The Spanish economy in 2013 and outlook for 2014

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In a context of global economic stability, the Spanish economy is expected to continue its moderate recovery in 2014. While we expect some improvement in housing and credit market conditions, lack of progress on fiscal consolidation raises concerns over the outlook for public debt.

Following a year of lackluster global economic performance in 2013, looking forward, we see three major risks for the global economy: i) Potential instability arising from the Fed´s change in monetary policy stance, ii) Concerns over China´s financial system; and, 3) a resurgence of the Eurozone debt crisis. In Spain, the economy showed improvement in 2013 in key areas such as growth, employment, external accounts, competitiveness, and private deleveraging. There is still a long way to go in terms of correcting the structural deficit and subsequently public debt reduction. The progress in the financial sector restructuring and recapitalization process has also paved the way for a potential reactivation in lending, although constrained domestic demand and continued private deleveraging will limit potential upside in credit growth. We expect the favorable trends observed in 2013 to continue in 2014.

Introduction

2013 was a turning point for Europe's economies, including Spain's, although significant risks lie ahead in 2014. In Spain, after a faster than expected stabilisation in domestic demand and employment, GDP is projected to gradually recover and to be accompanied by moderate job creation. However, this does not mean that the crisis is over. Adjustments are still underway and the economy's growth capacity will remain limited for some time to come.

The following section of this article reviews the global economy's progress in 2013 and examines the risks it faces in 2014. The next two sections focus on examining Spain's economic performance and the forecasts for the year ahead. If the risks to the global economy do not materialise in the form of serious tensions, 2014 could be the year in which Spain's property market stabilises, there is a moderate recovery in credit, and the economy starts to create jobs. However, it could also be the year in which government debt surpasses the 100% of GDP threshold.

The global economy in 2013 and main risks for 2014

Global economic activity remained weak in 2013, both for developed and emerging economies,

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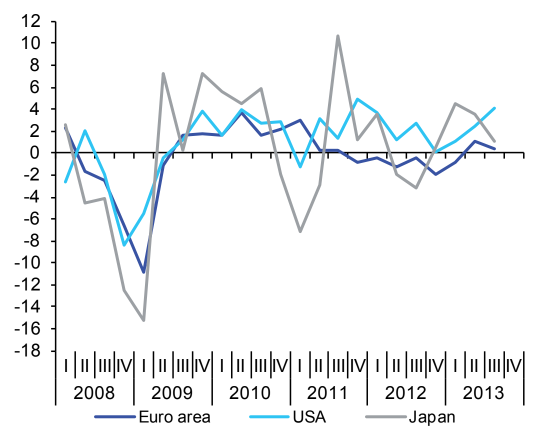
Exhibit 1

World economy

1.1 - GDP

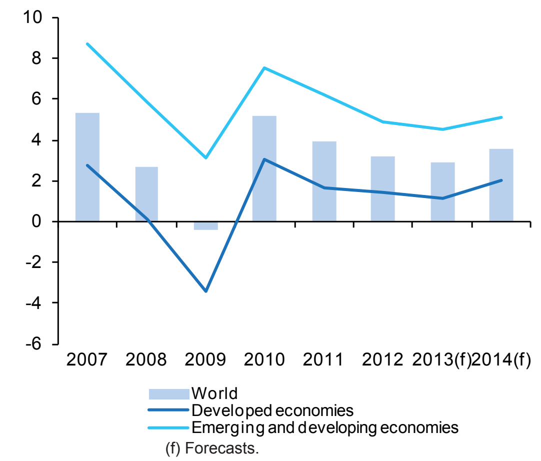
Annualised quarterly change in %



Source: Eurostat.

1.2 - GDP

Change y-o-y in %



Source: IMF.

although in many ways the year was a turning point. Although data on the fourth quarter have not yet been published, the improvement in economic conditions appears to have gained traction in the advanced countries (Exhibit 1.1). The United States managed to sustain satisfactory growth rates–despite the automatic fiscal cuts that came into effect in March–and unemployment dropped to 7%. Japan, which also showed positive growth, changed the slant of its economic policy to make it more expansionary in both fiscal and monetary terms, in an effort to stave off deflation.

For its part, the euro zone emerged from the debt crisis, thanks to the European Central Bank's taking action in September 2012 to avert the possibility of a breakup of the euro. This paved the way for an emergence from recession in the second quarter of 2013, although there have been big differences in countries' performance. Meanwhile, Europe has made progress–albeit slowly–on the construction of a banking union, which includes a single supervisory and resolution mechanism for financial institutions. This mechanism is expected to be a key factor in overcoming the current financial market segmentation.

In the case of the emerging countries, while their capacity for growth still exceeds that of the developed countries, a number of factors seem to be leading to a permanent drop in their growth potential (Exhibit 1.2). China, in particular, is not expected to return to two-digit growth. The country has announced steps towards interest rate liberalisation and introducing an economic model in which market mechanisms play a bigger role.

Another event shaping the course of the year was the Federal Reserve's announcement in May that it might start tapering its monetary stimulus programme. This was subsequently confirmed in December. The announcement led to considerable uncertainty over the potential impact on emerging countries of the reduced global liquidity this measure would entail. The impact was felt in the summer, in the form of capital flight, falling exchange rates, and rising interest rates in the most vulnerable economies–i.e. those with the biggest current account deficits.

