

Global Economy / Regional Analysis Spain

Prospects and challenges for the Spanish economy

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We have been witnessing a slowdown in the Spanish economy for several quarters now. This was partially accounted for in our forecasts. It was difficult to assume that tourism, which has contributed enormously to economic recovery, continued to grow at double-digit rates when much of its past growth was due to difficulties in other Mediterranean destinations. Moreover, after several years of recovery, it has become more difficult to achieve sustained above-potential growth, with all estimates put below 2%.

The slowdown is also due to events that have occurred in recent quarters — some external and others domestic. The external factors are numerous and fundamentally political in nature: the technological and trade war between the United States and China, Brexit, geopolitical tensions with Iran and social protests in Hong Kong. We must also acknowledge that, after ten years of growth, the world economy has reached maximum levels of debt and employment. Thus we are beginning to enter a phase of maturity of the economic cycle, with little room for maneuver in monetary policy. The US economy has entered the longest expansion since records began in the mid-19th century, with unemployment dropping below 4%, a level not seen since the 1960s. In the eurozone, unemployment has returned to the levels recorded before the international financial crisis. In some countries, as in Germany, unemployment is at the lowest levels in recent decades. As a result of all of these factors, the global economy has slowed down and growth has fallen from 4% to 3%. The United States grew by around 3% in 2018 and will grow by 2.5% this year. In the eurozone, the adjustment has been more severe: after growing by 2.5% in 2017, the figure for 2019 will be just 1.1%.

Given how sensitive Spanish economic growth is to eurozone growth, the slowdown in Spain has been less intense, at least for a while. Thanks to last year's fiscal stimulus, the eurozone's weakness in the second half of 2018 went largely unnoticed by the Spanish economy, except in certain sectors such as the automobile industry and other manufacturing. The increase in wages, public employment and pensions was mainly concentrated in the second half of 2018. At the beginning of 2019 there were also some expansionary fiscal measures. These stimuli drive aggregate demand in the short term, but they come at a price. Spain has deviated from its deficit target, delaying fiscal consolidation and reducing the room for maneuver that it may need in the future if the global economy deteriorates more rapidly than expected. Additionally, when these stimuli run out, as has begun to happen, the additional growth they provide disappears and the slowdown intensifies.

We have to take also into account the political uncertainty and the impact of some of the measures taken on the labor market, such as the raise of the minimum wage and social contributions, in a context of weak growth or even falling productivity. Sectors, workers and regions most exposed to the minimum wage have seen lower employment growth than the rest of the economy. In August, Social Security affiliation to special schemes for household and agricultural employees fell by 3.4% and 1.6% y-o-y respectively, while overall employment was still up by 2.5%. Together with the external and domestic factors mentioned above, this explains why the monthly growth in Social Security affiliation in August, following seasonal adjustment, has almost halved compared with 2018.

BBVA Research forecasts indicate that the Spanish economy will grow by less than 2% in 2020. However, this growth could be reduced even further if some of the risks to the international economic scenario materialize. At this juncture, Spain would need to adopt sound economic policy measures, which the current political impasse is making difficult. It is true that recovery brought with it a more sustainable growth pattern (with a current account surplus and higher productivity), a reduction in corporate and household debt (with the inflation differential with respect to the eurozone favorable to Spain) and increased competitiveness. Nevertheless, there are still some major imbalances: the level of public debt and, above all, high levels of unemployment, temporary unemployment and long-term unemployment — the main causes of inequality. The challenges for this new economic course include continuing with reforms to ensure sustainable and balanced growth of the Spanish economy throughout the ongoing process of technological and digital transformation.

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