The Spanish economy in 2014 and outlook for 2015

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Spain has consolidated its recovery in 2014 and this is expected to gain strength in 2015 thanks to the favourable impact of internal and external factors. However, the transitory nature of these positive shocks, and remaining constraints, will continue to limit growth capacity for some time to come.

The global economy in 2014 was characterized by the sharp contrast between dynamic growth in the U.S. and UK versus weak performance by the Euro area, Japan, and the emerging economies. This trend should continue into 2015, albeit taking into consideration key risks to global stability. Spain consolidated its recovery in 2014, supported by improved financial conditions and a surprising outperformance of domestic demand. Importantly, housing market indicators point to the stabilization of the real estate sector, labor market trends are improving, the private sector continues its deleveraging effort, and the government appears to be on track to meet the 2014 deficit target of 5.5%. Growth supportive factors should remain in place for 2015, underpinning FUNCAS´ more optimistic forecast of 2.4%. However, these positive shocks are largely transitory and the economy still faces growth constraints. Moreover, uncertainty over internal political stability has increased and it should not be forgotten that Spain remains highly vulnerable to changes in investor perceptions.

The global economy in 2014 and risks for 2015

The global economy in 2014 was marked by the contrast between the dynamism of the United States and the United Kingdom, on the one side, and the weak performance of the rest of the economic areas –Euro area, Japan and the emerging countries– on the other (Exhibits 1.1 and 1.2). On top of this came falling oil prices, which dropped to almost half their annual peak between June and December, reshaping the economic outlook for the various regions in 2015.

The U.S. economy, after a dip in the first quarter caused by the harsh winter weather, grew in the middle quarters of the year at annualised rates of close to 5%, and the unemployment rate dropped to below 6%. As a result, the Federal Reserve ended its asset purchase program, known as Quantitative Easing, and is expected to start raising interest rates in the second half of 2015.

Japan slid back into recession, despite its strongly expansionary monetary and fiscal policies, while the emerging countries, as in the previous year, grew more slowly than expected, and many of them suffered a sharp devaluation of their currencies. Brazil went into recession, and Russia's growth slowed, partly as a result of international sanctions, while its outlook for 2015 has worsened considerably as a result of falling

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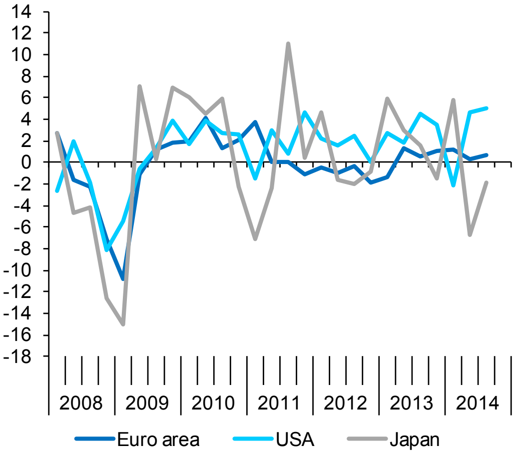
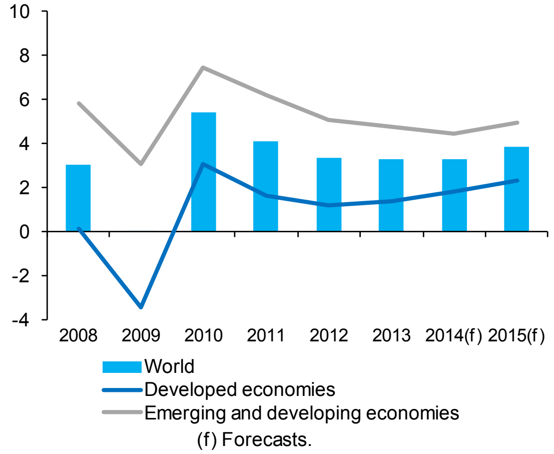
Exhibit 1
World economy

1.1 - GDP
Annualised quarterly change in %



Source: Eurostat.

1.2 - GDP
Change y-o-y in %



Source: IMF.

oil prices. China grew at a rate below 7.5% over the year as a whole, and it is widely assumed that its potential growth rate is now permanently lower. This translates into lower growth prospects for other emerging economies, particularly raw materials exporters.

The Eurozone performed acceptably in the first quarter, but its progress was limited at best in the subsequent quarters. The unemployment rate fell by three tenths of a percent in the first quarter, to 11.5%, stabilising at this level towards the end of the year, and inflation remained very low throughout the year, even turning negative in December. This sparked fears of deflation, pushing the European Central Bank to implement a series of extraordinary measures aimed at lowering interest rates and boosting the system's liquidity, including the recently announced public debt purchase program, which will run at least until September 2016. The announcement of these measures, at the time the United States began to phase out its Quantitative Easing program, led to a depreciation of the euro, which lost slightly more than 10% of its value against the dollar between March and December.

The United States is set to continue its dynamic growth in 2015, while the forecasts for the European economy, although supported by lower oil prices, are for moderate growth (less than 1.5%). Greece is once again a destabilising factor, and the possibility of its debt being restructured is again being considered. In principle, the impact of this eventuality on the economy of the Euro area would be contained, and contagion to other peripheral economies, specifically Spain, would be limited. However, this could depend on how the internal and external economic and political situation develops.