The withdrawal of monetary stimulus in the United States has the potential not only to cause instability in emerging economies, but also in global financial markets as a whole, through its impact on long-term interest rates in the advanced economies and on the value of the dollar. In short, the potential instability derived from this fundamental change in US monetary policy's 'great experiment' of recent years is one of the main risks facing the global economy in 2014.

Another risk arises out of the worrying state of China's financial system. This concern is due to the huge scale to which the 'shadow banking' system has grown and China's burgeoning bad debt problem against the background of rising borrowing levels in recent years.

Finally, a third risk is the possibility of a resurgence of the European debt crisis, which can still not be considered to be finally over. Despite 2013's improved scenario, financial markets have not yet returned to normal operation. Segmentation persists and there are lingering doubts about the health of Europe's financial institutions. On this point, the ECB is due to examine the major European banks again this year, and the results could be a fresh source of instability.

The Spanish economy in 2013

The state of the Spanish economy improved considerably over the course of 2013. This was partly due to the easing of the European debt crisis, which helped restore confidence, and the consequent drop in the risk premium and easier access to external financing. This ended the credit squeeze suffered throughout most of 2012. This improvement was also the result of the way economic cycle mechanisms have developed with the support of economic policy measures. Consequently, 2013 saw a stabilisation in domestic expenditure, after the relapse started in the second quarter of 2011, that continued over the eight following quarters.

Although the data on the final months of 2013 are still incomplete, the growth rate for the year as a whole can be estimated to have been -1.2% compared with the -1.6% registered the previous year. Although this performance was still negative, what is significant is that the quarter-on-quarter trend was positive. After a drop of 1.5% (on an annualised basis) in the first quarter, the growth rate turned slightly positive in the final two quarters. This is a key difference from 2012, when the trend became more negative as the year progressed (Exhibit 2.1).

Although in 2013 the performance of Spanish economic growth was still negative, what is significant is that the quarter-on-quarter trend was positive. This is a key difference from 2012, when the trend became more negative as the year progressed.

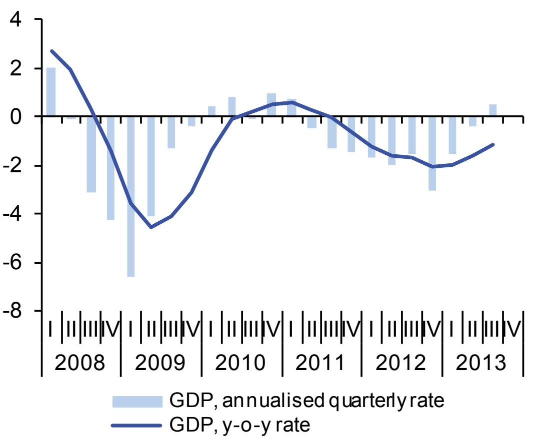
Broadly speaking, this upward quarterly trend has matched the forecasts, although the end result for the year as a whole was better than expected -in late 2012, FUNCAS forecast that GDP would contract by -1.6% in 2013, close to the consensus forecast, which estimated the contraction at -1.5%. The main reason for the forecasts' deviation from the final outcome was that they were made on the assumption that the fiscal adjustment would be more severe than was ultimately the case. Thus, in the forecasting exercises at the end of 2012 a public deficit of 5.6% of GDP was envisaged for 2013, while the final result, although not yet confirmed, is estimated to have been more than one percentage point higher. Another reason for the deviation from the provisions was the strong performance of tourism, which did significantly better than forecast.

Domestic demand's contribution to GDP growth was -2.9 percentage points, and that of the

Exhibit 2

Spanish economy: GDP and components

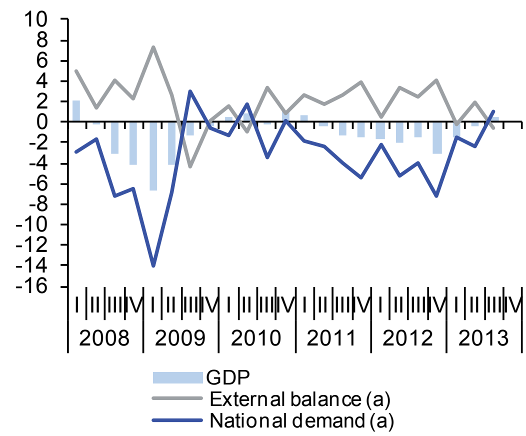
2.1 - GDP



Source: INE (Quarterly National Accounts).

2.2 - GDP, national demand and external balance

Annualised quarterly change in % and contribution in pp

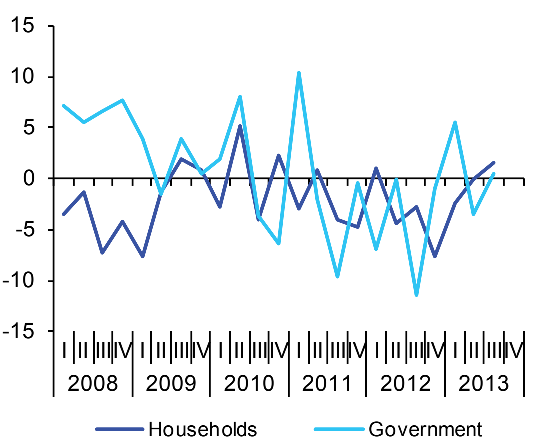


(a) Contribution to GDP growth in percentage points.

