SPECIAL FEATURE

The outlook for the Spanish economy in the medium term

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The on-going euro area recession has made it more challenging for Spain to manage its internal difficulties. Nevertheless, if there are no new surprises in Spain, or in the euro area, and announced structural reforms are implemented, the country's medium term economic performance should improve.

In this Special Feature, the author provides us with a medium term scenario for the Spanish economy in the context of the prospects for euro area economic performance and integration. Under his base case scenario of continued, slow progress towards euro area banking and fiscal union, the Spanish economy will continue correcting its accumulated imbalances and show improvement in key macroeconomic and fiscal/debt indicators over the coming years. In this article, the author presents us with 12 key factors for consideration as regards the medium term outlook for the Spanish economy, supported by the latest forecasts published by the International Monetary Fund (IMF) and the European Commission (EC). Findings show that Spain will face key challenges related to the housing market adjustment, public and private debt sustainability, and employment creation. On this last point, the author provides some recommendations for boosting Spanish employment. Ultimately, the assumption is that in the absence of an unexpected shock in Spain, or at the EU level, Spain's difficulties should be tackled through an improved macroeconomic climate and the implementation of appropriate structural reforms over time.

First and foremost, Spain is a member state of the euro area, and unfortunately this area is in recession (-0.6%) and is having serious internal difficulty managing its crisis. This is despite the currency area's not suffering from a balance of payments crisis, having managed to run a current account surplus of 1.8% of GDP in 2012, and having so far avoided a fiscal crisis, with a fiscal deficit of 3.7% of GDP and a structural deficit of 2% of GDP, while its public debt stands at 92.9% of GDP. The reasons for these euro area difficulties lie in the lack of a clear and universally accepted plan for banking, fiscal and political union. This is causing huge uncertainty among investors, which is now spreading to depositors.

By contrast, the United States has been a Federation of States for the last 226 years (since July 4th, 1776), to which later states acceded, and has a current account deficit on the balance of payments of 3% of GDP, a fiscal deficit of 8.9% of GDP and a structural deficit of 6.4% of GDP.

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Its debt stands at 107.6% of GDP, and is growing at 2.2% per year. The dollar is the dominant international currency and the U.S. sovereign debt market is the biggest, deepest, most liquid and safest in the world.

In other words, the euro area has no choice but to unite or fail, as the GDP of each of its member states progressively shrinks relative to those of large or medium-sized emerging countries. For this reason, in 2050 there will be no European countries in the G8 as their GDPs will be too small to qualify. The eight members, in order of size of GDP, will be: China, the United States, India, Brazil, Russia, Japan, Mexico and Indonesia. (Spain would be in 17th position after South Korea).

However, a united euro area would be the fourth world power in 2050, behind China, the U.S. and India, in which case the world would basically be governed by a G4 (China, the United States, the euro area, and India). If all the members of the European Union were to join forces, by 2050, the European Union would be the second world power in GDP terms, ahead of the U.S.

In the medium term, i.e. over the next five years, none of this is foreseen to happen, as it would be necessary to substantially alter the treaties of the European Union, a process that is likely to take longer. However, there have recently been positive signs, such as the appointment of a group of experts by the European Commission (EC) to study the creation of a "redemption fund" for all debt over 60% of GDP in the euro area, and to study the issue of "eurobills," which would be a step towards finally resolving Europe's debt problems through mutualisation, particularly in the case of states facing market fragmentation and high debt refinancing costs, such as Spain.

In the meantime, the Spanish economy will continue to improve unless there are serious divisions within the euro area that may heighten the doubts about progress towards banking union in the medium term and fiscal union in the long term. I think this would be highly unlikely, given that if the process of union were to go into reverse or the euro were to break up, all its members would lose out. It would also trigger a global crisis and I do not think anyone would jeopardise a process of union that has been under way for 56 years since the Treaty of Rome in 1957 just for short- or medium-term political gains. Against this backdrop, let's consider the medium-term outlook for the Spanish economy.

