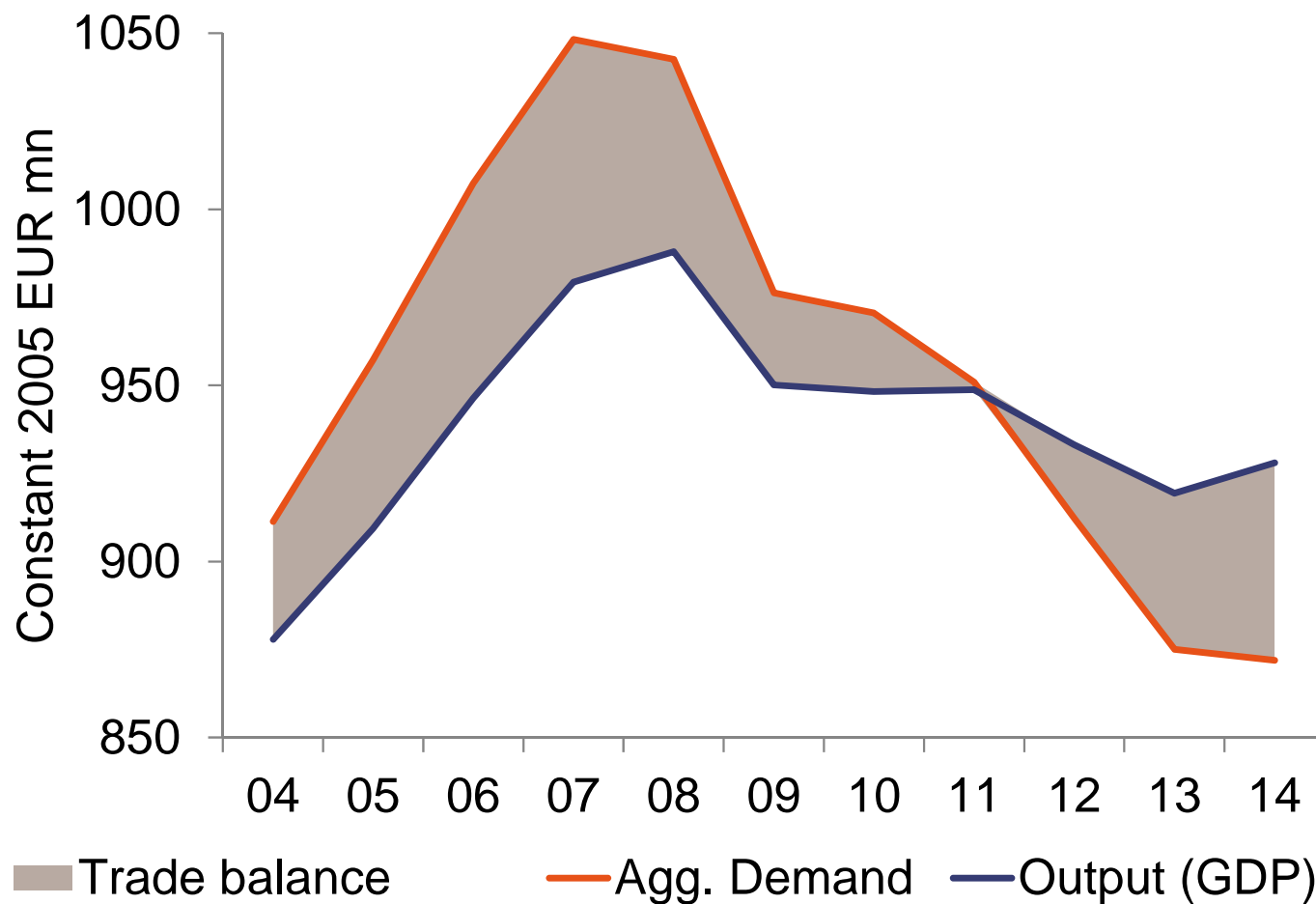
Recovering competitiveness: Challenges for the Spanish economy

