The Spanish economy: Recent developments and outlook for 2013-2014

Ángel Laborda and María Jesús Fernández[1]

Although the international economic climate has improved since last summer, the revival of euro area tensions after Italian elections and the proposed bailout for Cyprus highlights that the situation is still fragile and that significant risks persist.

The first few months of 2013 point to an improvement in the advanced economies' situation, albeit a somewhat uneven one. Emerging economies, which had suffered a marked slowdown in growth in 2012, enjoyed a recovery in the final months of the year. In Spain, GDP growth is expected to remain negative until the third quarter of 2013, when it will start to grow slightly in the final months of the year, and continue to grow moderately over the course of 2014. External financial restrictions have eased in recent months, and major Spanish banking institutions have been able to return to international financial markets, although sporadically and facing high costs. Nevertheless, the effect will not be immediately apparent in the real economy. Domestic credit constraints will continue until institutions complete the restructuring process and are able to fully access international markets on similar terms to institutions in other euro area countries. This means that no easing of financial conditions is likely to be seen until at least the second half of the year.

International context

Despite the worsening performance of the advanced economies in the final quarter of the year, the international economic climate has improved since last summer. Firstly, the emerging economies, which had suffered a marked slowdown in growth in 2012, enjoyed a recovery in the final months of the year, accompanied by an increase in their foreign trade, in contrast to the situation in the advanced economies. Secondly, the indicators available for the first few months of 2013 point to an improvement in the advanced economies' situation, albeit a somewhat uneven one.

GDP growth in the United States, where the recovery had been showing reliable signs of gaining traction in previous quarters, came to a halt in the fourth quarter, although this was due to temporary factors that do not put the underlying positive trend in doubt. The forecasts suggest that the US economy will continue to recovery steadily in 2013, with growth of 2%, rising slightly in 2014, but still remaining sluggish compared to past recoveries. Nevertheless, it will at least allow for a certain amount of job creation and for a gradual reduction in the unemployment rate.

In the euro area, GDP accelerated its fall in the last quarter of 2012, dropping by 2.3% on an

[1] Funcas Economy and Statistics Department.

annualised basis, making a total of five straight quarters of negative growth. Almost all the euro area's economies were in negative territory, including Germany, which had previously managed to escape recession. The indicators for the first quarter point to Germany's returning to moderate growth and the contraction in the other countries slowing. The forecasts suggest a drop in GDP of 0.5% in 2013 and growth of just over 1% in 2014.

The improvement in confidence is largely due to the fact that the sovereign debt crisis has remitted significantly, owing to the bond purchase programme (known as Outright Monetary Transactions) announced by the European Central Bank in September. This has been reflected in a still modest return of financial flows to the peripheral economies and a drop in their risk premiums. Nevertheless, the revival of tensions, albeit in milder form, that occurred after the Italian elections and the proposed bailout for Cyprus highlights that the situation is still fragile and that significant risks persist.

Recent developments in the Spanish economy

Spain's **GDP** contracted by 0.8% in the fourth quarter of 2012 relative to the previous quarter. This is equivalent to a drop of 3.1% on an annualised basis (in what follows, quarterly growth figures will be expressed in annualised terms). The result for the year as a whole was -1.4%.

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The contraction in the last quarter, the sixth consecutive quarter of negative growth, was the biggest since the economy fell back into recession in the third quarter of 2011. This worsening was caused by the sharp drop in domestic demand driven by the accelerating decline in private consumption and investment in capital goods. The deterioration in domestic demand was so severe that it could not be offset by the external sector's stronger contribution to growth in the quarter. This contribution was the biggest since the first quarter of 2009 (4.5 percentage points), although it was not so much the consequence of faster export growth, which in fact slowed, as a sharp drop in imports.

Private consumption registered a marked decline (7.6%) in the last quarter of 2012. This was partly a result of consumers having brought forward some of their spending to the previous quarter ahead of the VAT rise, and partly due to the weakening fundamentals underlying private consumption, owing, among other factors, to the elimination of public employees' bonuses[2] in December. Consumer spending contracted by 2.1% in the year, although the drop in the indicators related to this macroeconomic variable, such as retail sales, new vehicle registrations, or domestic sales of consumer goods and services by large companies, was much more pronounced (with results of -7.1%, -12.9% and -5.3%, respectively).

The last two of these indicators registered a slight increase at the start of 2013, but this was too weak to break the overall downward trend, suggesting at best a moderation of the decline in consumption. The same conclusion can be drawn from the progress of the consumer confidence index, which improved in January and February, although to levels that remain below those of the first half of 2012 (Exhibits 1.1 and 1.2).

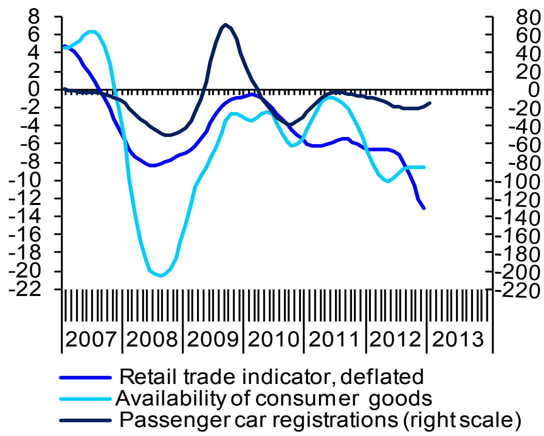
[2] All employees in Spain, in the public as well as in the private sector, receive an additional month of wages on a biannual basis, typically in June and December. This is referred to as the pago extra (extra payment). Throughout the article, we will refer to this as the public employees' bonus.