Source: INE (Quarterly National Accounts).

2.3 - Consumption

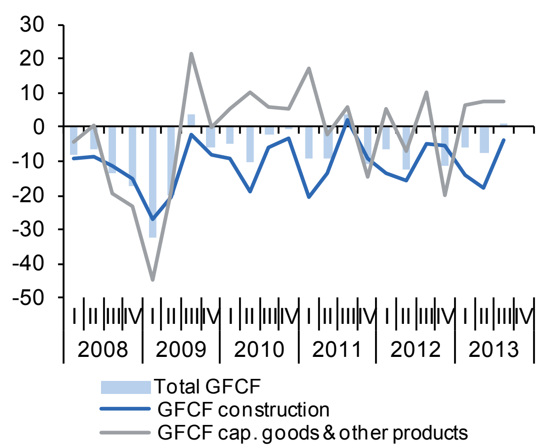
Annualised quarterly change in %



Source: INE (Quarterly National Accounts).

2.4 - Gross Fixed Capital Formation

Annualised quarterly change in %



Source: INE (Quarterly National Accounts).

external sector, 1.7 percentage points (Exhibit 2.2). Here there is a significant deviation from the year-end 2012 forecasts, which anticipated a more negative contribution from domestic demand and a more positive contribution from the external sector.

This difference was due to domestic demand's performing better than expected, as a result of the rapid stabilisation of consumption, which slowed its decline in the second quarter and began to post positive growth in the third. It was also driven by the unexpected recovery in machinery and equipment investments, which began to grow at the start of the year (Exhibits 2.3 and 2.4). The growth in public consumption was also significantly stronger than anticipated, particularly in nominal terms. However, this is not such a good result, as it indicates that efforts to cut the public deficit have ground to a halt. Nevertheless, the growth rates of all the foregoing variables were negative on a year-on-year basis.

Construction investment also stayed on a downward path throughout the year, and real-estate activity continued to contract. According to Ministry of Development figures, home sales over the period up to the third quarter fell by 9.8% compared to the same period the previous year, although the national statistics institute (INE) figures for transfer of property ownership estimated the drop to October at 0.8%. Housing prices also continued to fall, although the INE statistics registered a slight rise in the third quarter.

The continuous decline in property demand has resulted in a significant stock of unsold properties. This stock has hardly shrunk in recent years, although there may be big regional differences, such that while some areas have a substantial excess stock of possibly unsellable housing, in others the imbalance may be close to being corrected.

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Exports grew faster than projected, although imports did too, driven by rising investments in capital goods, and the less negative developments in other demand components. The more rapid than expected growth in imports largely explains why the external sector's contribution to growth fell short of expectations.

In annual terms, export growth outpaced import growth in 2013. Exports grew at an estimated 5.3% while imports grew at an estimated 0.1%. However, the fact that the quarter-on-quarter or month-on-month figures reveal a trend for import growth to outpace export growth since the second quarter is a cause for concern. This trend creates doubts as to the sustainability of the external sector's gains when domestic demand begins to pick up (Exhibit 3.1).

Compared to 2012, gross value added (GVA) in all sectors fell in 2013. However, the trend in quarter-on-quarter terms was positive both in industry and, particularly, in market services. In the case of the latter, the favourable trend in the trade, transport and hotel and catering sub-sector stands out, driven by the rise in foreign tourism - the inflow of tourists grew by 5.9% to November 2013 compared with the same period the preceding year, and tourist spending rose by 8.5%.

GDP's upward trajectory in 2013 was reflected in employment trends. According to National Accounts and Labour Force Survey (LFS) figures, job losses slowed as the year progressed, although data for the fourth quarter are not yet available. Indeed, the number of people registered with the social security system (based on figures for the whole year) began to grow in seasonally adjusted terms in September. In conjunction with the downward trend in the labour force, this has slowed the rise in the unemployment rate (Exhibits 4.1 and 4.2).

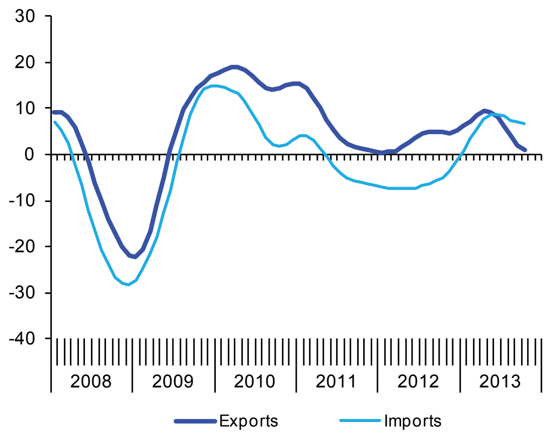
The services sector began to see a rise in social security registrations in May. This was partly due to the change in the trend in public-sector related employment–public administration, health, and education–but also a result of the strong performance of market services. Towards the end

Exhibit 3

External sector

3.1 - Exports/Imports at constant prices (Customs)

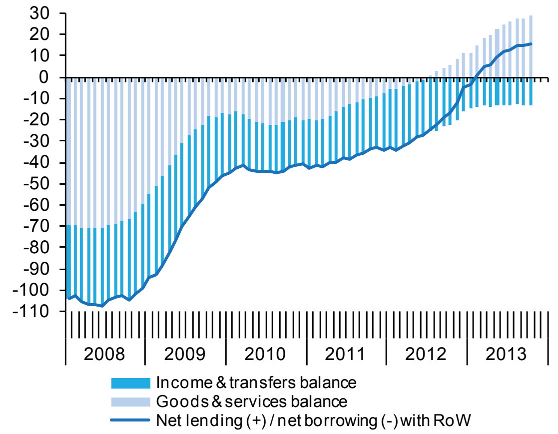
Annualised moving quarterly change in %, smoothed series



Sources: Ministry of Economy and FUNCAS.

