It's Been A Long Road To Stability ....

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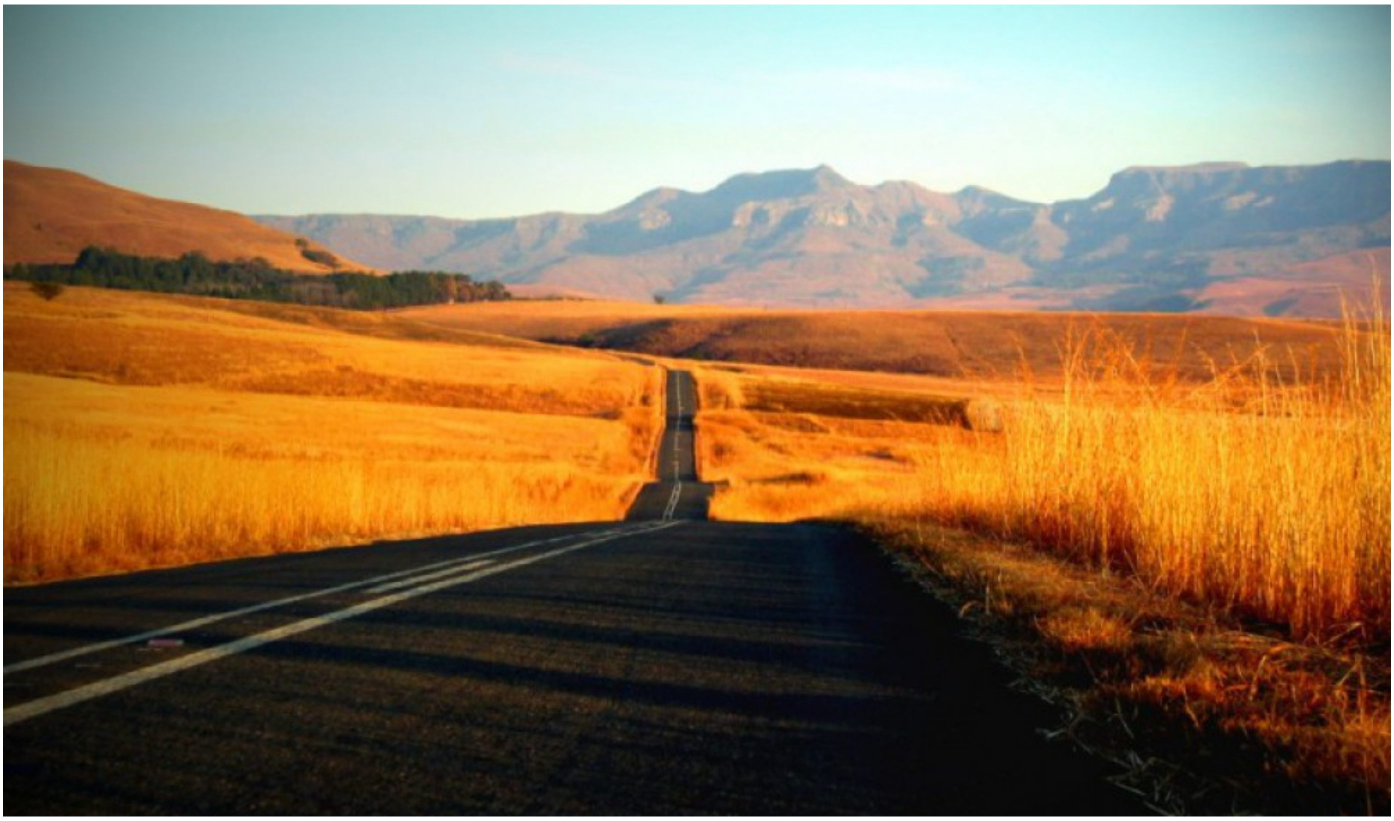
Spanish News



Spanish tourism is at record levels – the industry was up 4.2 per cent in the first half of the year, with 29.2 million international visits – to the point some vacation spots can't cope with the crush. But to the Spanish government, the tourism wave is yet another sign that Spain has made a remarkable comeback.

Spain's economy is growing faster than any of Europe's big economies. The International Monetary Fund forecast Spanish growth at 3.1 per cent this year and 2.5 per cent in 2016, about double the average of the 19 euro zone countries. Of course, the centre-right government of Prime Minister Mariano Rajoy is taking most of the credit for the turnaround, citing the success of the labour and banking reforms and the fiscal tightening. "Seeing what is happening to others right now, one has to say: It was worth it," he said in a recent radio interview.

While economists argue that low oil prices and the barrage of stimulus unleashed by the European Central Bank can take more credit for the turnaround, there is no doubt that Spain has emerged as the economic star among Europe's heavyweight economies. Not too long ago, it was the anchor member of the crisis countries known as the PIIGS – Portugal, Italy, Ireland, Greece and Spain. At one point, Spain's unemployment rate, at more than 26 per cent, was as high as Greece's. Spain was in such bad shape that it took a backdoor bailout through the €41.3-billion recapitalization of its banks, funded by the same European agency that came to the rescue of Greece.

Ireland's economy is also surging ahead, with year-over-year growth in the first quarter at 6.5 per cent. Portugal is recovering, too, though much more slowly, with expected growth of 1.6 per cent this year. Italy is finally out of recession, if only barely. The standout laggard is Greece.

Greece's dire economic plight was highlighted Monday by the collapse of both its manufacturing industry and its stock market.

Greece's factory purchasing managers' index, published by Markit Economics, fell at a record pace in July, to 30.2 from 46.9 in June. A reading below 50 indicates contraction. The Athens stock exchange, which reopened after five weeks of capital controls, plunged almost 23 per cent in early morning trading, later recovering somewhat to finish 16 per cent down. The banks, which are still subject to tight controls on cash withdrawals and international money transfers, fell 30 per cent, hitting the exchange's loss limits.

Many economists think the Greek economy, which seemed on its way to recovery, will shrink by 2 per cent or more this year as it negotiates its third bailout since 2010. More than a few think the crisis, now in its sixth year, is so dire that it will push Greece out of the euro zone.

The post-2008 crisis and deep recession hammered Spain, of which domestic demand fell 16 per cent from peak to trough. The culprit was not high debt, as it was in Greece; it was the bursting, in 2007, of the housing and construction bubble. The collapse transformed Spain from the euro zone's greatest jobs generator to greatest jobs destroyer.

How did Spain go from economic dud to darling?

Nick Greenwood, an analyst at Afi, an economics consultancy in Madrid, said Spain has a highly leveraged national balance sheet, meaning that even small improvements in the financial conditions can produce outsized benefits. Greece's net international investment position is sharply negative – foreign liabilities exceed foreign assets by about 100 per cent of gross domestic product. Factors such as much lower debt-servicing costs have lifted Spain's growth rate at a faster pace than it did in less leveraged economies.