Lower commodity prices and the slowing Chinese economy will continue to hold down growth in the emerging economies. The U.S. Federal Reserve's withdrawal of liquidity and raising interest rates could also have a negative impact on some of these countries, which run the risk of suffering currency and balance of payments crises. Falling oil prices will have a strongly negative impact on the Russian economy, which, added to the effect of international sanctions, could jeopardise its solvency. This is another potential source of instability for the world economy.

The Spanish economy in 2014

The Spanish economy's recovery became established in 2014, having begun midway through the previous year. Growth remains moderate, however, in a context in which financing conditions are steadily improving, due to progress on cleaning up the banks' balance sheets, the better situation of applicants for credit, and the extraordinary monetary policy measures announced by the ECB. This was reflected in the downward trajectory in the cost of Spanish public debt throughout the year and the consequent drop in the risk premium from 200 basis points in January to 114 basis points in December (Exhibit 6.1). At the same time, in 2014, new flow of credit to households and small and medium-sized enterprises began to grow, although within a general context of debt reduction.

The recovery in domestic demand has been sustained. After six years of intensive adjustment, it is now positioned for growth, although constraints persist. The data on the final months of 2014 is still incomplete, however, the GDP growth rate for the year as a whole is estimated to have been 1.4%, compared with the -1.2% registered the previous year (Exhibit 2.1). This result is better than forecast. In late 2013, FUNCAS predicted growth of 1%, and the consensus forecast was even slightly lower. In nominal terms, GDP growth in 2014 was 1%, owing to falling prices.

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The biggest surprise was in the composition of this growth. A negative contribution was expected from domestic demand and a positive contribution from the external sector. The end result was the opposite. It is estimated that the former contributed 2.1 percentage points (pp) and the latter -0.7 pp (Exhibit 2.2). Rising domestic demand has been driven by consumption –the growth of which has been concentrated mainly in durable goods, particularly cars– and investments in capital goods. The strength of the latter stands out, having posted an uninterrupted series of positive growth rates since the first quarter of 2013. Public consumption has also grown, both in real and nominal terms, after three years of decline. This suggests a relaxation in the budgetary adjustment effort (Exhibit 2.3).

Another salient feature of how the Spanish economy developed in 2014 was the start of the recovery in investment in home building, which grew in the third quarter, and probably also in the fourth, although the annual average was negative (Exhibit 2.4). This growth indicates that one of the main adjustments the Spanish economy has been making since the start of the crisis, namely the adjustment of this component of demand since the bursting of the property-market bubble, has come to an end. Since the peak reached in 2006, residential construction's share of GDP has dropped to a third of its previous value, shrinking from 12.1% in 2006 to 4% in 2014. This is one of the key features of recent economic developments, as it means that rather than weighing down growth, the sector has started making a positive contribution, thus marking the start of a new cycle. The start of the recovery in residential construction is also a reflection of the stabilisation of the real-estate sector in 2014, in terms of both the number of homes sold and their prices.

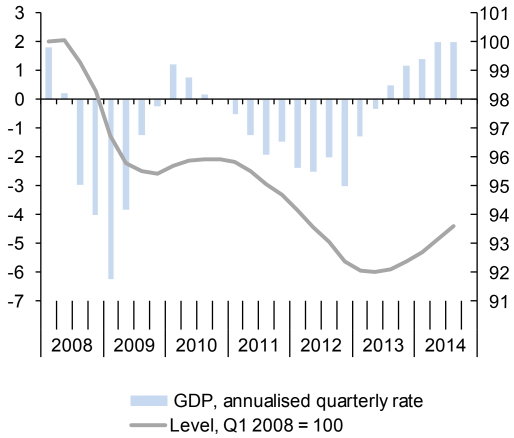
Exports of goods and services are estimated to have grown by 4.2% – an outstanding rate bearing in mind the weak external context, particularly in the EU, which is Spain's main export market. Imports grew faster, at 7.3%, driven by the growth in those components of demand with the greatest propensity for imports, namely durable goods consumption and equipment investments. This led to the external sector's negative contribution in 2014 for the first time in seven years.

Exhibit 2

Spanish economy: GDP and components

2.1 - GDP

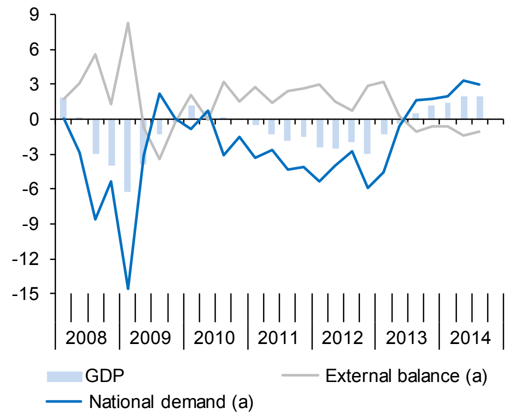
Change in % and level



Source: INE (Quarterly National Accounts).

