

28 July 2017

## Spain fires on all cylinders

### In this article

- A winning combination
- A virtuous circle
- Warning signs
- Still some way to go

**0.9%** Spanish GDP Growth  
Second quarter

### A winning combination

The Spanish economy grew 0.9% in the second quarter. We expect growth to exceed the Eurozone average by more than 1 percentage point this year. Spanish GDP growth is not only stronger than initially expected but its resilience across quarters is also impressive. 2Q GDP growth accelerated to 0.9% QoQ (or 3.1% YoY), from 0.8% in 1Q and 0.7% in 4Q16. No detail is available but we think that the mix of robust domestic demand and expanding external demand, notably from the EU, is the winning combination that allows Spain to top the Eurozone average. The cyclical recovery observed in the Eurozone (ING forecasts 2% GDP growth in 2017 for the Eurozone) tends to reinforce the already strong recovery. Other good news is that the harmonised inflation rate increased in July, from 1.6% to 1.7% YoY, partly explained by a fall in gasoline prices in July last year.

### A virtuous circle

The positive momentum Spain is experiencing remains mainly driven by it moving into a virtuous circle where job creation boosts purchasing power and demand for goods and services. This calls for new investment, makes private debt more sustainable and reduces social security costs.

---

Past structural reforms might have “primed the pump”.

---

Recent data tends to confirm this. The quarterly labour report showed that unemployment decreased by 660-thousand over the last four quarters. An analysis of Eurozone bank lending also shows that consumer credit increased by 17% YoY in Spain, suggesting the saving rate is declining on the back of growing consumer confidence, further boosting consumption. No wonder that May industrial production of durable consumer goods increased by 13.5% YoY.

### Warning signs

The downside risk for this year keeps coming from politics. The Catalan independence struggle is an important threat that is possibly already negatively affecting business confidence. This week the regional government in Catalonia approved the procedure to fast-track a declaration of independence in 48 hours if a (still hypothetical and illegal) referendum were to end up in favour of it. The decree officially calling the vote should be approved by the regional parliament before the

end of August. Looking at a recent poll by the Centre of Opinion Studies, even if the percentage of people supporting Catalanian independence decreased to 41% in June (from 44% in March), only 67.5% of the respondents said they would vote on 1 October. Abstention is more likely amongst opponents of independence and 62% of the people who said they would vote would vote in favour of independence for Catalonia. The risk is therefore not off the table and the situation is expected to drive Spanish bond yields upwards during the autumn.

### **Still some way to go**

All in all, the economy is firing on all cylinders and the acceleration of the trend in the first half of the year leads us to revise our GDP growth forecast for 2017 from 3% to 3.2%. Spain still needs to close the negative output gap (the second largest in the OECD, after Greece, in 2017). Indeed, even if Spanish GDP has now reached its pre-crisis level, it still has to catch up on the accumulated arrears.

## Disclaimer

This publication has been prepared by ING (being the Wholesale Banking business of ING Bank N.V. and certain subsidiary companies) solely for information purposes. It is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of this date and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this publication. All rights are reserved.

The producing legal entity ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is subject to limited regulation by the Financial Conduct Authority (FCA). ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA.

For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.