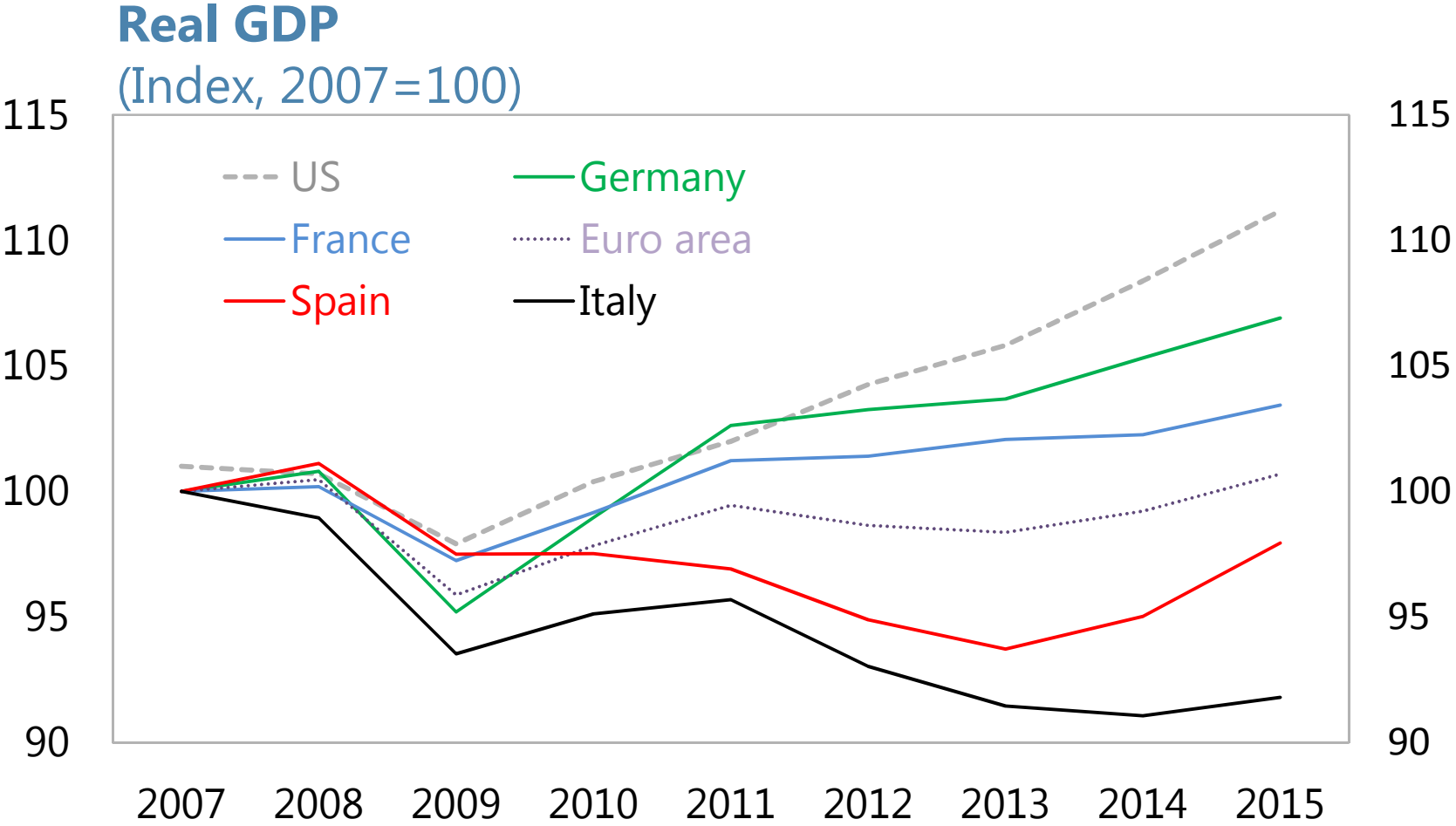


# **Spain: A Preliminary Look at Reforms and Adjustment**

Helge Berger, IMF

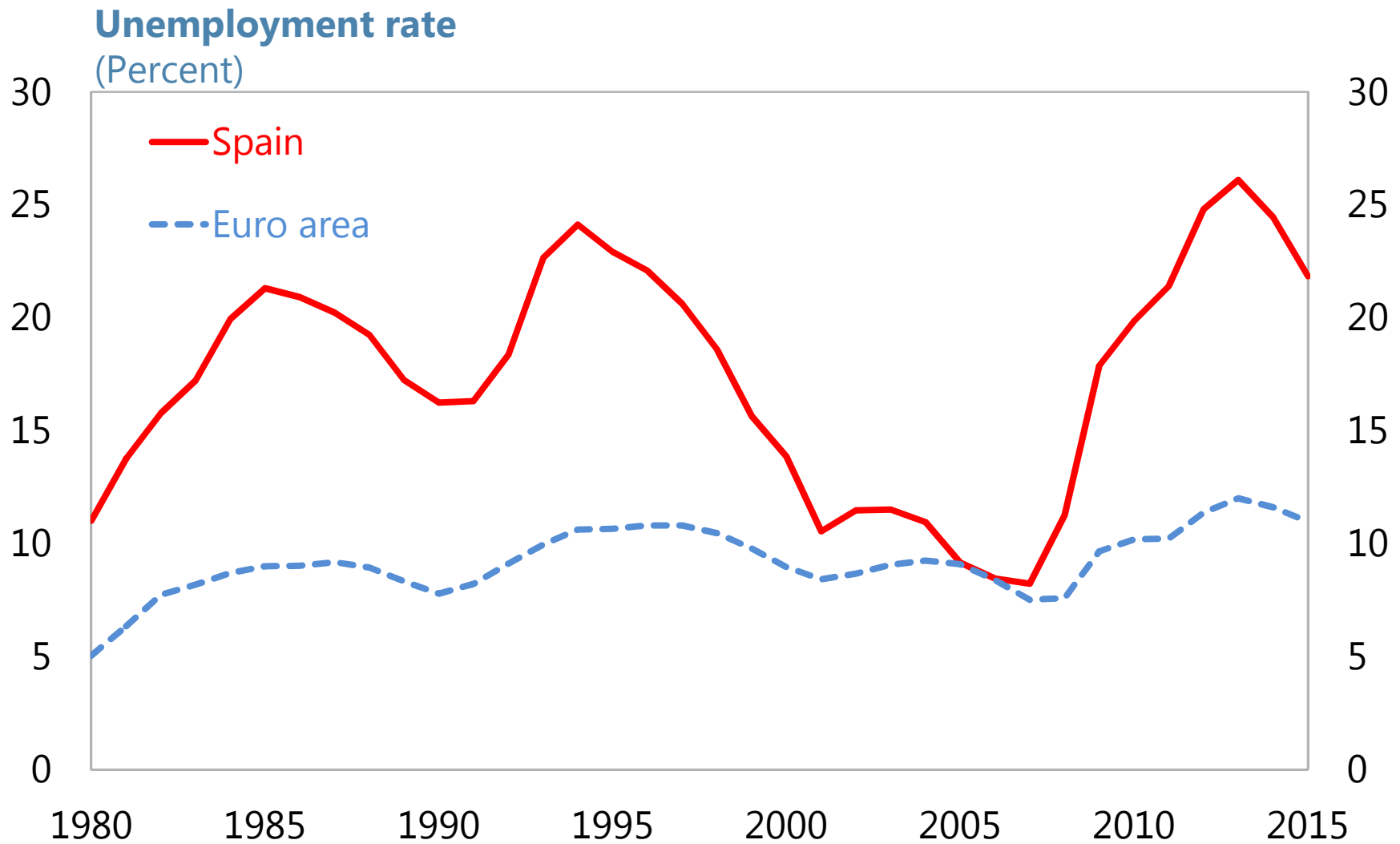
Bruegel—November 2, 2015

# Strong rebound helped by reforms...



Source: IMF, World Economic Outlook (2015 = forecast).

# ...but steady state still a concern



Source: IMF, *World Economic Outlook*.

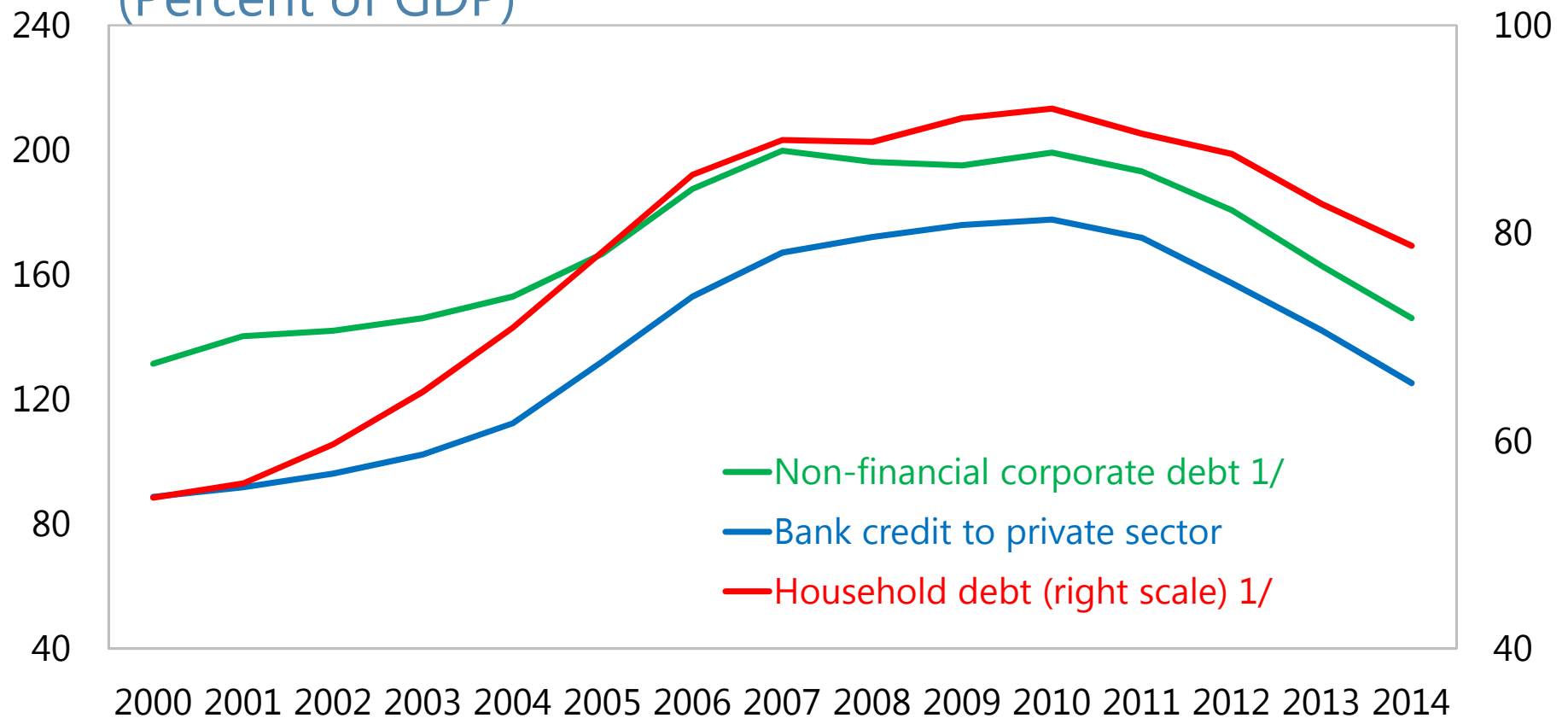
# Private sector debt issues<sup>\*</sup>, <sup>\*\*</sup>

\* Chanda de Long et al. (2015), Spain's Insolvency Reform: Reforms and Impact, Spain Article IV Selected Issues, Chapter IV.

\*\* Nina Budina et al. (2015), The Italian and Spanish Corporate Sector in the aftermath of the Crisis, Italy Article IV Selected Issues, Chapter II.

# Crisis legacy debt & credit levels

## Private sector debt (Percent of GDP)



Sources: Banco de España; and IMF staff calculations.

1/ Household and corporate sector debt liabilities include loans, securities other than shares, and other accounts payable, including trade credit.

# Insolvency reform

Table 1. Spain: Estimated Size of Private Sector Liabilities Affected by RDL, March 2015 (Billions of euros)						
	Banks' NPLs	Bank loans (percent of financing)	Estimated Total Debt	Estimated Liquidation Recovery	Estimated Residual Debt	Banks' Portion of Residual Debt
Consumers	47	100	47	19-25	22-28	22-28
Individual Entrepreneurs (est.)	15-30	90	17-35	8-17	9-18	8-16
<b>Total</b>	<b>62-77</b>		<b>64-82</b>	<b>27-42</b>	<b>31-46</b>	<b>30-44</b>

Sources: BdE, Haver Analytics, ORBIS, IMF staff estimates (June 2015).

