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Spanish competitiveness: where is the problem and how to fix it?

Antón García Díaz
Director of Social and Industrial Policy
PMs Economic Bureau

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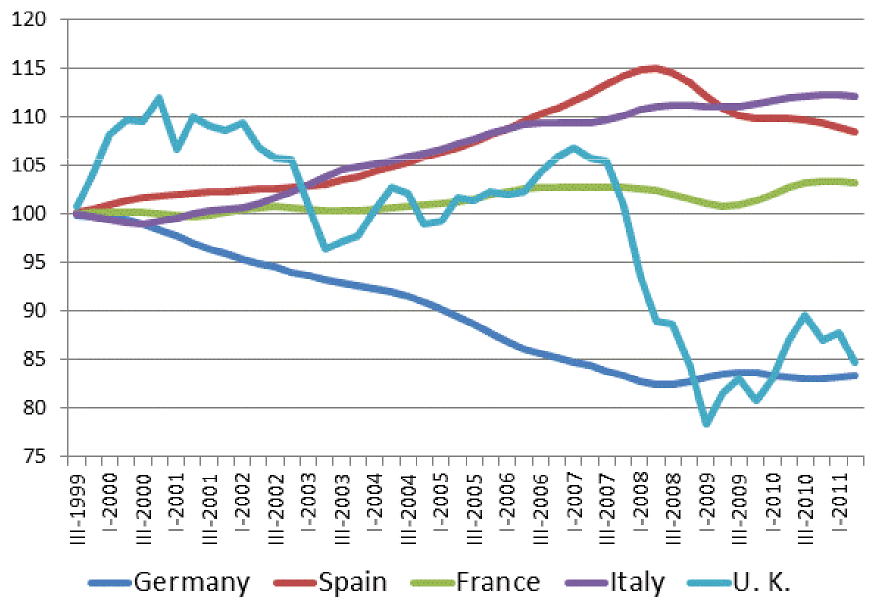
Loss of competitiveness up to the crisis, followed by improved performance

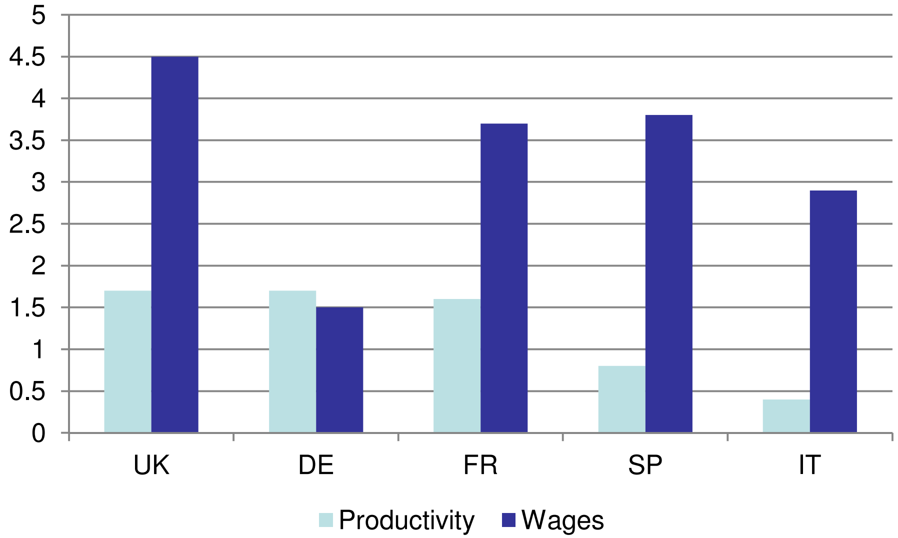
ULCs G5 vs Eurozone (index 1995 = 100)



Source. European Commission (Ecfin).

Productivity and labour costs

Average annual growth rate 1999 – 2007



Source. EU-Klems.

