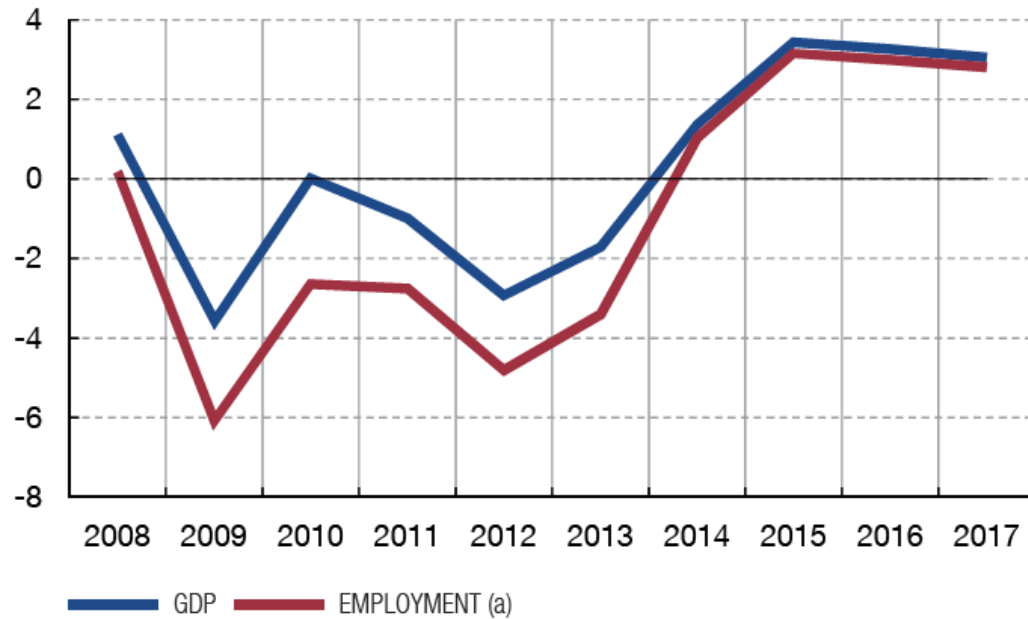# Do structural reforms explain the recovery in the case of Spain?

Nacho Álvarez
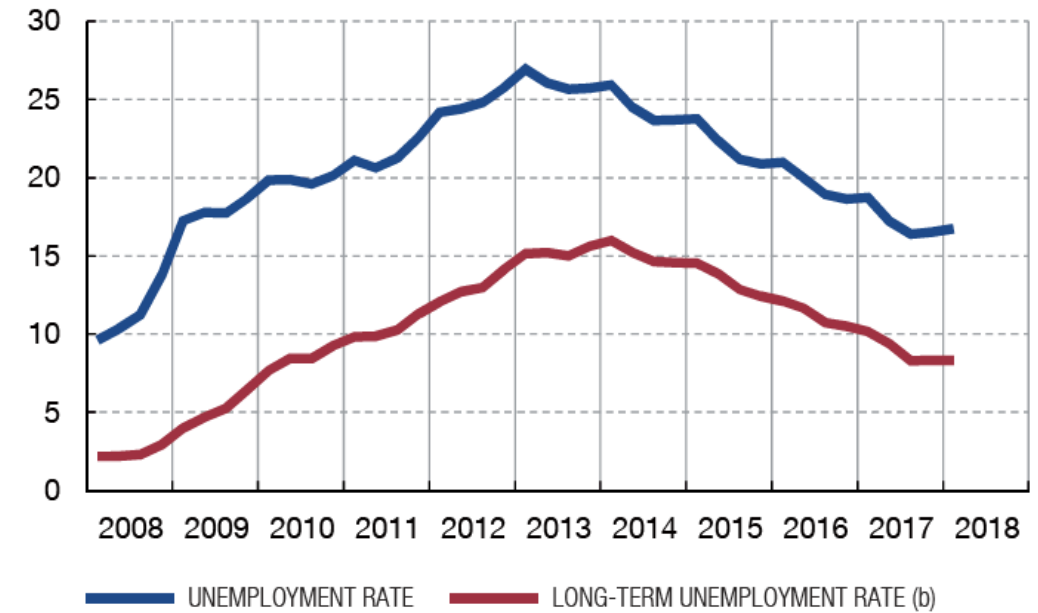**Autonomous University of Madrid**