3.2 - Balance of payments

EUR billion, cumulative last 12 months



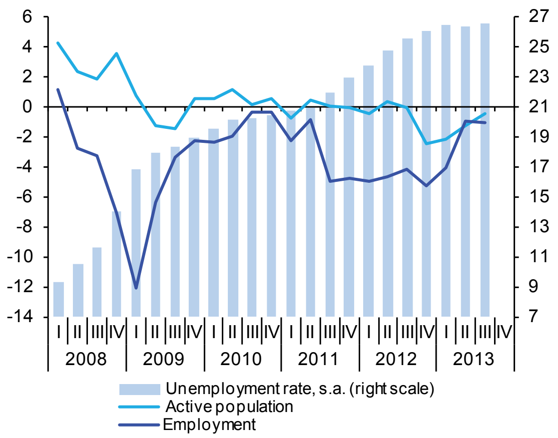
Source: Bank of Spain.

Exhibit 4

Labour market

4.1 - Employment and unemployment (LFS)

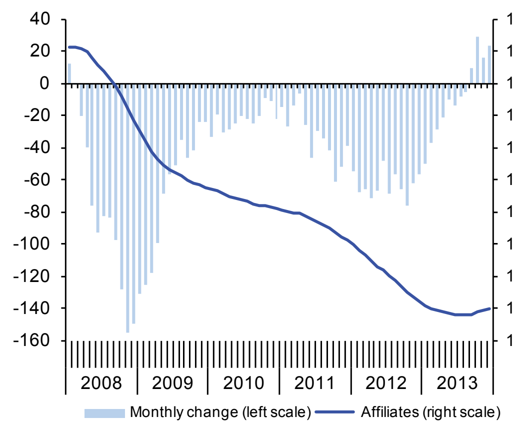
Annualised quarterly change and percentage



Sources: Ministry of Labour and FUNCAS.

4.2 - Social Security affiliates

Thousands, seasonally-adjusted data



Sources: Ministry of Labour and FUNCAS.

of the year a slight month-on-month increase also began to be seen in employment in industry, and more surprisingly, in construction.

What is clear from the data is that employment at least stabilised in the second half of the year, outperforming forecasts, which did not anticipate a stabilisation until the first half of 2014.

These findings need to be interpreted with caution, however, as apart from the usual error margins in the seasonal adjustments, there is also the possibility that the seasonal pattern itself has undergone changes that might distort the figures. In any event, what is clear from the data is that employment at least stabilised in the second half of the year, outperforming forecasts, which did not anticipate a stabilisation until the first half of 2014.

According to the national accounts, compensation per employee rose by 0.5% in 2013. Given that productivity rose by approximately 2.2%, this implies a drop in unit labour costs (ULCs) of 1.7%. Since 2009, ULCs have fallen by 7% across the economy as a whole, and 15.7% in the industrial sector. This has enabled the Spanish economy to continue to regain cost competitiveness relative to the euro area. This process has progressed notably in the last few years: between 2009 and 2012 Spain's industrial sector regained 87% of the competitiveness in labour costs it had lost over the preceding decade (Exhibit 5.1).

Falling labour costs and weak demand explain why consumer price inflation has been moderate. Until June, levels remained relatively high, as a result of the step effect caused by various measures–including the VAT increase–to contain the public deficit, introduced during the summer of the previous year. However, the cancelling out of these effects in later months, together with the drop in the price of certain unprocessed foodstuffs–particularly fruit, which had become significantly more expensive in the first half of the year due to bad weather–caused the inflation rate to drop to -0.1% in October, although it ended the year in positive terrain at 0.3% (Exhibit 5.2).

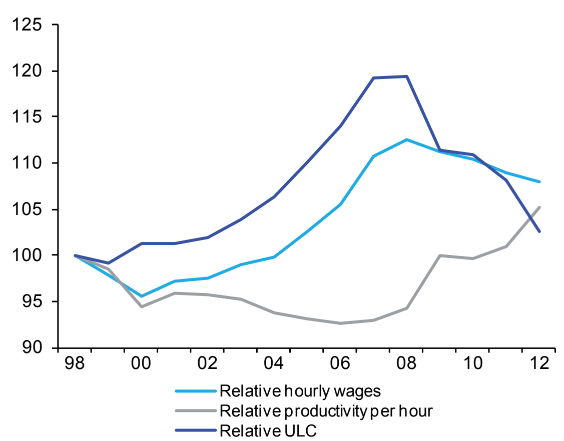
In the period up to October, the current account of the balance of payments posted a surplus of 4.2 billion euros, in contrast with the 15.3 billion euro deficit in the same period of 2012 or, even more so, with the 91.4 billion deficit in 2008. This positive result was due to the change in the sign of the goods and services trade balance, which has been positive and growing since mid 2012, and the reduction in the deficit in the income balance. The external imbalance has therefore been entirely corrected. This process is the main outward sign of the tough adjustment domestic demand has undergone since the start of the crisis (Exhibit 3.2).