Exhibit 1

Consumption and capital goods investment indicators

1.1 - Consumption Indicators (I)

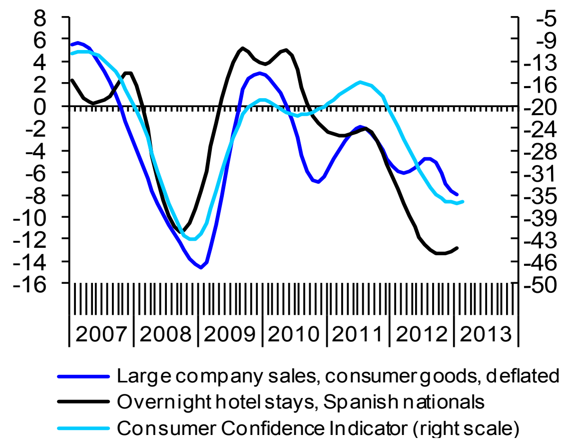
Annualised moving quarterly change in %, smoothed series



Sources: Ministry of Economy, INE, DGT and Funcas.

1.2 - Consumption Indicators (II)

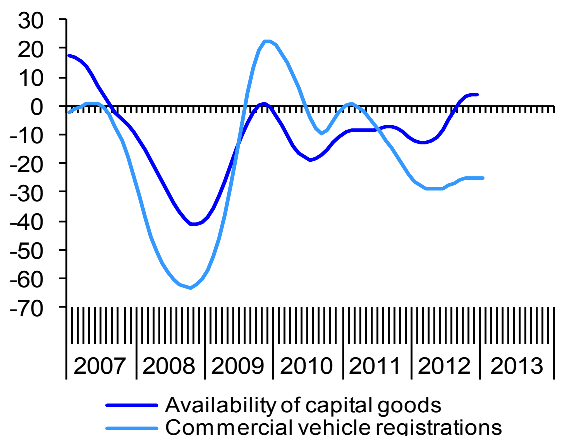
Annualised moving quarterly change in % and index (CCI), smoothed series



Sources: European Commission, INE, AEAT and Funcas.

1.3 - Capital goods GFCF Indicators (I)

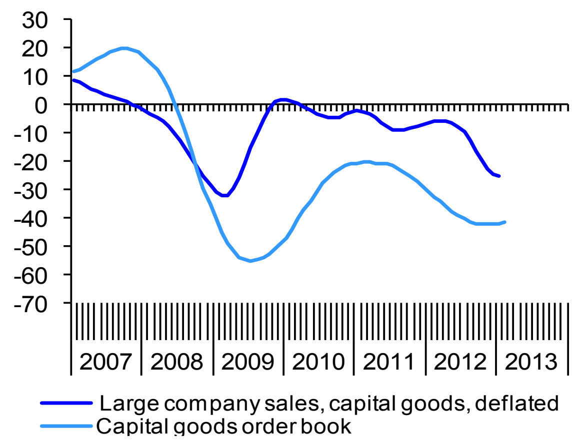
Annualised moving quarterly change in %, smoothed series



Sources: Ministry of Economy, DGT and Funcas.

1.4 - Capital goods GFCF Indicators (II)

Annualised moving quarterly change in %, smoothed series



Sources: Ministry of Industry, AEAT and Funcas.

At 1%, the cut in real **government consumption** in the first quarter of 2012 was less drastic than expected, although the drop experienced in current price terms was considerable, at 20.1%, due to the elimination of public employees' bonuses, which was reflected in a sharp drop in the deflator of this aggregate. Public consumption over the year as a whole fell by 3.7%.

Gross fixed capital formation in machinery and equipment and other manufactures contracted by 20.4% in the fourth quarter, and 4.9% over the year as a whole. However, here too, the annual drop is less severe than that of other indicators, such as the availability of capital goods (-8.3%), registrations of goods vehicles (-24.8%), or capital goods domestic sales by large companies (-9.8%). Once again, the indicators available for January show a slight recovery, although only sufficient to indicate a slowing of the negative trend (Exhibits 1.3 and 1.4).

Construction investment remains strongly negative (-11.5% a year), particularly in the case of non residential construction building, and there are no signs of a recovery in the real estate sector. Home sales picked up slightly at the end of last year, as buyers brought forward their purchases ahead of tax changes due to come into force at the start of 2013. The sharp drop in new home loans in January shows that the underlying trend is still steeply downward.

Exports of goods and services fell by 3.7% in the fourth quarter, although total foreign sales in 2012 were up 3.1% on those of the previous year. While the growth rate is positive, it falls short of that in previous years, and is below the historic average growth rate, which at least partly reflects the world economy's slower growth. One particular factor that has weighed heavily on the progress of foreign sales has been the slump in car exports. Cars are Spain's main manufacturing export, and output is largely destined for European markets.

Imports fell in the third quarter at a rate of 17.9%, a drop of 5% over the year as a whole, as a result of the collapse in domestic demand.

On the **supply** side, manufactured goods and services not related to general government were the sectors in which the fourth quarter drop in GVA was sharpest. Only agriculture showed positive growth over the year as a whole. In tourism, after favourable performance in the second and third quarters of the year, there was a sharp drop in the last quarter in terms of indicators such as hotel stays, which dropped by 13% in the period, and tourist numbers, which fell by 7%.

The PMI manufacturing and services indices, the industrial production index, and the change in the number of people registered with the social security system in the early months of 2013 all point to a continuation of the negative growth trends in these sectors' activity in the first quarter of the year, although at a more moderate pace than in the previous quarter (Exhibits 2.1 to 2.4).