Stefan Zeugner

European Commission, ECFIN B1

BdE, 25 March 2015

Spanish external balance: demand-led



Adjustment through structural decline in demand

Spanish adjustment: difficult, but some bright spots

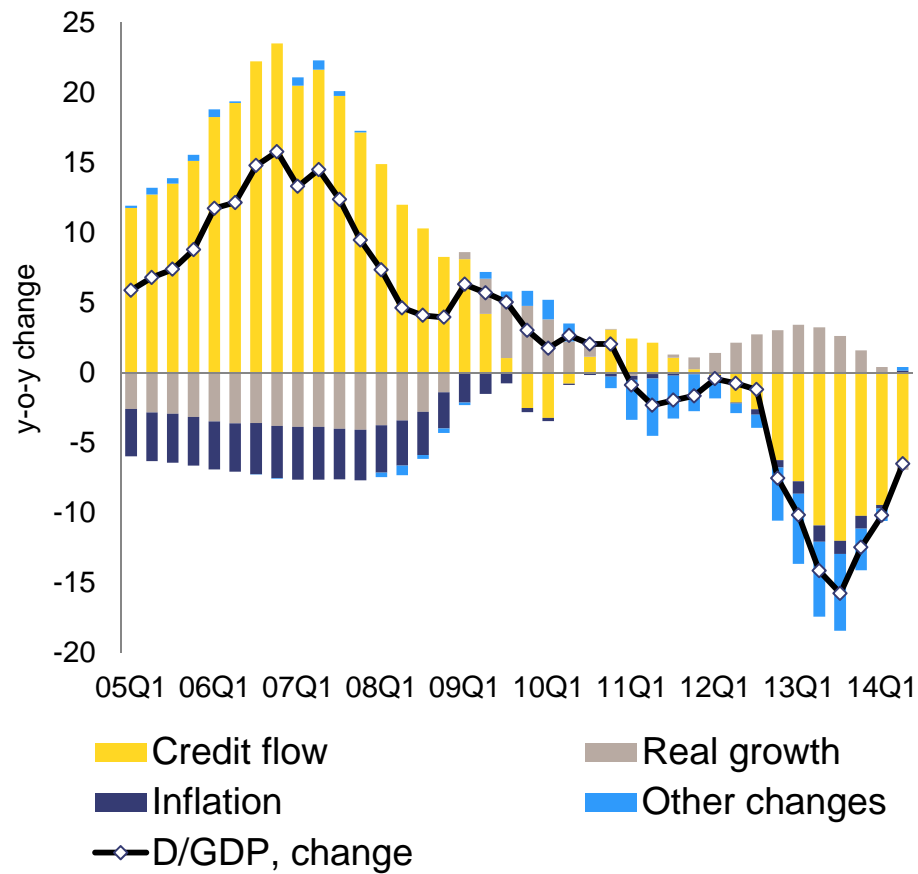


- Real exports grow faster than EA since 2012, despite the crisis. More is needed, though.
- Credit discrimination: Equipment investment has almost recovered to 2005 levels.
- Private deleveraging is easing to a more healthy pace.

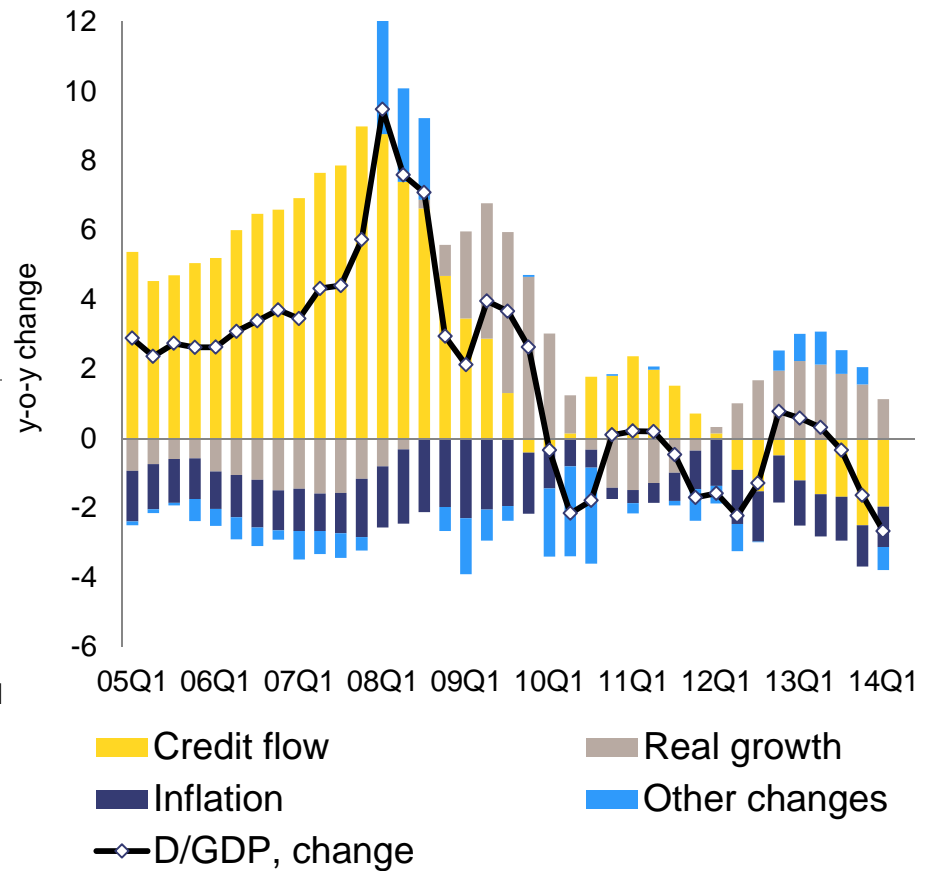
Deleveraging has eased somewhat in Spain