Spain's medium term outlook: 12 factors for consideration

#1: Improved perspectives for GDP growth

At the end of 2013, Spain had suffered a cumulative contraction of between 6.6 and 7.0 percentage points of GDP over a five-year period, its severest recession since the Spanish Civil War. However, the European Commission (EC) estimates that the Spanish economy will return to growth in 2014, at a rate of 0.9%, and the International Monetary Fund (IMF) estimates it will grow by 0.7%. This is more than Italy (0.7% and 0.5%) but less than France (1.1% and 0.9%). Moreover, the IMF estimates that Spain will grow at 1.6% in 2018, to reach the euro area average.

However, in its very recent revision of its World Economic Outlook (WEO), published on July 9th, 2013, the IMF downgraded Spain's growth for 2014 from 0.7% to 0.0%, keeping it at -1.6% for 2013. It is not yet clear whether the EC plans to revise its figures in line with those of the IMF. This abrupt change in the WEO between April 2013 and July seems hard to explain.

Apparently, the reason is that in April 2013 the IMF did not take into account the structural adjustment planned in 2014 under the Stability Programme, which implied shaving ¾ of a point of GDP from Spain's fiscal deficit (General Government net lending). The IMF therefore estimated that in 2013 the deficit would be 6.6% of GDP and that it would increase in 2014 to 6.9% of GDP. However, the impact of further fiscal consolidation has been included in July's WEO and the IMF now estimates that the 2013 fiscal deficit will be 6.7% of GDP, one tenth higher than in the April WEO, but that it will drop to 5.9% of GDP in 2014. This represents a reduction of 8 tenths of a percentage point. This adjustment implies negative growth in 2014 (assuming a fiscal multiplier of one). However, the IMF has calculated that some of the fiscal adjustment measures (on the income side) will have a fiscal multiplier of less than one and that the underlying conditions for growth are more favourable now than they were at the time of the April WEO. For this reason, they estimate that growth in 2014 will be zero.

The April 2013 WEO estimated that the contribution of Spanish domestic demand to growth in 2014 would be -0.2% and that of net exports would be 0.9%, yielding 0.7% of growth. However, the July 2013 WEO now estimates that the contribution of domestic demand to growth will be negative, at -1.5% of GDP, which is 1.3 percentage points more than in the April WEO. By contrast, the contribution of net exports will be positive by 1.5 points of GDP, 0.6 percentage points more than in the April WEO, leading to growth of 0.0% for the Spanish economy in 2014.

In any event, it is now a fact that Spain is correcting its internal and external imbalances, and is starting to show some signs of its strengths.

#2: Competitiveness gains

Spain has undergone a sharp internal devaluation in real terms that is as significant or more so than the one implemented in Germany by Chancellor Schroeder in 2003 under the "Agenda 2010" reforms.

According to the European Commission (EC), between 2010 and 2014, and taking account of the effects of the drop in employment, the drop in real salaries will be 8.2%, the increase in productivity per employed person, 12.6% (partly due to the contraction in construction jobs), the drop in real unit labour costs (ULC) will reach 12.3% (compared to the euro area average), and the real effective exchange rate will have been devalued by 15.7% compared with the OECD average. This devaluation is helping improve companies' gross operating surplus, which will rise from 40% of GDP in 2008 to 45.6% in 2014.

Spain's Philips curve, i.e. the ratio between wage increases and employment, improved between 2009 and 2012, after the rapid and erroneous wage increases while unemployment was rising in 2008 and 2009. The quarterly labour cost survey published by the Spanish Statistics Institute (INE) shows that in 2012 alone, labour costs fell by 4.5% compared to Germany and 3.5% compared to the euro area, and that they are still falling. Nominal ULC indices, starting from base 100 in 1997, rose to 142 in 2009 and dropped to 115 in 2014, while productivity per employed person in 2007 was 100, and it is set to rise to 111.7 in 2014.

#3: Current account imbalance correction backed by strong tourism receipts

In just five years (2007-2012) Spain has managed to reduce its current account deficit by 9.6 points of GDP.

According to the EC and the IMF, Spain will achieve a current account surplus of 2.6% of GDP in 2013 (starting from a deficit of -9.6% of GDP in 2007), representing a change of 12.2 percentage points in six years. However, part of this success is due to the fact that domestic demand, and therefore imports, has slumped during the recession due to the drop in consumption and particularly in investment.

