

# THE ECONOMIC OUTLOOK FOR SPAIN

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**First Banco de España-OMFIF Economists Club Meeting**

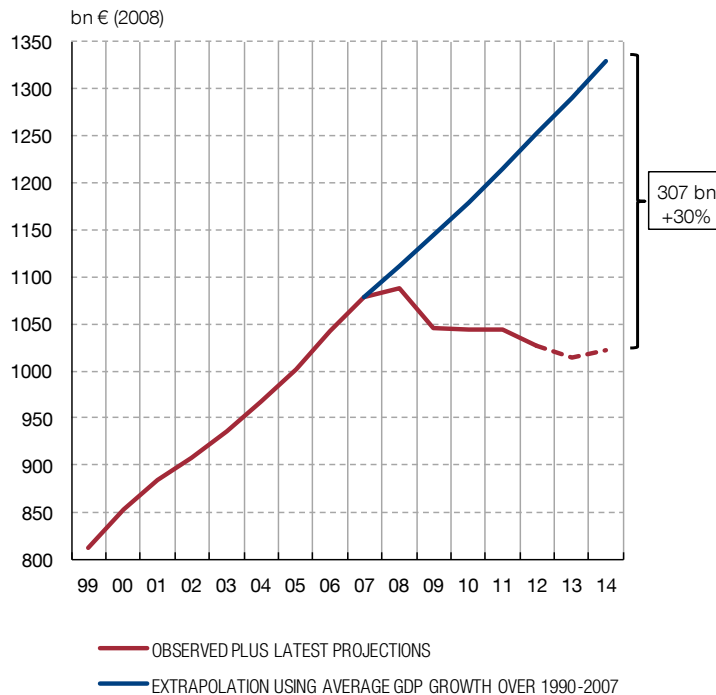
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DG ECONOMICS, STATISTICS AND RESEARCH

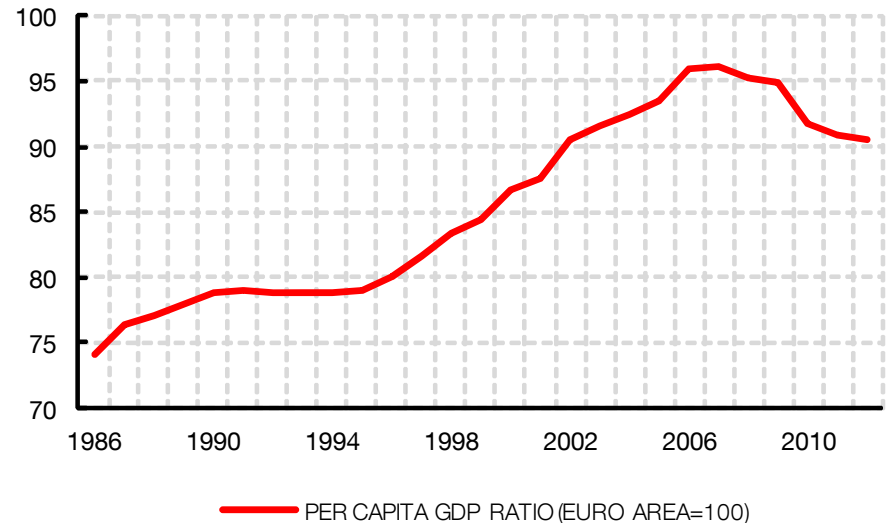
# AN UNPRECEDENTED CRISIS

The double dip recession amid the sovereign debt crisis has led to a large deviation from the previous growth path and to a setback in real convergence