1.- 'Official narrative' of the economic recovery: the success of the reforms

GDP and employment
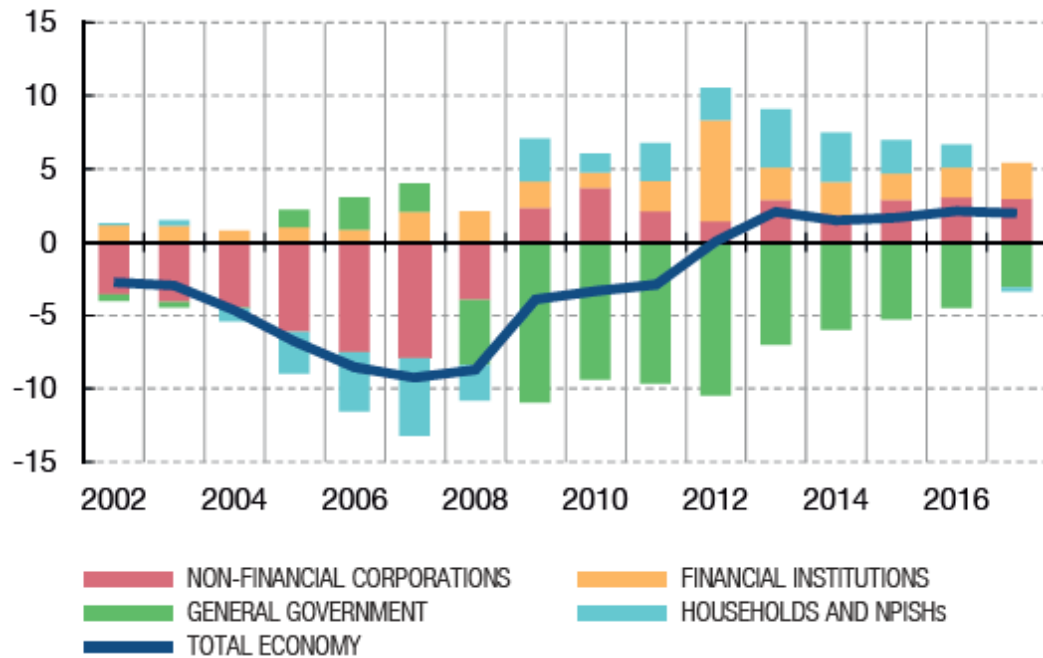Annual rate of change %

Source: Bank of Spain

Unemployment And Long-term Unemployment
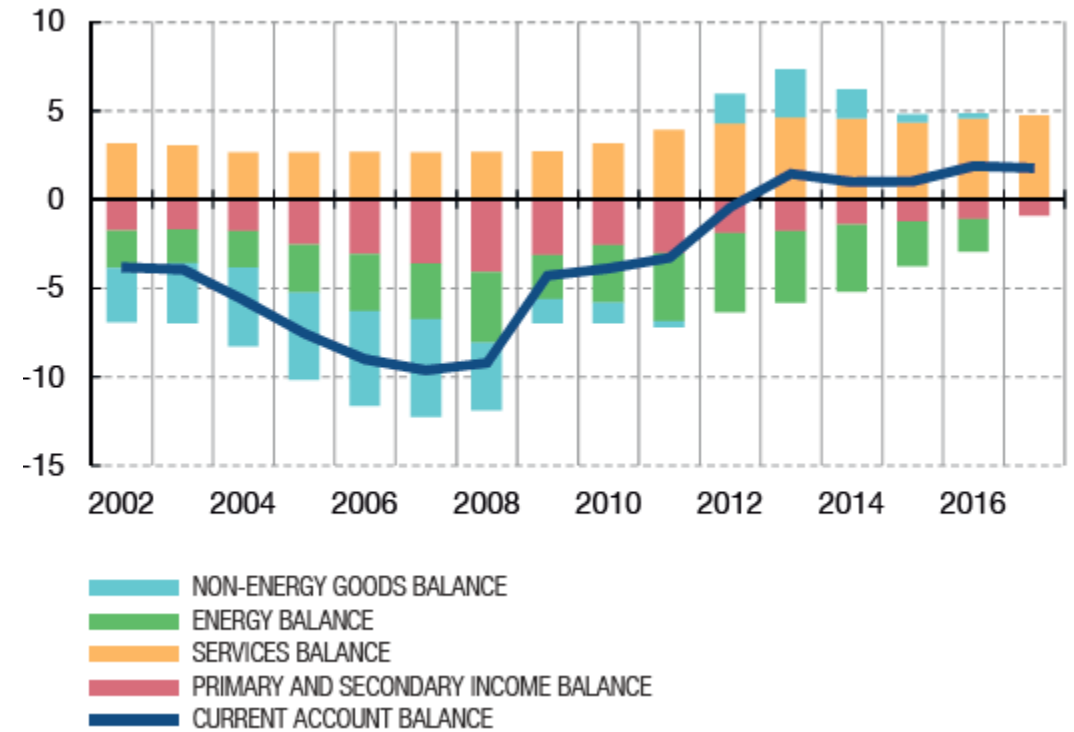% of labour force

Source: Bank of Spain

Net lending (+) / Net borrowing (-), by sector
% of GDP

Source: Bank of Spain

Current account balance
% GDP

Source: Bank of Spain

....according to the official narrative, these policies have entailed:

1) To make the labor market more flexible, shifting the Okun curve to the left and enabling growth in employment with lower economic growth

2) A reduction in unit labor costs, boosting price-competitiveness and an export-led recovery

Okun curve, after the 2012 labour market reform
unemployment rate vs. economic growth (%)