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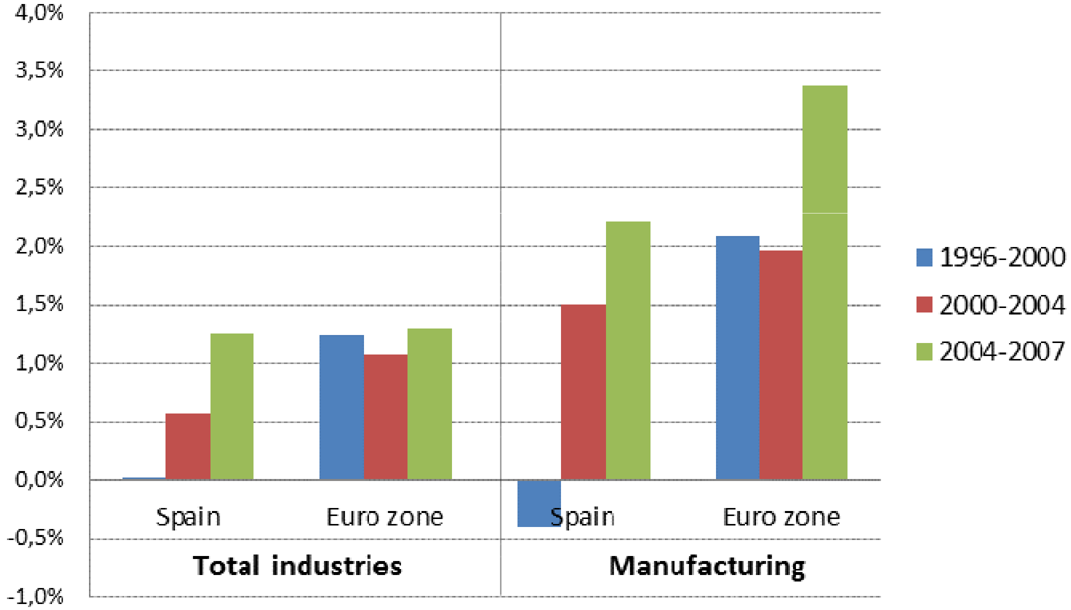
Precrisis low productivity growth affected all sectors

Productivity growth by sectors
Average anual growth rate

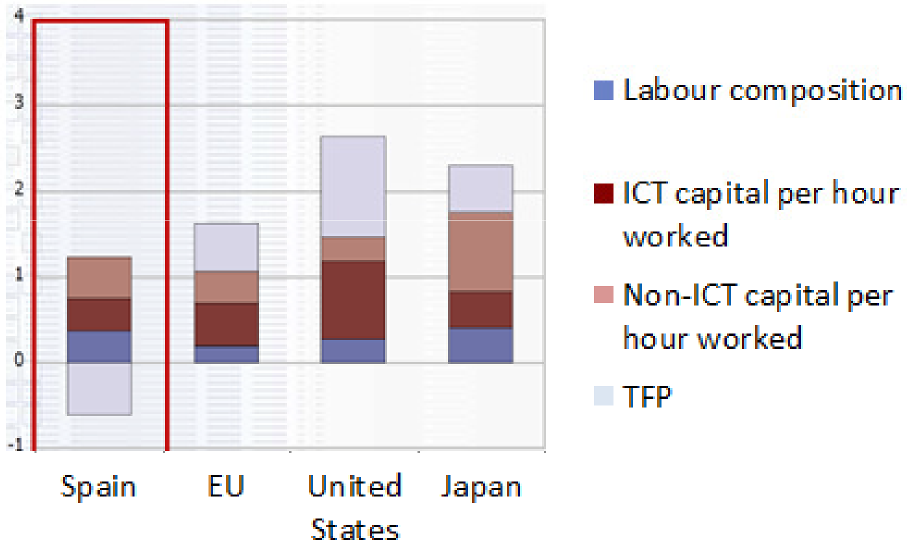


Source. EU-Klems.