Job losses accelerated in the final quarter of the year, rising to 6.4% according to National Accounts figures. The drop in 2012 as a whole was 4.4%, the biggest since 2009. Employees were hit hardest by the contraction in the labour market, while the number of self employed persons rose by 0.1%.

The rise in unemployment slowed significantly due to the sharp contraction in the labour force. This was partly due to a reduction in labour force participation, but mainly the result of a strong contraction in the working age population, as many immigrants return to their country of origin and Spaniards look for work abroad.

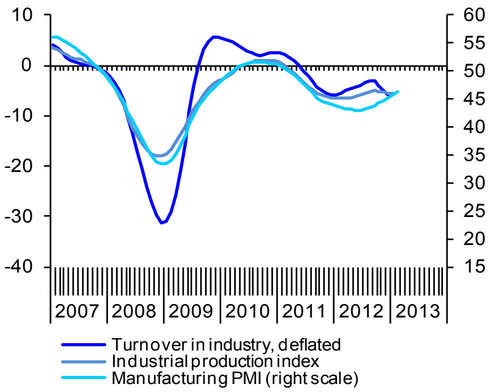
The figures from the Labour Force Survey show a somewhat smaller drop in employment than the

Exhibit 2

Industrial activity, services and construction indicators

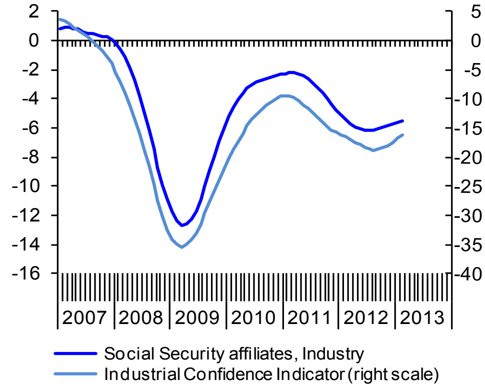
2.1 - Industrial sector indicators (I)

Annualised moving quarterly change in % and index, smoothed series



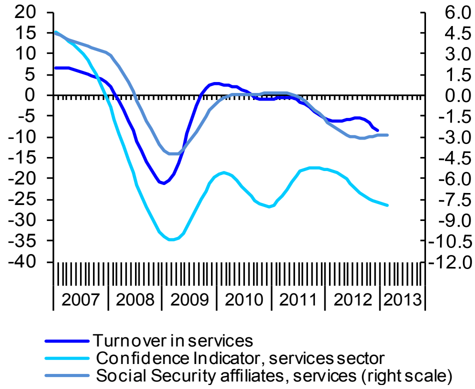
2.2 - Industrial sector indicators (II)

Annualised moving quarterly change in % and index, smoothed series



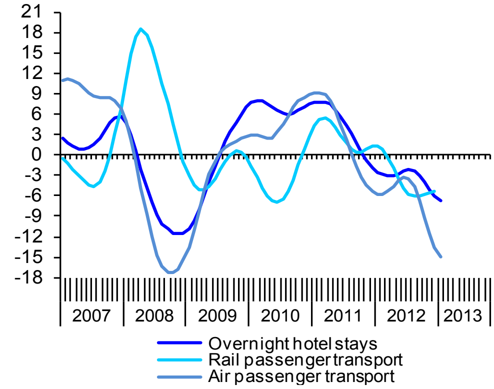
2.3 - Services indicators (I)

Annualised moving quarterly change in % and index, smoothed series



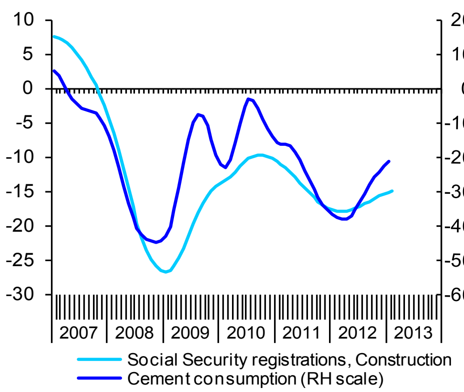
2.4 - Services indicators (II)

Annualised moving quarterly change in %, smoothed series



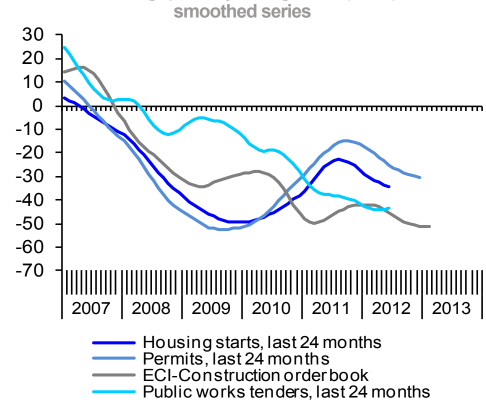
2.5 - Construction sector indicators (I)

Annualised moving quarterly change in % (Q 3/3), smoothed series



2.6 - Construction sector indicators (II)

Annualised moving quarterly change in % (Q 3/3) and index, smoothed series



Sources: European Commission, Ministry of Labour, Ministry of Industry, Ministry of Development, INE, AENA, Markit Economics Ltd.,RENFE. Markit Economics Ltd., OFICEMEN and Funcas.

National Accounts for the same period, although in either case it is more intense than in previous quarters. However, the rise in unemployment slowed significantly due to the sharp contraction in the labour force. This was partly due to a reduction in labour force participation, but mainly the result of a strong contraction in the working age population. This trend was first observed in 2012 and has gathered pace as many immigrants return to their country of origin and Spaniards look for work abroad.