2.2 - GDP, national demand and external balance

Annualised quarterly change in % and contribution in pp

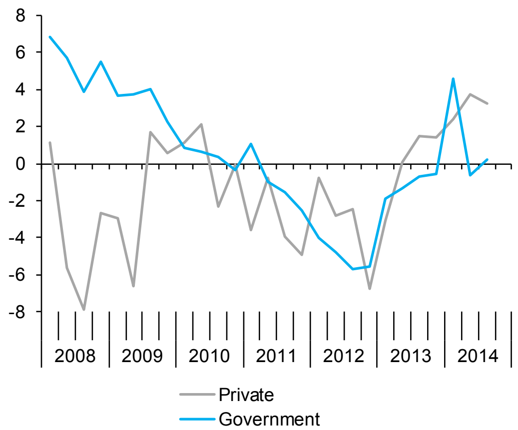


(a) Contribution to GDP growth in percentage points.

Source: INE (Quarterly National Accounts).

2.3 - Consumption

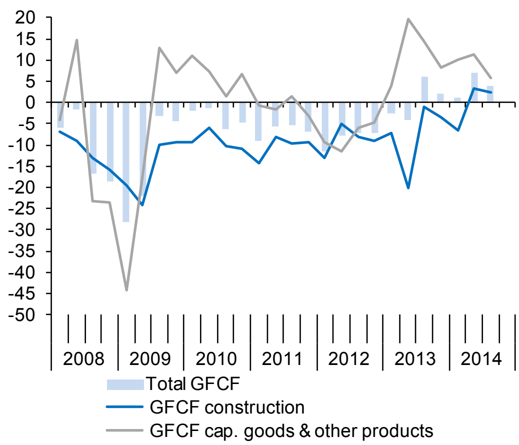
Annualised quarterly change in %



Source: INE (Quarterly National Accounts).

2.4 - Gross Fixed Capital Formation

Annualised quarterly change in %



Source: INE (Quarterly National Accounts).

All the main economic sectors except construction registered growth in their gross value-added in annual terms. However, construction did post quarter-on-quarter growth in the second half of the year. In the case of services, the strength of the tourism sector stands out, where there has been significant growth in inflows of tourists, although the number of hotel stays by foreign residents grew only moderately, which is explained by greater recourse to other forms of accommodation. In fact, the growth in the number of overnight hotel stays in 2014 was mainly explained by the increase in hotel stays by Spanish residents.

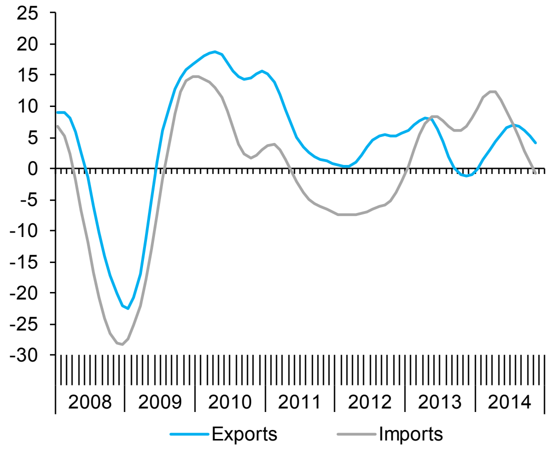
Although no data are yet available for the fourth quarter, it is estimated that employment, measured

Exhibit 3

External sector

3.1 - Exports/Imports at constant prices (Customs)

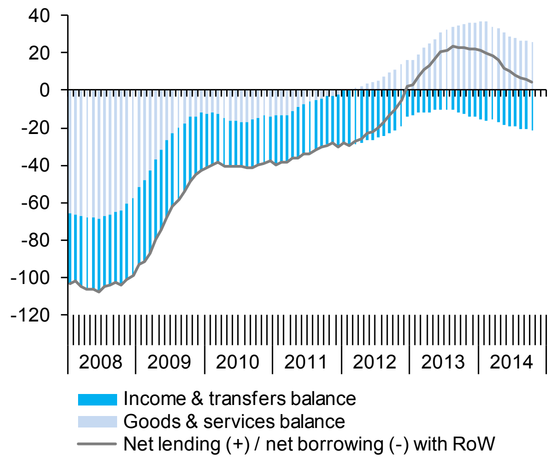
Annualised moving quarterly change in %, smoothed series



Sources: Ministry of Economy and FUNCAS.

3.2 - Balance of payments

EUR billion, cumulative last 12 months



Source: Bank of Spain.

in terms of full-time equivalent jobs, grew by 0.9% in 2014. This is equivalent to approximately 140,000 jobs on an annual average, although comparing the last quarter of 2014 with the same period the previous year, the increase was slightly more than 300,000. The number of Social Security affiliates, using data for the year as a whole in this case, grew in seasonally adjusted terms in all months of the year, producing an average annual increase of 1.6% (Exhibit 4.2).

According to the *Labour Force Survey,* the downward trend in the labour force observed the preceding year continued into 2014, as a result of the shrinking working-age population, which, in turn, is explained by negative net migratory flows. The drop in the number of people out of work was 440,000 over the year, due more to the decline in the labour force than an increase in the number of people in work, which rose by 205,000 –although comparing the fourth quarter of 2014 with the same period the previous year, the increase was 433,000. Also, whereas the jobs created at the start of the recovery were mainly temporary and part-time, from the second quarter of 2014 onwards, there was a shift towards permanent contracts and full-time jobs. The average annual unemployment rate is estimated at 24.4%, compared with 26.1% in 2013 (Exhibit 4.1).