GDP AT CONSTANT PRICES



SPAIN: PER CAPITA GDP AS A SHARE OF EURO AREA PER CAPITA GDP

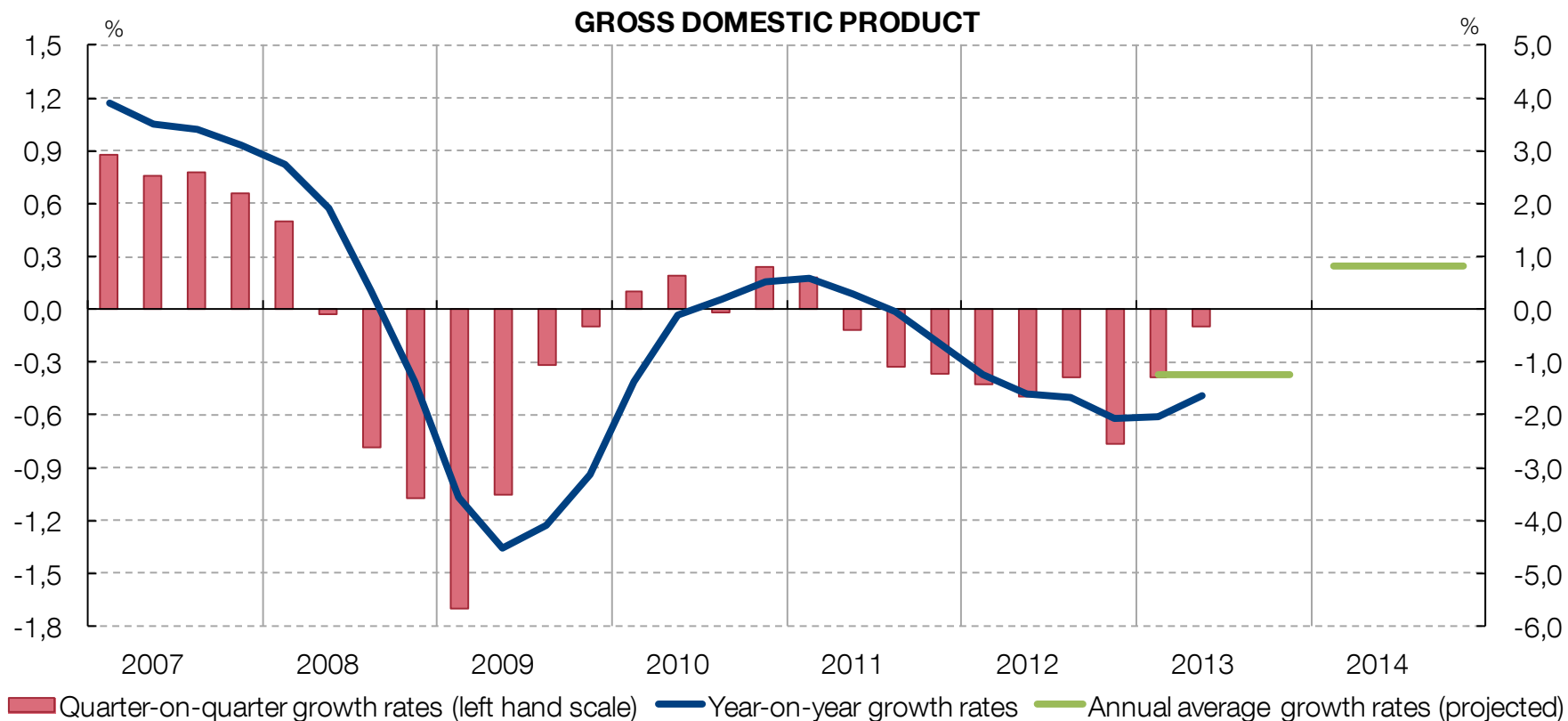


SOURCES: EUROSTAT, INE and Banco de España

# THE SPANISH ECONOMY IS OVERCOMING THE SECOND RECESSION IN THIS CRISIS



The Spanish economy is now showing the first signals of positive quarterly growth since the beginning of 2011



SOURCES: INE and Banco de España

# TRANSFORMING THIS INCIPIENT RECOVERY INTO A ROBUST GROWTH PATH REMAINS CHALLENGING



## TWO PROCESSES PLAY A PIVOTAL ROLE

### • INTERNAL DEVALUATION

- In absence of the possibility of exchange rate adjustment, the internal devaluation is crucial for the recovery of competitiveness and for employment growth
- An internal devaluation is a very demanding process, particularly for an economy with a traditional inflationary bias.