According to figures for the number of people registered with the social security system, employment in all areas of the economy continued to contract in the first two months of the year, although the rate had slowed somewhat from the previous quarter. This, coupled with the performance of the other indicators available for the early months of the year, points to a **continuing contraction in GDP in the first quarter of 2013**, although at a more moderate rate than in the preceding quarter (Exhibits 3.1 to 3.4).

Apparent labour productivity rose by 3.2% in 2012, the biggest increase since the start of the crisis. **Compensation per employee** fell by 0.3% on average, the first time this variable has fallen in annual terms. This cut in average salaries is entirely due to the elimination of public employees' December bonuses, as in sectors outside general government there was a mild increase.

Unit labour costs (ULC) fell sharply (3.4%) in the year as a whole. This result was to some extent influenced by the changes in this variable in general government, where the elimination of public employees' bonuses caused ULCs to drop by 5.2%. There was also a significant drop in ULCs in construction and services not related to general government. In the manufacturing industry, the sector most exposed to foreign competition, ULCs rose by 0.1% after accumulating a drop of 10.6% over the previous two years.

The trade balance in goods and services was in surplus in 2012 for the first time since 1997, at 1% of GDP.

The **trade balance in goods and services**, according to the National Accounts, was in surplus in 2012 for the first time since 1997, at 1% of GDP. The deficit on the goods balance was 37% lower than in 2011 and was more than offset by the surplus on the services balance. Moreover, according to Customs figures, if energy-generating products are excluded, the trade balance in goods was also in surplus (Exhibit 4.1).

Nevertheless, over the year as a whole the economy continued to show a negative balance on the current account of 0.8% of GDP, and **net borrowing** was equivalent to -0.2% of GDP. However, it is worth noting that this represents a marked decrease on the previous year, when these balances were -3.7% and -3.2%, respectively, and that in the second half of the year both balances were in surplus.

Breaking down this net borrowing by sectors, the private sector registered a surplus (net lending) of 9.8% of GDP, and the public sector a deficit of 10%. However, these figures are skewed by the extraordinary aid (capital transfers), equivalent to 3.3% of GDP, granted to financial institutions by the State. The steady improvement in the net lending position of non-financial corporations also stands out. In the third quarter this came to 2.5% of GDP.

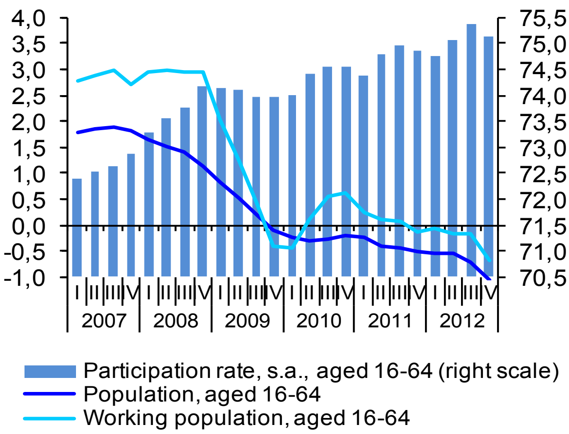
In terms of the **savings investment balance**, the improvement in the current account balance comes from a reduction in the economy's investment rate, which rose to 19.6% of GDP, and a slight increase in the savings rate, rising to 18.8%. This improvement derives from the increase in savings by companies and general government (which had a less negative savings rate), while the household saving rate has dropped.

Exhibit 3

Labour market indicators

3.1 - Labour supply

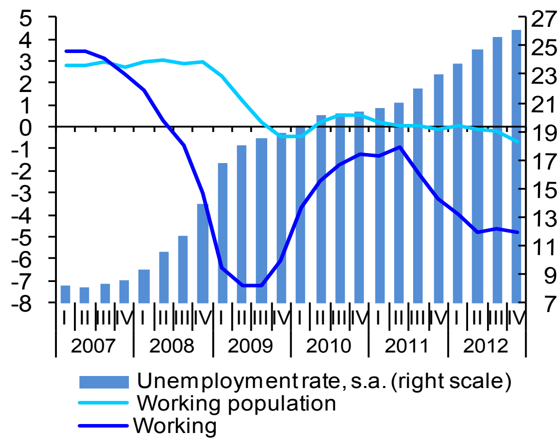
Change y-o-y in % and percentage of population aged 16-64



Source: INE (LFS).

3.2 - Employment and unemployment (LFS)

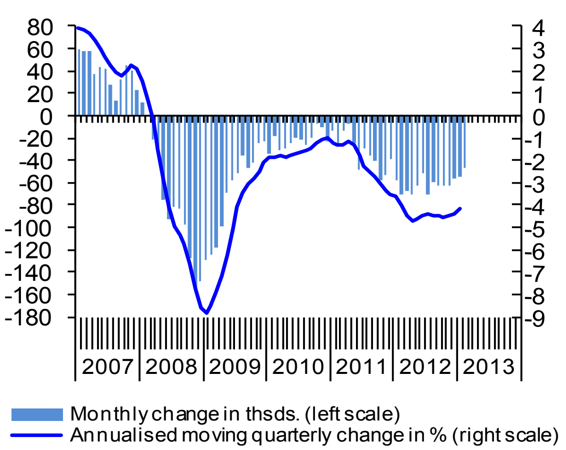
Change y-o-y in % and percentage of working age population



Source: INE (LFS).