Exhibit 5

Costs and prices

5.1 - Relative ULC Spain/Euro Area in manufacturing

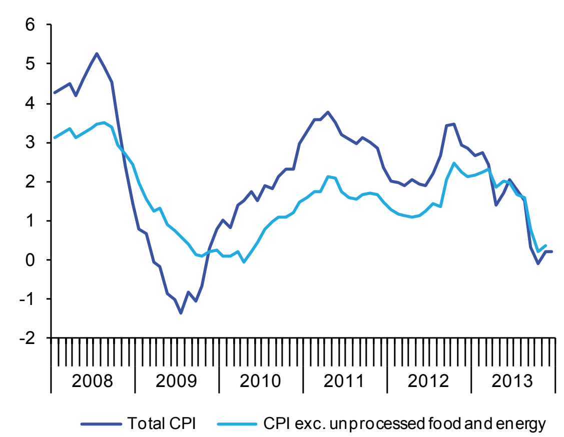
Iindex 1998=100



Sources: Eurostat and FUNCAS.

5.2 - Consumer Prices Index

Change y-o-y in %



Source: INE (CPI).

The financial balance of payments also turned a corner in 2013. As a result of the tensions deriving from the sovereign-debt crisis, the financial account, excluding the Bank of Spain, registered a negative balance of 254 billion euros in the period to August 2012. As of September that year, following the ECB's announcement of OMT operations, the crisis began to abate. This paved the way for a drop in the risk premium and the return of financial flows into the Spanish economy. Between January and October 2013 these inflows amounted to 45 billion euros (Exhibits 6.1 and 6.2).

From the point of view of the savings-investment balance, the correction in the current account deficit was the result of the increase in the savings rate and, above all, the drop in the rate of investment in the economy as a whole. By sectors, according to the data available up to the third quarter of 2013, the increase in the savings rate came from the private sector, particularly non-financial corporations, while public savings declined.

In the period to November, the State registered a deficit of 40,606 million euros, equivalent to 3.96% of GDP. This is almost four tenths of a percentage point more than in the same period the previous year and 0.16 percentage points over the target for 2013 as a whole. With data for the period up to October, the combined deficit of the central government, the social security system, and the autonomous regions–excluding losses on aid to financial institutions–came to almost 50 billion euros, or 4.87% of GDP. The target for 2013 for general government as a whole is 6.5%. However, it has to be taken into account that the seasonality of the last months of the year is highly negative, such that even though local government is expected to run a surplus of around 0.4% of GDP, it is highly likely that the target will be overshot. The final result could be close to the 6.8% registered in 2012, which would mean that almost no progress on fiscal consolidation was made in 2013. This deficit, plus the borrowing requirements deriving from substantial net financial operations, are likely to push up public debt by some ten percentage points of GDP, to 96%.

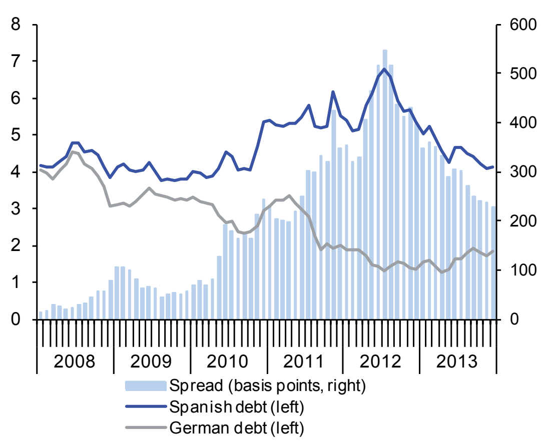
As a consequence of increased savings and reduced investment, households and non-financial corporations have generated a positive net lending position since the start of the crisis. In the case of the former, this net lending position, as a

Exhibit 6

Financial indicators

6.1 - Government 10 years bonds rate

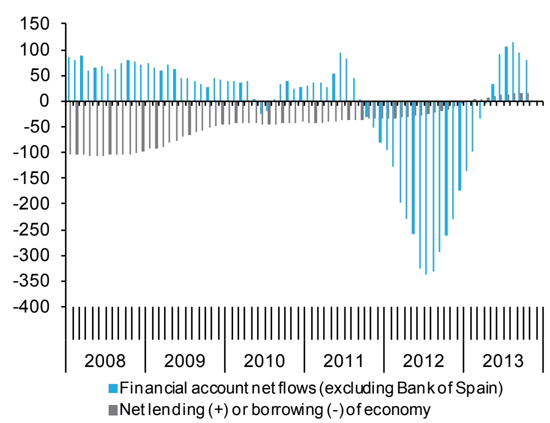
Percentage and basis points



Sources: ECB and Bank of Spain.

6.2 - Balance of payments

EUR billion, cumulative last 12 months



Source: Bank of Spain.

percentage of GDP, peaked in the last quarter of 2009 –as a moving average of four quarters– and since then has been on downward trend, although it rose again in the first three quarters of 2013. The net lending position of non-financial corporations also followed an upward path until September.

