

Spain in the EU: the key issues

JOSÉ VIÑALS
Banco de España

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EU membership

- Largest structural change in Spain over past 40 years
- Got more than originally envisaged : EU (1986) + Single Market (1993) + Euro (1999)
- Formidable increase in trade and financial openness

Strong increase in trade and financial openness; larger intra-EU flows

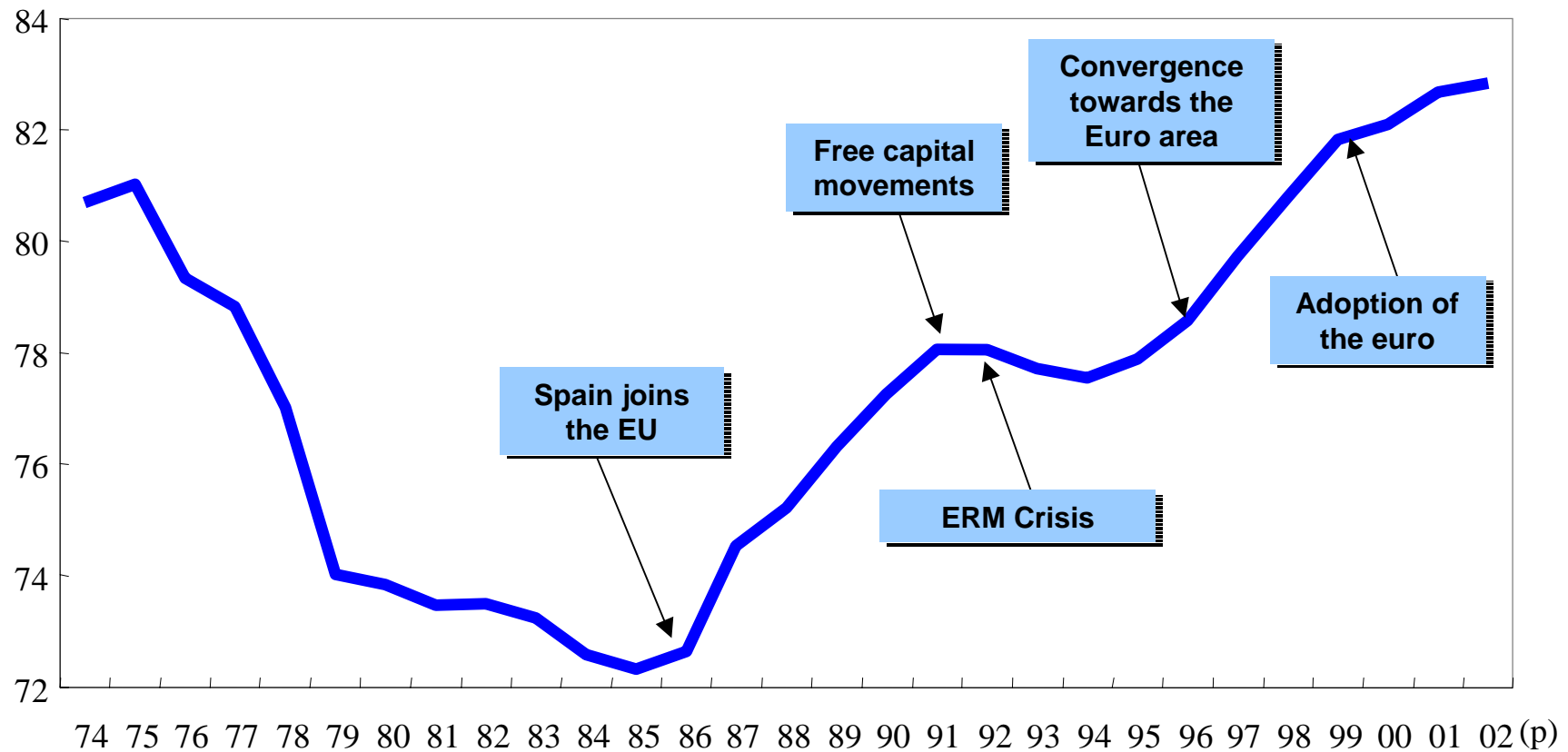
	<u>1985</u>	<u>2002</u>
Trade openness $X + M / GDP$	45	59
Financial openness $A + L / GDP$	51	230
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Intra-EU trade as % of total	43	67

Economic consequences

- Very positive seen from today:
 - ❑ Source of economic dynamism: larger market , FDI and transfer of technology, EU funds.
 - ❑ Reinforced need for improvement in policy regime, which took place with some delay.
 - ❑ Change in policy regime towards “macro discipline + micro flexibility” was essential to reap the potential benefits
 - ❑ Although hard to measure, most likely important economic benefits concerning real and nominal convergence