3.3 - Social Security affiliates

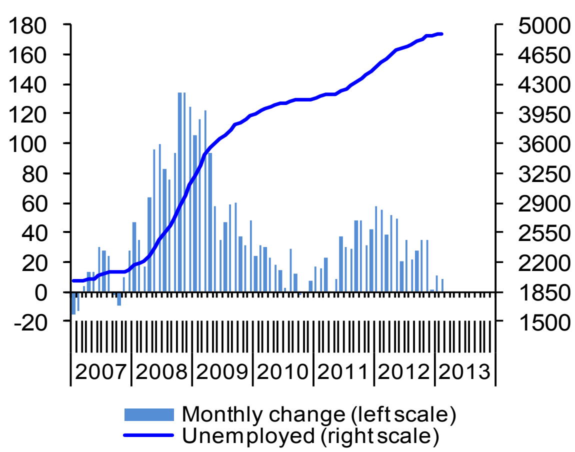
Change in thousands and in %, seasonally-adjusted data



Sources: Ministry of Labour and Funcas.

3.4 - Registered unemployment

Thousands, seasonally-adjusted data

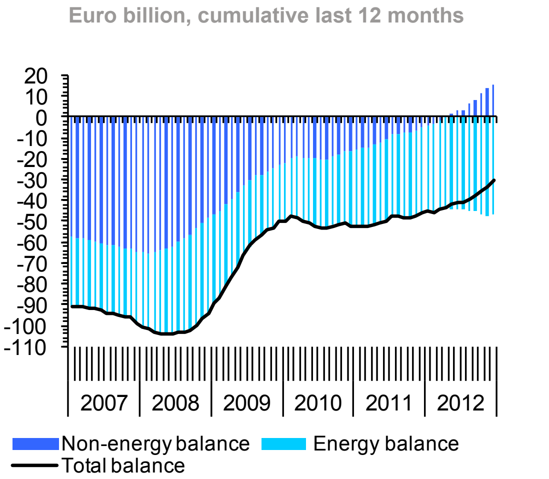


Sources: Ministry of Labour and Funcas.

Exhibit 4

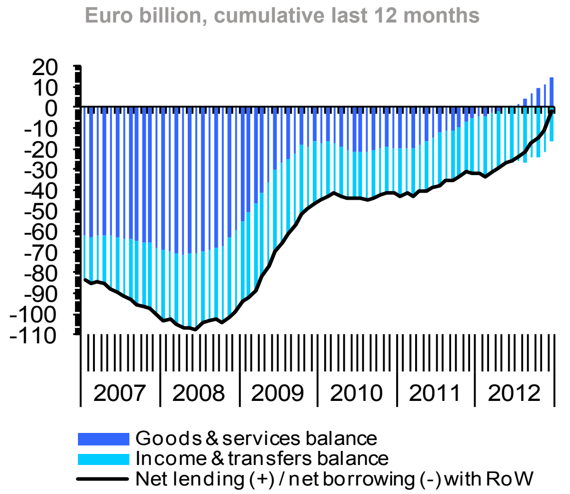
External sector

4.1 - Surplus/deficit on trade in goods (Customs)



Source: Ministry of Industry.

4.2 - Balance of payments



Source: Bank of Spain.

Consumer price **inflation** remained stable at around 2% until July, subsequently rising to 3.5% in October, and ending the year at 2.9%. Rather than reflect inflationary pressures, this high level is entirely due to exogenous factors. In particular, these include the regulatory changes introduced by the government to curb the deficit (increases in indirect taxes, fees, and public prices, and changes to the prescription drug subsidy system) and the rapid inflation in the price of energy generating products. In the first two months of 2013 the inflation rate slowed slightly to 2.8% (Exhibit 5.1).

Rising prices led to a significant decline in household's purchasing power in 2012, such that despite a drop in consumption in real terms, spending rose in nominal terms. Moreover, this took place against the backdrop of declining nominal household incomes resulting from job losses, near-zero wage growth, and rising taxes.

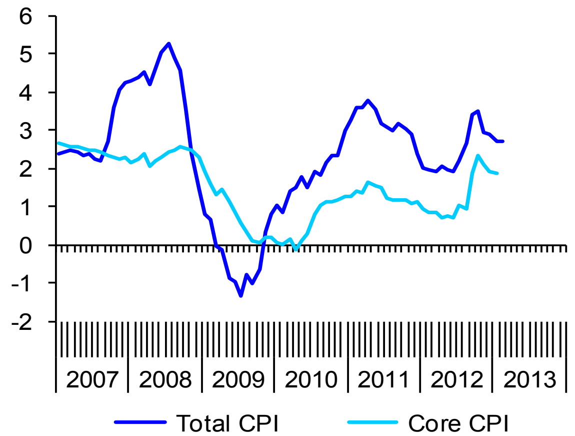
Taken together, these factors explain why the **household saving rate** has fallen to a historical minimum: 8.8% of gross disposable income (GDI) in the four quarters up to the third quarter of 2012 –the most recent quarter for which data are available– compared with 11% in 2011. Similarly, households' limited capacity to generate a financial surplus is constraining the rate at which they can reduce their indebtedness, which stood at 123.2% of GDI in the third quarter of 2012, against a maximum of 130.6% in 2007.

The general government deficit came to 6.7% of GDP in 2013, four tenths of a percentage point above the target agreed with Brussels. Government revenues recovered somewhat in the final months of the year, partly due to the VAT rise, delaying tax refunds until 2013 and bringing forward companies' corporate tax payments. This means carrying over part of the deficit from 2012 into 2013.