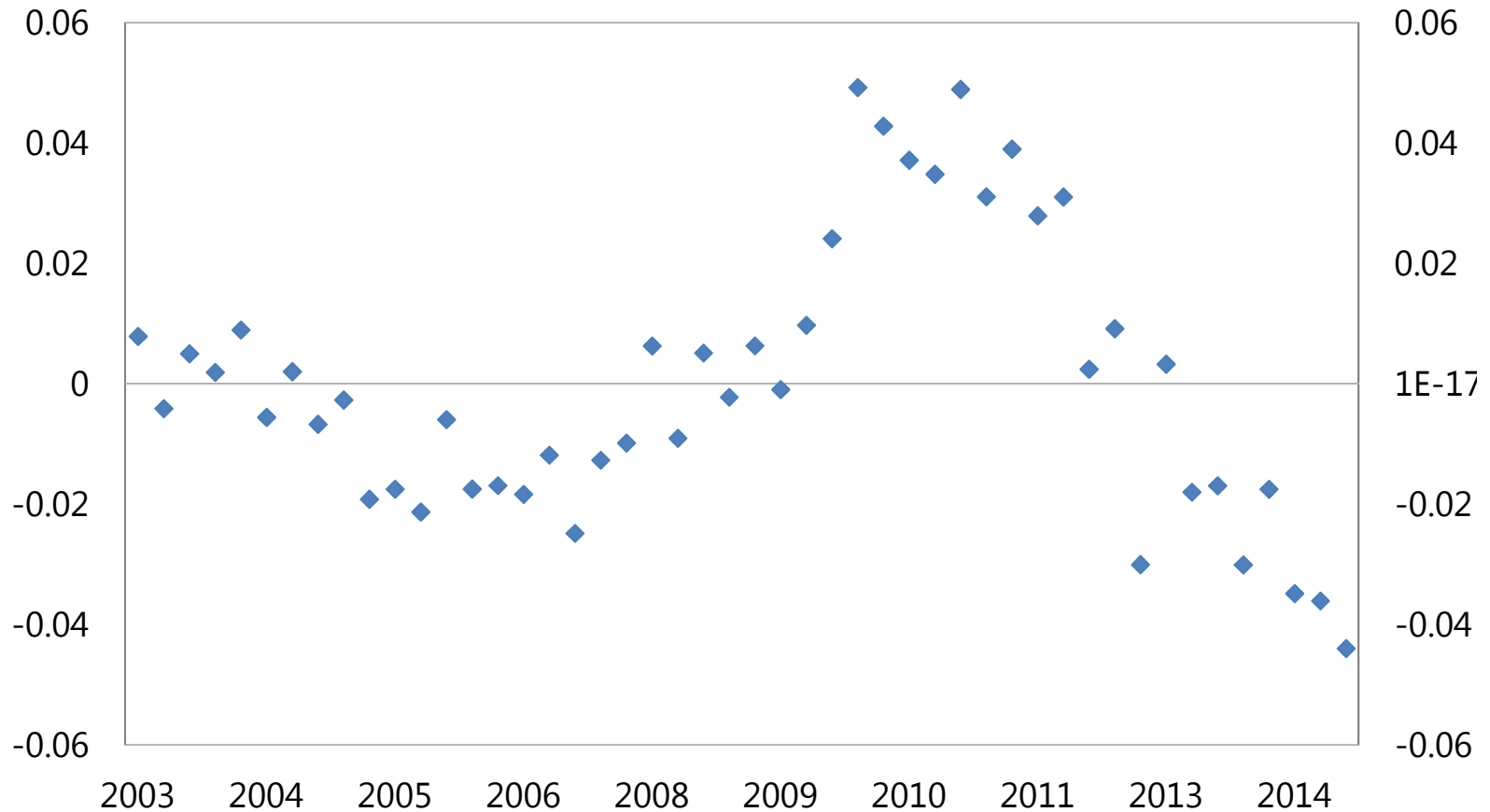
- **Debt reduction:** estimated at 3-4 percent for households and 1-2 percent for (small) firms, in the long term
- **Banks:** limited given provisioning
- **Impact:** consumption and investment; size of formal economy

# Labor market\*

\* Mai Dao (2015), Recent Labor Market Reforms: A Preliminary Assessment, Spain Article IV Selected Issues, Chapter I.

# Wage adjustment?

## Wage growth regression residuals



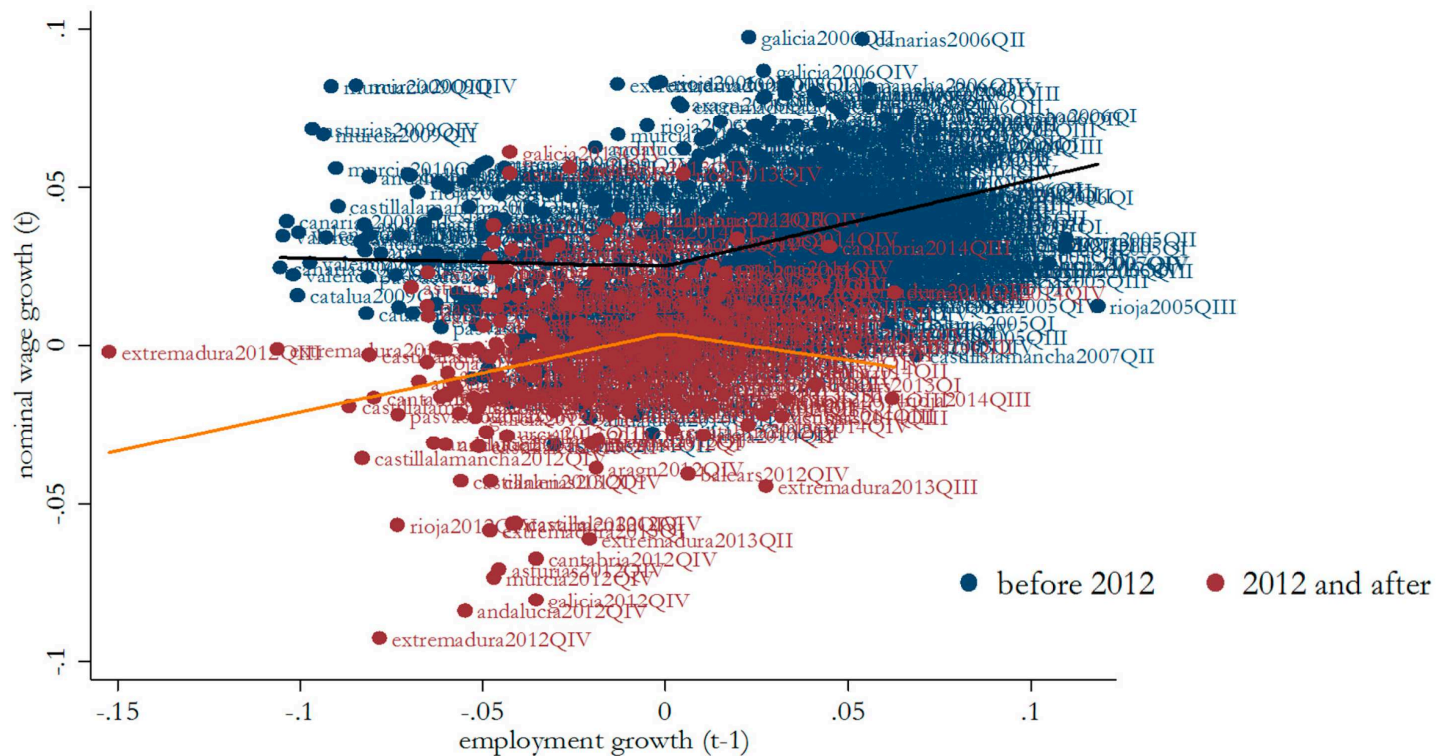
Sources: INE; and IMF Staff calculations.

