

Macroeconomic Analysis

The current expansion of the Spanish Economy

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Since 2014, Spain has been growing at rates higher than those of most other European countries. During these years, Spain has recovered the competitiveness lost before the crisis. Inflation, unit labour costs and mark-ups have performed better than in the euro area as a whole, resulting in strong export growth. In 2017, exports were 35 per cent above the 2007 levels. This improvement in external competitiveness has allowed Spain to increase its market share in world trade. Exports to Australia are an excellent example: since 2009 exports of goods have more than doubled.

Contrary to the experience before the crisis, now the unemployment rate is falling significantly and, at the same time, the current account exhibits a sustained surplus, close to 2% of Gross Domestic Product. This is probably one of the most remarkable features of the current recovery, and something unprecedented in the recent history of the Spanish economy.

The Spanish banking system is now more solvent and efficient than before the crisis. The intense and profound restructuring of the banking sector led to mergers, to the transformation of most savings banks into commercial banks, and to the injection of public funds to restore the solvency of some savings banks in order to safeguard the savings of millions of small savers.

This restructuring process of the banking sector has also led to a significant increase in the flow of new credit, at the same time as the private sector was deleveraging. Households have reduced their indebtedness by 22 percentage points (from 83 percent of GDP in 2009 to 61 per cent in 2017). And debts of non-financial firms are now even below the euro zone average, with a reduction of 40 percentage points of GDP (from 116 percent to 78 percent).

Therefore, the economic recovery is allowing the deleveraging of the private sector and, at the same time, is increasing the flow of new credit (with an average growth rate of around 10 per cent since 2014). These flows of new credit are financing investment, new jobs and growth, at a lower cost than before the crisis. As a result investment in machinery and new equipment is now above the maximum levels before the financial crisis.

This deleveraging process of the private sector is taking place through an improvement in the financing capacity of households and firms. In particular, firms have gone from a net borrowing of 13 per cent of GDP in the first quarter of 2008 to a net lending above 3 per cent at the end of 2017. This is an improvement of almost 17 percentage points of GDP in their net lending position. The net lending of the private sector covers the deficit of the public sector and has allowed the Spanish economy to maintain a current account surplus of close to 2 per cent of GDP since 2013.

Fiscal consolidation and economic growth have made it possible to reduce the public deficit from 11.2 per cent of GDP in 2009 to 3.1 per cent in 2017. Despite this adjustment, public consumption per capita was 5 per cent higher than before the crisis, and there has been an enormous effort to preserve the most important elements of the Spanish welfare state.

In periods of growth such as the current one, the Spanish economy needs to strengthen its fiscal space to face future recessions and to improve the sustainability of the welfare state in the face of the ageing population. It is important to continue with the fiscal consolidation, maintaining a primary budget surplus that will gradually reduce the level of public debt. To this end, the best strategy is through structural reforms that increase public revenues through higher GDP, higher employment and higher productivity.

The results in terms of employment are also remarkable. According to the Social Security, 86 per cent of employment lost during the crisis has been recovered. At the current pace, at the end of 2019 Spain could reach the level of employment of 2007. Given that unemployment explains 80 per cent of inequality in Spain, employment creation is crucial to ensure a more inclusive society and to spread the welfare effects of growth.

At the end of 2017, real wages and productivity were about ten percentage points above the average of the previous expansionary cycle. In short, the Spanish economy produces more today than before the crisis, with higher productivity. Now the challenge is to continue creating employment and, at the same time, improving productivity and wages.

In the short run, increasing employment and productivity is only possible through the reallocation of productive factors to the most efficient firms and sectors. Given that permanent jobs are on average 15 per cent more productive than temporary ones, productivity improvement requires appropriate policies to promote permanent hiring and to reduce the high rate of temporary employment.

Additional policies should be implemented to continue the improvement of the external competitiveness of the Spanish economy. This will foster the participation of Spanish firms in global supply chains, and will also have positive effects in sectors with a large margin to increase productivity, such as tourism, construction and the public sector.

In the short term, if existing risks such as protectionism or political uncertainty do not materialise, we expect that Spanish GDP will grow this year by close to 3 per cent, and by around 2.5 per cent next year.

In the long run, growth will only be possible through improvements in human capital, investment in research and development, innovation and technological capital. It is crucial to take advantage of the unique opportunities offered by the digital revolution, improving institutions, public sector regulations and efficiency, and removing barriers to firms' and employment growth.

The Spanish economy should continue implementing the appropriate policies to lead our society to the highest levels of individual and collective welfare, creating opportunities for all in this age of digital transformation. And in this quest for prosperity, the most advanced societies in the world, such as Australia, are an excellent and a unique reference for Spain.

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