However, the EC estimates that in 2014, this surplus will be 2.9% of GDP, without the negative contribution of domestic demand and the IMF estimates that in 2018, the surplus will reach 3.6% of GDP, even with domestic demand growing by 1.3%.

On the export side, according to the EC, exports of goods and services are due to increase from 23.9% of GDP in 2009, to 32.2% of GDP in 2012, 33.6% of GDP in 2013, and 35.2% of GDP in 2014, reaching a higher percentage of GDP than in Italy (32.3%) and France (29%).

The weight of exports as a percentage of GDP will, of course, also tend to rise as GDP falls, leading to Spain's –and particularly Italy's– exports accounting for a larger share of GDP than those of France, for example. Germany is the exception, as its exports of goods and services account for 50% of GDP and are still rising.

Thus, according to the EC, Spanish exports of goods outside of the euro area are set to rise from 4.7% of GDP in 2009 to 9.2% of GDP in 2014. Net exports will contribute 2.6 points to GDP growth in 2013, and 1.3 points in 2014. Between January and February 2013, exports grew by 5% compared to the same period in 2012, 33.6% destined for Asia, 16.1% for Africa, and 12.5% for Latin America.

Proof of this diversification is that in the period 2010-2013, cumulative total exports grew by 34.6%, exports to Japan rose by 45.3%, to the Rest of the World by 40.6%, to the United States by 33%, to the BRICS by 28.1%, to the rest of the EU by 14.5%, and to the euro area by just 0.7%. The EC estimates that exports of goods and services will grow by 4.1% in 2013 and 5.7% in 2014.

In 2001, Spain's share of global goods exports was 1.8%, making the country number 16 in the global export rankings, with an exported value of 114 billion dollars. In 2011, ten years later, Spain's world quota had fallen to 1.7% of the total, 0.1% less, dropping down the rankings to 17^{th} place, with exports worth 309 billion dollars, 2.7 times more than in 2001.

In 2001, Spain's share of global service exports was 3.7%, making the country number 7 in the rankings, with an exported value of 53 billion dollars. In 2011, its world share was 3.4%, 0.3% less, but maintaining position 7 and exporting 140 billion dollars, 2.64 times higher than in 2001.

Between 2000 and 2012, Spain's share of exports to the EU fell by a tenth of a percentage point, the best performance in the region after Germany (which saw no decrease), and comparing favourably with a drop of 20% for Italy, 30% for France, and 37% for the United Kingdom.

Spain's participation in the global supply chains, today a fundamental part of exports, is just 18.5% of total exports. This percentage is higher than that in Italy (17.5%) and the United Kingdom (16.5%), but lower than in Germany and France, where it is 25%. Added value, including exports as a percentage of GDP, is just 15% in Spain compared with 23% in Germany.

Exports to China account for 1.5% of Germany's GDP, a higher share than that of the United Kingdom, Italy and Spain, while Spain's exports to China represent just 0.3% of GDP, less than its exports to Portugal, which account for 0.7% of GDP. Finally, Spanish exports are more inelastic to an appreciation of the euro than Germany's. A 3% appreciation reduces Germany's exports by 0.9% 18 months later, but reduces Spain's exports by just 0.4% after 18 months.

This price inelasticity is fundamental and is partly due to Spain's exporting more intermediate goods and products, such as chemicals, pharmaceuticals, and components for the motor vehicle industry, which compete advantageously with those of other countries, and quality agricultural products with well recognised brands.

The only outstanding problem is that the energy balance remains negative, despite the deep recession and the still bigger drop in domestic demand, which highlights Spain's excessive energy dependence. Whereas in 2012 the balance of non-energy goods showed a surplus of 2.8% of GDP, the energy balance was still negative, and equivalent to 4.4% of GDP.

As regards tourism, the sector, which accounts for 11% of total current account income (397,614 million euros in 2012) and provides jobs for two million people, is growing thanks to the sharp rise in foreign tourist arrivals, which in 2013 could exceed 58.7 million visitors, with an average expenditure per tourist of 950 euros, making it a record year. This situation is likely only to be temporary, however, as it is partly due to the instability in competing destinations such as Egypt and Turkey.

However, much of this success is also due to the strong correction in hotel prices and salaries in the sector as a whole, which has enabled the tourism balance to maintain a surplus of 2.9% of GDP in 2011 and 3.0% of GDP in 2012.

