MOODY'S ANALYTICS

News

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MOODY'S ANALYTICS SPAIN OUTLOOK 2014

SPAIN'S RECOVERY PICKS UP, BUT DEPARTURE OF FOREIGN WORKERS COULD DEPRESS ECONOMY

LONDON, 2 June 2014 — Moody's Analytics, a leading independent provider of economic forecasting, has released its latest outlook for Spain. According to the report, Spain's recovery is gaining momentum, with real GDP growth accelerating to 0.4% in the three months to March, the strongest pace in six years.

"The key drivers of real GDP growth were a rise in private consumption and a drop in imports, while declining fixed investment and exports were drags. Additionally, the purchasing managers' index for services, which account for more than two thirds of the economy, rose in April to its highest level in more than seven years," says Zach Witton, economist at Moody's Analytics.

Moody's Analytics expects that Spain's economy will grow by nearly 1% in 2014 and 2% in 2015. Exports will contribute significantly to growth, as the demand for Spanish exports benefit from recoveries in the country's major trading partners, including France and Germany and an improvement in cost-competitiveness. Moreover, Spain's unit labor costs have decreased, making its exports less expensive on global markets.

Additionally, private consumption and fixed investment should contribute modestly to growth. Consumer spending will likely rise when the government introduces tax cuts for low-income earners and as weak consumer prices boost real incomes. However, high unemployment and household debt will continue to constrain private consumption, notes Moody's Analytics.

Furthermore, Spain has experienced a material outflow of foreign residents, owing to the weak economy and elevated unemployment, which prompted many foreigners to seek opportunities elsewhere. The departure of foreigners could be a drag on Spain's tax revenue and GDP growth because most non-Spanish residents are of working age. Moody's Analytics believes that the lost tax revenue could make it difficult for the government to get its finances under control and to meet its pension liabilities.

"The recent election for seats in the European Parliament also has important implications for the Spanish economy. Large political parties lost significant ground to their smaller counterparts, indicating voters' dissatisfaction with how the major parties handled Spain's sovereign debt crisis. Ultimately, the outcome suggests that the government will ease fiscal policy and avoid controversial reforms ahead of the 2015 election," adds Witton.

For more information, visit Moody's Analytics Dismal Scientist.

About Moody's Analytics

Moody's Analytics helps capital markets and risk management professionals worldwide respond to an evolving marketplace with confidence. The company offers unique tools and best practices for measuring and managing risk through expertise and experience in credit analysis, economic research and financial risk management. By providing leading-edge software, advisory services and research, including proprietary analyses from Moody's Investors Service, Moody's Analytics integrates and customizes its offerings to address specific business challenges. Moody's Analytics is a subsidiary of Moody's Corporation (NYSE: MCO), which reported revenue of $3.0 billion in 2013, employs approximately 8,400 people worldwide and has a presence in 31 countries. Further information is available at www.moodysanalytics.com.

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