According to national accounts figures, ULCs have fallen by 6.4% since 2009. This has made it possible to recover around 80% of the cost competitiveness relative to the rest of the EU lost over the preceding decade.

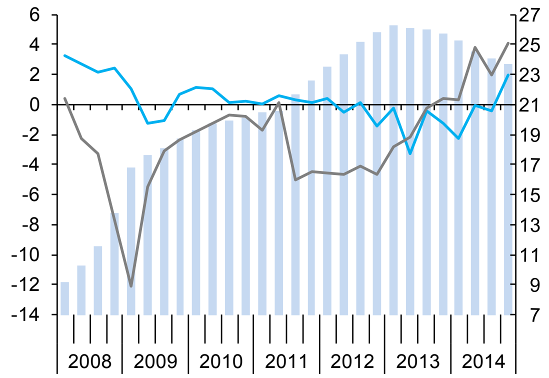
According to *National Accounts,* compensation per employee rose by 0.1% in 2014. Given the rise in productivity, which slowed considerably to 0.5%, this implies a drop in unit labour costs (ULCs) of 0.4%. ULCs have fallen by 6.4% since 2009. This has made it possible to recover around 80% of the cost competitiveness relative to the rest of the EU lost over the preceding decade. This is undoubtedly one of the factors explaining the strong performance of exports (Exhibit 5.1).

Exhibit 4

Labour market

4.1 - Employment and unemployment (LFS)

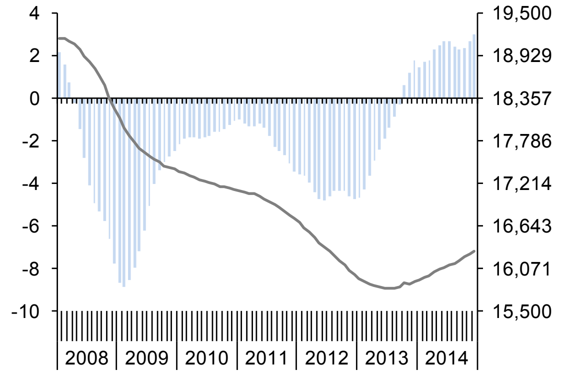
Annualised quarterly change and percentage



Sources: INE and FUNCAS.

4.2 - Social Security affiliates

Seasonally-adjusted data



Sources: Ministry of Labour and FUNCAS.

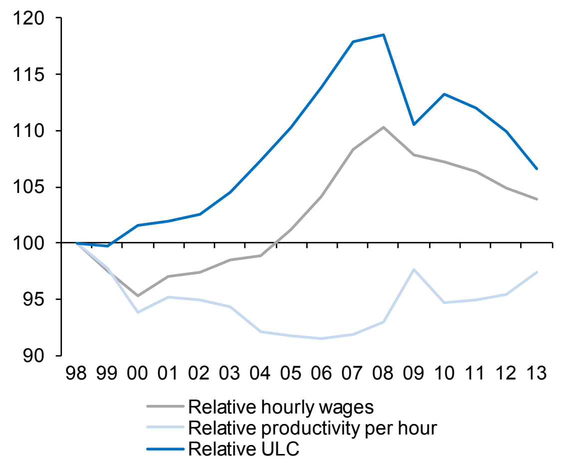
This cost reduction, the high level of spare production capacity, and falling oil price, along with the price of unprocessed foodstuffs in the central months of the year –which was simply a correction of the sharp increases witnessed in the same months of the previous year– caused inflation to fall to negative rates in the months of July and onwards. The year-on-year rate in December was -1.0% and the annual rate stood at -0.2% (Exhibit 5.2). Nevertheless, this cannot

Exhibit 5

Costs and prices

5.1 - Relative ULC Spain/Euro Area in manufactures

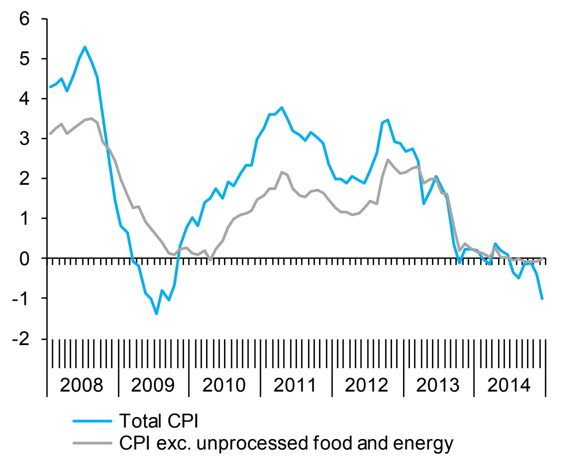
Index 1998=100



Sources: Eurostat and FUNCAS.

5.2 - Consumer Prices Index

Change y-o-y in %



Source: INE (CPI).

be properly considered deflation, as that would be inconsistent with the context of economic growth, rising consumption and investment. Moreover, these negative inflation rates are almost entirely the result of an external factor, namely falling oil prices, which stimulates domestic consumption rather than slowing it.

The current account of the balance of payments deteriorated in 2014 as a result of the sharp rise in imports, which outpaced exports. Thus, between January and October, a deficit of almost 5.4 billion euros was posted, compared with a surplus of 11.2 billion euros over the same period the previous year. The final outcome for the year as a whole was probably close to equilibrium, compared with a surplus of 1.4% of GDP posted in 2013 (Exhibits 3.1 and 3.2).