Notes: Residuals from a regression of log nominal hourly wages on lagged unemployment, lagged log CPI, linear & sq trend.



# Macro flexibility: yes

## Regional wage growth cyclicalty before/after reform (Percent/100)

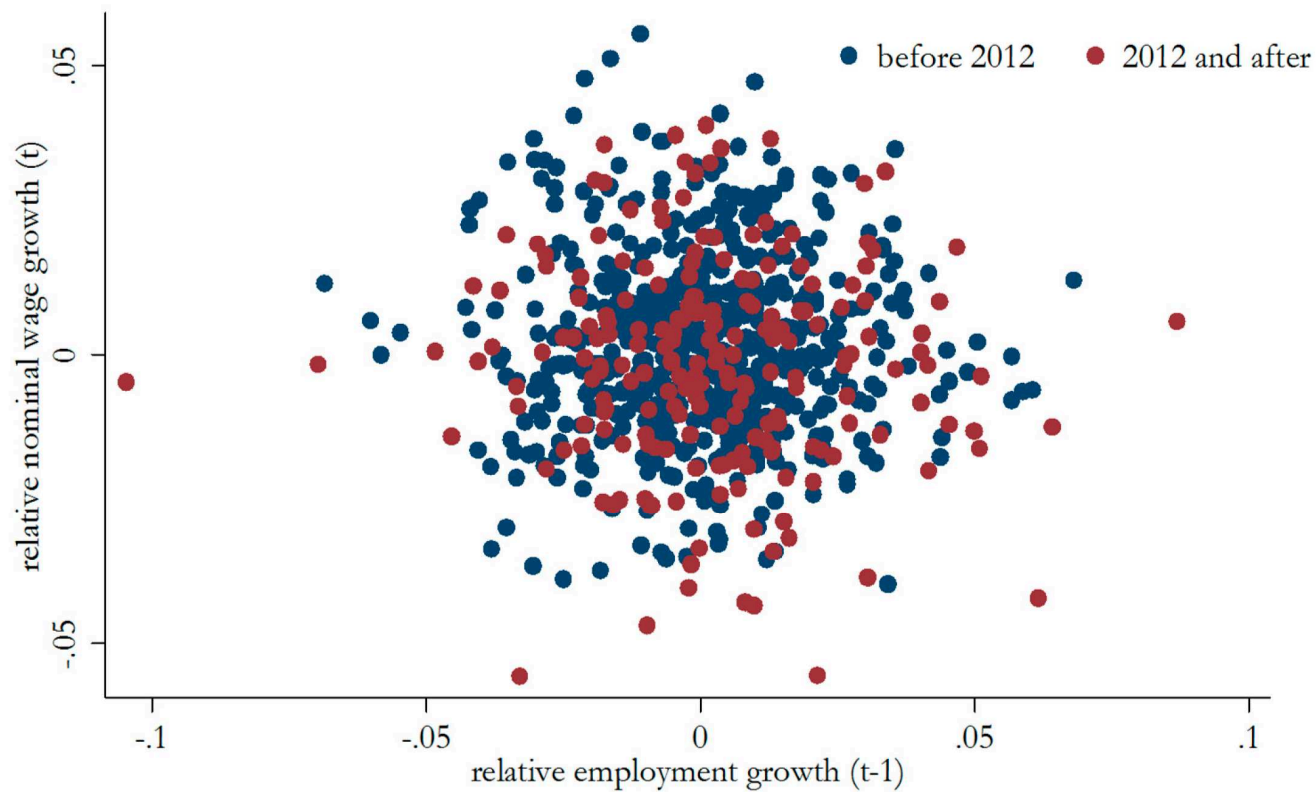


Source: INE.

Note: Data on regional nominal wage growth and lagged employment growth before (blue) and after reform year 2012 (red). Wage setting curve before (black) and after reform year (orange).