The balance of non-tourism services was also positive (0.5% of GDP) in 2011 and 2012 (0.8% of GDP), such that the total services balance ran a surplus of 3.8% of GDP in 2012.

Finally, the balance of the investment income account, which was negative (3.3% of GDP in 2008) has improved as a result of the drop in interest rates paid to foreign creditors and investors. Consequently, according to EC figures, Spain's total external current account balance will run a surplus of 2.2% of GDP in 2013 and 3.5% of GDP in 2013.

#4: Falling inflation

According to the EC, harmonised consumer inflation, which is tracked by the ECB, will fall from 2.4% in 2012 to 1.6% in 2013, and then down to 0.8% in 2014. According to the IMF, non-harmonised inflation will fall to 1.5% in 2014. The factors in this decrease include the decline in consumption, in turn caused by a contraction in employment and rising unemployment, falling salaries and house prices. If the supposedly temporary increases in VAT and special duties on alcoholic beverages, tobacco and fuel are excluded, Spain's inflation rate would already be below that of the euro area.

#5: Housing market correction underway

House prices are continuing their decline. According to S&P, house prices have fallen by 30% since their peak in 2007 and will continue to drop until they are down by 45%. In Ireland, where the bubble was bigger, they have dropped by 60%. The INE, starting from an index of 100.3 in 2008, estimates house prices to have dropped to 64.7% in the first quarter of 2013, a decline of 35.6 percentage points. This drop is expected to continue, as the INE estimates that, according to the last two housing censuses from 2001 and 2011, out of a total stock of 25,208 million homes, 3.44 million (13.7%) were empty in 2011. Eurostat calculates that house prices have fallen 38 points from an index of 118 in 2007 to 80 in January 2013.

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Just 12,800 construction permits were granted for new housing in the first four months of 2013, which represents a drop of 29% on 2012 when the number exceeded the 53,000 in 2007, four times more. In April 2013 only 1,646 new mortgages were taken out, compared with 14,425 in April 2007, an 8.7-fold drop. An important underlying factor was the rapid immigration between 1997 and 2005. In 2005, this process created 536,900 new households. This figure subsequently declined, except in 2008 when it rose slightly, then dropped to just new 11,700 households in 2012, or 45.8 times fewer.

#6: A more growth-friendly and balanced fiscal adjustment

According to the EC, the total public sector deficit, including the 3.3 percentage points of GDP in aid to the banking sector, will drop from 11.2% of GDP in 2009 to 7% of GDP in 2014, with the structural deficit being 5.5% of GDP that year. According to the IMF, it will fall to 5.9% of GDP, with a structural deficit of 5.1% in 2014. Finally, the EC has given Spain two more years (until 2016) to meet the nominal public deficit target of 3% of GDP established in the Maastricht Treaty in return for an increase in the number and scope of the structural reforms intended to increase growth potential over the medium to long term.

This was the right decision to make and is based on the IMF's observation in late 2012 that the fiscal multipliers deriving from the rate of fiscal austerity imposed by the EC on Spain and other Member States were greater than unity. In other words, each 1% cut in public spending or tax rise led to a drop of more than 1% in GDP. Moreover, the effect of increasing taxes was more than that of reducing expenditure. This type of austerity not only makes it impossible to meet the deficit targets set, but increases the public deficit yet further, as the bigger drop in GDP further diminishes tax revenues.

However, this does not mean that austerity is not necessary after Spain's huge rise in public and private debt, although its pace and composition were inappropriate and ended up being counterproductive. In the medium to long term only growth reduces debt.

The EC has recently estimated that the public deficit of all levels of government will drop from 6.3% of GDP in 2013 to 5.5% in 2014, to 4.1% in 2015, and 2.7% of GDP in 2016. This deficit of 2.7% of GDP will comprise a 2.0% general government deficit, a 0.2% regional government deficit, 0% from the local authorities, and a deficit of 0.5% on the social security fund.