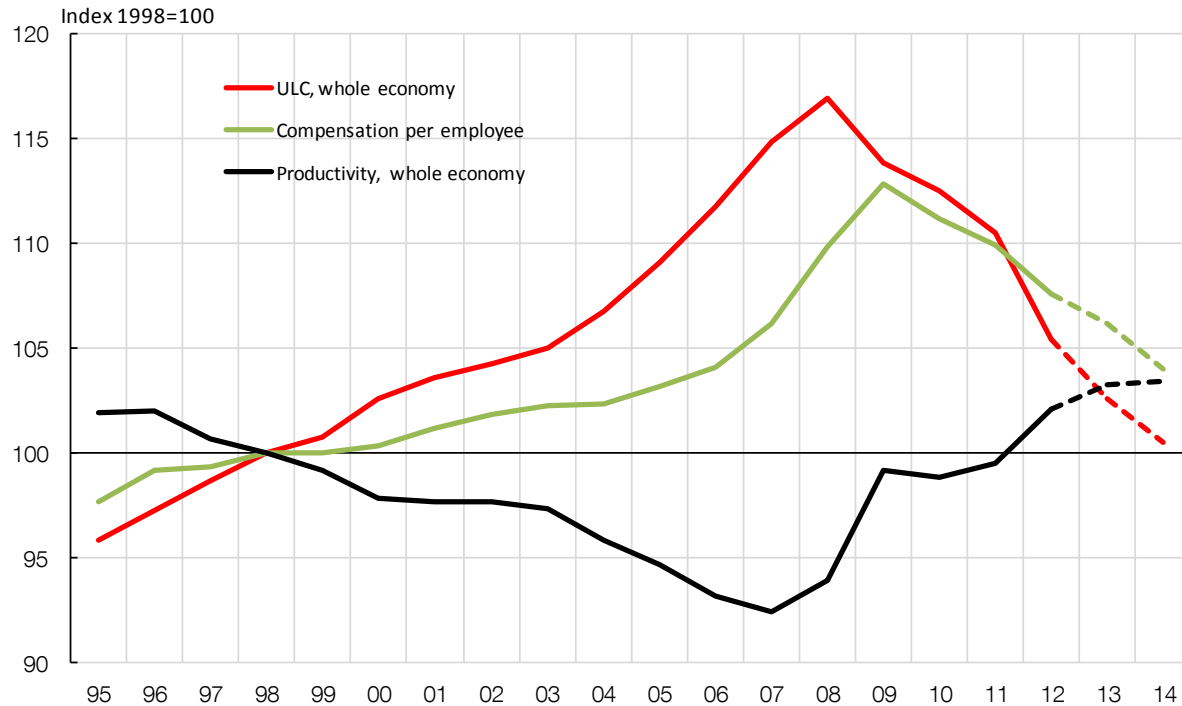
### • DELEVERAGING

- High indebtedness is a serious legacy of both the excesses of the economy during the expansion and the effects of the crisis
- Deleveraging of the national economy is crucial for the recovery of internal demand and for the sustainability of a new path of growth
- And is very demanding in an environment of weak income growth and low inflation

# THE SIGNIFICANT ONGOING INTERNAL DEVALUATION HAS LED TO A RAPID CORRECTION IN RELATIVE ULCs

- By end-2013, the Spanish economy will have absorbed almost all the competitiveness lost during the decade before the crisis vis-à-vis the Euro area, in terms of ULC.
- Until 2009, this was based on strong productivity increases; later on, wage moderation made a very significant contribution as well

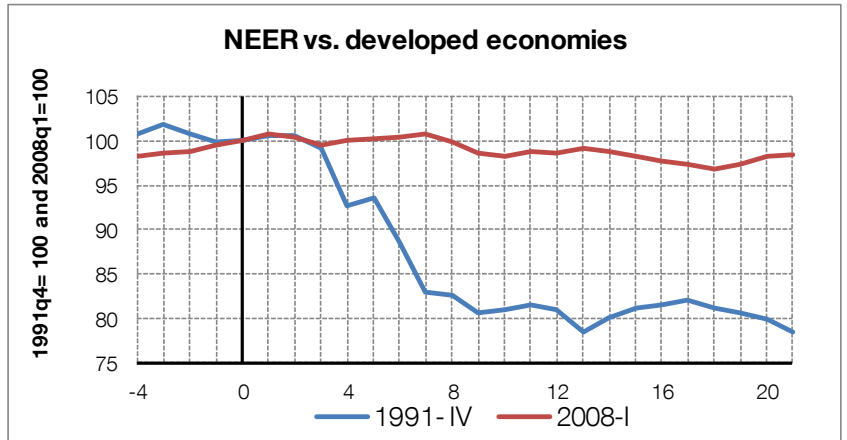
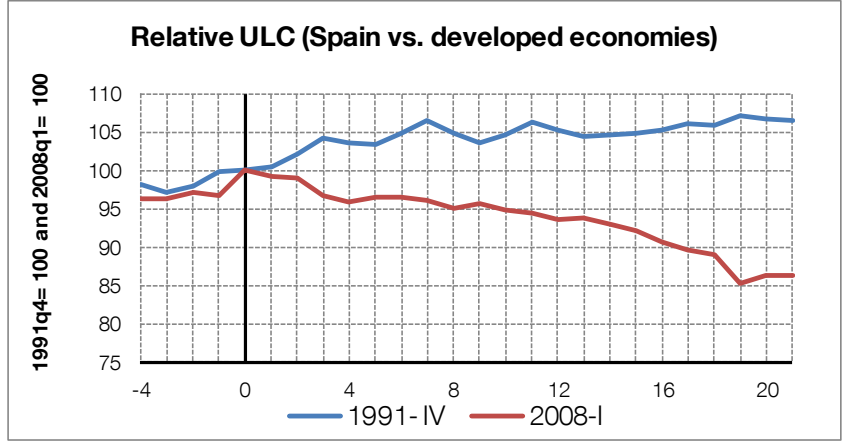
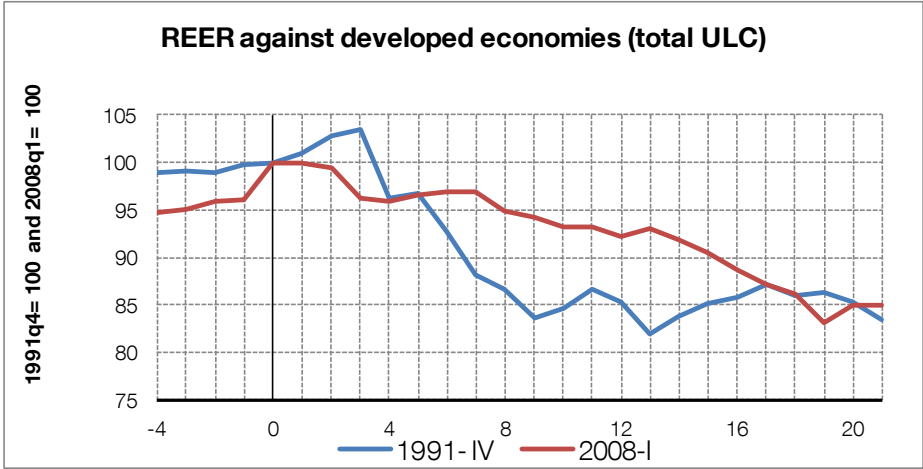
RELATIVE ULC: Spain versus Euro area