Employment and GDP growth
(%)
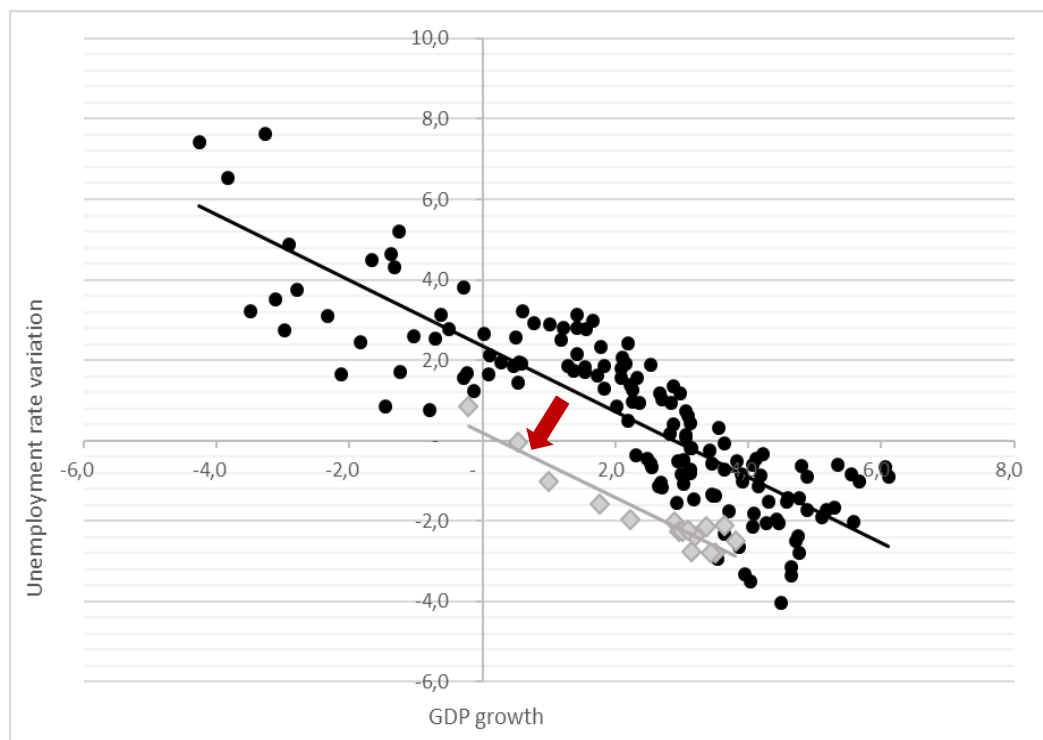
Note: Unemployment in seasonal differences and GDP in seasonal differences of natural logarithms, 1976Q3-2017Q3. In grey is shown the subperiod 2013Q3-2017Q3.
Source: Own elaboration from the QSNA (update 11/2017) and Economically Active Population Survey (EAPS, update 10/2017))
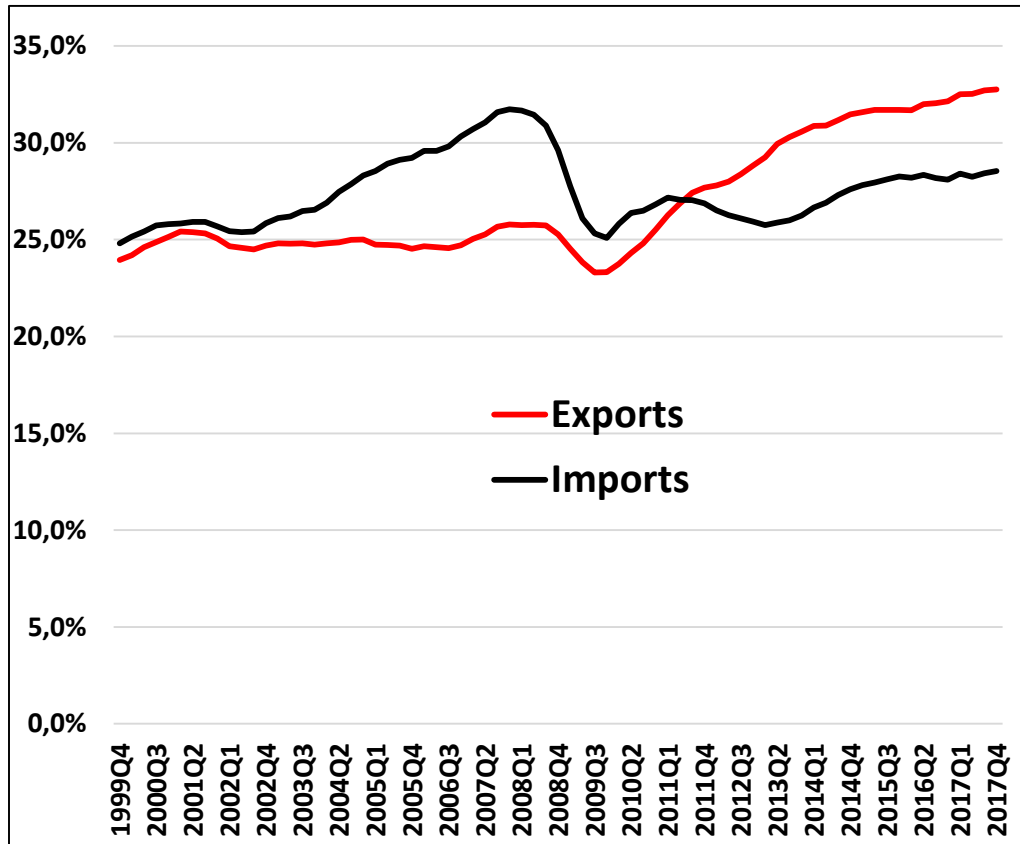
Note: Annual growth rates 1976Q3-2017Q3. In grey is shown the subperiod 2013Q3-2017Q3.
Source: Own elaboration from the QSNA (update 11/2017) and EAPS (update 10/2017)
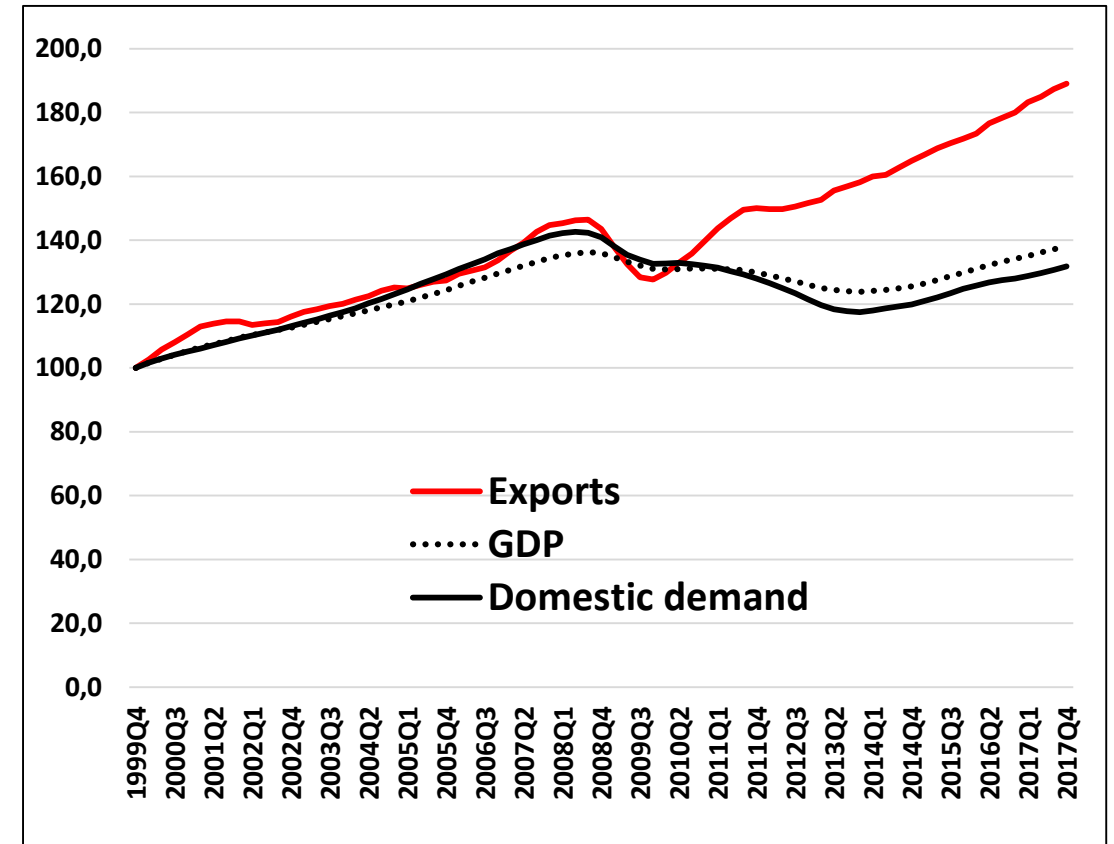
Exports and imports
% of GDP

