

Economic Analysis

This year will be different

Expansión

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A few years ago, Reinhart and Rogoff, two renowned academics, wrote about how in every crisis economists, politicians and the rest of the world seek to convince us that this time the imbalances that end up leading to crisis are not really imbalances as such, or how the reforms and regulation that have been introduced have limited the creation of excesses and improved economies' resilience. Even so, at the start of this new year, I cannot help but think that this time something feels different with respect to the outlook for the Spanish economy. Today there is more uncertainty regarding the international panorama. Over the course of this year we will probably learn the answers to at least one of the following three questions regarding how well we have prepared for this moment in the last few years.

In an environment in which global recovery continues and uncertainty is on the wane both internally and externally, we should find out just how much capacity for growth the Spanish economy really has. From 2015 to 2017, average annual GDP growth was stable at around the 3% mark. In 2018, this figure fell to 2.6%. The following are a couple of significant questions that should become clearer in 2019. Firstly, is this slowdown temporary? Secondly, where will it lead us? In both cases we will need to keep a close eye on whether this growth creates imbalances like those seen in the lead-up to other crises. In this regard, the consensus suggests that the slowdown in GDP growth is permanent, albeit limited (BBVA Research: +2.4%). If this is the case, there are some costs worth mentioning. Half a percentage point less annual growth is currently equivalent to eighty thousand fewer jobs created each year, which comes at a high social and economic cost. Furthermore, if the decrease is of a structural nature, this will mean that a greater part of the increase in public revenue is cyclical. This would therefore point to a somewhat more critical situation in the country's finances than the one currently perceived.

In any event, the slowdown will be of greater concern if at the same time it is accompanied by a build-up of imbalances that might lead to subsequent sudden adjustments. For example, the build-up of a current account deficit would suggest that, in addition to slower growth, the deficit could be financed only by increasing foreign borrowing. In this regard, if given a favourable panorama, the gap between public revenue and expenditure did not fall below 2% of GDP, this would represent a lost opportunity to build up a fiscal (and credibility) space that could be sorely missed in the future. Similarly, if wages were to start to rise faster than productivity, with an unemployment rate (13.5%) that in other countries would be considered scandalously high, this could point to a shortage of qualified labour and growth that is more unequal and less inclusive.

Lastly, another factor that we might better understand in 2019 is just how resilient the economy is to an environment marked by uncertainty. Until now, this latter aspect has not impeded sustained recovery and at most only explains part of the slowdown. A large number of companies have had to learn to live with factors such as the lack of certainty about the future of trade policy on a world level (including Brexit), with a lack of consensus in the Spanish Parliament as to what policies are needed to increase the capacity for growth, with the possible reversal of some of the most important reforms of the past few years, and even with measures that reduce profitability in some sectors. In this context, the positive performance of investment, especially in machinery and equipment, is particularly striking. Given all these factors, the current trend may prove to be temporary, in an external environment in which uncertainty is increasing while at home we are approaching the critical point in the electoral cycle.

In short, various factors will test the resilience of the Spanish economy and its ability to sustain recovery without creating imbalances. Therefore, one of the most important things we will learn this year will be how effective the reforms of the past few years have been whether what has been done is enough, and whether this time is different.

Creating Opportunities

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