# Micro-flexibility: no

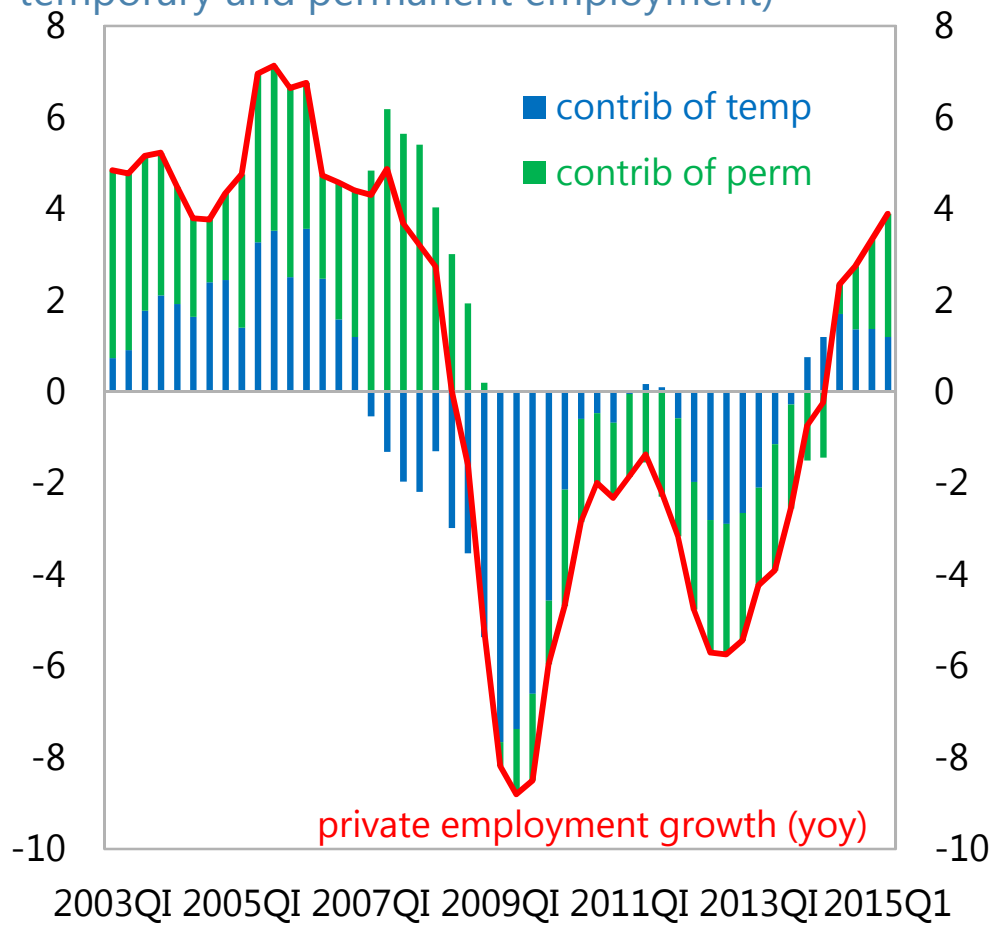
Regional wage growth relative to national average before/after reform (Percent/100)



Source: INE.

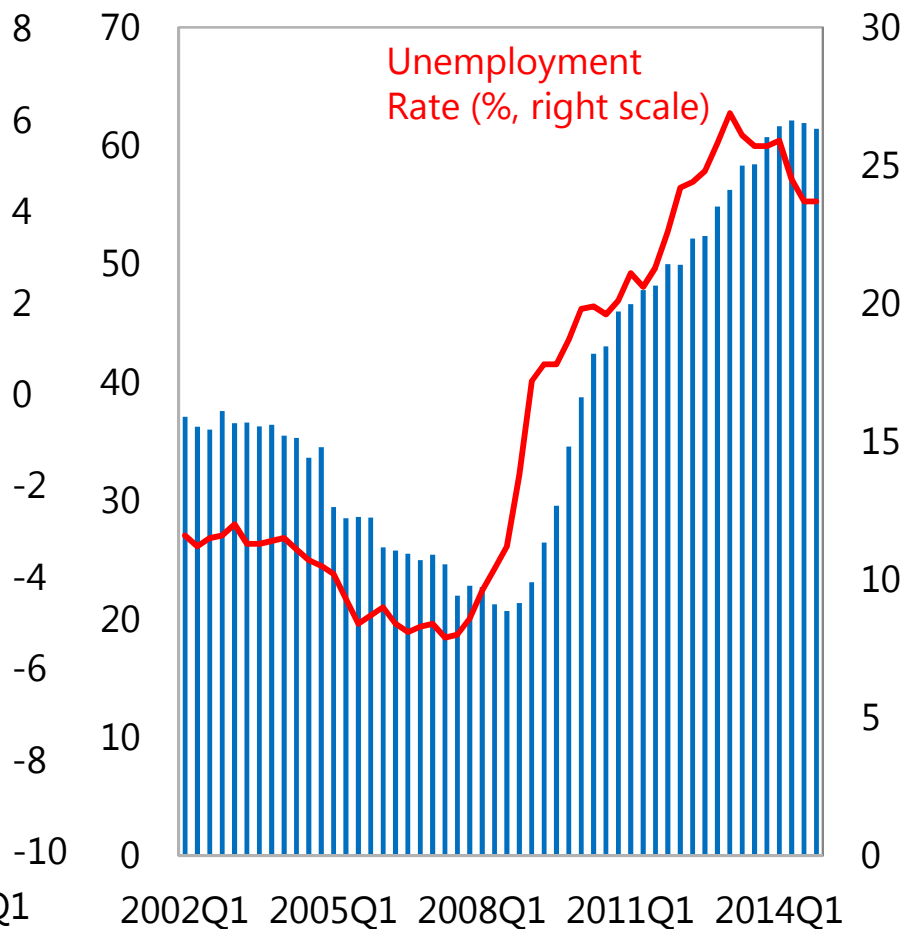
# Long-term u/duality hardly budging

**Private dependent employment growth**  
 (Percent, decomposed into contribution from temporary and permanent employment)



Source: INE (Economically Active Population Survey).

**Share of long-term unemployed**  
 (Percent, unemployed 1 year or more)



Source: Eurostat.