# THE WAY TO ACCOMPLISH INTERNAL DEVALUATION STANDS IN SHARP CONTRAST TO THE PREVIOUS EXPERIENCE IN THE 1990s...



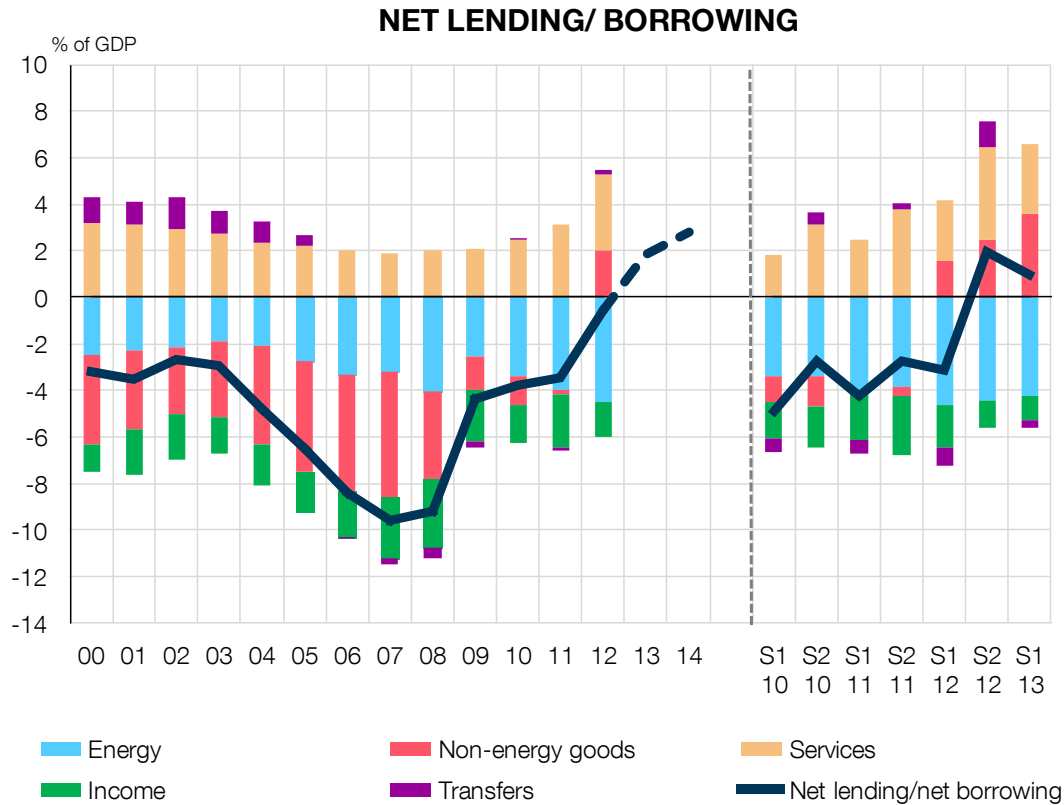
In both episodes, a depreciation in the REER of comparable size has taken place. However, the way to reach it has diverged significantly: through NEER devaluation back in the nineties; via internal devaluation nowadays



# THE INTERNAL DEVALUATION IS PRODUCING TANGIBLE RESULTS IN TERMS OF A SHARP TURNAROUND IN THE EXTERNAL BALANCE



- The correction of the external deficit has been remarkably fast and intense since 2008.
- The recent surpluses mainly reflect the good performance of the non-energy goods balance.