- Productivity growth accelerated from 2004, and specialy after the crisis.
- Construction is an important driver
- Manufacturing has greater producitivity gap with EU than total economy

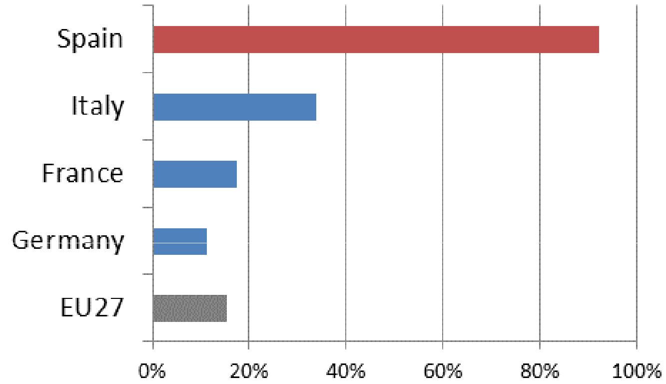
Strong effort on R&D and innovation, more competition and better regulation to improve TFP

Productivity growth components
Share of total productivity growth

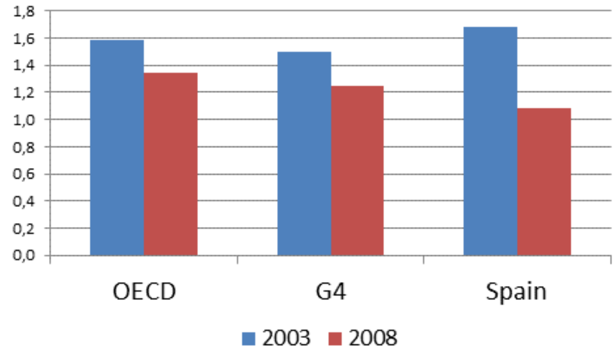


Source. BBVA and IVIE.

Growth in EPO patent filings
2000 - 2008



OECD Product Market Regulation
2003-2008



Source. OECD.

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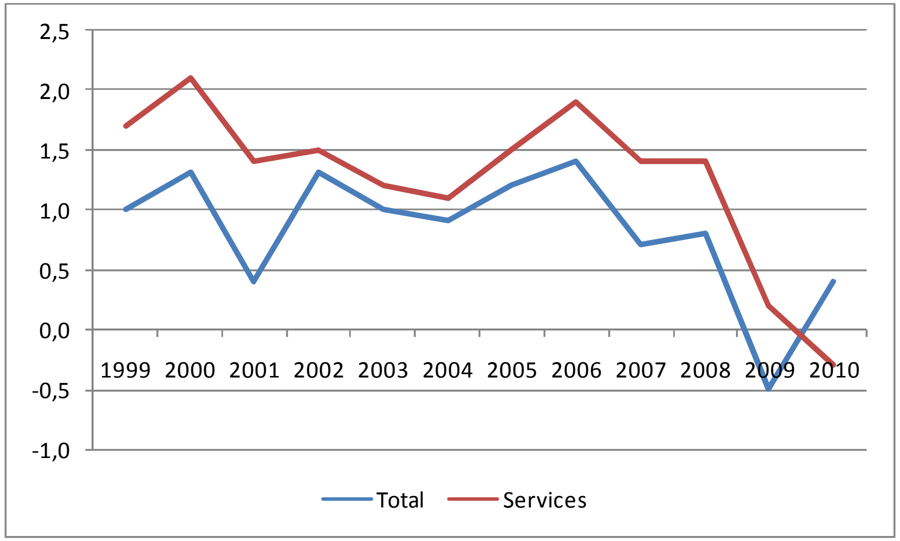
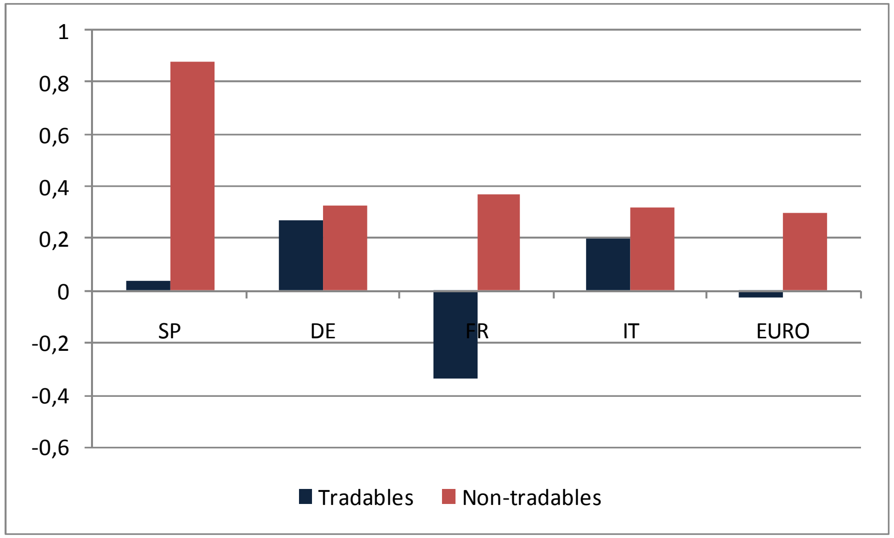
Labour costs and markups