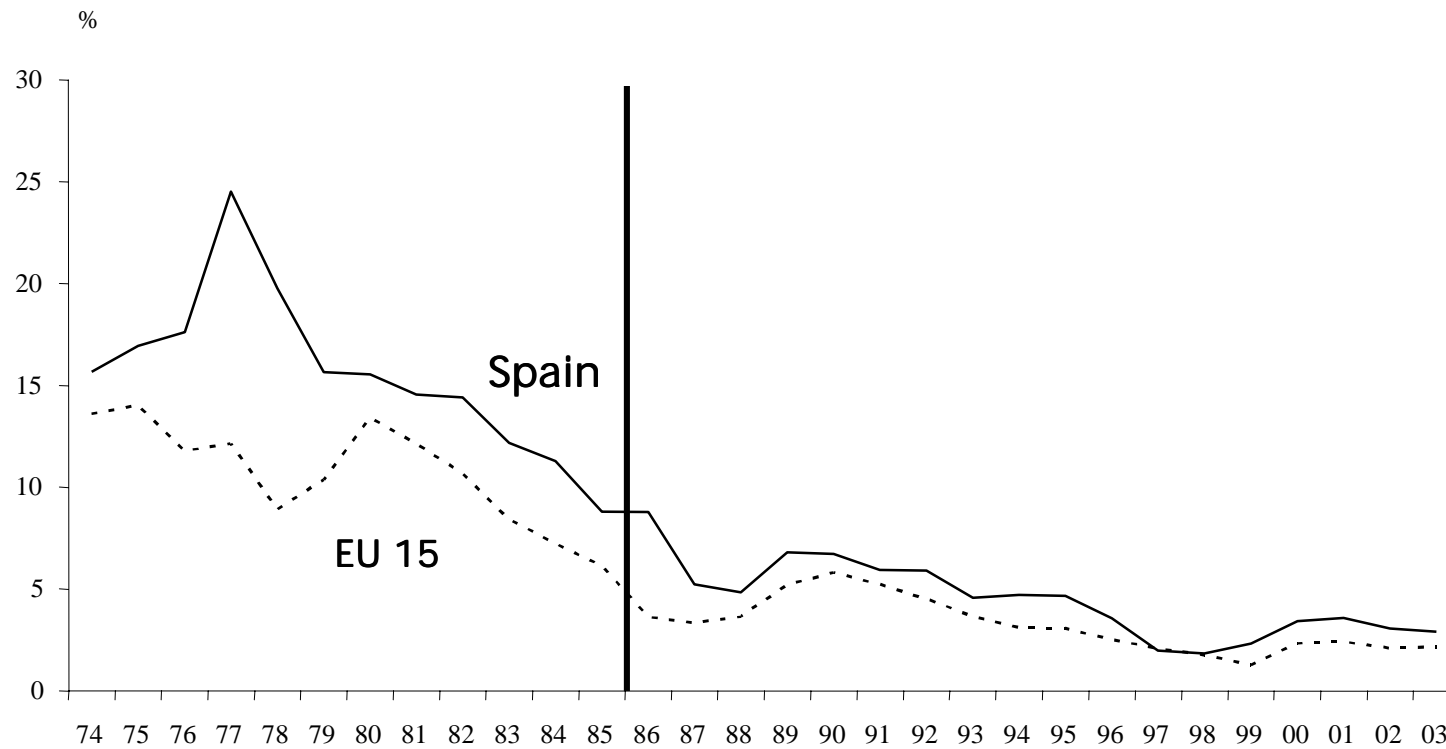
70% higher real GDP per capita, and relative GDP per capita increases from 73% to 83% of EU-15

Real GDP per capita: Spain relative to the EU (EU=100)



Inflation differential fell from 4% to less than 1%

INFLATION



However, slowness in adapting the micro and macro policy framework until early 90's

Micro-policies

- Asymmetry in liberalisation processes: goods and financial markets vs. services and labour markets