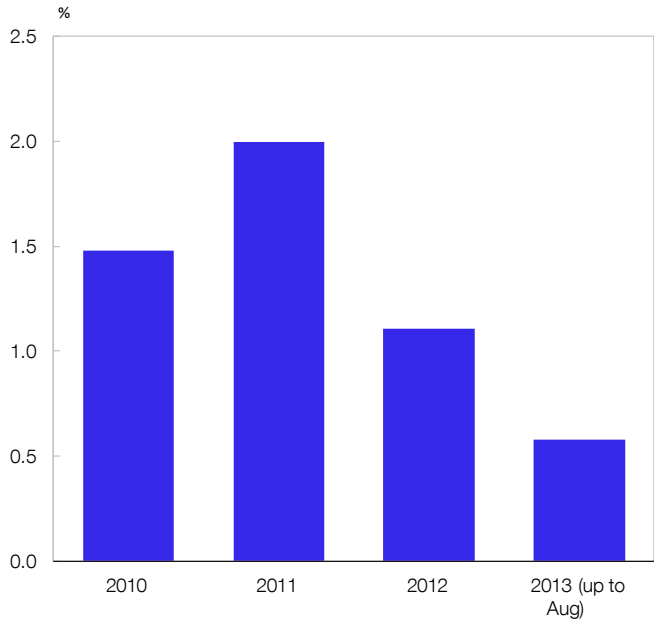


# WAGE MODERATION IS BEING AN IMPORTANT DRIVER OF THE INTERNAL DEVALUATION PROCESS



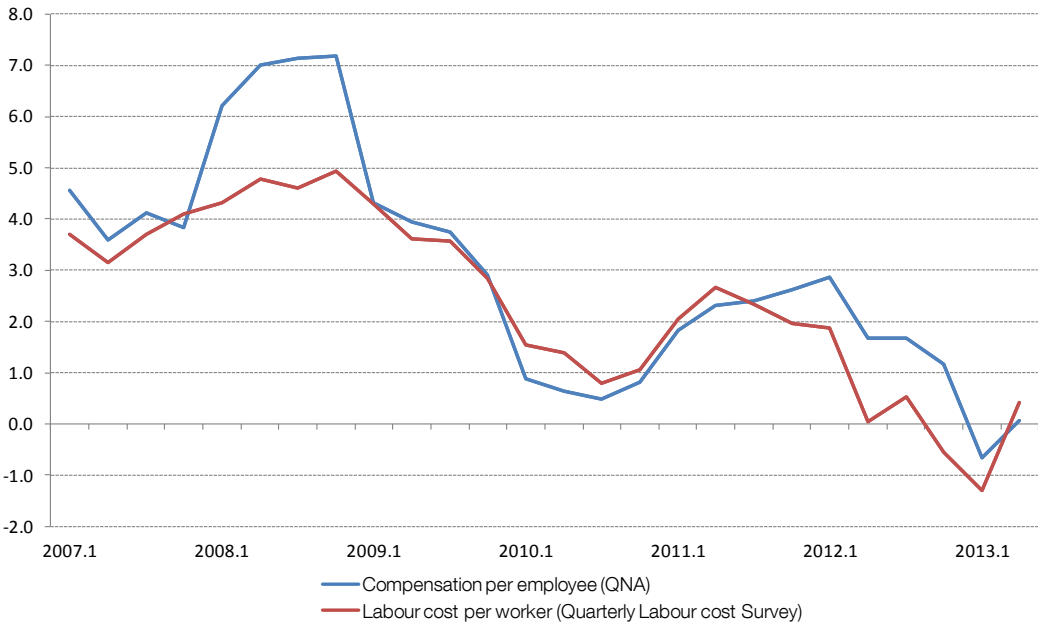
-Wage moderation is a necessary condition for ensuring further competitiveness gains and to bring unemployment down.

