

## SPAIN

The economy is projected to continue contracting throughout 2012, as budgetary consolidation and deleveraging in the private sector weigh on domestic demand. Expanding world trade and competitiveness gains will allow for stronger export growth. Real GDP is expected to fall by 1½ per cent in 2012 and then by a further ¾ per cent in 2013. The unemployment rate will rise above 25%. The budget deficit is projected to fall from 8.5% of GDP in 2011 to 3.3% in 2013.

To strengthen credibility, a medium-term plan with permanent deficit-reducing measures should be introduced, including higher VAT revenues and stronger environmental taxation, and measures to control regional government deficits need to be fully implemented. Comprehensive labour market reform is expected to boost employment prospects in the medium term. Access of unqualified young unemployed to vocational education and training should be widened and job placement services should be reformed. The difference in the cost of dismissing workers on new permanent and temporary contracts should be reduced further, moving closer to a unified contract.

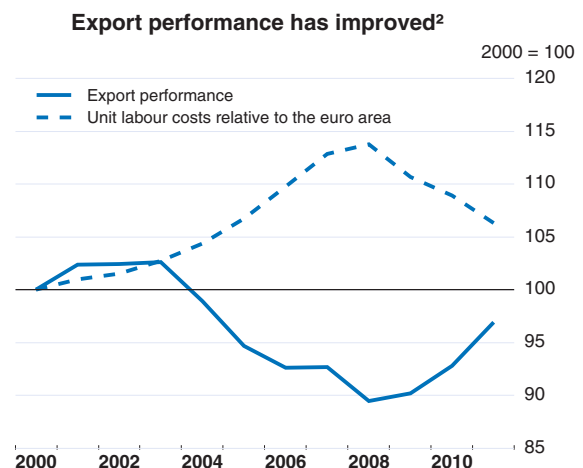
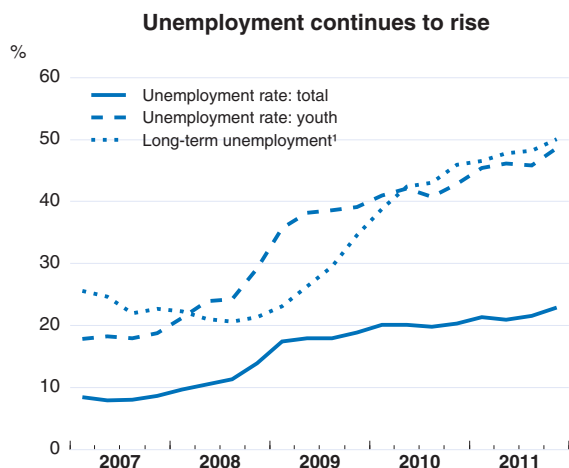
### Domestic demand is falling as the economy is deleveraging

Activity continued to contract in the first quarter of 2012 on account of a marked decline in private sector and government spending, pushing the unemployment rate to 23¾ per cent. Funding conditions for the government remain tight, as reflected in a persistently high risk premium on long-term sovereign bonds, although extraordinary liquidity provision by the ECB provided relief. Weak demand from euro area trading partners lowered export growth.

### Budgetary consolidation is intensifying with greater central control


The central government introduced budget consolidation measures estimated to be worth around 3½ per cent of GDP in 2012, of which about half falls on expenditures. Investment, payroll and transfer spending have been cut further. Revenue measures are mostly temporary and include

## Spain



1. Unemployment duration of one year or longer in per cent of total unemployment.
2. Unit labour costs for total economy. Export performance is the ratio between export volumes and export markets for total goods and services.

Source: Instituto Nacional de Estadística and OECD Economic Outlook 91 database.