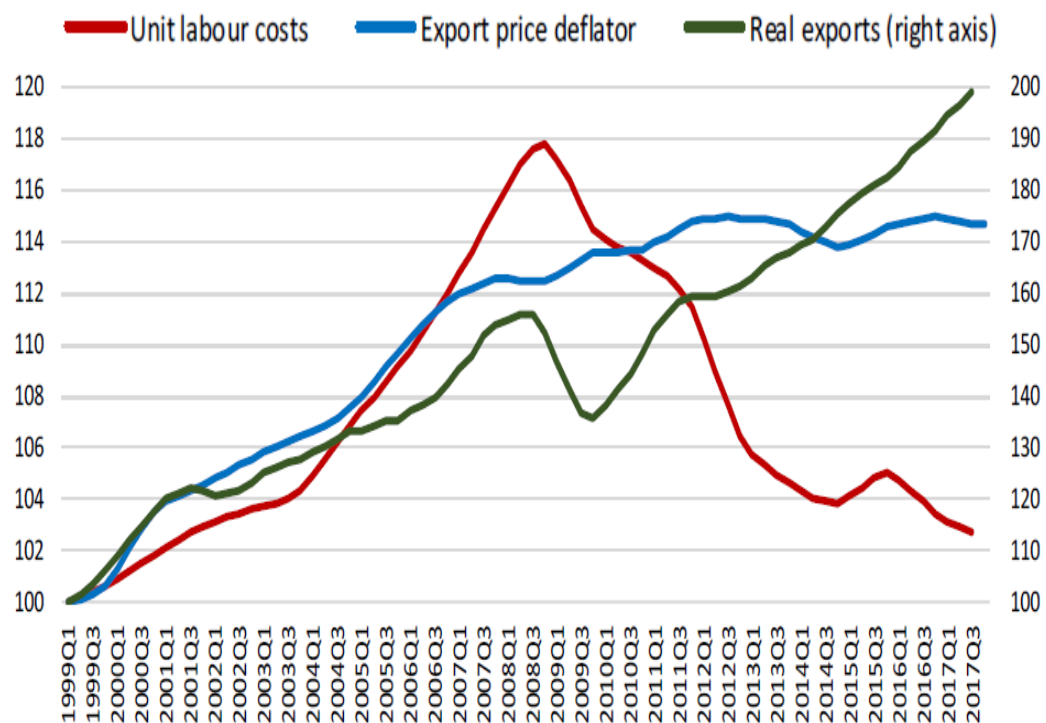**Exports, GDP and Domestic demand**
Chain linked volumes, 1990=100