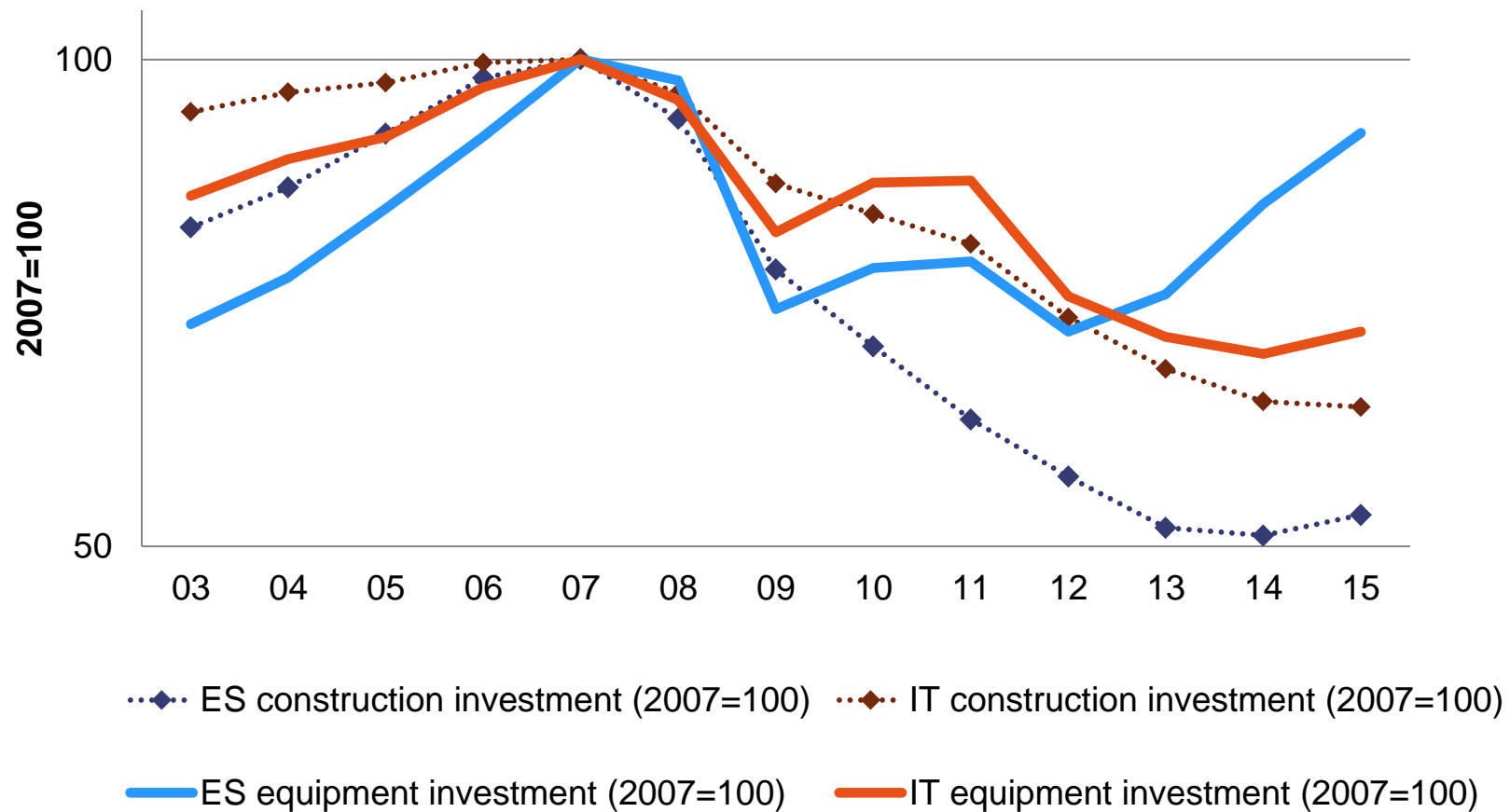
Spain



Italy



Equipment investment has started to recover in Spain



But: NIIP requires a current account surplus



Current account required to halve NIIP until 2024:

	Current Outlook	Inflation +1% p.a.	Inflation -1% p.a.
Required current account	+1.9%	+1.2%	+2.5%

Actual CA 2014: -0.1% of GDP

What Spain needs to do



- Nominal growth: NIIP limits role for domestic demand → further improve exports