StatLink  <http://dx.doi.org/10.1787/888932609038>

## Spain: Demand, output and prices

	2008	2009	2010	2011	2012	2013
	Current prices € billion	Percentage changes, volume (2008 prices)				
<b>GDP at market prices</b>	1 087.7	-3.7	-0.1	0.7	-1.6	-0.8
Private consumption	622.4	-4.3	0.8	-0.1	-2.9	-1.8
Government consumption	212.0	3.7	0.2	-2.2	-7.7	-4.5
Gross fixed capital formation	312.0	-16.6	-6.3	-5.1	-9.3	-2.4
Final domestic demand	1 146.4	-6.1	-1.0	-1.7	-5.2	-2.5
Stockbuilding <sup>1</sup>	4.6	0.0	0.0	0.0	-0.1	0.0
Total domestic demand	1 151.0	-6.2	-1.0	-1.7	-5.3	-2.5
Exports of goods and services	288.2	-10.4	13.5	9.0	3.1	5.7
Imports of goods and services	351.5	-17.2	8.9	-0.1	-9.2	0.8
Net exports <sup>1</sup>	- 63.3	2.8	0.9	2.5	3.7	1.6
<i>Memorandum items</i>						
GDP deflator	—	0.1	0.4	1.4	0.5	1.4
Harmonised index of consumer prices	—	-0.2	2.0	3.1	1.6	2.1
Private consumption deflator	—	-1.2	2.4	3.2	2.1	2.1
Unemployment rate	—	18.0	20.1	21.6	24.5	25.3
Household saving ratio <sup>2</sup>	—	13.0	7.7	5.7	5.0	6.9
General government financial balance <sup>3</sup>	—	-11.2	-9.3	-8.5	-5.4	-3.3
General government gross debt <sup>3</sup>	—	62.9	67.1	75.3	87.9	90.9
General government debt, Maastricht definition <sup>3</sup>	—	53.9	61.2	68.5	81.1	84.1
Current account balance <sup>3</sup>	—	-4.8	-4.5	-3.5	-0.9	0.1


Note: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook Sources and Methods* (<http://www.oecd.org/eco/sources-and-methods>).

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.

2. As a percentage of disposable income.

3. As a percentage of GDP.

Source: OECD Economic Outlook 91 database.

StatLink  <http://dx.doi.org/10.1787/888932610577>

increases in personal income and real estate taxes, reductions in corporate tax expenditures, and a special tax on previously undeclared household wealth combined with an amnesty. The central government has presented measures to reduce regional government spending on education and health services. Regional and local governments are required to take further steps to meet their deficit targets and central government powers to intervene in non-compliant regions have been strengthened. Across all government levels, budget consolidation worth 4½ per cent of GDP is assumed for 2012. Although measures to reach the 2013 government deficit target of 3% of GDP in 2013 have not yet been fully specified, broad-based consolidation amounting to about 2¾ per cent of GDP is assumed in the projections, including increases in consumption taxes.

### Financial and structural reforms are in hand

Non-performing loans have risen to around 8% of total bank lending. Recent measures will raise banks' specific buffers to cover losses from exposures to real estate developers from 7 per cent of GDP at the end of 2011 to 14 per cent of GDP by 2013. Exposures to real estate developers

amount to about 30% of GDP. The government is expected to provide capital injections worth 1.5% of GDP to the banking sector. It has also partially nationalised a large savings bank group. Labour market reform has lowered dismissal costs and increased firms' leeway to adapt pay and work arrangements to business conditions, which may lower consumer confidence in the short term while strengthening employment in the medium term.

**Continued poor prospects  
with risks of worse**

GDP is expected to contract in 2012, pushing the unemployment rate to above 25%. Employment losses could level off in 2013, slowing the decline in domestic demand, while accelerating exports will generate some growth momentum. A further increase in the risk premium on yields of Spanish government bonds would raise private sector funding costs and deepen the recession.



**From:**  
**OECD Economic Outlook, Volume 2012 Issue 1**

**Access the complete publication at:**  
[https://doi.org/10.1787/eco\\_outlook-v2012-1-en](https://doi.org/10.1787/eco_outlook-v2012-1-en)

**Please cite this chapter as:**

OECD (2012), "Spain", in *OECD Economic Outlook, Volume 2012 Issue 1*, OECD Publishing, Paris.

DOI: [https://doi.org/10.1787/eco\\_outlook-v2012-1-34-en](https://doi.org/10.1787/eco_outlook-v2012-1-34-en)

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