#7: Remaining challenges to public sector debt reduction

According to the EC the public debt will reach 96.8% of GDP in 2014 and according to the IMF it will peak at 110.6% of GDP in 2018, with net debt of 98% of GDP (after deducting assets). However, per the Maastricht Treaty definition of public debt it will reach 91.4% of GDP in 2013 and 97% of GDP in 2014. According to Reinhart and Rogoff[2], debts of over 90% of GDP tend to slow the growth rate, basically due to the cost of refinancing. In Spain, the cost of refinancing the debt has increased since the Greek crisis in 2010, rising from 1.8% of GDP in 2009 and is now over 3% of GDP.

#8: Private sector deleveraging

Private household debt has dropped from 86% of GDP in 2009 to 80% of GDP in 2012, i.e. six points of GDP in four years, and the debt of non-financial corporations has fallen from 139% of GDP in 2010 to 131% of GDP in 2012, i.e. eight points of GDP in three years. Financial corporations' debt has risen slightly from 100% of GDP in 2010 to 103.6% of GDP in 2012.

The peak in total Spanish private debt was reached in 2009 with 220% of GDP. The government estimates that at the current rate of deleveraging and with the expected GDP growth it could be cut in half, to 110% of GDP, by 2024.

#9: Negative net international investment position but recovering capital inflows

The private sector as a whole has deleveraged considerably vis-à-vis the rest of the world, with its

[2] Reinhart, Carmen M.and Rogoff, Kenneth S. (2010). "Growth in a Time of Debt". American Economic Review 100 (2): 573–78.

external deficit going from 13% of GDP in 2010 to a surplus of close to 5% of GDP in 2012. However, although the deleveraging of the Spanish public and private sectors is necessary and enables the country, as well as its banks and businesses, to improve their ratings, it also reduces private and public sector investment and consumption. This also constrains domestic demand and consequently the growth rate.

Rapid external debt growth in a currency like the euro, which Spain does not control, has resulted in one of the biggest imbalances in Spain's economy. Between 1981 and 2012 the need for external financing to cover internal expenditure (current account deficit) increased almost every year, except in 1984, 1985, and 1986 and again in 1995, 1996 and 1997. In other words, Spain only managed to achieve a current account surplus of 1.3% and 1.2% of GDP six times in 31 years.

The worst year was 2008, when the need for financing, or current deficit came to 9.6% of GDP. Part of this need for financing was used to increase Spain's foreign assets, which rose to 88% of GDP between 1996 and 2006. This meant a sharp rise in gross external debt (liabilities vis-à-vis the rest of the world) which came to 220% of GDP in 2012, of which 168% of GDP was in the form of short term liabilities. In 2012, it reached a minimum and the EC estimates a net lending position (current account surplus) of 2.2% and 3.5% of GDP in 2013 and 2014.

However, the most important data for international investors is the net international investment position (NIIP), i.e. the net external credit position (stock of foreign assets) less the net debit position (external liabilities), as if it is very high, the cost of new debt and rolling over existing debt becomes excessive. At the end of 2011 Spain owed -91% of GDP. The net position was made up of foreign assets worth 128% of GDP and foreign liabilities of 219% of GDP. In 2012 it had increased to -93% of GDP.

Given that the limit permissible under the macroeconomic imbalance procedure (MIP) is just -35% of GDP, Spain has a deviation of -58% of GDP.

This position is high if we compare it with other euro area countries, with only Ireland and Portugal above it. Moreover, two thirds of the liabilities are in the form of debt, which requires periodic payments, unlike shares, equity units and other forms of direct or portfolio investment. However, the cost of finance is moderate as the net interest and dividend payments are 2.4% of GDP, while the assets produce a slightly higher percentage, with a yield of 3% of GDP.

Itemised by institutional sectors, in billions of euros, the Bank of Spain (-310.3) accounts for the largest share of NIIP, followed by general government (-297), non-financial corporations (-274), other monetary financial institutions (-165.6) and finally that of households, which is positive (+63). International banks unwound credit positions in Spain on a large scale between June 2008 and June 2011, withdrawing a volume of 350 billion euros.

Since September 2012, there has been a rapid influx of capital into Spain, with 81,100 million euros by December 2012, and 30,373 million euros in January 2013 alone.