This financial surplus on the part of households and businesses is necessary to correct the high level of private debt, which is one of the biggest imbalances that built up in the Spanish economy during the last growth phase. In the second quarter of 2013, household debt came to 79.9% of GDP, compared with a peak of 87.4% in mid-2010. Non-financial corporations' debt ratio stood at 128.3% of GDP, which is 16 points below the peak, which was also reached in mid 2010 (Exhibit 7.1). By contrast, public debt has risen relentlessly since the start of the crisis, climbing to 93.4% of GDP in the third quarter of 2013 (Exhibit 7.2), making this one of the Spanish economy's most worrying recent trends.

The recovery in cost competitiveness and reduction in private debt over the course of 2013 meant progress continued to be made on correcting some of the most significant imbalances that had built up in the economy. In the case of the adjustment of domestic demand, it is likely that the process has now come to an end, although barely any progress has been made on reducing the stock of unsold housing, and there is still a long way to go in terms of correcting the general government structural deficit.

Noteworthy progress has also been made in the process of cleaning up and reorganising financial institutions. In addition to bringing losses out into the open, increasing provisions and recapitalising banks over the last two years, there has also been a significant reduction in the loan-to-deposit ratio, which came to 1.4 in September, compared to a peak of 2.02 in 2007. Although partly driven by an increase in deposits, this has mainly been due to a reduction in lending, which has allowed institutions to deleverage. This has shown up in the sharp drop in recourse to Eurosystem financing, which had dropped by 35% year-on-year in December 2013.

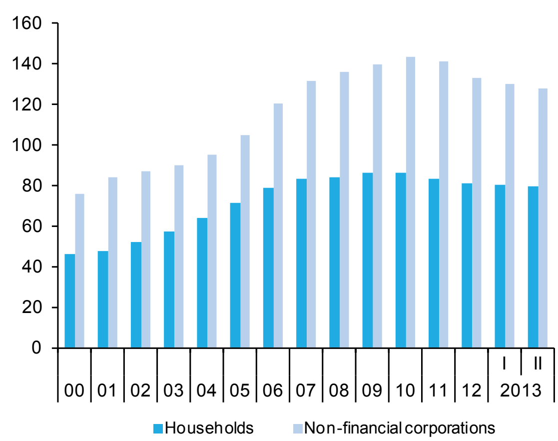
As a result of this progress on cleaning up the financial system, the supply side limitations on credit growth are beginning to ease and financial

Exhibit 7

Financial imbalances

7.1 - Private sector indebtedness

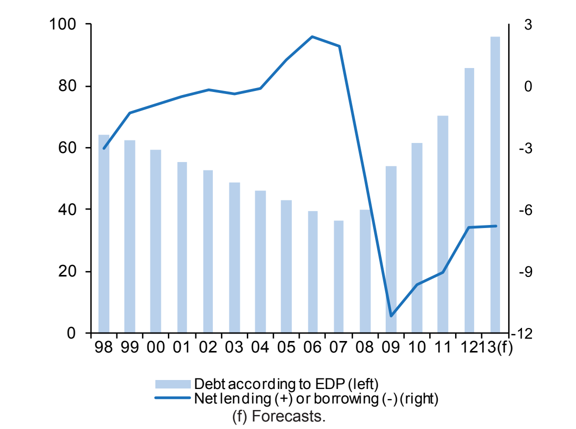
Percentage of GDP



Source: Bank of Spain (Financial Accounts).

7.2 - Government balance (exc. financial entities bail-out) and debt

Percentage of GDP



Sources: Bank of Spain and FUNCAS.

institutions may soon be in a position where they are able to step up their lending. A first sign of this could be the timid growth in new credit to businesses that began to be seen in the third quarter of 2013. However, it is still too early to say whether this represents a permanent trend change.

As a result of this progress on cleaning up the financial system, the supply side limitations on credit growth are beginning to ease and financial institutions may soon be in a position where they are able to step up their lending.

In any event, there are still significant demand side constraints on the capacity for credit growth, as the private sector as a whole still needs to reduce its debt further. Consequently only a moderate increase can be expected, limited to those sectors of the population and businesses that have scope for debt or viable projects.

Outlook for the Spanish economy in 2014

The GDP growth forecast for 2014 is 1% (Table 1 and Exhibits 8.1 and 8.2). Domestic demand will continue to make a negative contribution, but less so than in 2013. Meanwhile, the external sector's contribution will be positive, but significantly smaller than last year.

The conditions are not yet right for a strong recovery in private consumption, although its deterioration has possibly bottomed out. Although job creation in 2014 will be moderate, households' gross disposable income will only rise slightly in real terms. Moderate growth is therefore expected for this component of demand - the forecast for the year as a whole being 0.7%. The progress of public consumption is more uncertain, however, as it depends on government decisions. This forecast scenario has assumed it will drop at an annualised 1.3% (Exhibit 8.3).

Investment in equipment will recover slightly, with growth of 1.4% driven by the need to replace capital and ramp up production capacity in the export sector. Although the availability of credit will improve, it will remain limited. The main source of business finance will continue to be companies' own funds.