Source: Eurostat and author's own calculations

Source: Eurostat and author's own calculations

Unit labour costs, export prices and real exports
1999=100

Contributions to the growth of the Spanish economy
(%)

Note: Real unit labour costs and export prices are calculated vs EA-19
Source: Eurostat and author's own calculations
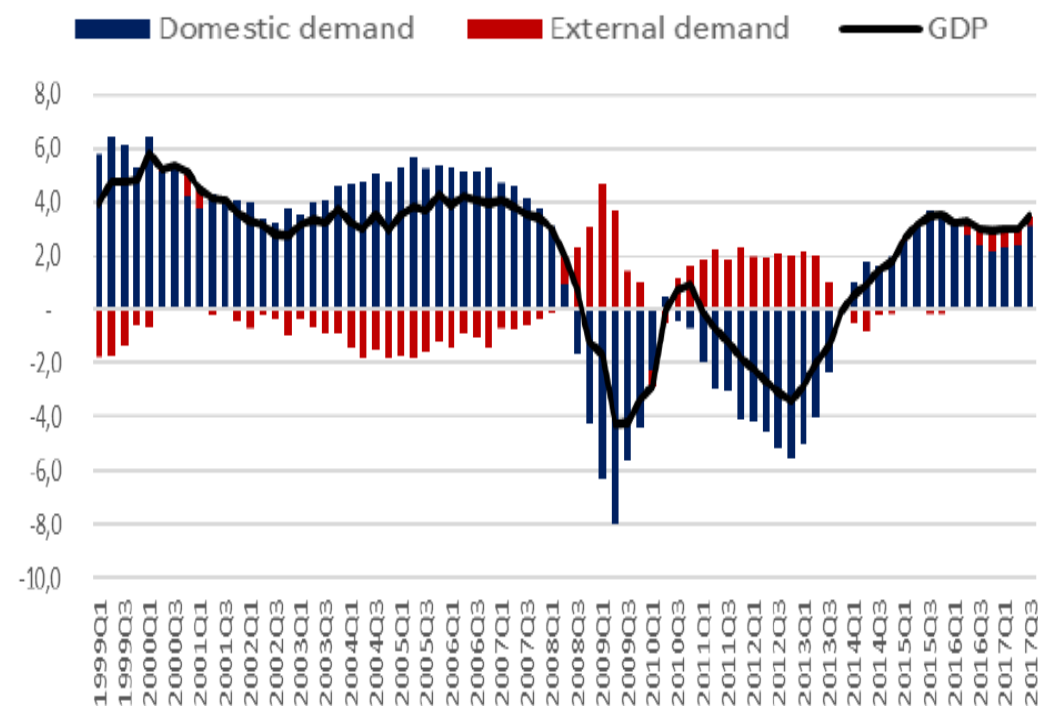
Source: Eurostat and author's own calculations
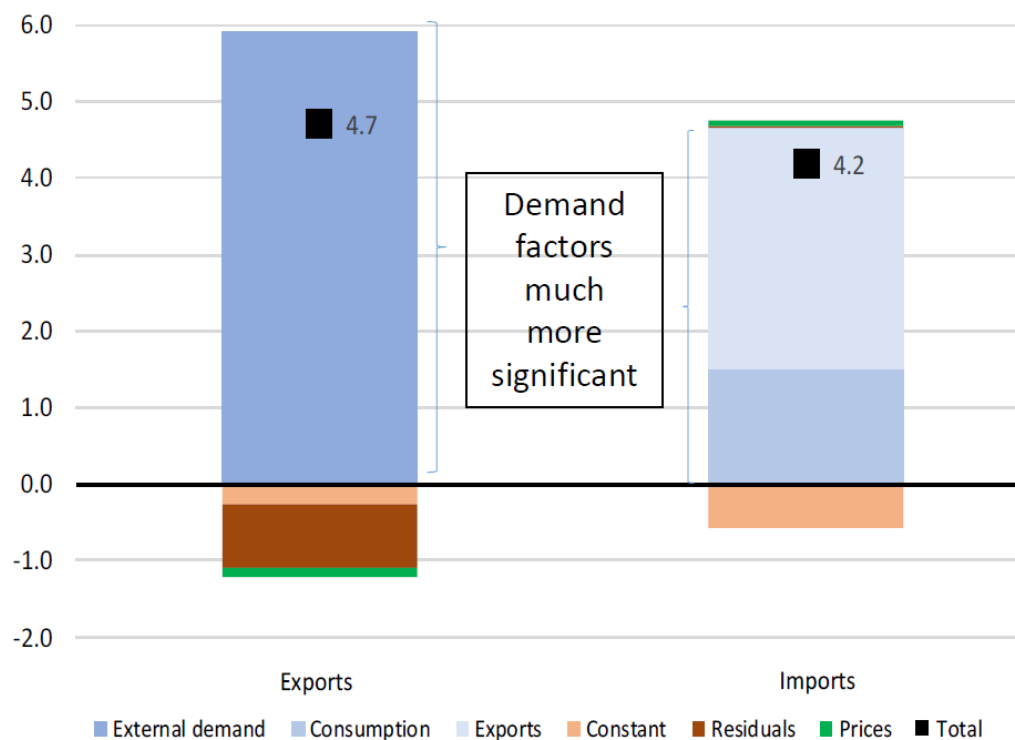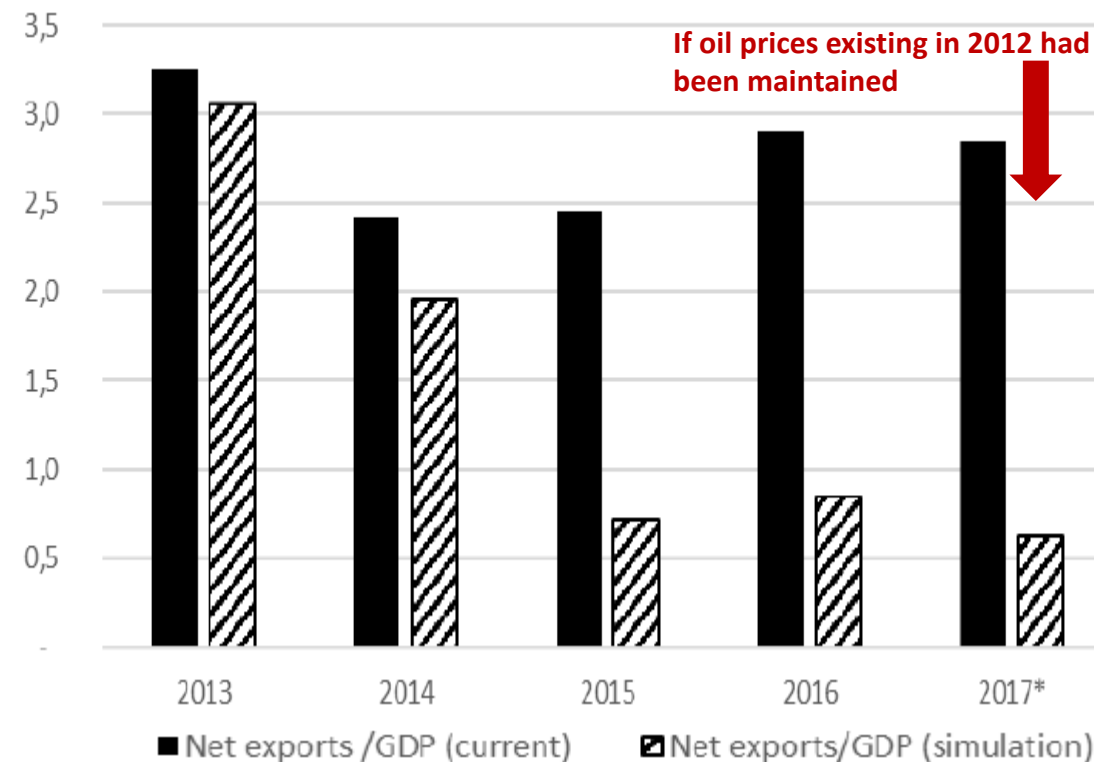
2.- Current situation and main determinants of economic recovery