Lastly, according to UNCTAD, the stock of foreign direct investment in Spain went from 384,500 million dollars in 2005 to 634,500 million dollars in 2011, i.e. it rose from 34% of GDP to 42.1% of GDP. In 2010, Spain had 2,407 companies that were investing abroad (815 less than France and 351 less than Italy), and they had created 14,457 foreign subsidiaries (6,091 less than France but 31 more than Italy).

#10: Deep financial sector restructuring but credit remains constrained

The restructuring of the Spanish banking system has been the biggest and toughest in the euro area. Of the 45 savings banks existing in 2009, with an average size of 29,440 million euros in assets, in 2013 there were just 13 institutions, with average assets of 89,506 million euros. The number of branches has gone from 23,157 in 2009 to 17,898 in 2013, a cut of 5,259. And the number of employees has dropped from 124,054 in 2009 to 98,762 in 2013, a drop of 20.4%.

Considering all the banks together, the total number of banking institutions has gone from 52 in 2009 to 15 in 2013, to which should be added a group of 27 rural savings banks joined by two Institutional Protection Schemes (SIPs in their Spanish initials), which have suffered least in the crisis, and two small savings banks that have survived the restructuring. Also there are two banks, Catalunya Bank and Nova-Galicia Banco, that are due to be auctioned, so the final number of banks could be 13 and the total number of credit institutions 16, counting the group of rural savings banks and the two small savings banks.

The banks are deleveraging, both because they were highly leveraged after the bubble, and because their supervisors are requiring them to take a number of corrective measures.

Firstly, set aside more provisions for doubtful loans (for a value of 7.72% of GDP). Secondly, to try to balance their loans with deposits, and thirdly, to increase their levels of capital to 9% of their risk-weighted assets. At the time this article was written, the seven largest banks, Santander, BBVA, Caixabank, Bankia, Sabadell, Popular and Banco CEISS, which represent 70% of the Spanish system, reported excess capital of 46 billion euros.

The other side of this deleveraging effort by banks, businesses and households is that domestic credit to the private sector has contracted from 175.8% of GDP in 2010 to 146.5% of GDP in March 2013, equivalent to 29.3% of GDP in just three years, and it will probably continue to fall. Between December 2010 and March 2013, credit to households dropped by 7% and credit for productive activities by 13%.

The Eurosystem's April survey on bank loans shows that in Spain's case, demand for credit in 2013 by non-financial corporations fell by 22%, demand from households for home loans has fallen by 40%, and credit to households for consumer spending and other purposes has dropped by 20%. The reasons given were reduced spending on durable goods and securities purchases, a deterioration in consumer confidence, and more finance being drawn from savings and from other sources. At the same time, banking institutions have toughened their conditions for loan approvals and reduced the terms over which they lend.

Moreover, there is no correlation between the cost of borrowing and the interest rate set by the ECB, as the monetary policy transmission mechanism has broken down. The cost of five-year loans to Spanish SMEs is 6%, whereas in France and Germany it is just 3.75%, as the transmission mechanism functions there but not in Spain or Italy, where the cost is correlated with the sovereign debt spread rather than the ECB's main refinancing rate (MRO). The ECB and the Eurosystem need to act decisively to avoid this and the only sure way of doing so is to move forward more rapidly towards Banking Union.

#11: Domestic savings rate recovery

According to the EC, household saving as a percentage of disposable income is slowly recovering to reach 8.9% in 2014 and gross private saving will increase from 23% of GDP in 2010 to 25.9% of GDP in 2014, while public saving will fall to -0.4% of GDP in 2014. This is resulting in Spain's having an external surplus on the current account, as from the macroeconomic point of view, this is equivalent to the current surplus of domestic saving over domestic investment.

#12: Improved employment performance and labour market recommendations

The loss of external confidence in the summer of 2011 broke the recovery in total employment that had begun after falling until the third quarter of 2009, passing from a positive interannual rate of 3% at the end of 2007 to a negative rate of -7.5% in the third quarter of 2009. It then recovered until it fell just 1% in the third quarter of 2011 and again fell to -5% in mid-2012. The same happened, but more markedly, with wage employment, which fell by 21% on a year-on-year basis in the first quarter of 2009, recovered by 2% in the third quarter of 2011, and fell again to -13.5% in late 2012.

