



BNY MELLON



SPANISH STEPS DRIVE MARKET OPTIMISM



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After a testing period, the Spanish economy is at last showing real signs of optimism. Now, despite some persistent problems including a stubbornly high unemployment rate, the market appears poised for recovery.

As with several of its southern European neighbours, Spain was particularly hard hit by the post-2008 financial crisis. Spiralling unemployment, the emergence of a damaging property bubble and a banking sector crisis that ripped through the country's savings banks or 'cajas' were painful symptoms of a crisis which seriously dented both the national economy and business confidence.

This year, the centre right government of Prime Minister Mariano Rajoy goes to the polls. The forthcoming Spanish general election will give people an opportunity to cast their judgement on the success of the country's recent labour market and tax reforms and ultimately decide its future economic direction.

Against this backdrop, my participation in a recent three city Spanish Newton Investment presentation tour of Madrid, Barcelona and Bilbao, gave a good opportunity to talk to local investment professionals and gauge the current economic mood.

My impression was that the Spanish economy is gradually finding its feet again. According to some economic analysts, Spain is this year even predicted to become the largest economy in the eurozone to achieve annual growth of around 3%.<sup>1</sup>

While the Spanish unemployment level is still high – at over 20%<sup>2</sup> – it has at least stabilised and is starting to fall. Spain's overstretched property market has also settled and the banking system

has stabilised to a point where it is once again able to provide real support to various sectors of the economy.

Improvements in the Spanish banking sector are particularly encouraging. At a macroeconomic level, the Quantitative Easing (QE) programme of the European Central Bank (ECB) is dependent on a fully functioning European banking system. Now, after a difficult period, Spain is playing its part in helping to achieve this.

There are clear signs too that the move to very low interest rates or negative interest rates in September last year by the ECB is finally getting through to the Spanish market. The interest rates on offer from banks to Spanish cash investors have subsequently dropped significantly. Just a couple of years ago when we visited Spain we found we were competing against local deposit rates of 3-4% and a bond market that had a government 10-year yield of 4-5%. In that environment it was very difficult to sell global fixed income products.

Now that cash rates have come down to nearer 1% and 10-year yields stand at just over 1% the fixed-income market offers a more competitive playing field. At a domestic level, Spanish investors are increasingly taking money out of their banks to put into mutual funds and this could eventually help to rebalance the economy.

With an election approaching, politics is back on the agenda. But, while much is often made of the various separatist movements in Spain, I detected

no enthusiasm for or expectation of major change ahead across the Spanish regions amongst the Spanish professionals I spoke with.

Equally, the rise of the anti-austerity political party Podemos has left many of those I met with unfazed. Rightly or wrongly, a commonly held view is that the party has no real policies to speak of beyond its central anti-austerity stance and is merely attracting short-term protest votes. From a regional perspective, the aftermath of the election success of the anti-austerity Syriza party in Greece has also clearly demonstrated to Spanish voters just how difficult it is for such parties to keep their promises.

Beyond these wider regional concerns, Spain continues to galvanise itself in its long slow climb back to recovery. Travelling from city to city on Spain's advanced high speed rail network, it was hard not to be struck by the economic progress and development the country has made in the modern era. The hope now is that the country can put the fallow years of economic recession behind it and once again focus on building future prosperity.

## Paul Brain



Paul Brain,  
Head of Fixed Income,  
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*Some analysts predict Spain will become the largest economy in the eurozone to achieve annual growth of around 3% in 2015.<sup>3</sup>*

*While unemployment is still high – at over 20% – it has at least stabilised and is starting to fall.<sup>4</sup>*

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#### IMPORTANT INFORMATION

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<sup>1</sup> Spain to Lift 2015 Growth Target, The Wall Street Journal, 27 April 2015.  
<sup>2</sup> Not doing the job, The Economist, 24 April 2015.  
<sup>3</sup> Spain to Lift 2015 Growth Target, The Wall Street Journal, 27 April 2015.  
<sup>4</sup> Not doing the job, The Economist, 24 April 2015.