- Inflation: Spain is large – NIIP limits scope for internal devaluation.
- Sectoral rebalancing: More labour and *capital* reallocation
 - increase firm churning (let good firms grow)
 - Address bad loans to free credit
 - Re-focus banks from mortgages to corporate loans
 - Attract FDI – to refinance external debt

What Spain needs from the euro area



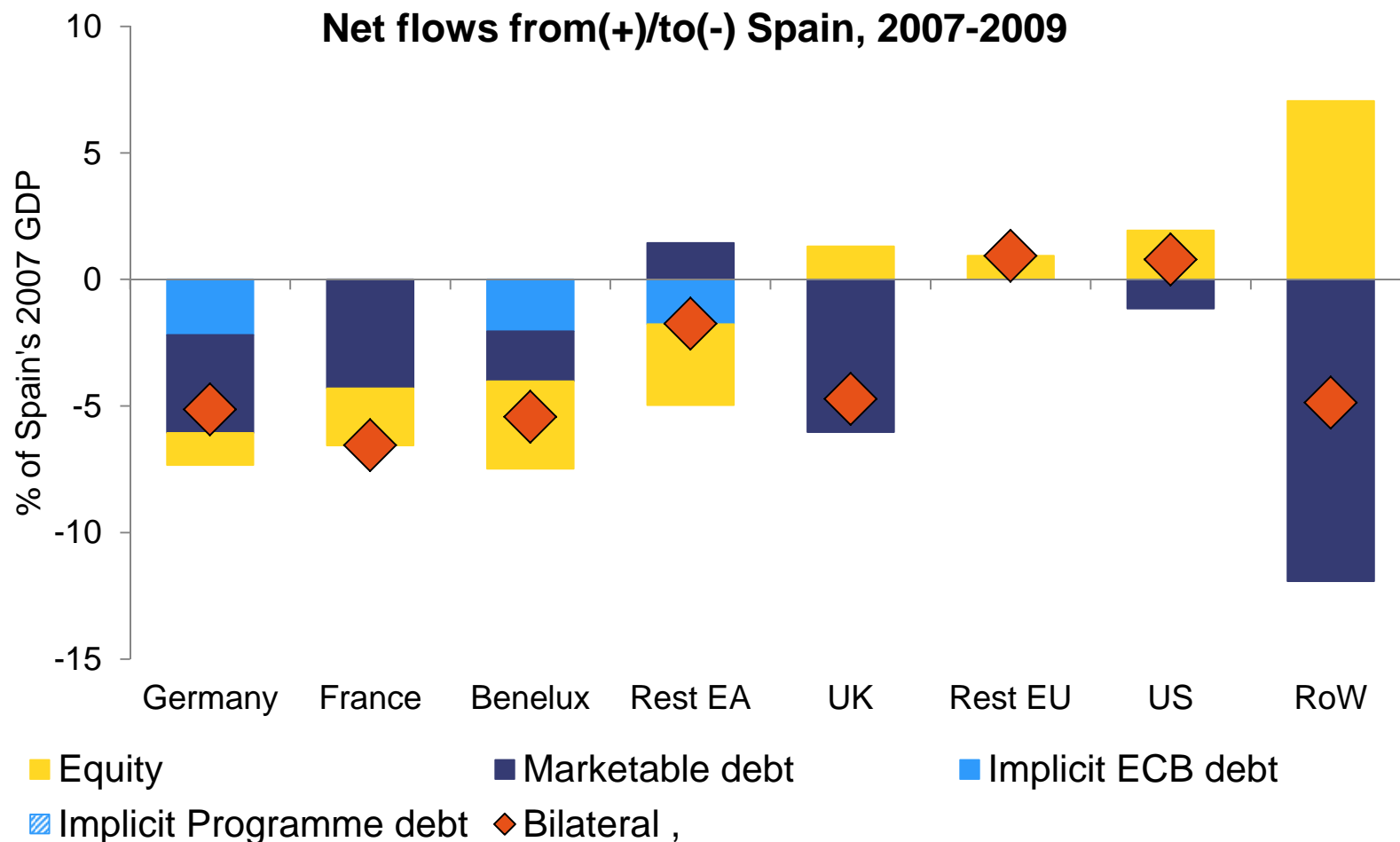
- Demand
- Inflation
- Equity financing
- Continued low interest rates