Exhibit 5
Price indicators

5.1 - Consumer prices index

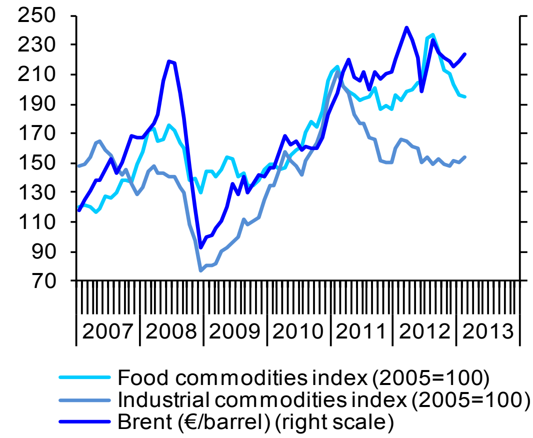
Change y-o-y in %



Source: INE (CPI).

5.2 - Commodities prices in €

Euros and index



Sources: Ministry of Economy and The Economist.

The **general government deficit** came to 6.7% of GDP in 2013, four tenths of a percentage point above the target agreed with Brussels. The central government presented a deficit of 3.8%, whereas the autonomous regions had a deficit of 1.7%, local government 0.2%, and the social security fund 1%. Government revenues recovered somewhat in the final months of the year, partly due to the VAT rise, but also as a consequence of delaying tax refunds until 2013 and bringing forward companies' corporate tax payments. In effect, this means carrying over part of the deficit from 2012 into 2013[3].

The balance on the f**inancial account of the balance of payments** (excluding the Bank of Spain) changed sign in the second half of the year, going from a negative balance of 252 billion euros between January and August, to a positive balance of 73 billion euros between September and December (Exhibit 6.2). This reflects the easing of tensions in international financial markets following the ECB's announcement of its outright monetary transactions (OMT) programme, which opened the way for a modest return of financial flows after the substantial net outflows registered since mid 2011.

This change in market sentiment has also been reflected in the yield on Spanish ten year government bonds, which in July at times stood at over 7%, and in recent weeks has been around 5%, representing a drop of more than 200 basis points in the risk premium (Exhibit 6.1). Similarly, some of the major Spanish banking institutions have again been able to tap international capital markets for financing, although sporadically and at a high cost.

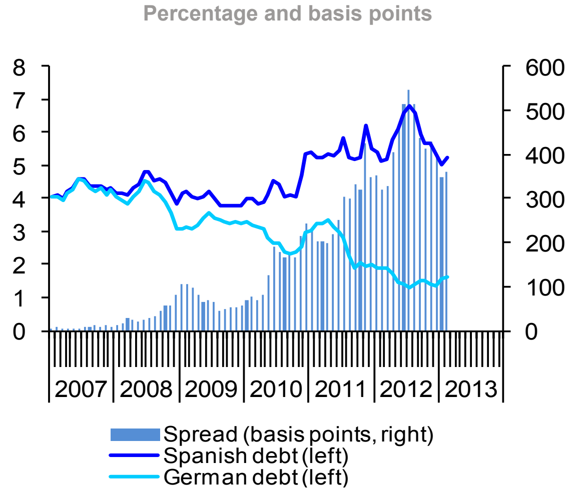
Forecasts for 2013-2014

The fourth-quarter results were in line with forecasts, although in the case of variables relating

[3] Subsequently, the public deficit figure has been corrected to 7% of GDP by the European Commission.

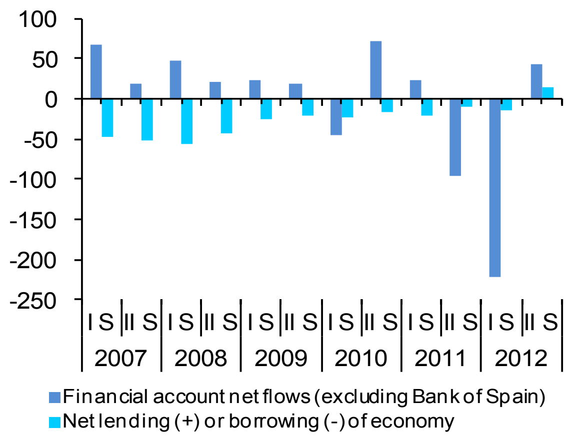
Exhibit 6
Financial indicators

6.1 - Government 10 years bonds rate



Sources: ECB and Bank of Spain.

6.2 - Balance of payments



Source: Bank of Spain.

to external balances –trade balance, and above all the economy's net lending or borrowing– the adjustment was faster than expected. The other variables are also performing largely as predicted in recent forecasts. As a result, the GDP growth forecast for 2013 remains unchanged at -1.6%, although that for 2014 has been revised upwards two percentage points to 0.5% (Exhibit 7 and Table 1).

Although the external financial restrictions have eased in recent months, and major banking institutions have been able to return to international financial markets, the effect will not be immediately apparent in the real economy. Domestic credit constraints will continue until institutions undergoing restructuring complete the process of cleaning up their balance sheets, and are able to fully access international markets on similar terms to institutions in other euro area countries. This means that no easing of financial conditions is likely to be seen until at least the second half of the year.

Also, the intense process of adjustment to the production capacity of the residential construction sector –and other related sectors– underway in recent years is now bottoming out. Thus, all the jobs created in construction between 1997 and 2007 have been lost, and the current level of employment in the industry is lower than it was in 1995, prior to the start of the bubble. Nevertheless, until the excess stock of unsold housing is absorbed, activity in the sector will continue to contract, although the rate at which this happens will gradually slacken. The adjustment in public works, on the other hand, will continue to be intense.