Annual Growth in HCPI (%)

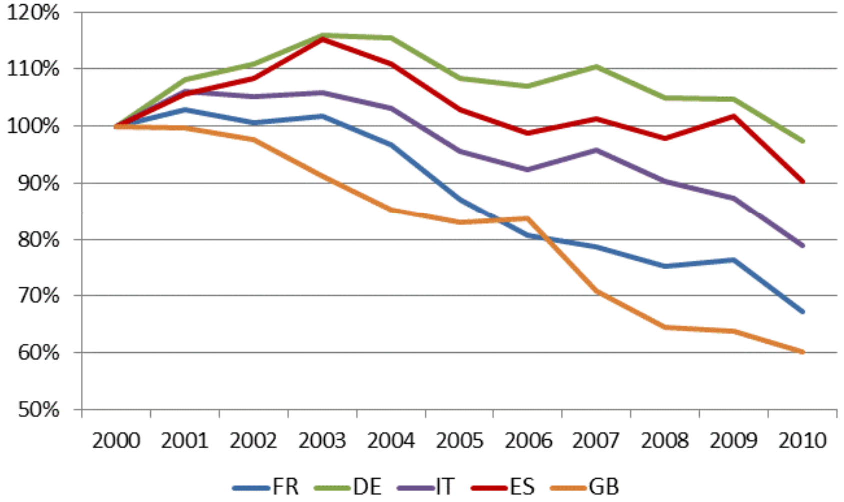


Growth in Mark-ups (%,1999-2007)

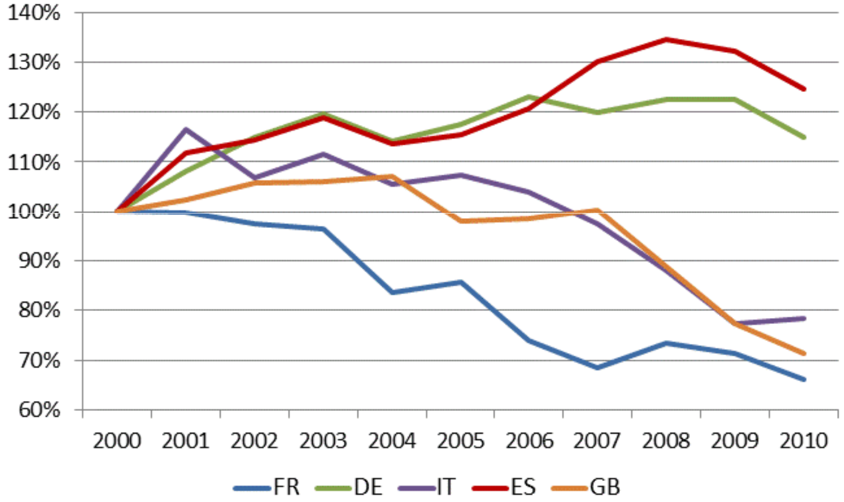


Strong relative export sector performance, despite loss in cost competitiveness

Goods Export Share (2000=100)