... over the next decade

Appendix



Adjustment 2007-09: funding squeeze

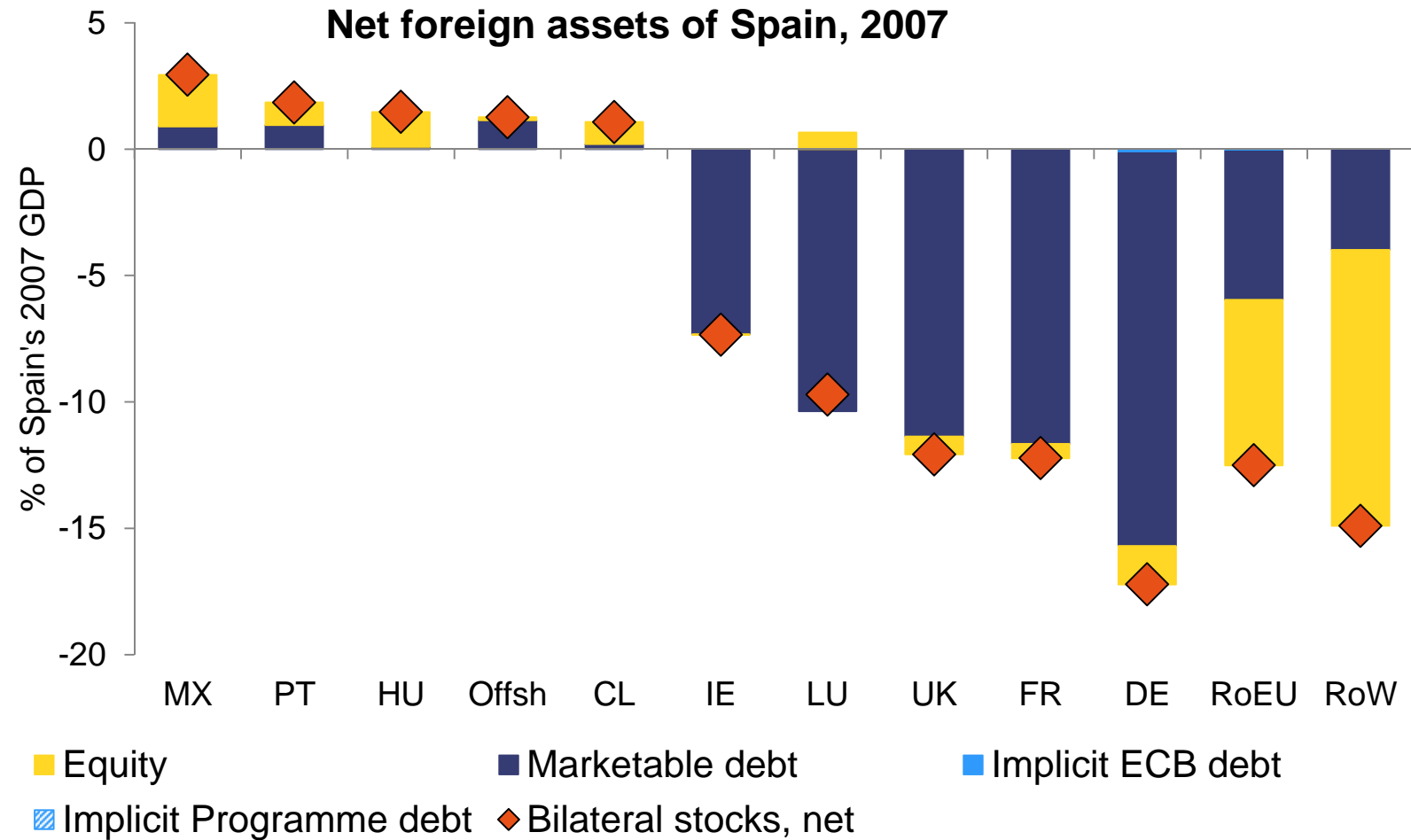


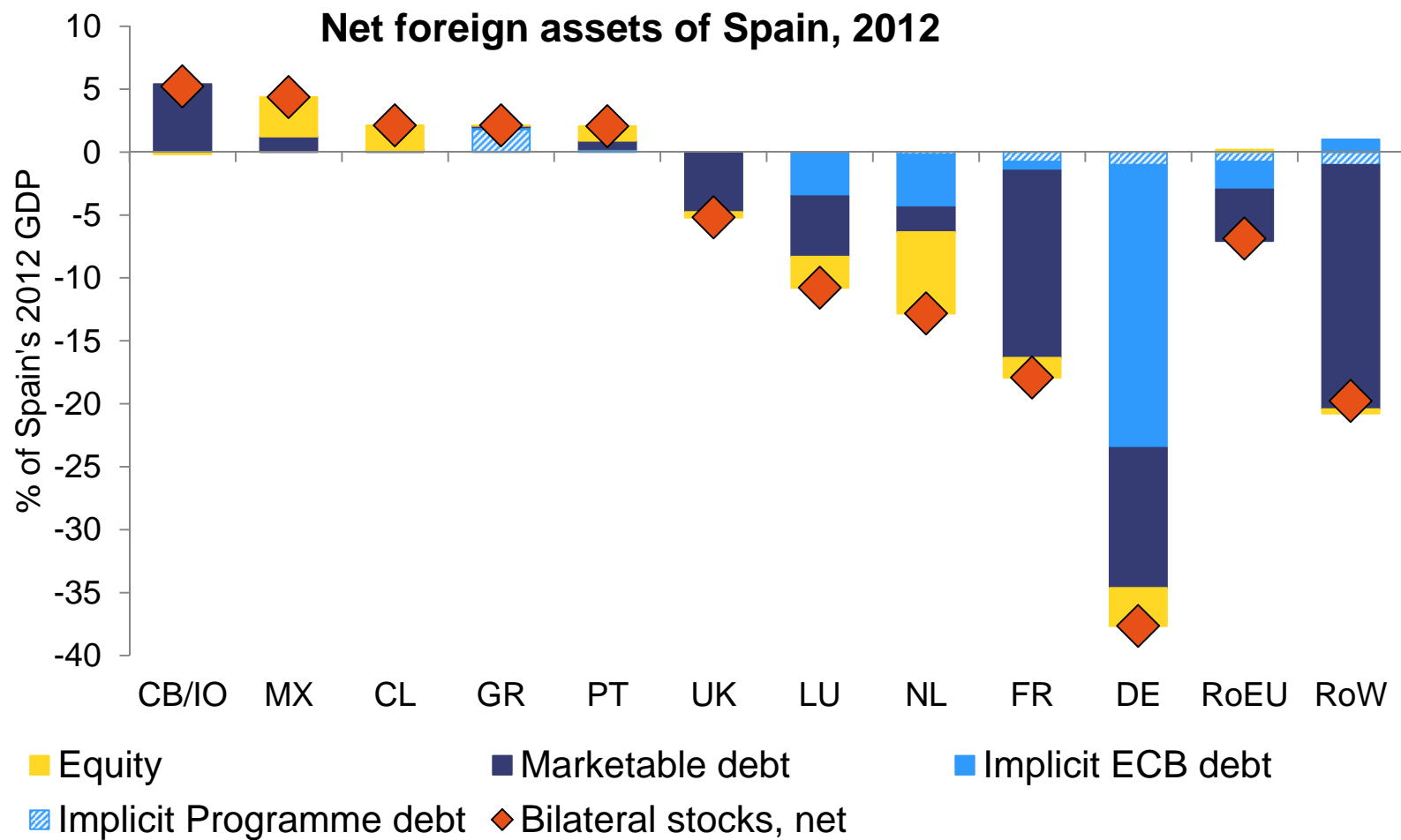
France invests, FDI rerouting, DE, US withdraw

Source: Hobza & Zeugner 2014. Note: Benelux considered as a single entity.