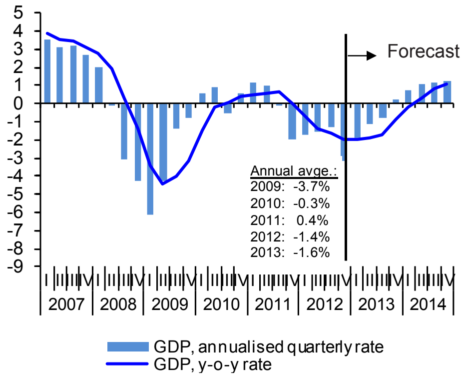
The contraction of **private consumption** will persist, as households' disposable income will continue to shrink and savings are already at rock bottom. This variable is predicted to drop by 3.2% in 2013, although at the end of the year or in early 2014 it should begin to level off. The forecast for 2014 therefore envisages a much more moderate drop (0.3%), with the possibility of positive quarterly growth from the third quarter onwards. **Public**

Exhibit 7

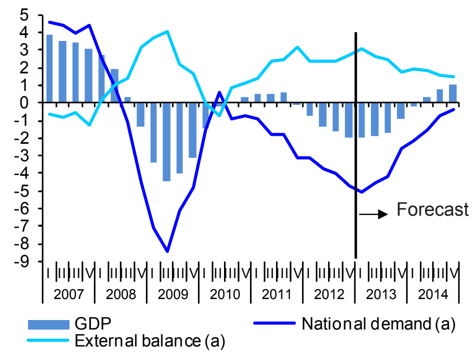
Funcas forecasts for 2013-2014, quarterly profile

Change y-o-y in %, unless otherwise indicated

7.1 - GDP

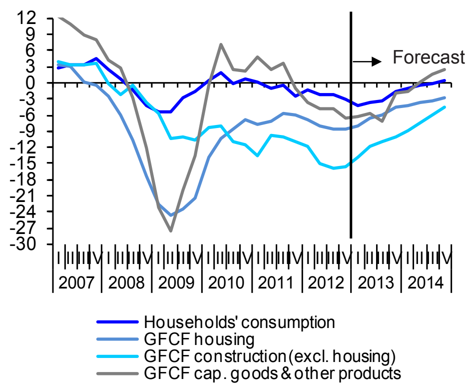


7.2 - GDP, national demand and external balance

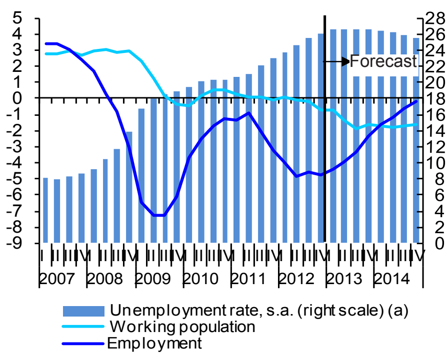


(a) Contribution to GDP growth in percentage points.

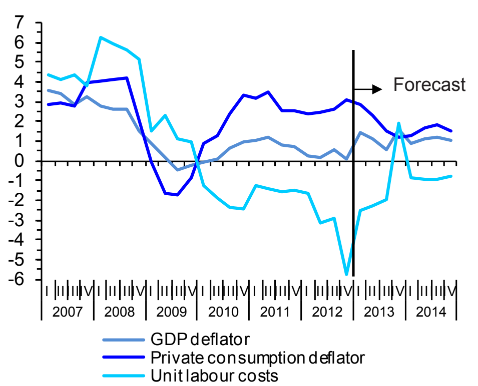
7.3 - National demand aggregates



7.4 - Employment and unemployment

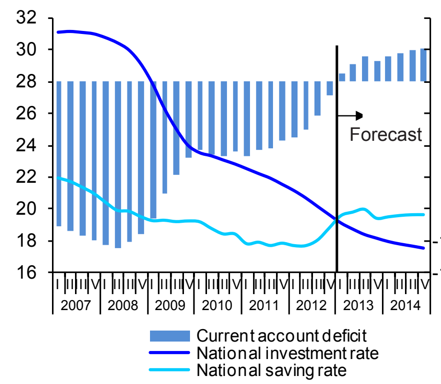


7.5 - Inflation



7.6 - Saving, investment and c/a deficit

(% GDP, 4MA)



Sources: INE (Quarterly National Accounts) and Funcas (forecasts).