Services Export Share (2000=100)



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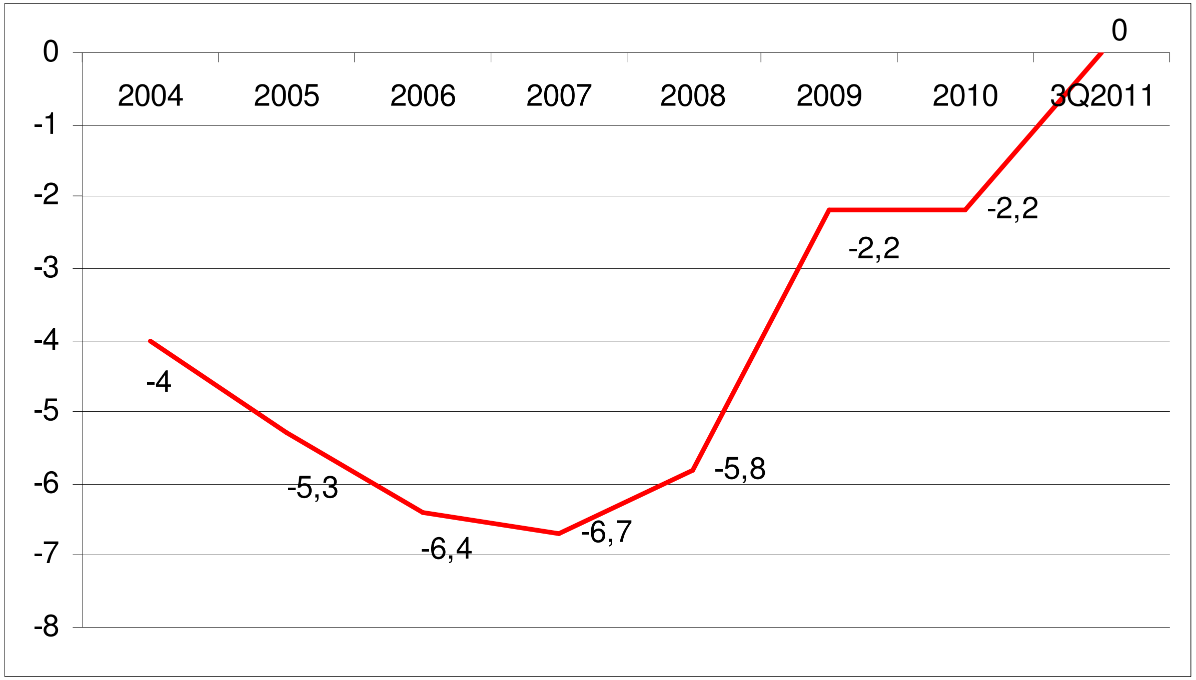
Strong correction in trade imbalance

Spain´s Trade balance – Goods and Services (% of GDP)



Conclusions

- Adequate appraisal of competitiveness requires an analysis of multiple indicators.
- In the case of Spain competitiveness indicators suggest that Spain has lost cost competiveness vis-à-vis Eurozone since 1999. However, Spain has managed to achieve a relatively strong export performance.
- Regardless of how one explains this apparent paradox, it is clear that Spain needs to build on this export performance by increasing its productivity.
- Since 2004, and more intensely since 2008, the outgoing Govt has undertaken a deep reform programme to improve the sources of productivity. These reforms in many cases have not fed-in to productivity numbers so should see strong productivity growth in coming years.
- In any there are some key reforms pending implementation (vocational training, active labour market policies) others which need to be addressed (professional services)