



Article

---

[Recent developments](#)

# The Spanish economy in 2016

Content available in  
Spanish Catalan

Jordi Gual

---

We usually devote the Dossier in December's Monthly Report to an analysis of the outlook for the year beginning in a few weeks' time. This year such an analysis is particularly tricky in the case of the Spanish economy since, at the time of writing, we are still unaware of the political stance taken by the new government that will be formed after the elections on 20 December. Consequently, in addition to macroeconomic forecasts it is also useful to take into account some considerations regarding Spain's economic and financial framework which will have to be handled by those taking over the helm of the country, as well as providing a brief summary of the possible priorities for economic policy in 2016.

The overall context will be characterised by highly accommodative monetary conditions in the euro area with large amounts of liquidity, low interest rates and a weak euro. The international economic situation should be reasonably favourable

in terms of growth in our markets, with low oil prices and little impact from the potential problems which some emerging countries will most likely encounter. However, in political terms this international framework could lead to instability given the many different geopolitical fronts with potential financial repercussions.

To cope with this international situation, the Spanish economy has several strengths but also a number of weaknesses. Highlighting the strong points would be good for our self-esteem but here I will focus on the weaknesses as that is obviously where the challenges lie.

Spain's main weakness is undoubtedly its high unemployment. Moreover, this unemployment rate can only partly be explained by the severity of the economic crisis because it has a chronic component that will not disappear with the recovery. Such an exceptional problem demands exceptional measures. Some progress was made during the crisis years but modernising our labour market is the first social and political challenge the new government must tackle successfully.

Spain's public accounts pose another challenge. Allowing the country's debt to go beyond 100% of GDP, as is already happening, makes it more vulnerable to changes in the international financial sentiment. However, there are two other reasons why Spain's public finances need to be reformed without delay. The excessive cyclical instability of tax revenue should be corrected to counteract the effect of rising rigid expenditure while reforms also need to be made at a territorial level as the current financing system for the autonomous communities does not encourage efficiency and represents a source of uncertainty and political instability.

Lastly, the third big challenge is the foreign sector. As a member of the euro area, Spain needs to continue improving its external surplus to reduce the external debt and, to do so, we have to control our unit labour costs compared with our competitors. This requirement is not incompatible with a strong domestic market since, ideally, the latter's expansion should not come from unit wage rises but from the wage bill as a whole, as an increasing number of workers leave the ranks of the unemployed to join the labour market.

Mario Draghi is very likely to foster a beneficial financial environment for 2016, pushing down Spain's risk premium and providing a favourable tail wind for its economy. The challenge for the country's new economic policymakers will be not to get too used to this comfortable situation. An economy such as Spain's, which operates in the demanding environment of the euro area, must continue with reforms to achieve reductions in its risk premium on its own merits. Such improvements are the only guarantee of relative protection from the markets should any serious episodes of instability occur in 2016.

Jordi Gual

Chief Economist

30 November 2015

Jordi Gual