Macro-policies

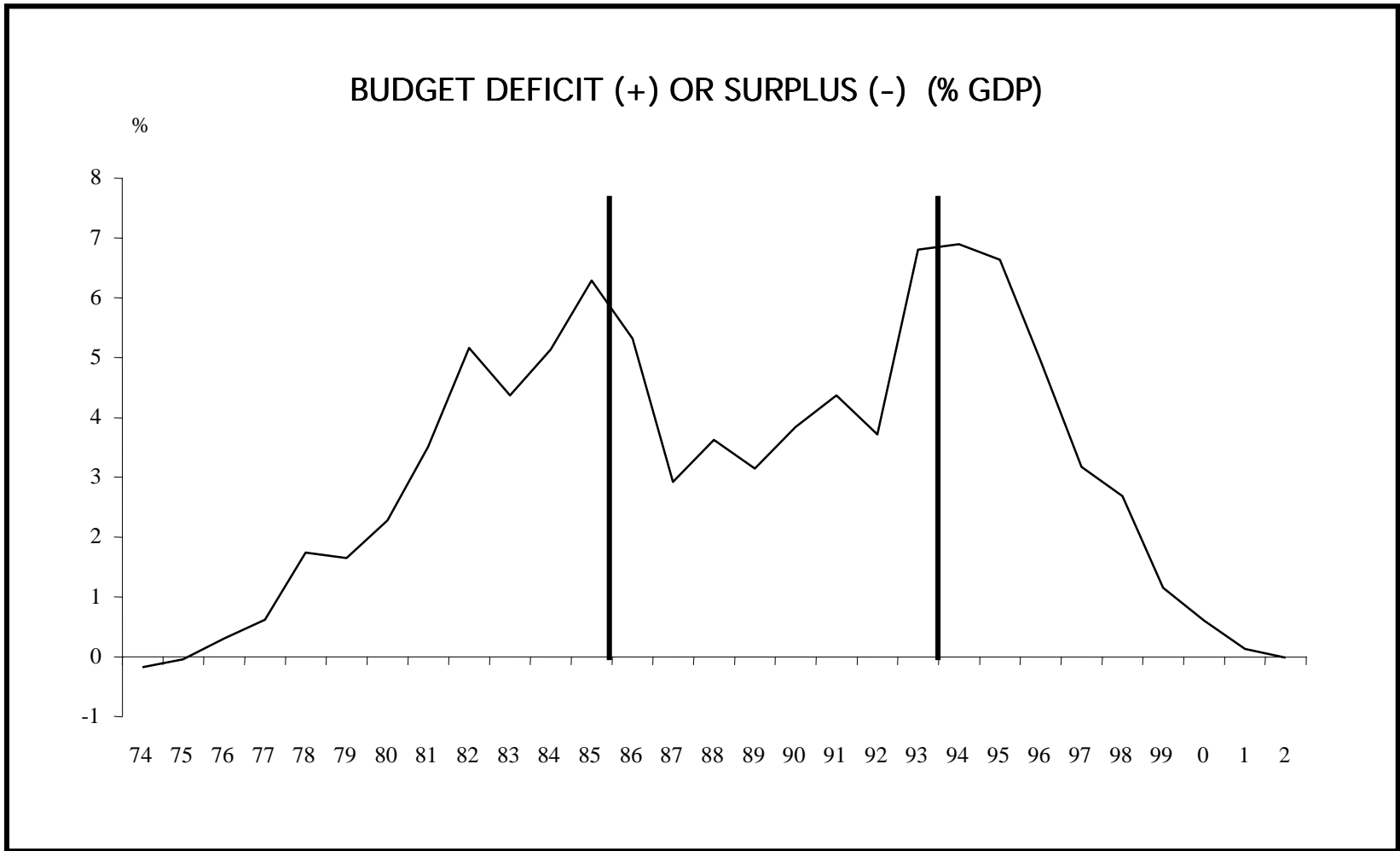
- Unbalanced policy mix in the first 7-8 years after EU entrance: fiscal expansion – monetary contraction

Consequence of slow adaptation of policy framework to requirements of open economy

- Dualism and policy dilemmas
- Exacerbated cyclical fluctuations and led to exchange rate crises within ERM in early 90s.
- Delayed the achievement of nominal stability and prevented faster real convergence thus delaying the realisation of the potential benefits accruing from EU membership

Finally, since 1994, the overall micro-macro policy regime was improved mainly as a result of

- The realisation –through successive crises- of the problems coming from the coexistence of an “open economy” and “incoherent” domestic policies
- The incentives/penalties associated to the Maastricht Process towards EMU
- “macro discipline + micro flexibility” very beneficial



Lessons

- 1. EU membership was a great success, with significant benefits.
- 2. Yet benefits could have arrived much earlier if the overall policy regime (micro-macro) had been aligned sooner with the requirements of a more open economy.
- 3. Once the policy regime was modified in the direction of “macro discipline + micro flexibility” the economy responded very well and both nominal and real convergence were enhanced.
- 4. The fundamental domestic-policy regime change took place during the Maastricht process towards EMU.
- 5. Spain entered EMU with a much higher degree of economic flexibility which helps compensate for the loss of national monetary autonomy. But further reforms are needed to foster real convergence.
- 6. Nowadays, with free capital flows, the risks of delaying the alignment of the overall policy regime with the requirements of a more open economy are much larger for new entrants than they were for Spain.