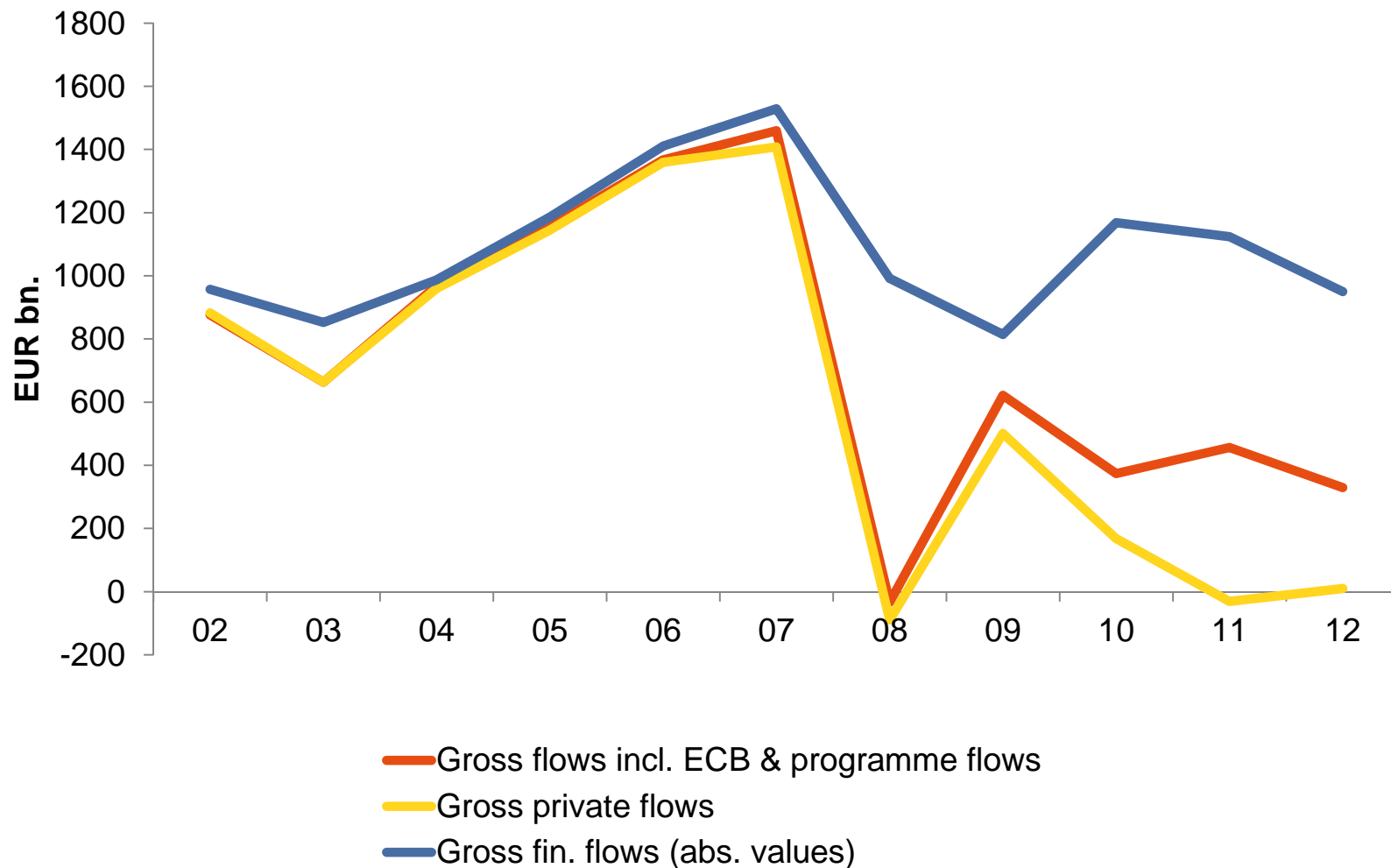


European
Commission





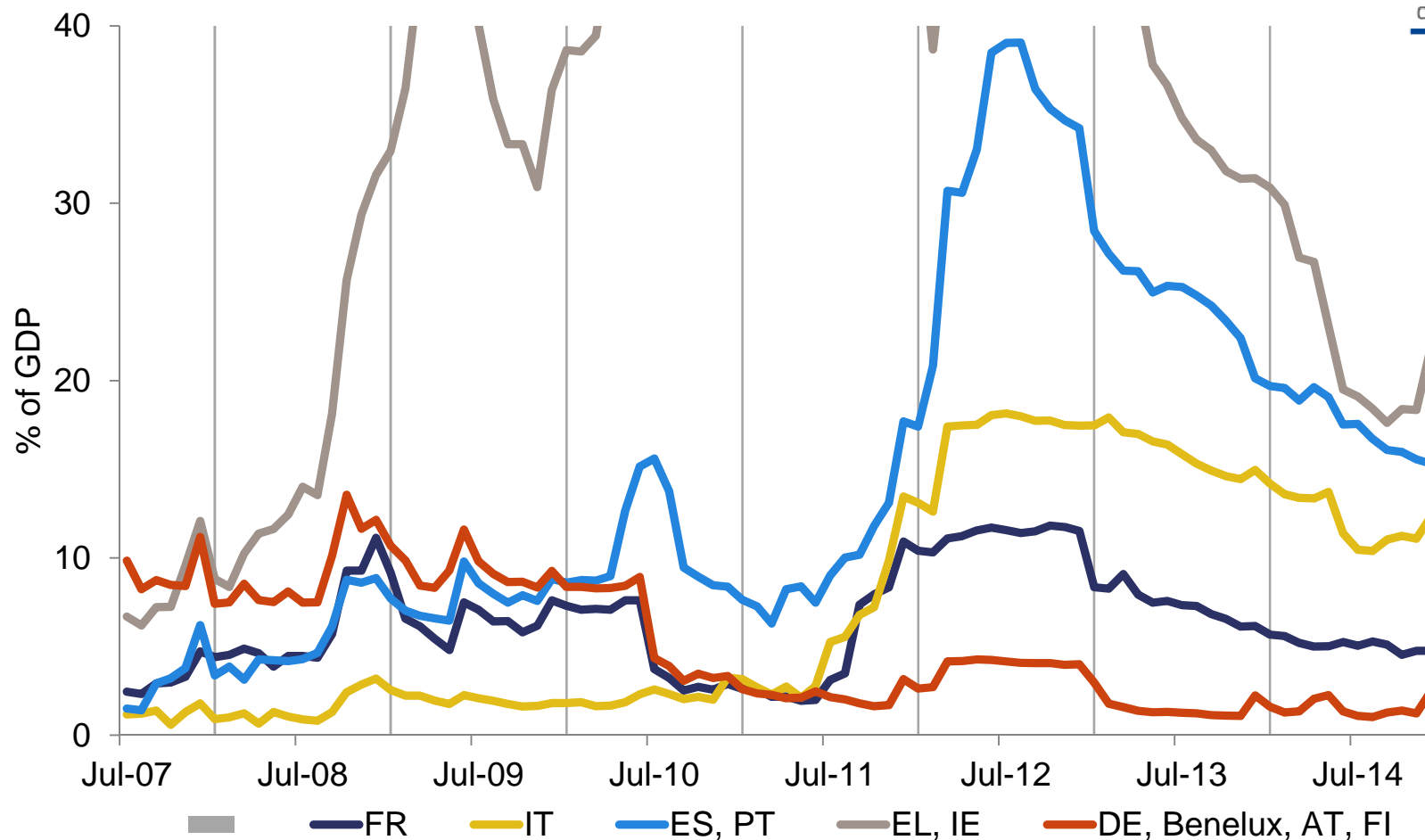
Gross financial flows in the euro area



Asset wind-down, but help from ECB & programme funding

Source: Hobza & Zeugner 2014. Note: Benelux considered as a single entity.

