Global Economy

Ability and desire

Expansión

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The reasons behind the greater growth of the Spanish economy relative to the EMU remind me of a swaggering friend who, when asked to explain the reasons for his behavior, replied: "Because I can and because I want to".

Despite the slowdown seen during much of 2017 and consolidated in 2018, the GDP growth rate remained above that observed in the rest of the EMU, and even accelerated in the last quarter of the previous year.

As I said above, this is because Spain can do it: its capacity for growth is greater. First, because there is a cyclical component. For example, the labor market still shows a high unemployment rate that allows wage costs to continue to be kept under control, and this has maintained the gains in competitiveness despite the poor productivity performance. In addition, most of the increase in household income is occurring due to the creation of jobs. People coming out of unemployment have postponed consumption and investment decisions, and this means that they devote a higher proportion of their income to spending. Added to this is the differential behavior in lending to households. Both the deleveraging process observed over recent years and the reduction in uncertainty about real estate wealth, as well as the progress made in employment creation, have allowed the flow of consumer financing to grow again to reach 17.7% in 2018, above what we see in the EMU (8.2%). Finally, the real estate sector is recovering after weighing down the growth of domestic spending. The recovery of prices, together with the entry of speculative demand, have helped to absorb the oversupply that existed, resulting in increased residential investment.

In any event, there also appear to be permanent factors that explain this differential behavior. The Spanish economy is especially benefiting from the expansive monetary policy of the ECB, thanks to a restructuring of the financial sector that has not taken place in other countries. This has made it possible for the banks, having solved their liquidity and solvency problems, to prioritize profitability and the provision of credit, which has especially benefited households and SMEs. In addition to consumption, the other aggregate of domestic demand that is worth highlighting here is investment in machinery and equipment. This closed 2018 with an increase of 6%, compared with the average of 5.5% seen for the EMU. Much of this growth is concentrated in sectors that have fallen behind the cyclical drive and may be trying to improve their competitiveness or increase capacity, taking advantage of some of the reforms implemented in previous years.

Spain is also growing more because it wants to. Fiscal policy became expansive with the approval of the General State Budget for 2018. In particular, primary public spending (excluding interest) might have ended the year 0.7 GDP percentage points above the December 2017 level. In the case of the EMU, the comparable figure would be a reduction of 0.1 GDP percentage points. Assuming a relatively conservative impact of public spending on output (0.5 for each spending unit), a significant part of the growth differential that we are seeing right now (Spain: 2.5%, EMU: 1.8% in 2018) can be explained by policies such as the increase in public-sector wages and pensions or the increase in infrastructure spending.

In 2019, many of these factors will persist, so that Spain's GDP (+2.4%) could continue growing above that of the EMU (1.4%). In any event, the uncertainty regarding fiscal policy raises questions about the sustainability of this drive, so that in an environment without the adoption of additional measures (structural reforms), there will be an increasing likelihood of a more marked slowdown during the second half of the year. If that happens, it will be clear that you can't always do what you want and that, before you can want, you first have to be able.

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