The financial account of the balance of payments –excluding the Bank of Spain– went into reverse. Between January and October, it registered a deficit of 6.2 billion euros, in contrast with a surplus of 44.7 billion euros the previous year (Exhibit 6.2). This was the result of the big increase in Spanish foreign portfolio investment outflows and the change in sign of the other investments account, which went from net inflows to net outflows.

As regards the balance between savings and investment, the reduction of the current account surplus was the result of a drop in the national savings rate and a rise in the investment rate. By sectors, using data for the period up to the third quarter, the drop in the savings rate was concentrated in the private sector, while the general government rate was less negative than in the preceding year.

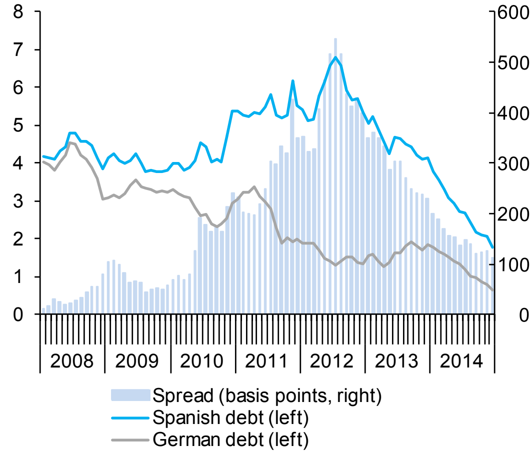
The general government deficit up to September, excluding aid to the financial system, was 3.6% of annual GDP, compared with 4.2% in the same period the previous year. This suggests that the final result for the year as a whole will be in line with the target of 5.5% (Exhibit 7.2). The improvement came entirely from increased revenues, as expenditure, excluding aid to financial institutions, was practically the same as in the same period the previous year, despite interest payments on the debt being notably lower than budgeted. According to data for the period to October, the Central Government and the Social

Exhibit 6

Financial indicators

6.1 - Government 10 years bonds rate

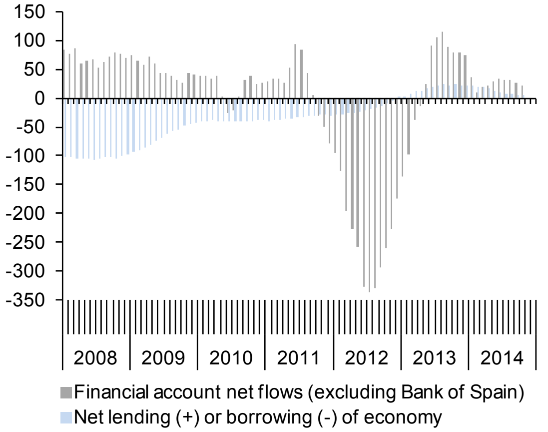
Percentage and basis points



Sources: ECB and Bank of Spain.

6.2 - Balance of payments

EUR billion, cumulative last 12 months



Source: Bank of Spain.

Security System reduced their deficit, while the Autonomous Regions increased theirs by three tenths of a percentage point to 1.33% of GDP, exceeding their objective for the entire year, which was 1%. In the case of Social Security, the improvement in its balance came from the –much greater than budgeted– drop in unemployment benefits, while the Social Security System –basically the pensions system– worsened its negative balance.

> *For the period to October, the Central Government and the Social Security System reduced their deficit, while the Autonomous Regions increased theirs by three tenths of a percentage point to 1.33% of GDP, exceeding their objective for the entire year, which was 1%.*

Households and non-financial corporations have generated a financial surplus (net lending position) since the start of the crisis, although this is on a downward trend. In the case of households, with the data for up to the third quarter of 2014, this surplus shrank to 1.3% of GDP from 2.8% in the same period of 2013, as a consequence of the drop in savings deriving from the increase in consumption, which grew faster than available income. In the case of non-financial corporations, their net lending position over the first three quarters of 2014 as a whole dropped to just 1.7% of GDP, compared to 4.5% in the same period the previous year.

Households and firms have largely –in the case of non-financial firms, entirely– devoted their surplus to reducing their debt. The level of debt has consequently dropped noticeably since its peak in 2010, allowing more scope for an increase in spending (Exhibit 7.1). In the case of households, in the third quarter of 2014 –the most recent period for which data are available– debt stood at 72.4% of GDP, which is 12 percentage points less than the peak reached in 2010. In nominal terms, the decrease in the volume of debt was

Exhibit 7

Financial imbalances

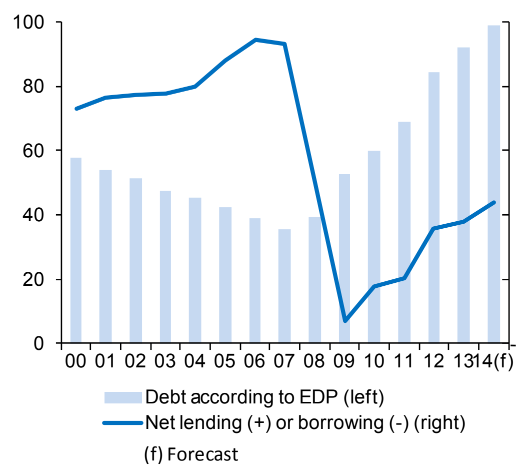
7.1 - Private sector indebtedness

Percentage of GDP

Source: Bank of Spain (Financial Accounts).