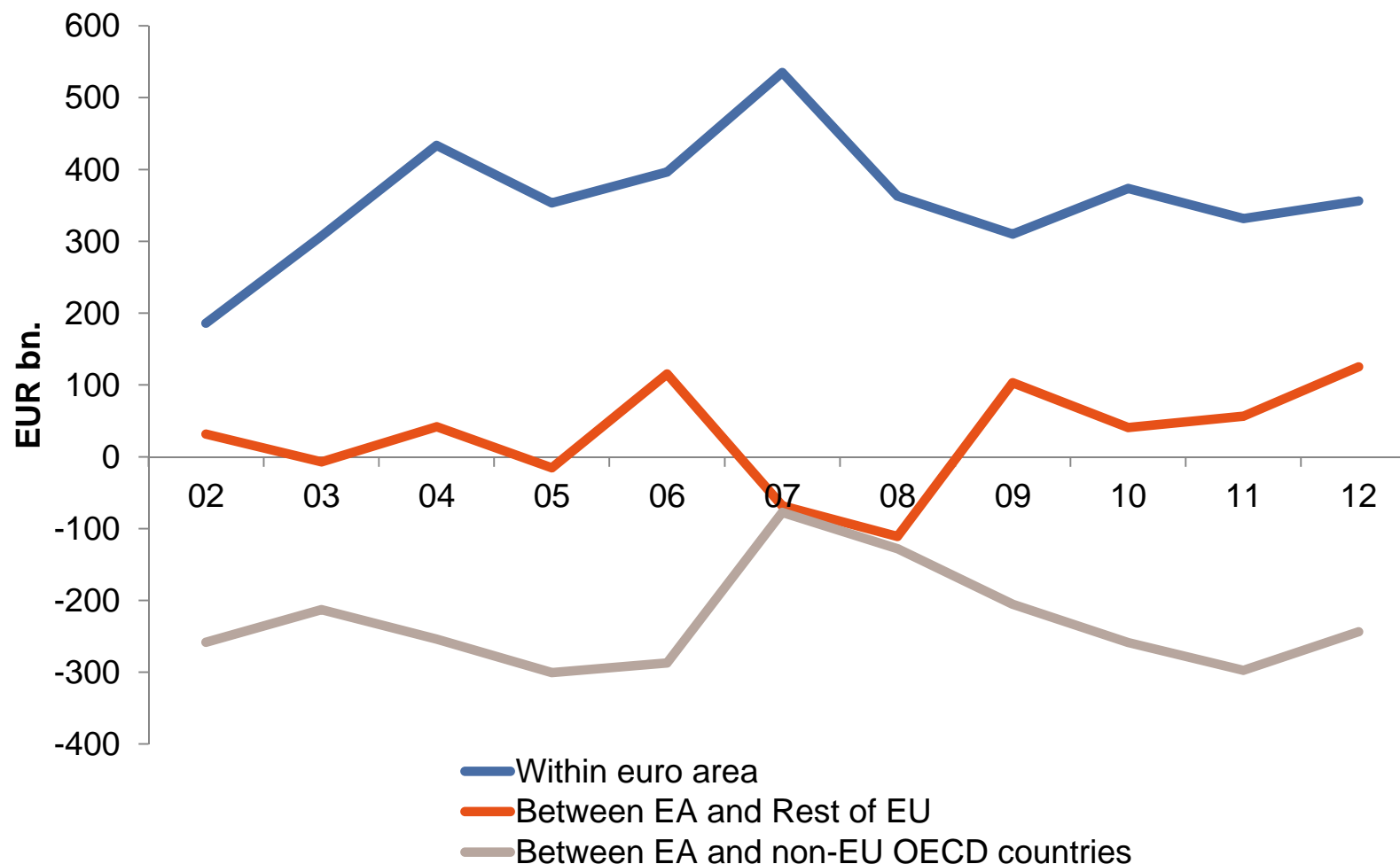
Eurosystem lending to MFIs: LTRO, ELA, etc.



LTROS shot up in 2012, and then got paid back quite soon

Complete Eurosystem net lending. Data source: National central banks, ECFIN A3

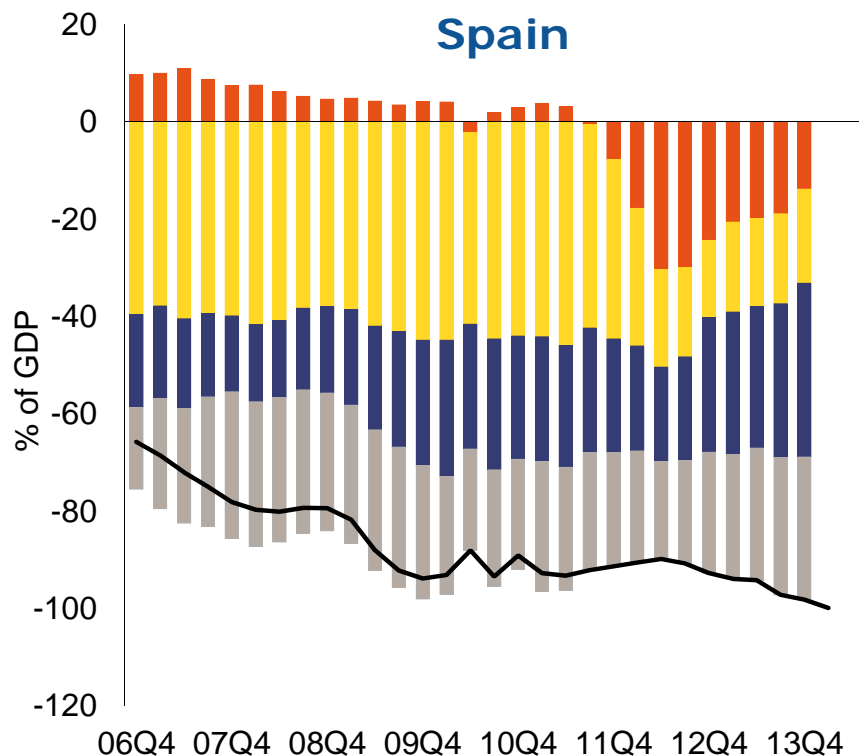
Euro bias: Deviation of fin. flows from naïve benchmark



