Spain Emerges From Two-Year Recession

BY RICHARD ROUDREAUX AND CHRISTOPHER BJORK

MADRID—Spain emerged from two years of recession late this summer, but faces a long period of more austerity and painful adjustments before it can regain its footing and put most of its 6 million unemployed back to work, Prime Minister Mariano Rajoy said on Monday.

"Spain is out of recession but not out of the crisis," Mr. Rajoy said in an interview with The Wall Street Journal, cautiously touting the effects of budgetary and structural overhauls that have been among the deepest in the euro zone. "The task now is to achieve a vigorous recovery that allows us to create jobs." His comments echoed a wider belief among Europe's leaders that they are finally overcoming a financial crisis that has hammered the continent for half a decade. Borrowing costs for Spain and others on the euro zone's stricken periphery have plunged over the past year, and the 17-nation bloc as a whole registered a tepid return to growth in the second quarter of this year.

At the same time, Mr. Rajoy said he hoped the easing of the crisis won't stall the euro zone's movement toward expanded political and financial integration—a process that would help beleaguered countries like Spain by putting the bloc's collective financial strength behind a safety net for the region's banks.

The conservative Spanish leader voiced his support for a more closely knit Europe in a telephone call Monday to Chancellor Angela Merkel while congratulating her on what he called her conservative party's "magnificent" victory in national elections Sunday.

An early riser, Mr. Rajoy said he had stayed up till 1:30 a.m., well past his bedtime, to follow the German returns. Some in Ms. Merkel's party and in others that might join her coalition have voiced skepticism about a European "banking union," but Mr. Rajoy said he was "reasonably satisfied" that the project...
Spain Emerges From Recession With Long Road Ahead
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would more ahead, albeit more slowly than he'd like.
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country's economy. The gross dom-
the United States, at the Moncloa Palace on Monday, said 'improvements will happen little by little.'

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Rajoy's Rule
Twenty-one months into Mariano Rajoy's first term as prime minister, Spain's economy shows signs of stabilizing and the unemployment rate has started easing. But the country still faces many challenges, including rising government debt.

<table>
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<tr>
<th>Public debt as a percentage of GDP</th>
<th>GDP annualized quarterly change, seasonally and working-day adjusted</th>
<th>Unemployment rate, seasonally adjusted</th>
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<td>![Graph: Spain's GDP and unemployment rate](source: The Wall Street Journal)</td>
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Mr. Rajoy acknowledged that his popularity had been hurt by the allegations and by his harsh austerity medicine. He said he had broken off all contact with Mr. Bárcenas and was confident that a judicial investigation would prove his own innocence.

The Spanish leader said he now has two years to show voters that the economy is moving.

"If people see that what we have done is producing results, and also see that what has been done is creating a solid base for the future, I think we are in condition to recover," he said. "But you can't govern a country thinking every day whether or not they're going to vote for you."

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Financial pressure on Spain has eased in the year since the European Central Bank pledged large-scale bond buying to save struggling euro-zone economies from default. That backstop has helped reduce the interest-rate risk premium demanded by investors for buying Spanish bonds by more than half.

As Spain's borrowing costs tumbled at unsustainable levels last year, Mr. Rajoy began following Spanish, German and U.S. bond rates on an iPad app, often on an hourly basis—on exercises he continues to this day, he said, although "it's a little stressful."

What worries him more these days, he said, is unemployment and a shortage of credit to boost spending by households and small businesses.

With Mr. Rajoy's Popular Party and the main opposition Socialists both scarred by corruption scandals and deeply unpopular, business leaders and bankers here have begun to speak of a political risk to the Spanish economic recovery. Mr. Rajoy has a solid majority in Parliament, they note, but smaller parties are gaining strength and could produce a deadlocked legislature following elections in late 2015, stalling further economic measures.

In recent surveys, Spaniards say allegations made by the jailed former Popular Party treasurer Luis Bárcenas—that Mr. Rajoy and other party leaders pocketed cash from a slush fund fed by Spanish companies seeking government contracts—are more credible than Mr. Rajoy's denials.

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Asked whether he'd run for re-election, he said: "I have no intention to retire, but my party will decide."