

Economic Outlook Committee

- 19th February 2010 -

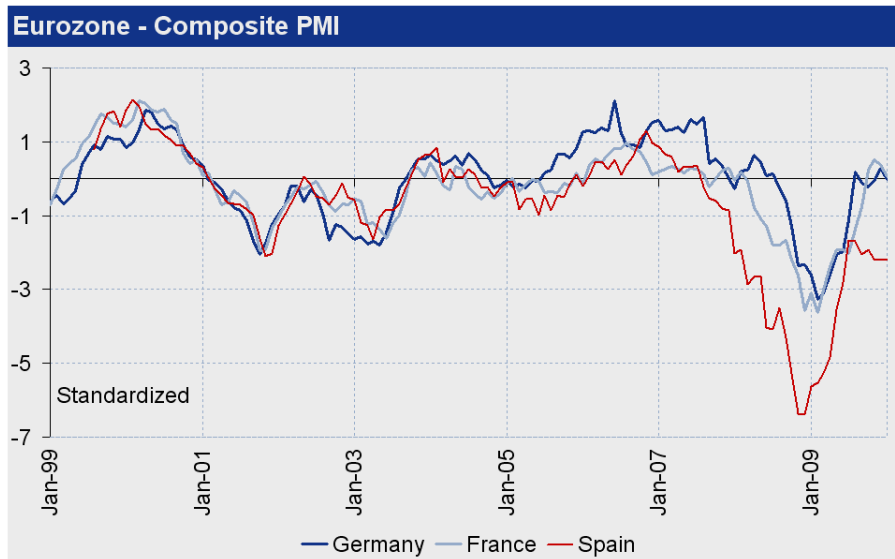
Hélène Baron

Guilhem Bentoglio

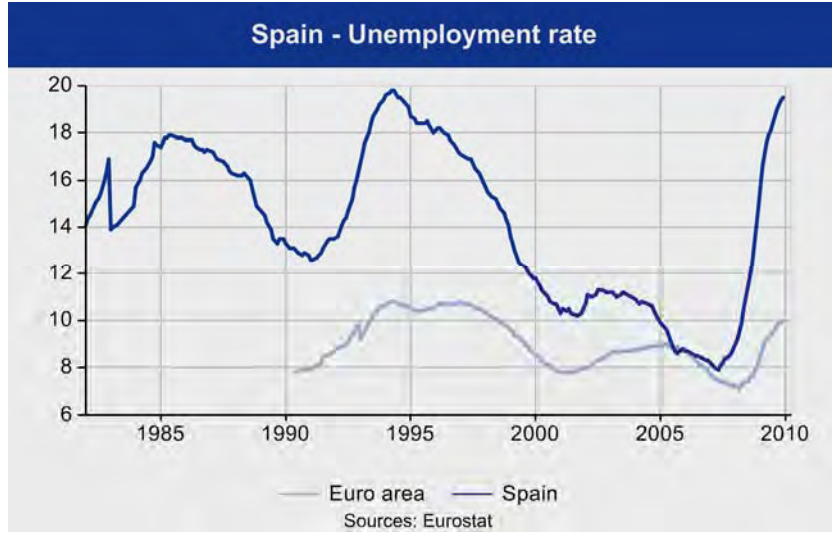
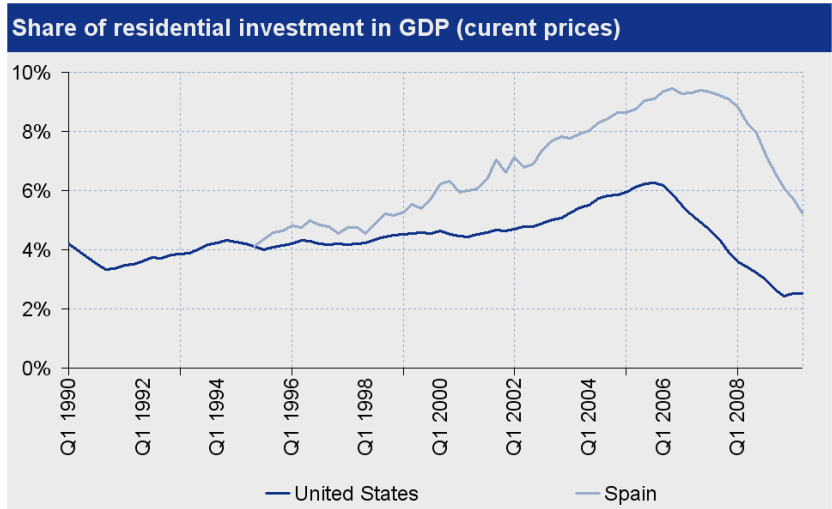
Guillaume Guidoni

Spain – What is the next economic growth engine?