Contributions to exports and imports annual average real growth in the period 1995-2017

Source: Author's own calculations with the estimated coefficients

Effect on net exports of the fall in oil prices

If oil prices existing in 2012 had been maintained

Notes: The estimated value is calculated assuming the same crude import price as in 2012. The year 2017 only includes the first three quarters
Source: Own elaboration from "Spanish database of business cycle series" (BDSICE) for crude oil imports prices, CORES for tons of crude oil imports and QSNA for net exports.

2.- Current situation and main determinants of economic recovery

The supposed success of austerity and structural reforms must be questioned:

1) We do not have a structural change in the relationship between growth and employment

2) The reduction of labor costs has not fully translated into price competitiveness, and the trend in the growth of exports is similar to that of the period 2000-2007 and depends on demand-side factors
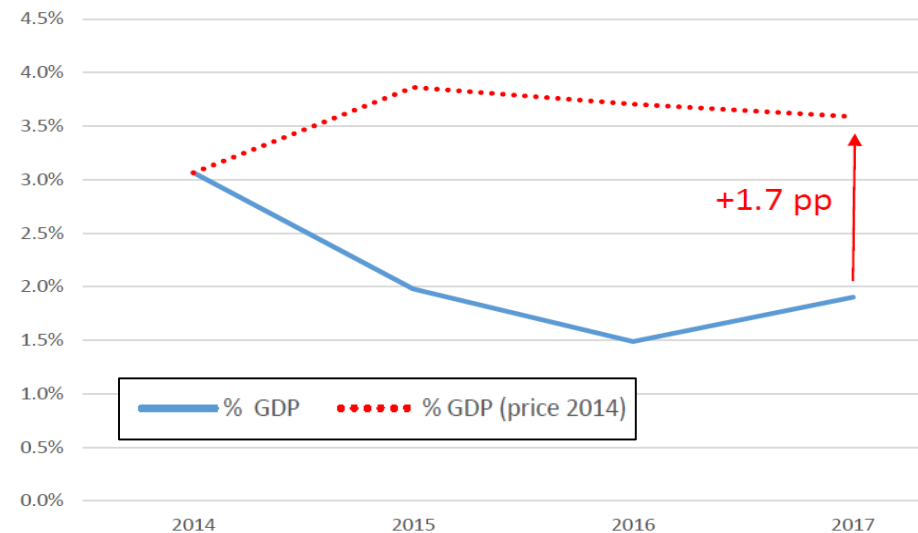
…… and, furthermore these measures have had a very important social costs, increasing inequalities, and low-paid employment.