According to the EC and the IMF, employment will stop its decline in 2014, slowing from -4.4% in 2012 to 0.0% in 2014, and unemployment will peak in 2013 at 27% to drop back slightly to 26.4% in 2014. However, part of this improvement in employment is seasonal, and it is very likely that the number of people unemployed will rise again in the last quarter.

Boosting employment will not be easy. However, the new labour reforms should make it possible to do so more rapidly than in previous recessions. These labour reforms have increased the flexibility of employment, reduced the growth rate of real labour costs, and have introduced a new employment adjustment dynamic in a context of weak total factor productivity (TFP) growth. This has meant that in the near term a GDP growth threshold of 0.30% could stabilize the net rate of unemployment growth, and in the medium term, a threshold of GDP growth of 1.35% would be sufficient for net job creation.

Registered unemployment fell by 127,748 in June, as 98,000 jobs were created, and it is very likely that growth in employment and the decline in unemployment will continue in June, July and August on account of seasonal employment in the tourism industry. However, it could fall in the fourth quarter.

Similarly, social security registrations began to grow in March 2013, from a low of 16.18 million, and the social security system gained 212,000 new members in the quarter, reaching a total of 16.39 million. This is still a long way short of the 19.37 million people registered with the social security system in December 2007.

Among the steps that would help to boost employment are:

- Launch active employment policies, as the percentage of recipients of unemployment benefits as a share of all unemployed persons dropped to just 61.5% in May 2013. This is compounded by the fact that many of them are long-term unemployed persons who have little chance of finding work.

  At the moment, if the deseasonalised unemployment rate is not rising, it is largely because the labour force is shrinking and many unemployed people are not registering with the employment service either because they regard it as futile, or because they find work through private agencies or in the underground economy.

- Replace the current system of temporary contracts with a single open-ended contract that, starting with 10 days' severance pay per year of service, gradually rises to a maximum of 23 days per year of service.

- In the case of unemployment benefits, experience has shown that increasing the duration of benefits rather than their generosity is counterproductive. This means reversing the direction of the measures taken so far, i.e. reducing benefits from two years and increasing the salary replacement rate, or percentage of final salary covered by benefits, rather than leaving the duration unchanged at two years and reducing the salary replacement rate from 60% to 50%, as has been done.

- To bring the number of long-term unemployed down from three million faster, (926,000 of these are aged under 30 and close to 600,000 have only primary education or lower secondary) there is no alternative but dual vocational training, which can only be implemented efficiently by private agencies paid reasonable rates. In any event, the EC predicts that in 2020 it will have been possible to create 2.2 million net jobs, such that present registered unemployment would have been reduced by 40%.

- Publish deseasonalised employment and social security system membership figures, as is done in other euro area countries, to avoid misunderstandings.

Conclusion

To sum up, we could assume that if there are no new surprises in Spain or the euro area and all the announced structural reforms are implemented:

- Spain has already managed to achieve a current account surplus. By the end of 2013 the recession could start to bottom out and thereafter the current account will remain in surplus even as domestic demand grows.

- GDP growth will end being positive in 2014 reaching around 1.6% in 2018 and increasing job creation.

- The public deficit will reach 2.7% of GDP in 2016. There will be a primary fiscal surplus in 2019, i.e. discounting the cost of rolling over the public debt.

- In 2020 registered unemployment could drop by 40% after creation of 2.2 million net jobs since 2014, and in 2025 the deseasonalised unemployment rate will return to the current euro area rate of 12.2% compared with Spain's current rate of 26.9%. If real salaries remain constant, and stabilise at 22% of wage earners, net job creation could increase with a growth rate of 1.2%.

- Private debt should drop to 110% of GDP by 2024, half of its level in 2009. And in 2030 public debt could drop to 60% of GDP, thus complying with the requirements of the Maastricht Treaty. It will be difficult to reduce the public debt, which will reach 96.8% of GDP in 2014 per Maastricht terms. To comply with the 60% of GDP required by the treaties, a primary annual surplus of 2.3% of GDP will be required until 2030. However, it should be borne in mind that the Maastricht definition calculates this debt at face value or issue value, not at market value, and excludes commercial credit and advances, as well as shares and insurance technical reserves. Investors use market prices to measure debt, but to meet the 60% of GDP target in the treaties, it is sufficient to comply with the terms of Maastricht.