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

Percentage of GDP



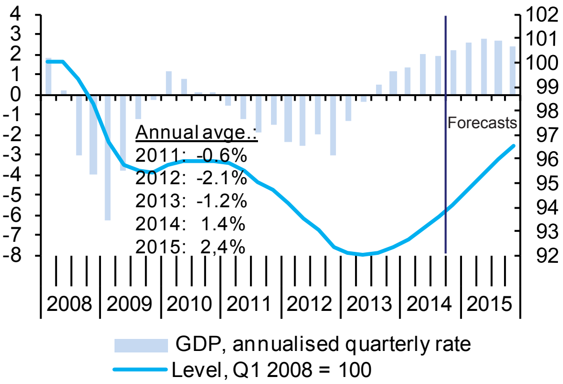
Sources: Bank of Spain and FUNCAS.

Exhibit 8

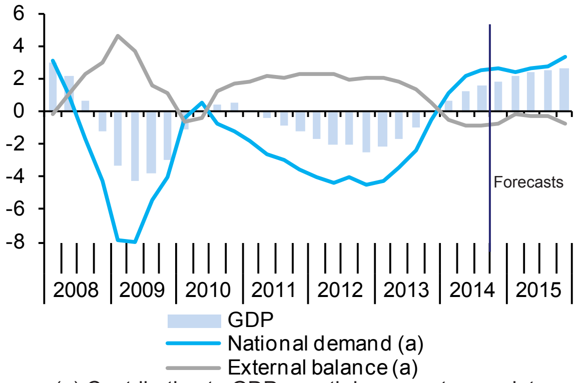
Economic forecast for Spain, 2014-15

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

8.1 - GDP

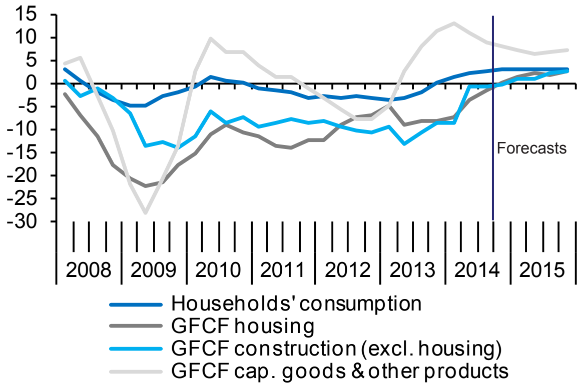


8.2 - GDP, national demand and external balance

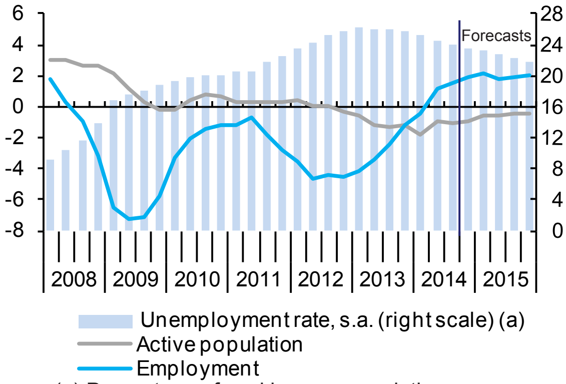


(a) Contribution to GDP growth in percentage points.

8.3 - National demand aggregates

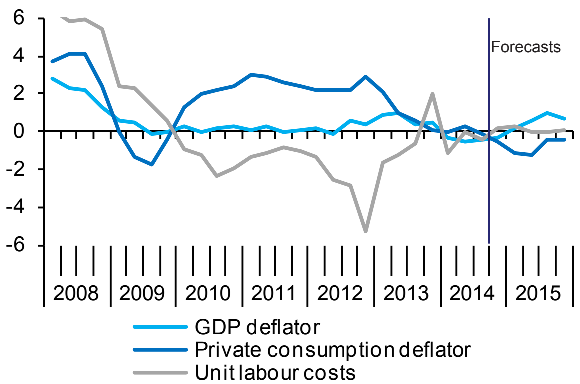


8.4 - Employment and unemployment



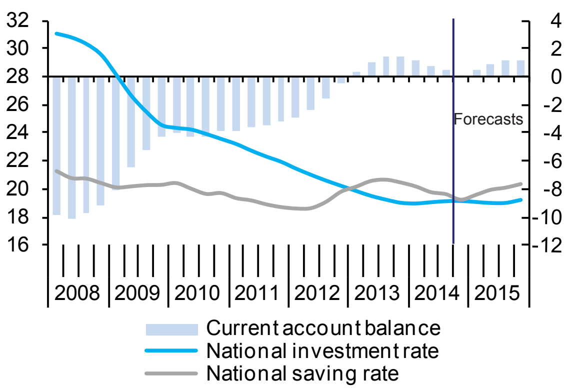
(a) Percentage of working age population.

8.5 - Inflation



8.6 - Saving, investment and c/a balance

(% GDP, 4MA)



Sources: INE (Quaterly National Accounts) *and FUNCAS.*

16.5%. As regards non-financial corporations, the decrease in the debt ratio since the maximum was 24.4 percentage points of GDP, to 109.7%, while the nominal reduction in the volume of debt was 18%.