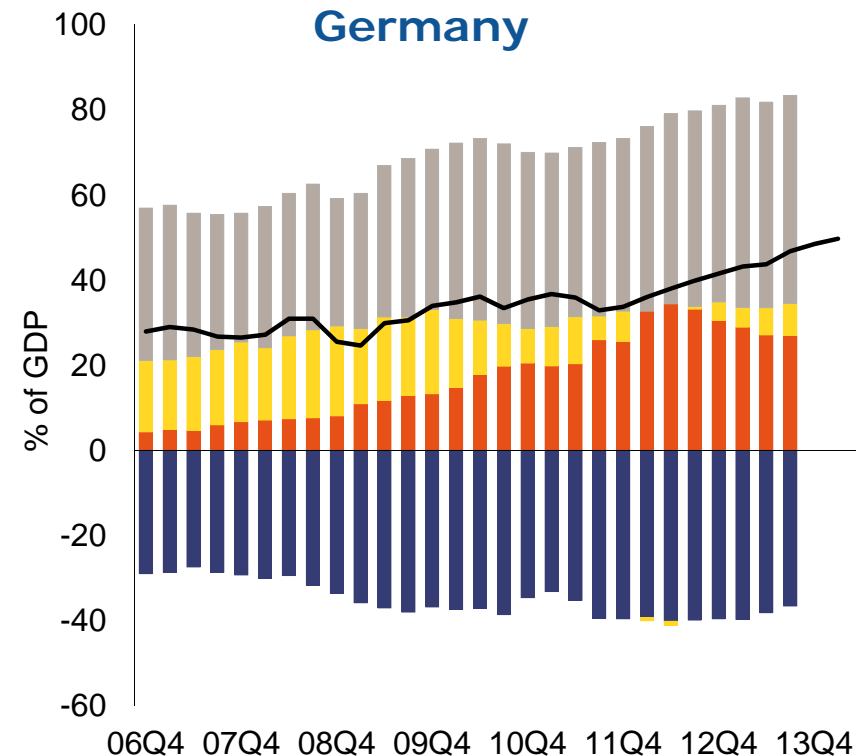
Clear euro bias, but only sustained through official flows since 2011

Source: Hobza & Zeugner 2014. Deviation from maximum-entropy benchmark.
Note: Benelux considered as a single entity.

Net foreign assets ES & DE: interbank replaced by TARGET2



- Private sector
- General Government
- MFI (excl central bank)
- Central Bank (incl reserves)
- Net int'l investment position (NIIP)



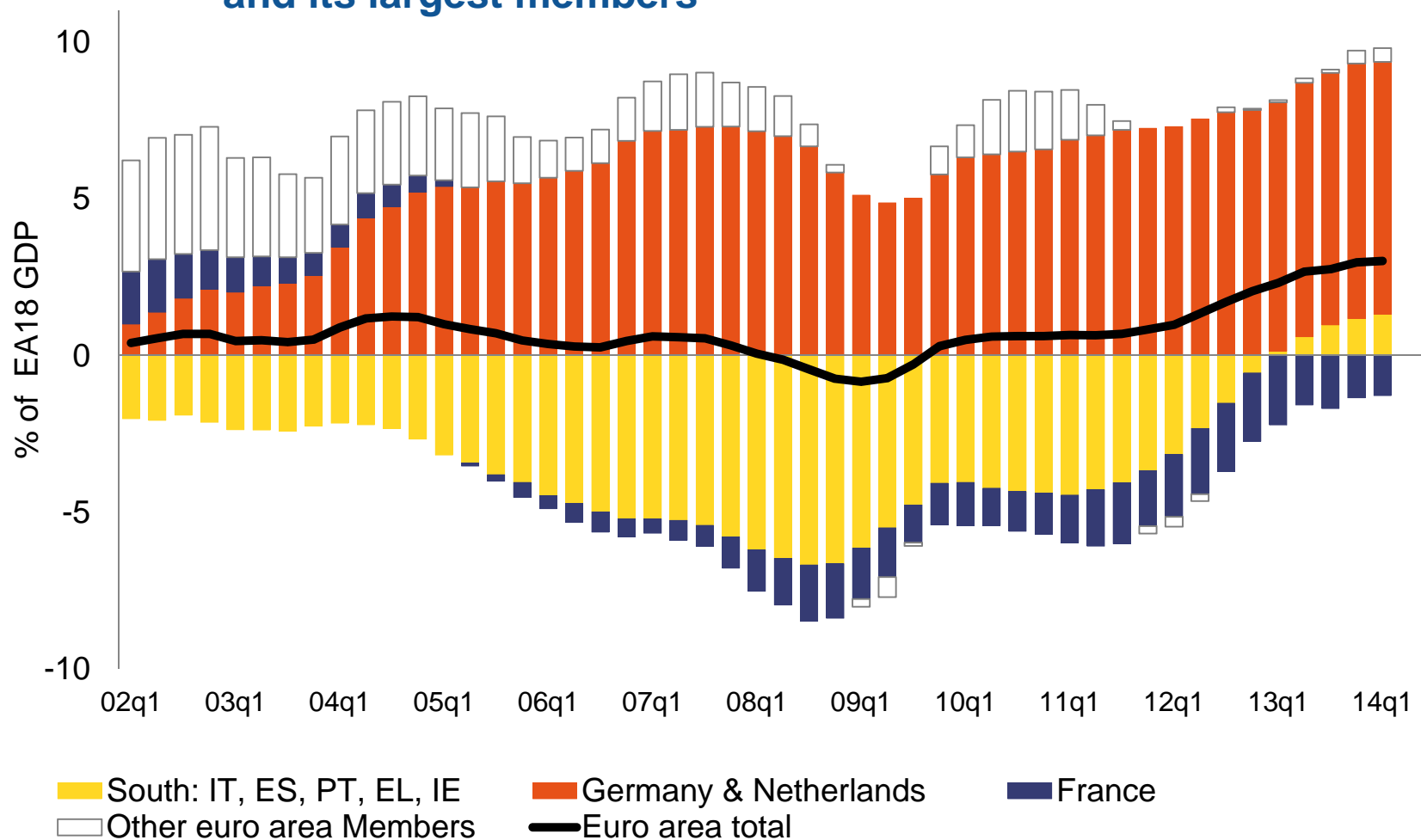
- Private sector
- MFI (excl central bank)
- General Government
- Central Bank (incl reserves)
- Net int'l investment position (NIIP)

2011: TARGET replaces bank holdings.
2013: ES Government bonds replace TARGET.

Euro area: Asymmetric current account adjustment



Current account balance of the euro area, and its largest members



Data source: Eurostat BoP, BPM5, for Euro area 18