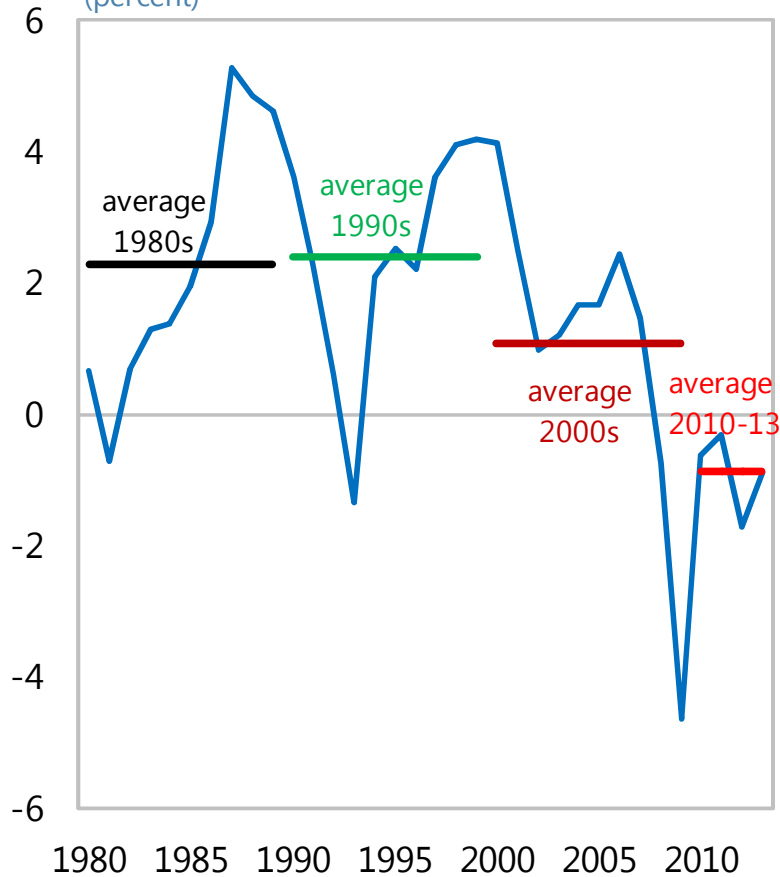
# Productivity\*

\* Nina Budina (2015), Obstacles to Firm Growth in Spain, Spain Article IV Selected Issues, Chapter II.

# Productivity levels/trend weak

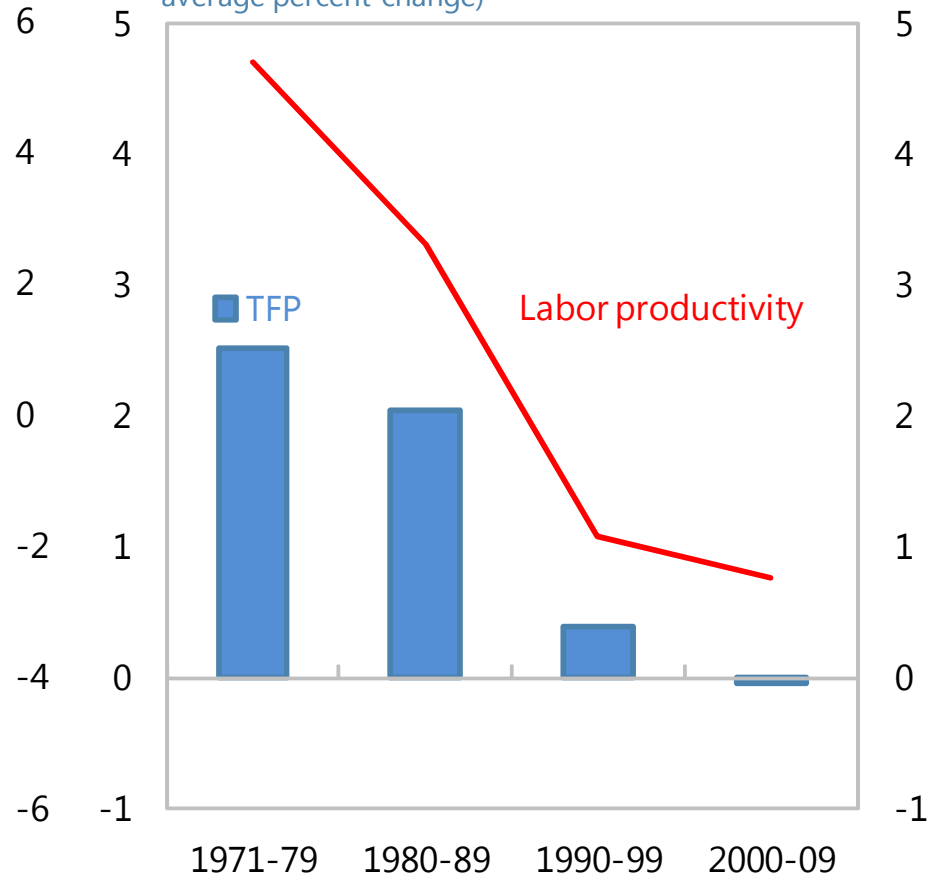
**GDP per capita growth was already decelerating during the 2000s**

(percent)



Sources: INE; Ameco; and IMF staff estimates.

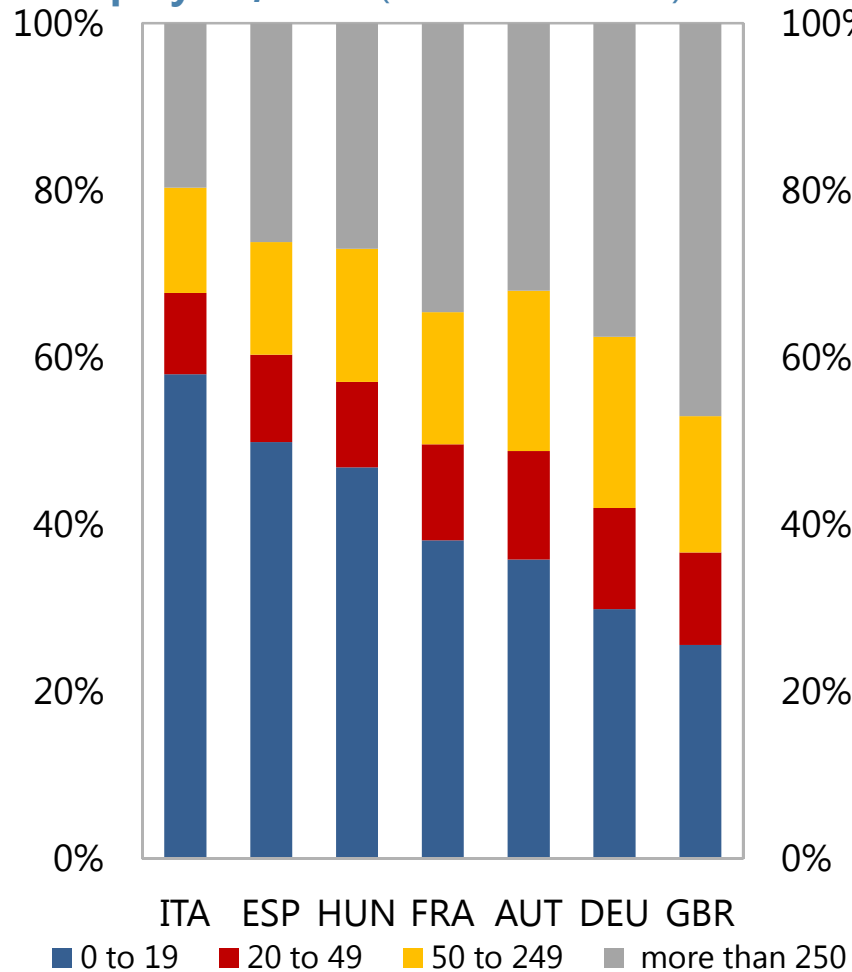
**Productivity growth has declined sharply over the last decades** (Labor productivity=GDP per hour; yearly average percent change)