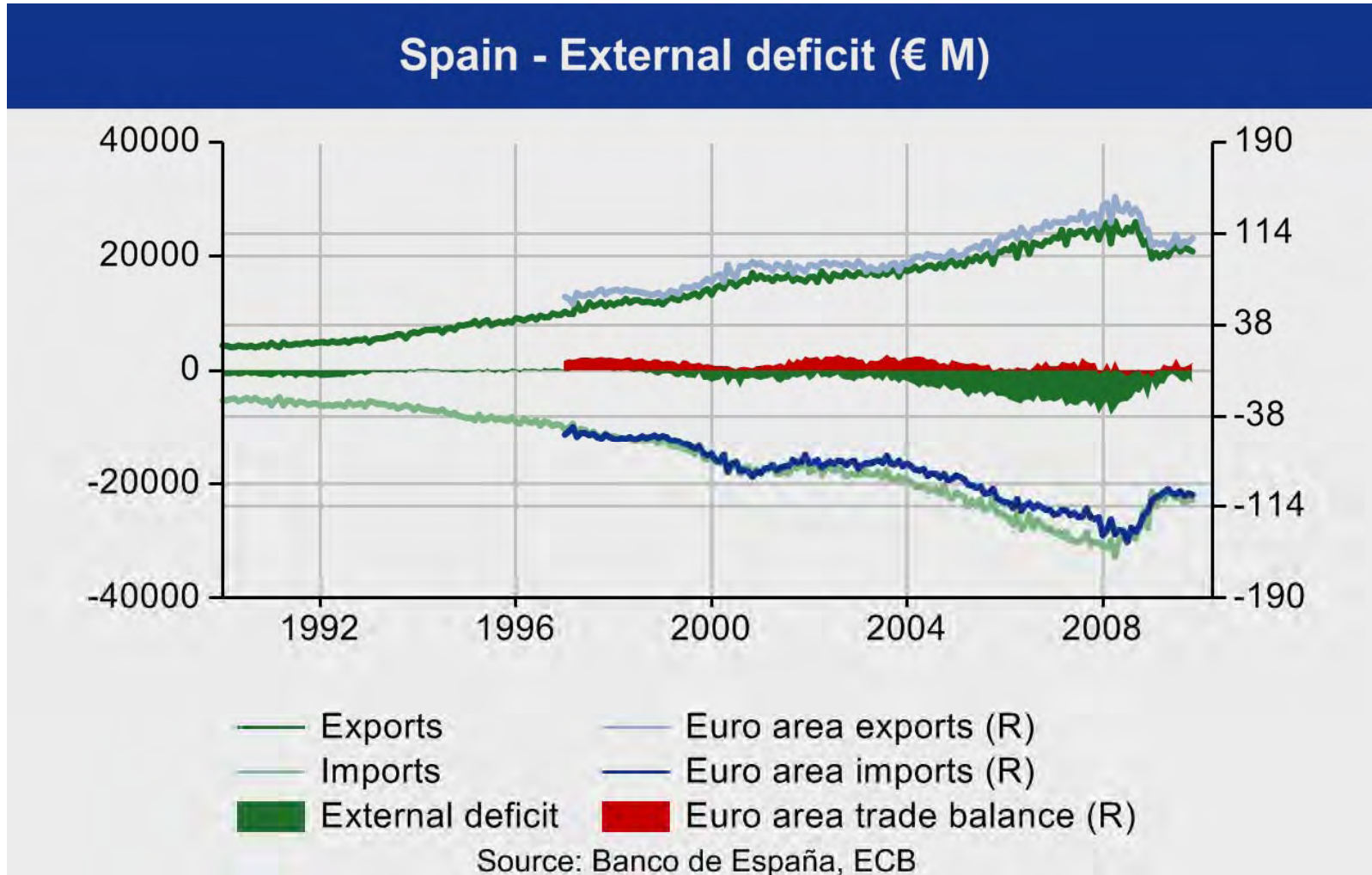
Spain has been hardly hit by the recession



