NOTA DE PRENSA

# The Spanish economy will grow at 2.6% in 2018 and 2.4% in 2019

- **Growth should translate into significant job creation, with Funcas estimates pointing to the creation of 400,000 new full-time equivalent jobs this year**

- **SEFO is broadening its content, including more international economic and financial matters, and launching its new digital online version (www.sefofuncas.com)**

**Madrid, March 2018**–. "In 2018, the Spanish economy will continue to grow strongly at 2.6%, half a percentage point below last year's growth, but in line with that of the last two to three years. In the longer term, we expect a similar performance of the Spanish economy. GDP is anticipated to increase 2.4% in 2019". The latest edition of **Spanish and International Economic & Financial Outlook (SEFO)** features key insights from **Funcas**' Director General Carlos Ocaña on the outlook for the **Spanish economy and financial sector in 2018 and beyond.**

"This moderate deceleration is due, in part, to the moderation of consumption growth, reflecting both a household savings rate at historical minimums and the depletion of pent up demand after two years of strong rebound in consumption", says Carlos Ocaña. In addition, ongoing political tensions in Catalonia have dissipated somewhat after the Central Government and Constitutional Tribunal decisions, but will have a negative impact on investment in the region that Funcas does not expect to be completely offset by increased investment flows to other parts of Spain. "We estimate the net impact to be moderate in the short term, accounting for a reduction of an additional 0.2 percentage points in our 2018 forecast for Spanish overall GDP growth", adds Funcas' Director General.

Growth should translate into significant job creation. Funcas estimates point to the creation of 400,000 new full-time equivalent jobs in 2018 that will bring unemployment down to 15.1%, a substantial decline from the peak of 26% reached five years ago, but still high.

Public debt levels are expected to continue their slow decline to 96.4% of GDP, down 1.4% of GDP from the previous year, but remain uncomfortably high. While the government has been able to take advantage of savings on interest payments under the ECB's monetary accommodation, the announcement of policy normalization will push up the cost of debt service, and, in the absence of a long-term debt reduction strategy, increase sovereign risk.

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After eight years of consolidation, clean-up and recapitalization, Spain's financial sector stands more resilient, with improved profitability and solvency indicators. Profitability of the Spanish sector is among the highest across the main EU economies and notably above the EU average. Also, Spanish banks have boosted their solvency relative to pre-crisis levels.

**SEFO**, the bi-monthly Economic Journal published by Funcas on the most pressing issues facing the Spanish and international economy and financial system, is broadening its content, including more international economic and financial matters, and launching its **new digital online version.**

In the latest edition, we include coverage of: European economic governance reform, Basel III reforms and their implications for European and Spanish banks, Spains's insurance sector, among others key topics.

Erik Jones writes about how European governments disagree on how to reform their shared institutions for **economic governance.** That disagreement is substantive. It rests on different assumptions about what caused the recent crisis, about who is responsible for crafting a solution and about what are the most important obstacles standing in the way of success. These competing visions are difficult to reconcile; a compromise solution, borrowing elements from different positions, would lead to contradiction and vulnerability. The challenge is not to land the negotiations according to some diplomatic calendar, it is to find some way to foster a meaningful consensus on which of the competing visions should be adopted for what should be done and why.

Fernando Rojas, Esteban Sánchez and Francisco José Valero highlight that on December 7$^{th}$, 2017, the oversight body of the Basel Committee on Banking Supervision (BCBS) announced the finalisation of the **Basel III reforms**, initiated in December 2010, which mainly affect three major classes of bank risk: credit, operational and Credit valuation adjustment (CVA). The changes are set to have an impact on European banks as they are expected to increase the Tier 1 minimum capital requirements by 12.9%. The increased capital adequacy implied by the new regulations for European banks, and above all the dissipation of certain sources of uncertainty, has been welcomed by the stock markets, as evidenced by the increase in banks' shares in the main EU economies by 3% on average in the days immediately following the announcement of endorsement.

Daniel Manzano explains that **Spain's insurance sector** has proven far more robust than its banking sector since the crisis. However, although returns have remained above the 10% mark on average, profitability has been clearly trending lower, driven primarily by the low interest rate environment in recent years. This factor is likely to exert even more pressure on the sector's margins during the next few years, mainly due to the impact rates

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are having on investment portfolios in the life insurance segment. Despite this, the Spanish insurance sector's margins continue to compare very favourably with those of its European counterparts. The sector has also reinforced its solvency substantially, once again comparing favourably with the European average and that of the major EU economies, other than Germany. As has been the trend in the financial sector, the insurance business has undergone concentration, albeit to a far lesser degree than the banks. Concentration has been more pronounced in the life insurance segment, closely correlated with concentration in the banking sector, which is the main distribution channel for this insurance product. M&A activity will foreseeably continue, marked by the takeover of small and very small players.

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Other articles included:

- The Spanish economy in 2017 and the outlook for 2018 (Raymond Torres and Mª Jesús Fernández)
- EU and Spanish banking landscape in 2018: Increased regulation and pressure to reduce NPLs (Santiago Carbó and Francisco Rodríguez)
- Spain's VAT tax burden in the wake of the recent economic crisis (Desiderio Romero y José Félix Sanz)

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