AGREED WAGES IN COLLECTIVE BARGAINING



Source: Ministry of Employment and Social Security

LABOUR COSTS IN THE NON-AGRICULTURAL MARKET ECONOMY (a)



(a) Yoy growth rates (unadjusted series)

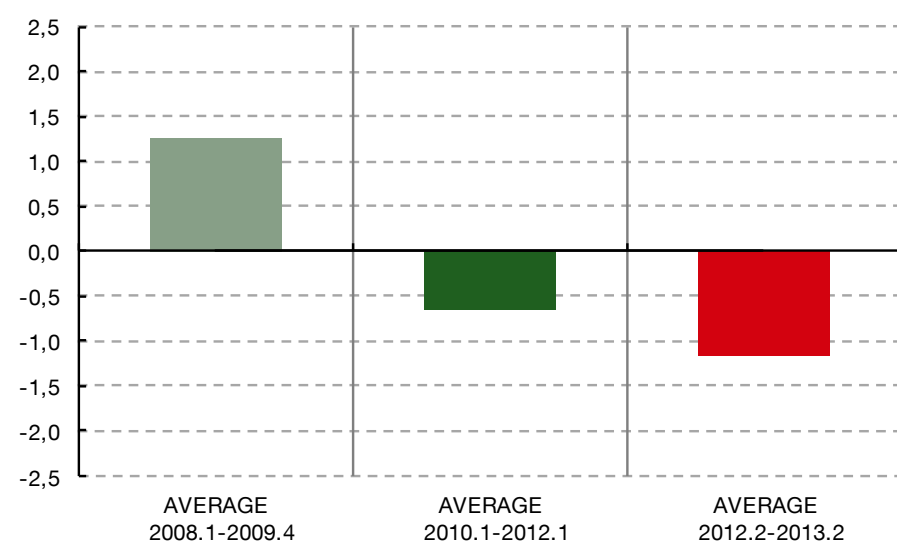


# AVAILABLE ESTIMATIONS SHOW THAT RECENT WAGE GROWTH AND UNEMPLOYMENT INCREASES HAVE BEEN BELOW WHAT THEIR RESPECTIVE DETERMINANTS WOULD INDICATE

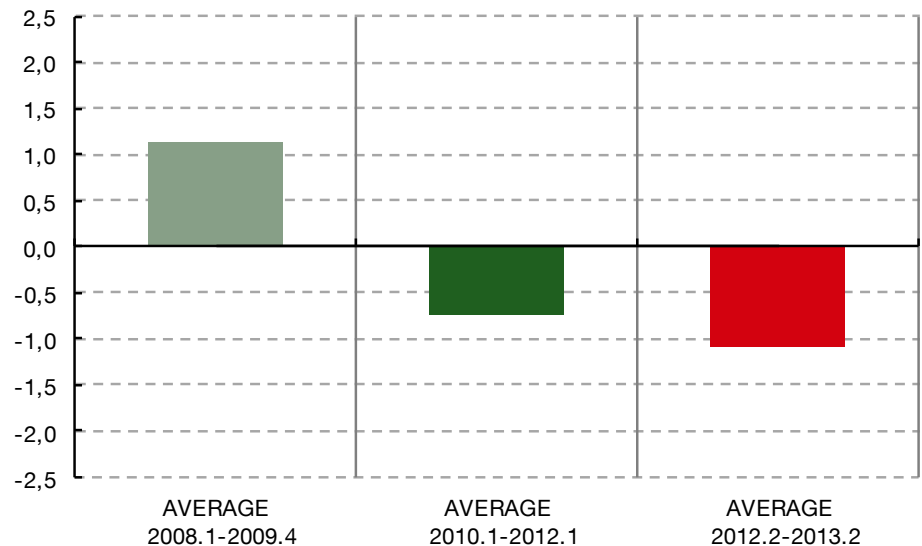


- The 2012 labour market reform is intensifying the containment of wage growth
- This wage moderation appears to be favouring an improvement in unemployment developments