The Spanish growth model based on construction failed to be sustainable



Nonetheless, exports have behaved quite well

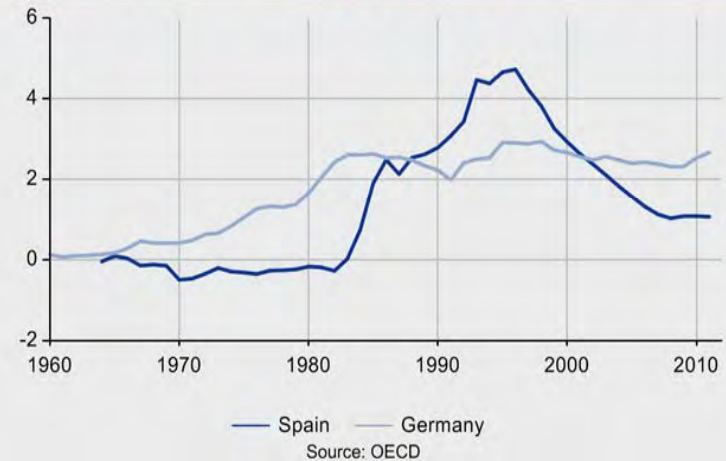


A clear and determined program to curb deficit public to 3% in 2013

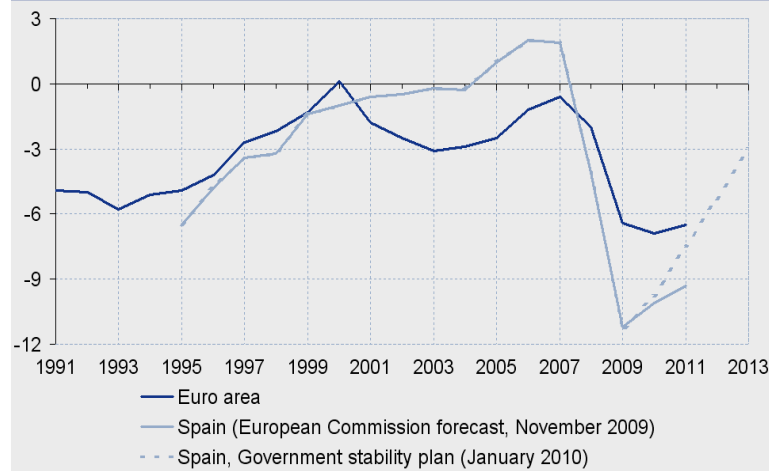
Spanish Government's draft budget (January 2010)

	2009	2010	2011	2012	2013
DEFICIT TO GDP (%)	-11.4	-9.8	-7.5	-5.3	-3
GDP GROWTH (%)	-3.6	-0.3	1.8	2.9	3.1
PUBLIC DEBT(% to GDP)	55.2	65.9	71.9	74.3	74.1
PRIVATE CONSUMPTION	-5	-0.1	2.5	3.3	3.3
UNEMPLOYMENT	18	19	18.4	17	15.5

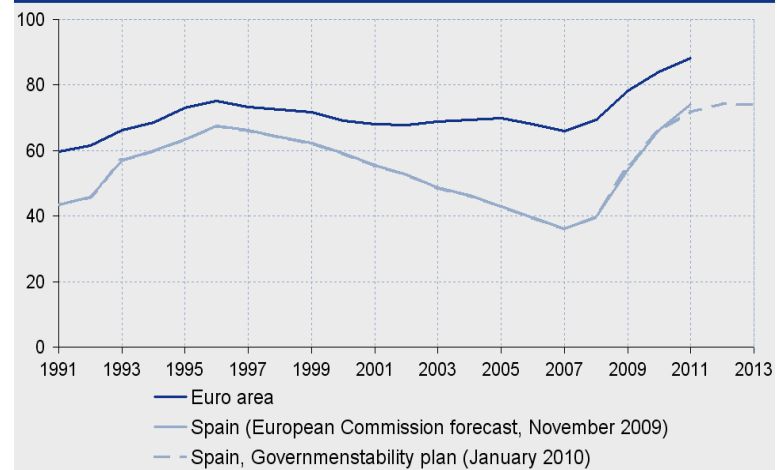
Spain - Net interest payment as a % of GDP



Government deficit as a % of GDP



Government debt as a % of GDP



Based on severe expenditure cuts in the public sector

Spanish stability plan: objective is cutting structural deficit by 5.2% of GDP until 2013

	€ Bn	% GDP
TOTAL GOVERNMENT DEFICIT REDUCTION		5.2%
1. Revenue		1.1%
Measures of the PGE 2010		1.0%
Tax evasion reduction		0.1%
2. Expenditures cuts		4.1%
Permanent		0.7%
Immediate Action Plan for 2010		0.5%
Spending cuts in all ministries (details in March 2010)		
Recruitment freeze in 2010 (1 in 10 replaced)		
Austerity Plan for 2011-13 (details in May 2010)		2.6%
Recrutement freeze with low wage growth		
Reduction in capital spending		
Cuts in subsidies		
Cuts in current spending		

Source: Programa de consolidacion fiscal, Spanish Finance Ministry

http://www.meh.es/en-GB/Prensa/En%20Portada/2009/Paginas/Programa_consolidacion_fiscal.aspx

Spain starts from benign debt level but faces challenges on potential growth

- Fiscal commitment to bring the budget deficit from 11.4% in 2009 to 3% of GDP by 2013.
 - Taking into account cyclical effects, the removing of transitory impulse measures and the increase in debt interest, the needed adjustment is estimated by the Spanish government to be of 5.2% of GDP.
 - The government recognizes that most of the deficit is structural and needs decisive action.
- Measures are concentrated in reducing expenditures (80%):
 - Mainly through an Austerity plan for 2011-13 (but details are needed)
- Healthy starting point that allows a gradual realistic approach
- But optimistic growth forecast. This is the weak point for Spain.
 - No job market reforms, high structural unemployment, high labor costs, lasting housing crisis
- The budgets require the cooperation of regional governments and local council, which could be long
- In addition, the Spanish government announced on Friday 29th of January, its intention of postponing the retirement age from 65 to 67 and to increase the number of contribution years used to calculate pension benefits