The property market may stabilise over the course of the year in terms of both sales and prices. This will make it possible to speed up the process of absorbing the excess stock of unsold housing. Nevertheless, this stock will remain considerable, such that investment in residential construction will continue to contract, although at a slower pace. However, it is possible that in regions where the surplus was smaller the process of absorbing the excess is more advanced. Consequently, residential investment could be close to bottoming out in some areas.

Exports will continue to grow at a similar rate to 2013, while imports will rise by 2% driven by stronger consumption, and investment in equipment, in particular. This will reduce the external sector's contribution to growth.

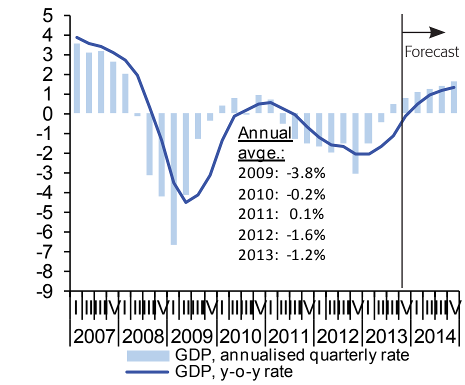
The cutbacks businesses have made to their workforce since the start of the crisis, and the greater labour market flexibility ushered in by the successive reforms, will allow jobs to be created even with moderate GDP growth. Employment is expected to grow, in national accounts terms, in the first quarter of 2014, although only modestly. Nevertheless, the annual growth rate will be negligible. The annual average unemployment rate will drop by around one percentage point, to 25.4% (Exhibit 8.4), as the labour supply will continue to contract, primarily as a result of emigration.

Although productivity will rise much more slowly than in recent years, unit labour costs will continue

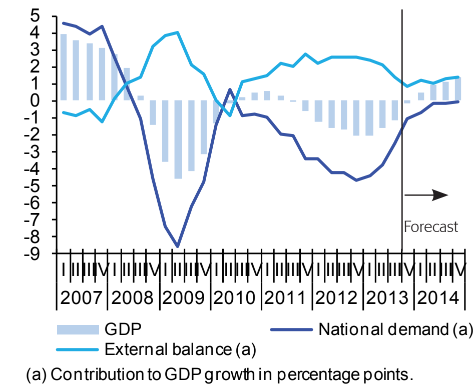
Exhibit 8

Economic forecasts for Spain, 2013-2014
Change y-o-y in %, unless otherwise indicated

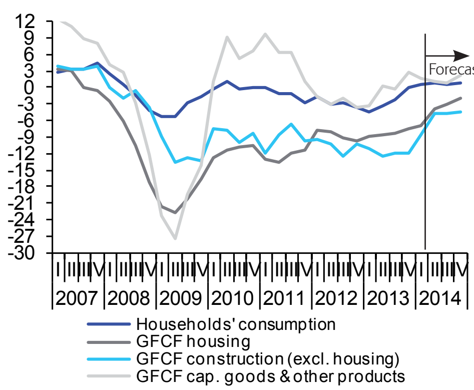
8.1 - GDP



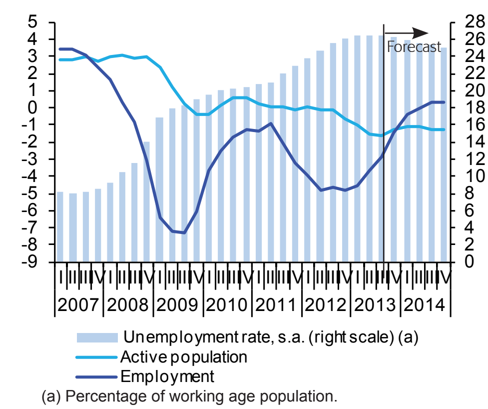
8.2 - GDP, national demand and external balance



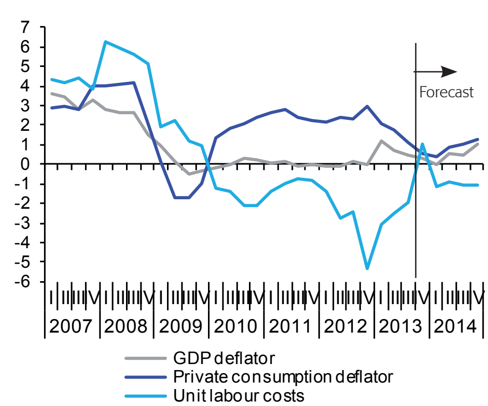
8.3 - National demand aggregates



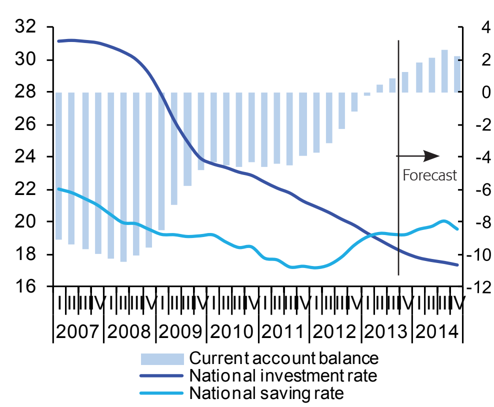
8.4 - Employment and unemployment



8.5 - Inflation



8.6 - Saving, investment and c/a balance (% 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 indicated