RESIDUALS OF THE WAGE EQUATION

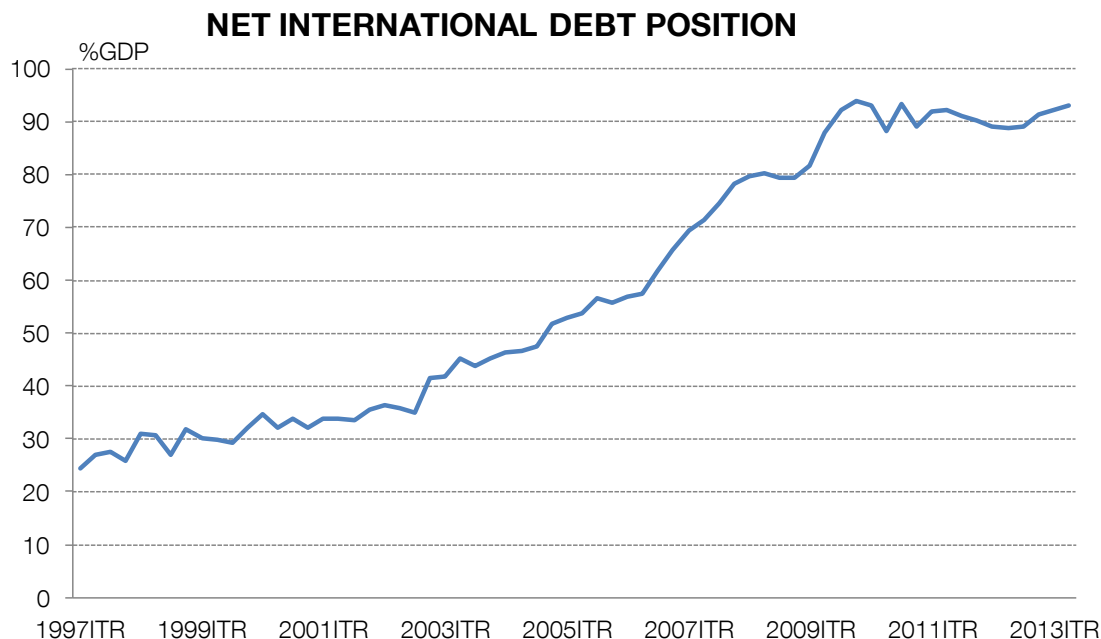


RESIDUALS OF THE UNEMPLOYMENT EQUATION



## THE CORRECTION IN THE ECONOMY'S NET BORROWING HAS STABILIZED THE PATH OF NET EXTERNAL INDEBTENESS

- Further inroads into the internal devaluation process will help generating recurrent current account surpluses over the medium term, contributing to bring down the net international debt position to more sustainable levels.
- Improving the external position depends also on public and private deleveraging