Households and firms have largely –in the case of non-financial firms, entirely– devoted their surplus to reducing their debt.

In sum, the progress on the process of adjustment undergone by the Spanish economy since the start of the crisis –debt reduction, regaining cost competitiveness, downsizing the residential construction sector, and cleaning up and restructuring the financial sector– in conjunction with the improved financial conditions and the effects of the reforms carried out, have made it possible for the Spanish economy's recovery to become established over the course of 2014. The downside to this recovery has been the deterioration in the current account balance, which, if it continues, may mean a return to a deficit, which would mean that debt vis-à-vis the rest of the world would start to grow again. This would increase the economy's vulnerability to new episodes of tension in the financial markets. Moreover, servicing this debt –a large portion of which is public– could place a serious brake on growth when interest rates start to rise. Nevertheless, falling oil prices are generating an improvement in the trade balance and, given that this trend is expected to continue, there should be continued improvement in the trade account in 2015, such that it is likely that in the short term, the surplus in the current account of the balance of payments will be maintained.

Outlook for the Spanish economy in 2015

The Spanish economy's recovery will gain traction in 2015, supported by various factors that are more or less transitory, but which will nevertheless last for some time: i) the sharp drop in interest rates resulting from the ECB's new measures, which will intensify following the entry into force of the ECB´s recently announced debt purchase program, ii) falling oil price, which on the demand side represent increased disposable income for consumers, while on the supply side represent lower production costs, iii) the cut in personal income tax, combined with the more expansionary course of public spending; and, iv) the depreciation of the euro against the dollar, although this will have only a modest impact on exports and GDP.

The estimate for GDP growth in 2015 stands at 2.4% – two tenths of a percent higher than in previous forecasts (Exhibits 8.1 to 8.6 and Table 1). Along with the risks to the global economy as a whole already mentioned, another risk to this scenario is the uncertainty over internal political stability. This could lead to a loss of confidence in Spain's outlook and solvency, and it should not be forgotten that the Spanish economy's level of external debt makes it highly vulnerable to changes in international financial markets' perceptions.

Household consumption will accelerate its growth in 2015 to 3%. The increased spending capacity deriving from the tax cuts (0.4% of disposable income) and the drop in energy prices (approximately one percentage point of this disposable income assuming Brent remains at around 55 dollars per barrel) will allow an upturn in spending to be compatible with a recovery in the savings rate. Public consumption may register a similar result in 2015 to that expected for 2014, i.e. growth of 0.6%.

Gross fixed capital formation in capital goods will increase next year at a somewhat slower rate than at present (6.9%), due to the natural exhaustion after a long period of strong growth beginning in the first quarter of 2013. Construction investment will grow in annual terms in 2015 for the first time after seven years of adjustment, in both