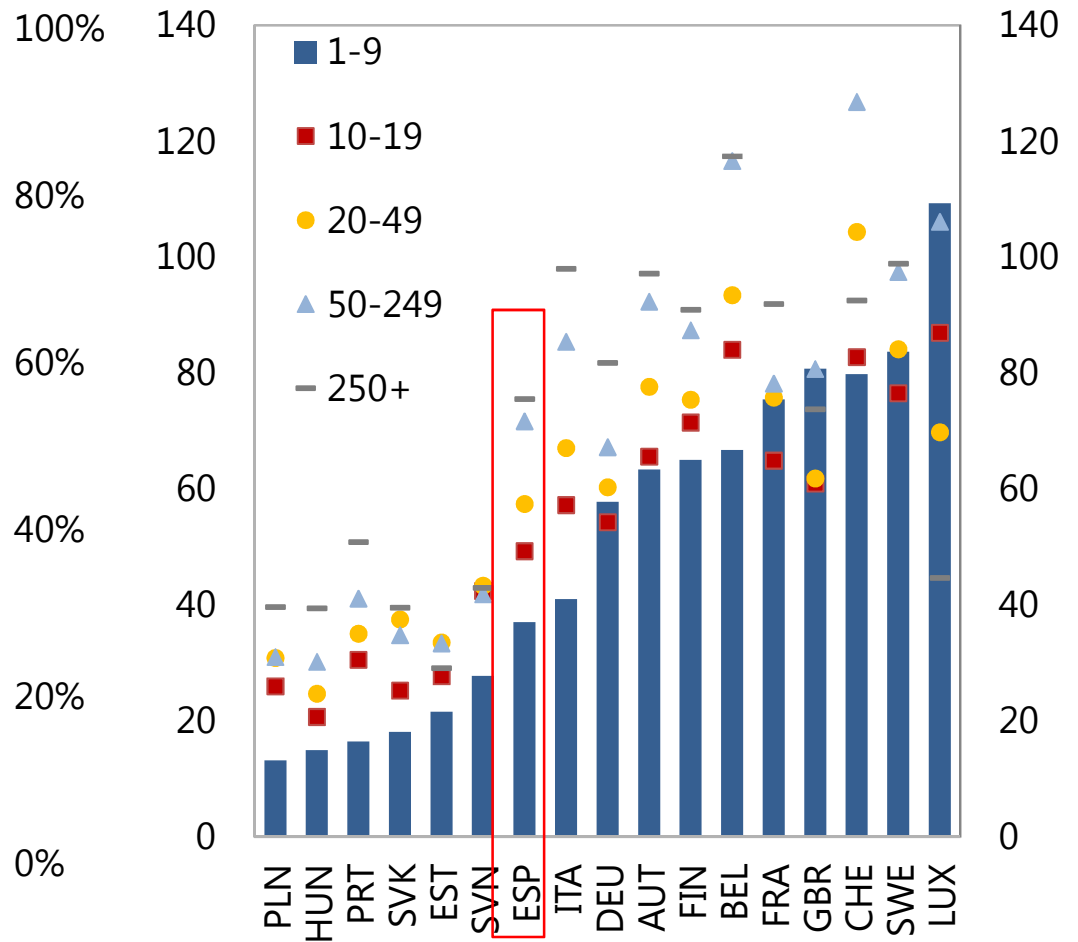
Sources: INE; Eurostat; and IMF staff estimates.

# Too many, too small firms

Distribution of firms by number of employees, 2012 (Percent of total)



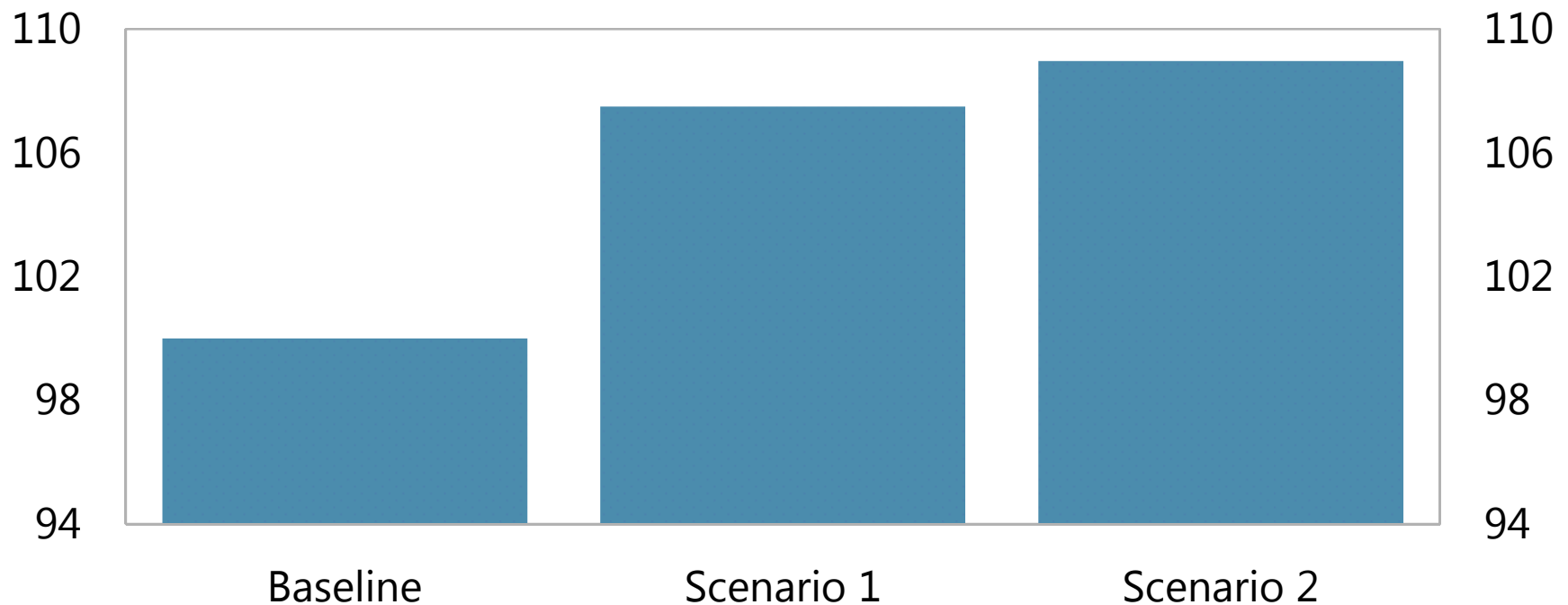
Productivity level by enterprise size class, 2011 (Thousands of USD per employee)



Source: OECD.

