Spain

An overview of Spain’s economy

After the Spanish economic miracle ended with the burst of the housing bubble in 2007/08, the Spanish economy is gradually recovering.

Spain joined the European Union in 1986 along with Portugal. The accession of these two countries brought the EU membership to 12. Spain was among the first 11 countries to adopt the euro in 1999 and introduced euro notes and coins in 2002.

Although Spain was often described as a European success story, the success proved to be unstable as much of its growth was driven by a housing bubble. The real estate bubble was caused by a combination of low interest rates, financial deregulation, rising domestic incomes, and strong demand from foreign investors, all of which overshadowed the declining competitiveness of the market. Additionally, many of the new jobs created were restricted to low-wage, low-productivity parts of the economy, such as construction and domestic services. Other economic sectors remained underutilized. Eventually, the burst of the housing bubble and the global financial crisis brought the Spanish economy into a severe downturn. Spain’s banking sector was destabilized as a result of the massive investments in the real estate bubble. Spain requested assistance from euro area governments in June 2012, and they agreed to provide funds to recapitalize Spanish banks through the ESM under specific terms.

Spain completed all of the required reforms and successfully exited the program in January 2014. The Spanish economy is no longer in recession, the recovery is gaining momentum and the country enjoys full access to the capital markets. The year 2018 marked Spain’s fifth year of economic expansion, although the economy is forecast to decelerate. The deceleration is mainly driven by a slowdown in private consumption, as oil prices increase further and pent-up demand is absorbed.

Robust job expansion and accelerating wage growth should, however, continue to support disposable income. Exports are expected to accelerate through 2019 then stabilize. Meanwhile, imports are set to slow. This dynamic implies that the contribution of net exports to growth will be negative for 2018 but will turn positive again in 2019.

Did you know . . . ?

History During the 16th century, Spain became the most powerful nation in Europe due to the immense wealth derived from its presence in the Americas.

Food Tomatoes, potatoes, avocados, tobacco, and cacao were all imported into Europe by Spain.

Art Many famous artists such as Salvador Dali, Francisco Goya, Diego Velazquez, and Pablo Picasso are from Spain.

Literature “Don Quixote” is the most influential work of literature to emerge from the Spanish Golden Age. It was written by Miguel de Cervantes Saavedra.

Culture The earliest recorded Spanish bull-fight took place in the year 1133 to celebrate the crowning of King Alfonso VIII.

Fun Fact Every year the city of Bunol, in the Valencia region of Spain, hosts the world’s largest tomato fight, “La Tomatina.”
Spain’s Economy – Key Facts

- Spain is a decentralized country with 17 autonomous regions and two autonomous cities. Distinct regional identities within Spain include the Basques, Catalans, Galicians, and Castilians, among others. Recently, tensions in Catalonia reached a high with an independence referendum that was passed by the population but declared unconstitutional by the courts.
- Lower net exports have altered the composition of growth in Spain. The contribution of net exports to growth is expected to be negative in 2018 but will turn positive again in 2019. These conditions will decrease the current account surplus in 2018 and 2019, but it should improve slightly in 2020.
- The World Economic Forum (WEF) Global Competitiveness Report for 2018 ranked Spain 26th out of 140 countries in terms of national competitiveness. Spain ranks high on health and infrastructure but its labour market and macroeconomic stability remain weak points.
- The World Bank’s Doing Business Report for 2019 ranked Spain 30th for ease of doing business. Spain ranks 1st for trade across borders; however, starting a business, dealing with construction permits, and getting credit are relatively difficult.
- According to the European Commission’s Autumn 2018 Forecast, GDP growth is expected to be 2.6% for 2018 and will decelerate further to 2.2% in 2019. The deceleration is mainly driven by a slowdown in private consumption from increased oil prices and pent-up demand. The deficit is expected to decline to 2.7% of GDP in 2018 and 2.1% in 2019 thanks to strong economic growth. Government debt is also expected to decrease slightly to 95.4% by 2020.

References

- http://www.doingbusiness.org/en/data/exploreeconomies/spain#

Risk The main risk to the economy and Spain’s outlook are events in Catalonia. Markets have not reacted strongly but there is the potential for future events to impact growth, although the size of which is unknown.

Agriculture With more than 40% of the world’s production, Spain is the largest producer of olive oil in the world.

Wage growth is expected to peak in 2019 due to an increase in the minimum wage. Wage growth will moderate in 2020 but still grow at a rate above inflation.

Unemployment Spain is fighting high unemployment and has seen improvements since its rate of 24.5% in 2014. Unemployment is set to continue falling, reaching 13.4% in 2020, its lowest level since 2008. Employment growth is expected to slow down due to decreased final demand and the minimum wage increase.

Inflation reached 2% in 2017 and is expected to moderate to 1.4% by 2020 from baseline effects in oil prices.