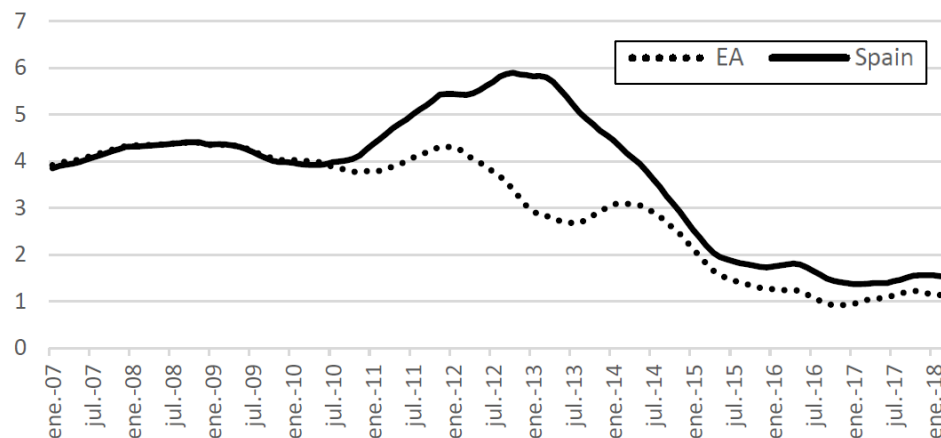# 2.- Current situation and main determinants of economic recovery
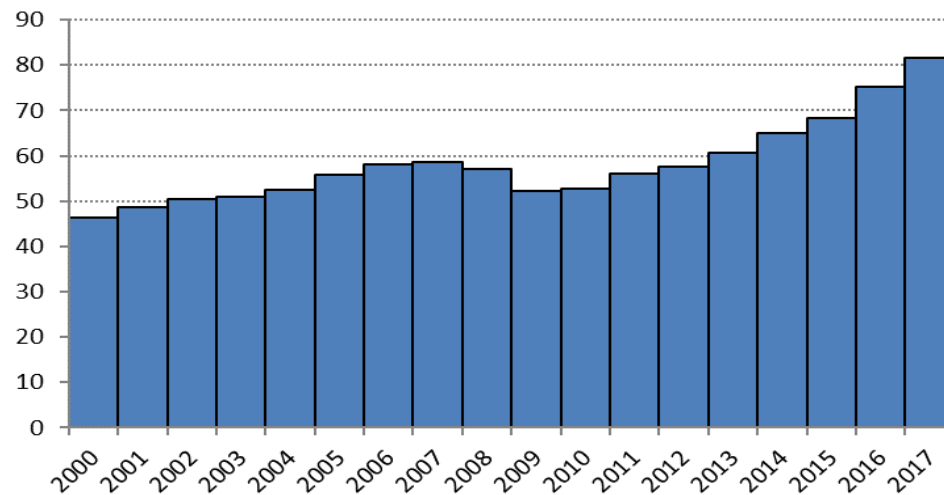
Direct contribution to GDP growth of public demand
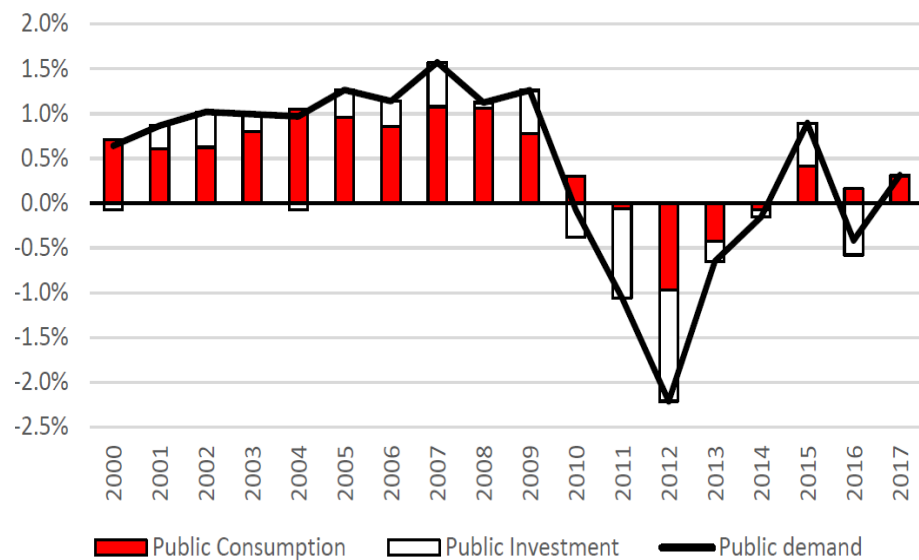
Oil imports, % GDP

+1.7 pp

Long-term interest rates (%)

Number of tourists visiting Spain, Millions

2.- Current situation and main determinants of economic recovery

GDP in Spain and in the Eurozone (annual rates of change)