	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**	**0.1**	**-1.6**	**-1.2**	**1.0**	**0.0**	**0.0**
Final consumption households and NPISHs	3.8	-1.2	-2.8	-2.5	0.7	0.1	0.4
Final consumption general government	4.3	-0.5	-4.8	-1.2	-1.3	0.9	0.3
Gross fixed capital formation	6.2	-5.4	-7.0	-6.3	-2.2	-0.1	-0.1
Construction	5.6	-10.8	-9.7	-10.3	-4.9	0.0	-0.1
Residential construction	7.3	-12.5	-8.7	-8.4	-4.0	0.0	0.0
Non-residential construction	4.2	-9.2	-10.6	-11.8	-5.6	0.0	-0.1
Capital goods and other products	7.4	5.8	-2.6	-0.3	1.4	-0.2	0.0
Exports goods and services	6.7	7.6	2.1	5.3	5.4	-0.3	-0.6
Imports goods and services	9.3	-0.1	-5.7	0.1	2.0	0.3	0.1
National demand (b)	**4.5**	**-2.1**	**-4.1**	**-2.9**	**-0.3**	**0.2**	**0.2**
External balance (b)	-0.8	2.1	2.5	1.7	1.2	-0.2	-0.3
GDP, current prices: - € billion	--	1,046.3	1,029.0	1,023.2	1,038.3	--	--
- % change	7.4	0.1	-1.7	-0.6	1.5	-0.2	-0.4
2. Inflation, employment and unemployment							
GDP deflator	3.6	0.0	0.0	0.7	0.5	-0.1	-0.4
Household consumption deflator	**3.1**	**2.5**	**2.5**	**1.4**	**0.9**	**-0.1**	**-0.5**
Total employment (National Accounts, FTEJ)	3.3	-2.2	-4.8	-3.4	0.0	0.0	0.4
Productivity (FTEJ)	0.4	2.3	3.3	2.2	1.0	0.0	-0.4
Wages	7.2	-0.7	-5.6	-3.7	-0.3	0.2	0.7
Gross operating surplus	7.3	1.9	1.6	1.8	3.4	-0.6	-1.6
Wages per worker (FTEJ)	3.2	1.3	0.2	0.5	-0.1	0.0	0.1
Unit labour costs	2.8	-1.0	-3.0	-1.7	-1.1	0.0	0.5
Unemployment rate (LFS)	**12.2**	**21.6**	**25.0**	**26.4**	**25.4**	**0.0**	**-0.4**
3. Financial balances (% of GDP)							
National saving rate	22.2	17.3	18.5	19.1	19.5	-0.8	-0.7
- of which, private saving	18.9	22.6	23.1	24.0	23.8	-0.7	-0.5
National investment rate	26.6	21.2	19.8	18.0	17.3	-0.1	0.1
- of which, private investment	23.1	18.3	18.0	16.7	16.2	-0.1	0.0
Current account balance with RoW	**-4.4**	**-4.0**	**-1.2**	**1.1**	**2.2**	**-0.7**	**-0.7**
Nation's net lending (+) / net borrowing (-)	-3.4	-3.5	-0.6	1.8	2.8	-0.7	-0.7
- Private sector	-2.6	6.1	10.1	9.1	8.8	-0.5	-0.7
- Public sector (general government deficit)	**-0.9**	**-9.6**	**-10.6**	**-7.3**	**-6.0**	**-0.2**	**0.0**
- General gov. deficit exc. financial instit. bailouts	**--**	**-9.1**	**-6.8**	**-6.8**	**-6.0**	**0.0**	**0.0**
Gross public debt	53.5	70.4	85.9	95.9	101.2	0.4	0.7
4. Other variables							
Household saving rate (% of GDI)	12.0	12.6	10.4	10.6	10.6	-0.3	-0.2
Household gross debt (% of GDI)	82.5	124.5	122.6	117.8	112.4	0.2	0.2
Non-financial coporates gross debt (% of GDP)	82.1	141.3	133.5	125.3	118.4	-1.1	-4.3
Spanish external gross debt (% of GDP)	92.5	166.7	167.8	162.9	156.5	-1.8	-1.5
12-month EURIBOR (annual %)	3.7	2.0	1.1	0.5	0.6	0.0	-0.1
10-year government bond yield (annual %)	5.0	5.4	5.9	4.6	4.1	0.0	0.0

(a) Change between present and previous forecasts, in percentage points.

(b) Contribution to GDP growth, in percentage points.

Sources: 1996-2012: INE and Bank of Spain; Forecasts 2013-14: FUNCAS.

to fall. As regards inflation, the anticipated modest recovery in consumption will be insufficient to exert upward pressure on prices, while the pressures on the costs side will remain constrained. The rate of price increases is therefore expected to remain low, at below 1% (Exhibit 8.5).

The current account balance, which in 2013 turned a surplus of almost 1% of GDP, will rise by 2.2% in 2014 (Exhibit 8.6). The economy as a whole will present a net lending position vis-à-vis the rest of the world of 2.8% as a result of a private sector financial surplus of 8.8% of GDP and a public sector deficit of 6% of GDP.

Public debt will surpass the 100% of GDP threshold. This is a worrying level not just because of the onerous burden in terms of interest payments it represents, but also because of the rollover risk in the event of a resurgence of the debt crisis, as mentioned, a risk that cannot be entirely ruled out.