

Regional Analysis Spain

Spain's Galicia region will once again grow more than the country as a whole in 2019

El Correo Gallego (Spain)

Pep Ruiz

Galicia has been, in recent years, one of Spain's most dynamic regional economies. According to data from Spanish Regional Accounting, it is the region with the third highest cumulative growth between 2015 and 2017. Thus, it is just below Catalonia and Murcia, and above others such as Madrid, Castile-La Mancha and the Balearic Islands, which also grew by more than the national average in that period.

However, already in the first half of 2018 some signs of a slowdown started to be evident. As in the rest of Spain, the absence of a downward path for interest rates, the rise in oil prices and the exhaustion of the demand that had been pent up during the crisis reduced the thrust of tail winds. Likewise, the internal uncertainty about economic policy - fuelled by Spain's change of government and events in Catalonia - limited the dynamism of activity both in the region and in Spain as a whole. Some of these factors have also had an impact on the economies of our major partners, so that tourism demand lost momentum. In addition, geopolitical tensions in the Maghreb and Turkey, which had led to the arrival of tourism from other markets, are lessening. As a result, this "borrowed" tourism has begun to return to those countries, which also have an evident cost advantage.

Some of these effects have made themselves felt especially in the Galician economy. For example, in 2018 household private consumption in the region may have grown by almost one point below the registered rates of the previous two years, and the number of overnight stays in hotels is projected to have fallen by around 5%, something not seen since 2012. The lower momentum shown by tourism, which has been detected both in the influx of foreign visitors and of Spanish residents, limits the development of employment. Between 2015 and 2017, the hotel and catering industry was responsible for 17% of the increase in social security membership, two points above the contribution in the whole of Spain. Moreover, the recovery of the housing market observed in places with greater demographic dynamism, such as the large metropolitan areas and the Mediterranean coast, is not taking place in Galicia. As a result, the construction sector is not able to compensate for the slowdown in tourism employment.

On the other hand, other factors have acted to provide support throughout this year. In spite of the deterioration in the global environment, goods sales abroad have continued to contribute to the growth of the Galician economy, as has been the case since 2015. In addition, throughout the first part of 2018 car exports recovered their momentum, not having boosted Galician exports since 2013. As a result of this good performance in demand, investment in capital goods has continued to evolve favourably, even in last year's context of internal and external uncertainty. Thus, 2018 will see itself out with GDP growth of 2.8% - somewhat lower than in previous years.

For 2019, forecasts again anticipate growth of around 2.8%, once more exceeding the Spanish average. The strength of exports will be supported by somewhat lower world growth and a euro exchange rate that, although it will appreciate, will do so slowly. For its part, oil will continue to be cheap, freeing up agents' income and reducing company production costs. Also, fiscal policy may have a differential impact on the Galician economy, given the greater weight of pensions in the income of Galician households.

All in all, it is expected that an environment of lower growth will consolidate with regard to previous years. First, the slowing trend in household consumption will continue, meaning growth will once again fall into line with its fundamentals, such as disposable income and wealth. In the case of Galicia, the outlook is that population loss will continue, which will limit the formation of households and, therefore, demand. Secondly, doubts remain as to whether tourism can continue to really support job creation.

Creating Opportunities

In turn, uncertainty about economic policy remains high, both in Spain and worldwide. Abroad, the scenario of trade conflict between the world's major economies puts globalisation at risk as a mechanism for generating wealth, and could already be having negative effects on investment and growth. All this may have a particular impact on Galicia, given its exposure to the outside world and the significance of the automotive industry in its economy, which is also beginning to be affected by legislative changes in Europe. The likelihood of no deal being reached on the United Kingdom's exit from the European Union is also increasing.

In Spain, although the tension in Catalonia has reduced, there remains a high degree of uncertainty in economic policy, since difficulties in approving the State Budgets for 2019 call into question the application of the necessary reforms to increase productivity and the continuity of the expansive tone of fiscal policy. In addition, the calling of elections next year may have led to some public spending being brought forward to 2018.

In short, if current forecasts are met, Galicia will yet again be one of the fastest growing regions, which will help make its per capita income, measured in constant euros, exceed 90% of the Spanish average. However, there is a high degree of uncertainty.

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CONTACT DETAILS:

BBVA Research: Azul Street, 4. La Vela Building – 4th and 5th floor. 28050 Madrid (Spain)
Tel.: +34 91 374 60 00 and +34 91 537 70 00 / Fax: +34 91 374 30 25
bbvaresearch@bbva.com www.bbvaresearch.com