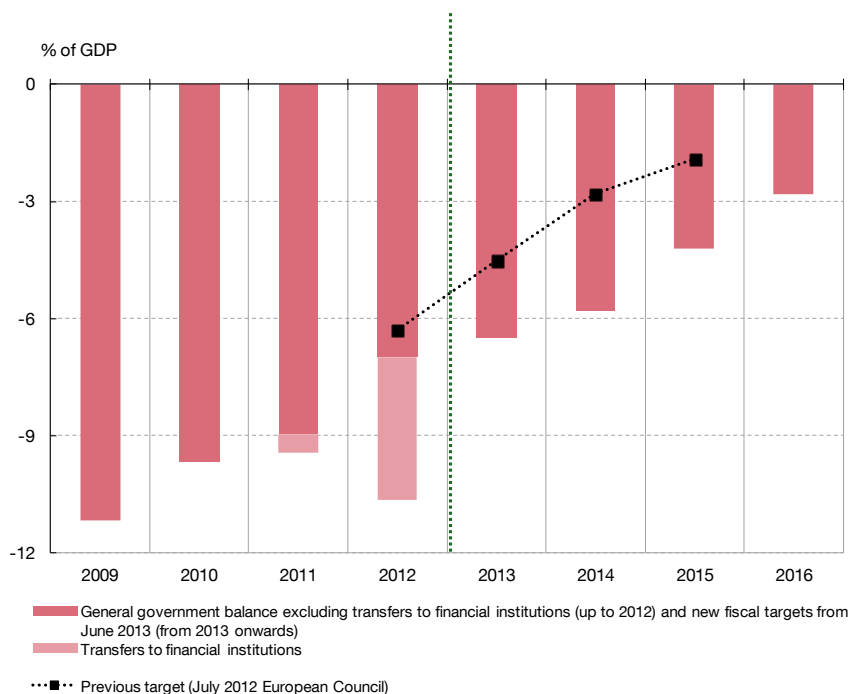


Source: Banco de España

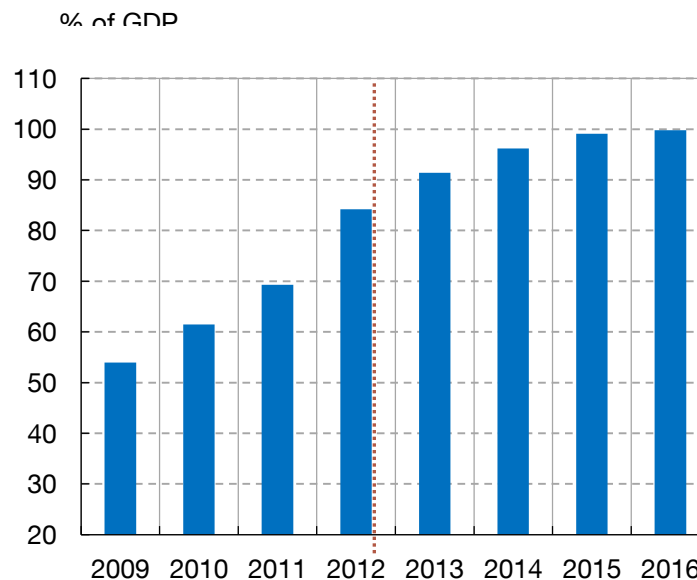
# PUBLIC FINANCE ADJUSTMENT IS UNDERWAY

- Progress in correcting the general government deficit is being made
- Budgetary targets until 2016 have been eased; however, the fiscal adjustment over the next few years is expected to be sizeable.
- Bringing substantially down the total stock of public debt will require the correction of public deficits to be sustained.

GENERAL GOVERNMENT BALANCE



Total government debt

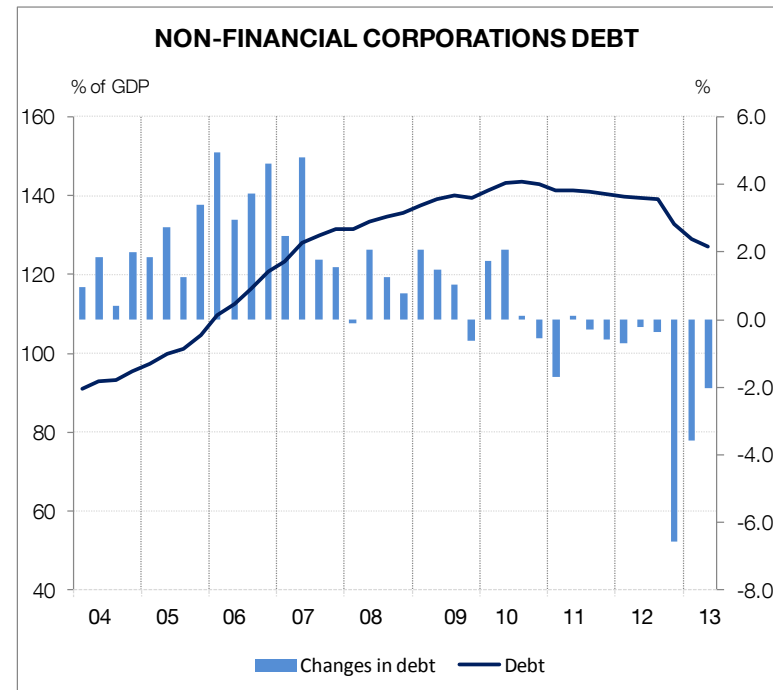
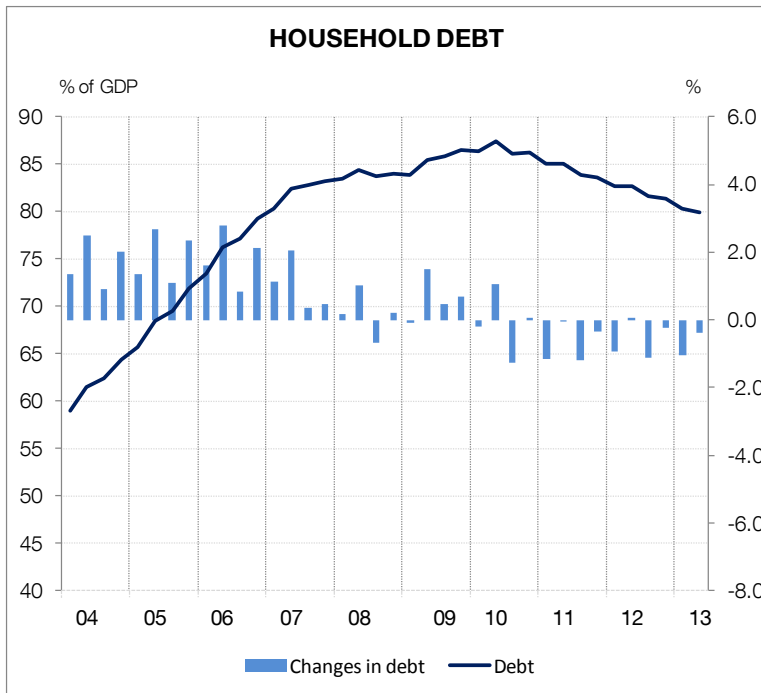


Source: Stability Programme path for 2013-2016

# AND PRIVATE SECTOR DELEVERAGING HAS ALSO STARTED



- Liability ratios are contracting at a relatively high rate; however, the process is taking place against a context of weak household incomes and corporate profits, which slows down the deleveraging process





THANK YOU FOR YOUR ATTENTION

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