Table 1

Economic Forecasts for Spain, 2014-2015

Annual rates of change in %, unless otherwise indicates

	Actual data				*FUNCAS forecasts*		*Change in forecasts (a)*	
	Average 1996-2007	Average 1996-2007	2012	2013	2014	2015	2014	2015
1. GDP and aggregates, constant prices								
GDP	**3.8**	**-1.1**	**-2.1**	**-1.2**	**1.4**	**2.4**	**0.1**	**0.2**
Final consumption households and NPISHs	3.6	-1.9	-2.9	-2.3	2.3	3.0	0.3	0.5
Final consumption general government	4.3	0.8	-3.7	-2.9	0.6	0.6	0.4	1.3
Gross fixed capital formation	6.5	-7.4	-8.0	-3.4	3.2	4.3	2.4	1.4
Construction	5.4	-10.3	-9.3	-9.2	-2.9	1.8	1.1	1.9
Residential construction	7.4	-11.9	-9.0	-7.6	-3.1	1.9	1.3	3.0
Non-residential construction	3.8	-8.4	-9.6	-10.5	-2.8	1.7	1.0	1.2
Capital goods and other products	8.6	-2.8	-6.2	4.2	10.1	6.9	3.0	0.3
Exports goods and services	6.6	1.7	1.2	4.3	4.2	4.6	-0.2	-0.7
Imports goods and services	8.7	-4.1	-6.3	-0.5	7.3	6.3	1.8	0.9
National demand (b)	**4.5**	**-2.8**	**-4.3**	**-2.7**	**2.1**	**2.7**	**0.6**	**0.7**
External balance (b)	-0.7	1.8	2.2	1.4	-0.7	-0.4	-0.5	-0.5
GDP, current prices: - € billion	--	--	1,055.2	1,049.2	1,059.6	1,091.3	--	--
- % change	7.4	-0.5	-1.9	-0.6	1.0	3.0	0.3	0.4
2. Inflation, employment and unemployment								
GDP deflator	3.5	0.6	0.2	0.7	-0.4	0.6	0.1	0.2
Household consumption deflator	**3.1**	**1.8**	**2.4**	**1.0**	**-0.1**	**-0.8**	**-0.1**	**-1.4**
Total employment (National Accounts, FTEJ)	3.4	-3.1	-4.4	-3.3	0.9	2.0	0.2	0.5
Productivity (FTEJ)	0.4	2.1	2.4	2.1	0.5	0.4	0.0	-0.3
Wages	7.5	-1.0	-5.6	-2.3	1.3	2.7	0.1	0.6
Gross operating surplus	6.9	0.3	1.1	0.1	0.0	3.3	0.5	0.9
Wages per worker (FTEJ)	3.3	2.4	-0.6	1.7	0.1	0.5	-0.1	0.0
Unit labour costs	2.9	0.2	-3.0	-0.4	-0.4	0.1	-0.1	0.3
Unemployment rate (LFS)	**12.5**	**20.2**	**24.8**	**26.1**	**24.4**	**22.5**	**0.0**	**0.0**
3. Financial balances (% of GDP)								
National saving rate	22.4	19.9	19.8	20.4	19.1	20.3	1.4	2.3
- of which, private saving	18.6	23.1	23.4	24.5	22.5	22.8	0.9	1.8
National investment rate	26.9	23.1	20.2	19.0	19.0	19.1	0.9	0.8
- of which, private investment	23.0	19.4	17.8	16.8	17.1	17.2	0.3	0.2
Current account balance with RoW	**-4.5**	**-3.3**	**-0.4**	**1.5**	**0.1**	**1.2**	**0.4**	**1.5**
Nation's net lending (+) / net borrowing (-)	-3.7	-2.8	0.1	2.1	0.6	1.7	0.2	1.3
- Private sector	-2.8	5.7	10.4	8.9	6.1	6.2	0.2	1.2
- Public sector (general governm. deficit)	**-0.9**	**-8.6**	**-10.3**	**-6.8**	**-5.5**	**-4.6**	**0.0**	**0.0**
- General gov. deficit exc. financial instit. bailout	**--**	**-7.8**	**-6.6**	**-6.3**	**-5.4**	**-4.6**	**0.1**	**0.0**
Gross public debt	52.2	66.3	84.4	92.1	98.0	101.6	-2.0	-2.1
4. Other variables								
Household saving rate (% of GDI)	10.8	11.2	9.5	10.4	8.8	9.4	-0.8	-0.5
Household gross debt (% of GDI)	81.5	125.0	122.3	115.4	110.5	104.7	-1.1	-1.0
Non-financial coporates gross debt (% of GDP)	80.4	126.8	124.0	111.9	107.0	101.4	-13.2	-10.7
Spanish external gross debt (% of GDP)	90.2	158.1	162.0	153.0	159.0	156.9	2.2	4.4
12-month EURIBOR (annual %)	3.7	1.9	1.1	0.5	0.5	0.3	0.0	-0.2
10-year government bond yield (annual %)	5.0	4.7	5.9	4.6	2.7	1.8	0.0	-0.5

Notes:
(a) Change between present and previous forecasts, in percentage points.
(b) Contribution to GDP growth, in percentage points.
Sources: 1996-2013: INE and Bank of Spain; Forecasts 2014-2015: FUNCAS.

the housing component and other construction. In the case of the latter, growth will be driven by the increase in public investment deriving from the electoral cycle.

Exports will grow at a similar rate to that in 2014, while import growth will moderate, despite the forecast increased growth in domestic demand. This is explained by the fact that the components of domestic demand in which there is the greatest propensity to import –i.e. consumption of durable goods and investments in capital goods– will account for a smaller share of its growth, while the share of non-durable consumer goods and construction investment –components with a lower propensity to import– will increase. The external sector's contribution to growth will be negative again in 2015, although to a lesser extent than in 2014 (-0.4 pp).

Consistent with higher growth forecasts, the projections for employment have also been revised upwards to 2.0% in 2015, equivalent to the creation of 330,000 full-time equivalent jobs on an annual average basis. This will bring the unemployment rate down to 22.5%. In 2015, in contrast to 2014, the fall in the unemployment rate will derive more from job creation than from the contraction in the labour force. Productivity will grow at a similar rate to that in 2014, and ULCs will rise slightly, although at a rate below the GDP deflator.

The current account of the balance of payments and net lending position vis-à-vis the rest of the world will be in surplus to a significantly greater extent than in 2014. This will be helped by the drop in the price of imported energy.

The general government deficit will drop to 4.6% of GDP (the official target is 4.2%), entirely as a consequence of the favourable effect of the cycle and the increase in the ratio's denominator due to the growth of nominal GDP. The persistence of a high, albeit shrinking, deficit will mean that public debt continues to rise, passing the 100% of GDP threshold in 2015.

Lastly, the non-financial private sector surplus will increase with respect to 2014, which will allow the process of debt reduction to continue, reducing the sector's unconsolidated gross debt to around 169% of GDP, 48 percentage points below the peak reached in 2010 and 13 points above the likely Euro-area average.

In short, the recovery will gain strength in 2015: i) firstly, a result of the progress on the various adjustment processes mentioned which are underway in the economy and which have situated domestic demand in a position from which it can return to growth; and, ii) secondly, due to the favourable impact of various internal and external factors or shocks. However, these shocks are largely transitory in nature and in the years ahead significant constraints on growth will remain, making it unlikely to continue accelerating. These constraints include, in particular, the high level of public debt, which will make it necessary to maintain a restrictive bias on fiscal policy over the coming years, and private debt, which, despite the intense process of deleveraging, will continue to limit the capacity for domestic demand growth for some time to come.