Regional Analysis Spain

The economic cost of the political blockade

El Mundo (Spain)

Rafael Doménech

Spain is heading for its fourth general election in four years. The Spanish economy has slowed during this period, with GDP growth falling from 4% at the end of 2015 to 2.1% in the second quarter of 2019. Repeat elections are just one of a number internal and external factors which, when combined, have caused this drop. During this period, indicators of uncertainty in Spain's economic policy have fluctuated, but have remained above their historical averages. BBVA Research's estimates indicate that the negative impact of this current uncertainty between between 0.2% and 0.3% percentage points in annual GDP growth, although it has been higher in previous quarters. The cumulative impact after four years equates to a drop of around 1 percentage point in GDP and between 150,000 and 200,000 fewer jobs.

As significant as this impact is, even more striking are the long-term effects of not implementing measures and reforms needed to correct existing structural weaknesses, which damage social welfare and explain why Spain trails behind other more advanced European economies in terms of productivity, employment and equality. The current differences are a consequence of economic policies our society needed but did not take decades ago, or even some that took us in the wrong direction.

For them to be durable and implemented with conviction, most long-term policies and reforms must be the result of political pacts and social consensus. The political situation and absence of agreements have made this impossible during the last few years. We need to move toward a more efficient and fair labor market, with lower rates of temporary employment and of structural and long-term unemployment. The debate over whether Spain is already in a neutral cyclical position is happening against the backdrop of an unemployment rate of around 14%—almost double that of the eurozone, while Germany sits at 3%. Productivity has stopped growing, despite being a long way off the European average. Rates of academic failure and school dropout remain the highest in the EU. We need to improve both dual and continuing vocational training, as well as the quality of the education system. There is ample room for improving competition in the goods and services markets—better regulations, a more efficient digital public administration and the removal of barriers to business growth would all help with this. The sustainability of the pension system must be urgently ensured, and regional financing must be reviewed. In terms of taxation, we must seek a balance between efficiency and redistribution, as part of a simpler and more transparent system. Investment in R&D must be boosted: this will require a broad set of policies that, when paired with existing policies and improvements to our institutions, can give rise to a regulatory environment and business climate that favor entrepreneurship in the high-tech sector, as seen as other countries. This list could go on, but unfortunately it is almost identical to the one we had four years ago. The Spanish economy could have enormous potential if we implemented and adapted some of the best practices seen in countries at the forefront of social welfare in Europe. When reforms do happen, the results are significant. For this to happen, we need a broad consensus on policies that cannot be put off for any longer. Our future prosperity will depend on what we do right now, especially when we are immersed in a digital revolution that will bring with it formidable social challenges.

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ENQUIRIES TO:
BBVA Research: Azul Street. 4. La Vela Building – 4th and 5th floor. 28050 Madrid (Spain).
Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 30 25
bbvaresearch@bbva.com www.bbvaresearch.com