Table 1

Economic Forecasts for Spain, 2013-2014

Annual rates of change in %, unless otherwise indicates

	Actual data			Funcas forecasts		Change in forecasts (a)	
	Average 1996-2007	2011	2012	2013	2014	2013	2014
1. GDP and aggregates, constant prices							
GDP	**3.7**	**0.4**	**-1.4**	**-1.6**	**0.5**	**0.0**	**0.2**
Final consumption households and NPISHs	3.8	-1.0	-2.1	-3.2	-0.3	0.1	0.3
Final consumption general government	4.3	-0.5	-3.7	-3.1	-2.4	1.8	0.5
Gross fixed capital formation	6.4	-5.3	-9.1	-7.7	-2.7	0.2	0.7
Construction	5.4	-9.0	-11.5	-9.1	-5.1	2.0	0.8
Residential construction	7.3	-6.7	-8.0	-6.3	-3.5	0.0	0.4
Non-residential construction	4.2	-11.0	-14.6	-11.7	-6.6	3.9	1.2
Capital goods and other products	7.5	2.5	-4.9	-5.3	0.7	-2.4	0.6
Exports goods and services	6.7	7.6	3.1	3.0	6.1	-1.5	0.3
Imports goods and services	9.3	-0.9	-5.0	-4.4	1.5	0.2	0.9
National demand (b)	**4.5**	**-1.9**	**-3.9**	**-3.9**	**-1.1**	**0.6**	**0.4**
External balance (b)	-0.8	2.3	2.5	2.3	1.6	-0.6	-0.2
GDP, current prices: - € billion	--	1063.4	1051.2	1046.5	1061.9	--	--
- % change	7.4	1.4	-1.1	-0.4	1.5	0.2	0.2
2. Inflation, employment and unemployment							
GDP deflator	3.6	1.0	0.3	1.2	1.0	0.2	0.0
Household consumption deflator	**3.1**	**2.9**	**2.7**	**2.0**	**1.6**	**-0.2**	**0.1**
Total employment (National Accounts, FTEJ)	3.3	-1.7	-4.4	-3.5	-0.9	-0.3	-0.3
Productivity (FTEJ)	0.4	2.2	3.2	2.0	1.4	0.4	0.5
Wages	7.2	-0.8	-5.4	-3.5	-0.7	0.0	-0.4
Gross operating surplus	7.3	5.0	2.2	1.4	3.5	1.0	0.6
Wages per worker (FTEJ)	3.2	0.7	-0.3	0.7	0.5	0.2	-0.2
Unit labour costs	2.8	-1.4	-3.4	-1.3	-0.9	-0.2	-0.7
Unemployment rate (LFS)	**12.2**	**21.6**	**25.0**	**26.6**	**26.0**	**-0.7**	**-1.2**
3. Financial balances (% of GDP)							
National saving rate	22.2	17.8	18.8	19.4	19.5	1.2	0.5
- of which, private saving	18.9	23.0	22.9(c)	23.2	22.5	1.2	1.1
National investment rate	26.6	21.5	19.6	18.1	17.4	0.1	0.2
- of which, private investment	23.1	18.7	17.7(c)	16.8	16.3	0.1	0.1
Current account balance with RoW	**-4.4**	**-3.7**	**-0.8**	**1.3**	**2.1**	**1.1**	**0.3**
Nation's net lending (+) / net borrowing (-)	-3.4	-3.2	-0.2	1.8	2.6	1.2	0.5
- Private sector	-2.6	6.3	9.8	7.6	7.2	1.4	1.1
- Public sector (general governm. deficit)	**-0.8**	**-9.4**	**-10.0**	**-5.8**	**-4.6**	**-0.2**	**-0.6**
Gross public debt	53.5	69.3	84.1	93.1	98.4	-1.2	-0.5
4. Other variables							
Household saving rate (% of GDI)	12.0	11.0	8.5(c)	8.5	8.5	0.1	-0.1
Household gross debt (% of GDI)	82.5	125.5	122.6(c)	119.3	113.7	-0.1	-0.3
12-month EURIBOR (annual %)	3.7	2.0	1.1	0.6	1.0	-0.3	-0.7
10-year government bond yield (annual %)	5.0	5.4	5.9	4.9	4.1	-0.1	0.1
Nominal effective euro rate (% annual change)	--	-0.3	-5.3	1.9	-1.2	3.2	-0.6

(a) Change between present and previous forecasts, in percentage points.
(b) Contribution to GDP growth, in percentage points.
Sources: 1996-2012 except for (c): INE and Bank of Spain; Forecasts 2013-14 and (c): Funcas.

consumption will remain on a downward path, given the need to continue deficit cutting efforts.

Investment in capital goods will also continue to decline. However, the stimulus from export growth and the need to renew and upgrade productive capital after several years of minimum spending make the downward trend likely to slow progressively over 2013, with a recovery likely in 2014, as lending conditions become less restrictive, and given companies' greatly improved financial situation, as they have been registering net lending capacity for some time. The forecasts for this year and next, therefore, are -5.3% and 0.7%, respectively. The decline in **construction investment** will gradually slow, particularly in the case of residential construction.

As a consequence of the above, **domestic demand** will remain in negative territory throughout 2013 and probably in 2014, although the trend will be towards a stabilisation.

The rate of **export** growth will accelerate as the world economy picks up momentum. The trend will be upwards this year and next, with annual rates of 3% and 6.1%, respectively. Given that domestic demand will remain very weak in 2013, **imports** will stay strongly negative, with a contraction of 4.4% over the year as a whole. Nevertheless, in 2014 this variable will change trend as domestic demand becomes less negative and there is stronger growth in exports –whose trend powerfully influences that of imports– such that growth of 1.5% is expected.

The overall result will be that domestic demand will make a negative contribution to growth throughout 2013 and 2014, although the trend will be upward (i.e. less negative). Thus, from the end of this year, falling domestic demand will be offset by the positive contribution from the external sector, resulting in a slightly positive GDP growth rate.

To conclude, it is anticipated that **GDP growth** will remain negative until the third quarter of 2013, when it will start to grow slightly in the final months of the year, and continue to grow moderately over the course of 2014. Domestic demand will remain negative, with growth coming from the external sector.

As regards **employment**, the number of full time equivalent jobs will continue to decline during the year. Only well into 2014 will the economy have reached a rate of growth compatible with minimum net job creation. The annual change in this variable in this year and the next will be -3.5% and -0.9%, respectively. The **unemployment rate** is expected to climb to 26.6% in 2013, moderating slightly in 2014 as the working age population contracts, a trend that has been apparent since 2010. **Productivity and unit labour costs** will continue their upward and downward trends, respectively, from recent years.

Finally, the **surplus on the current account of the balance of payments, and the economy's net lending position**, will increase over the next few years as a result of the increase in the national savings rate, and the continuation of the downward path of the investment rate. Net lending will reach a level of around 1.8% of GDP in 2013 and 2.6% in 2014. The biggest contribution will come from the **public sector**, whose deficit will be cut to 5.8% and 4.6%, respectively.