Chart 1
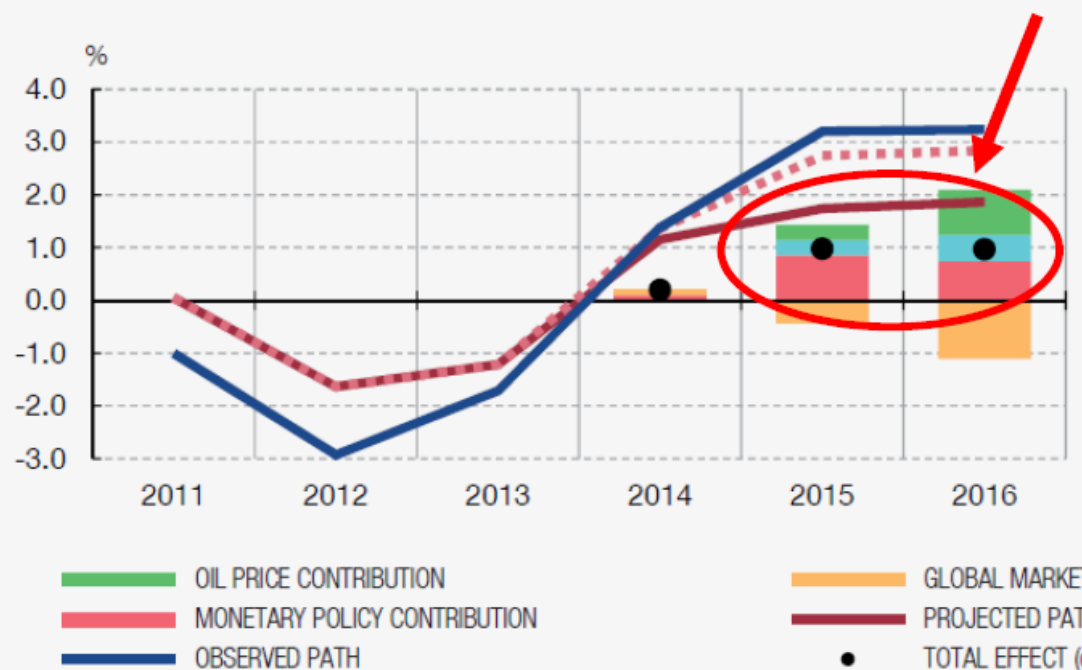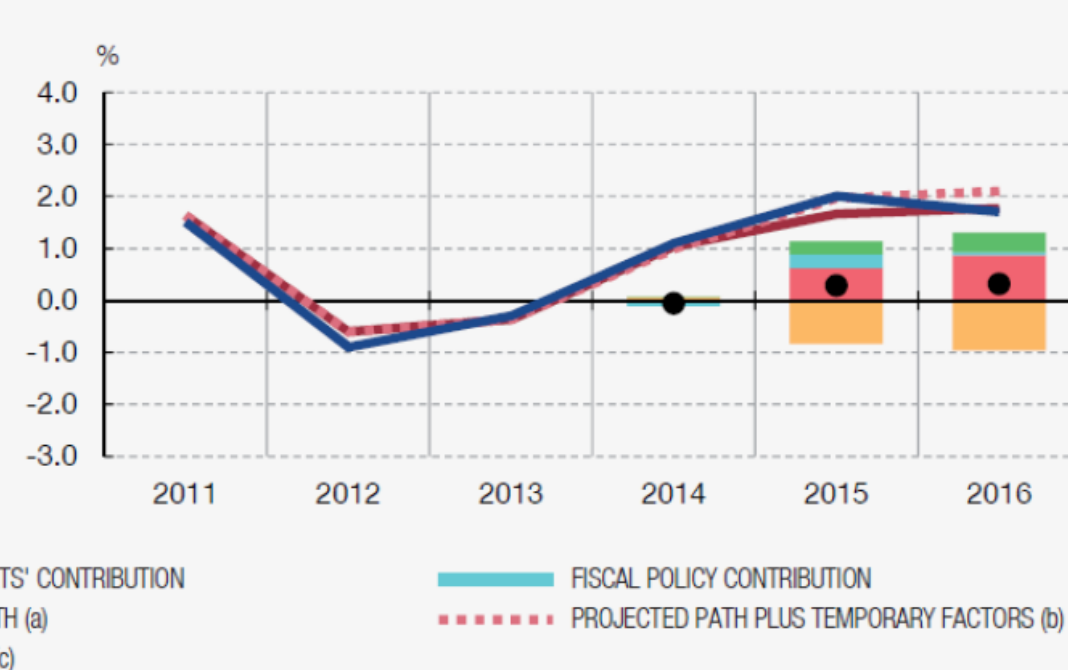SPAIN: OBSERVED GDP PATH, PATH PROJECTED IN JUNE 2014 AND CONTRIBUTION OF TEMPORARY FACTORS

Chart 2
EURO AREA: OBSERVED GDP PATH, PATH PROJECTED IN JUNE 2014 AND CONTRIBUTION OF TEMPORARY FACTORS

Legend:
- OIL PRICE CONTRIBUTION
- GLOBAL MARKETS' CONTRIBUTION
- FISCAL POLICY CONTRIBUTION
- MONETARY POLICY CONTRIBUTION
- PROJECTED PATH (a)
- PROJECTED PATH PLUS TEMPORARY FACTORS (b)
- OBSERVED PATH
- TOTAL EFFECT (c)

SOURCES: Own estimates based on the models used in the Eurosystem's projection exercises.

a "Projected path" refers to that projected in the Eurosystem's June 2014 projections exercise (cut-off date: 21 May 2014).
b "Projected path plus temporary factors" refers to the sum of the path of footnote (a) plus the contribution of the various temporary factors.
c Joint contribution of the four factors. This is the difference between the "Projected path plus temporary factors" and the "Projected path".

Thanks for your attention