# Missing most: economies of scale

## Scenarios for potential TFP gains from firm growth (Real index of TFP)

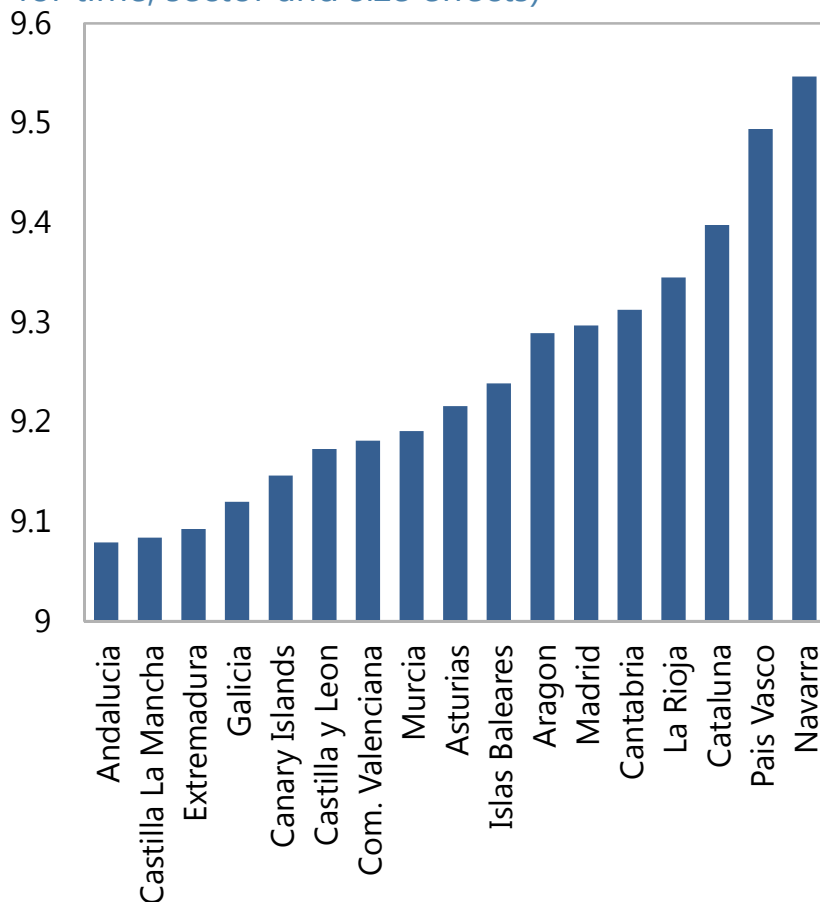


Sources: Orbis and OECD data and IMF staff estimates.

Notes: Baseline computes average TFP using TFP estimates for each firm size group, weighted by their respective share in total. Scenario 1 uses DEU's weights (the share of each firm size group in total for DEU). Scenario 2, in addition, adjusts the level of real TFP of the micro firms so that the TFP gap between micro and large firms is the same as that of DEU. Weights and ESP and DEU comparison based on OECD data.

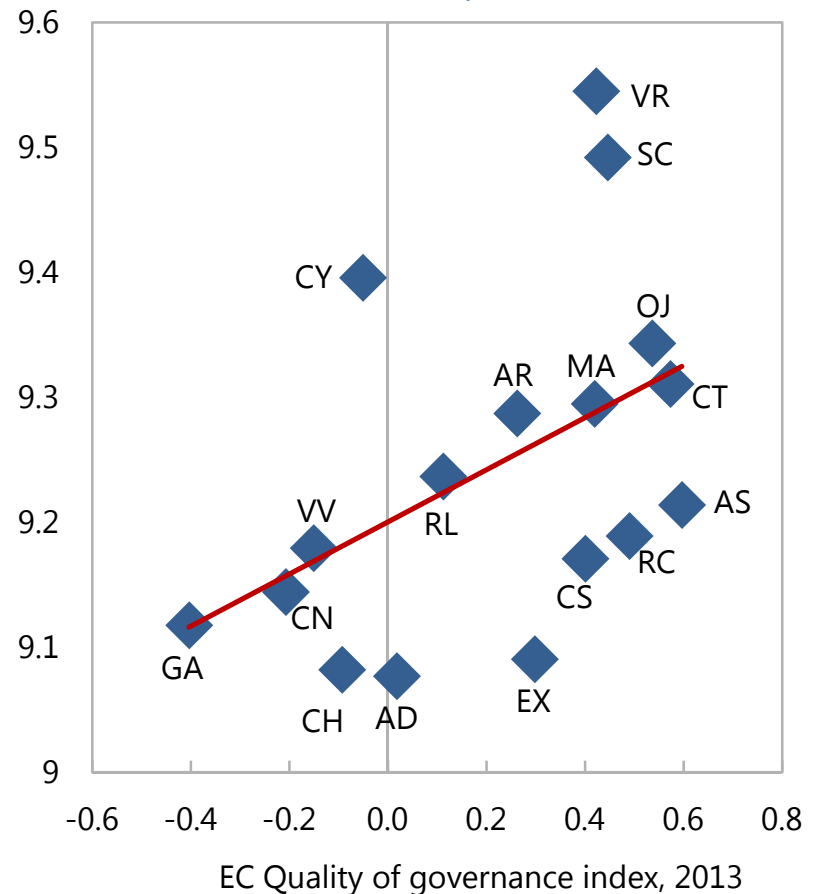
# Regional differences and regulation

**Estimated regional fixed effects and productivity** (Differences in log(TFP) controlling for time, sector and size effects)



Sources: ORBIS, and IMF staff calculations.

**EC Quality of Governance Index and regional productivity** (Differences in log(TFP) controlling for time, sector and size effects)



Source: EC (based on WB Governance Indicators).



# Bottom line

- **Reforms matter**—a reversal would risk confidence and recovery
- **Steady state** remains a concern
- Large upside to **further efforts**
  - **Labor market**: wage levels; micro flexibility; duality; long-term unemployed
  - **Productivity**: obstacles to firm growth
  - **Deleveraging**: effective insolvency process; continue improving bank strength