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The challenges facing the 'new' Spain

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(1) Summary²

Although some Spaniards joke that the country has got along fine with a caretaker government for 315 days, this year has been a lost one. There are some pressing issues that need to be tackled now that there is finally a functioning government. But the new Popular Party (PP) government no longer has an absolute majority. As a minority administration it will have to negotiate its laws and reforms in a deeply fragmented parliament, the result of the upending of the PP and the Socialist Party (PSOE) by two new parties, the far left Unidos Podemos (UP) and the centrist Ciudadanos (C's). The government has a lot on its plate, including the following: (a) belatedly approving the budget for 2017 and meeting the EU's threshold for the deficit (3% of GDP) in 2018 (a target imposed by Brussels that the PP persistently missed); (b) deciding what to do about the push for independence in Catalonia (the region's government says it will hold

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² I would like to thank José Herce, Valeriano Muñoz and María Romero for digging out some statistics.

a referendum on the issue in September 2017 regardless of whether the central government approves it or not); (c) cleaning up corruption in the political class; (d) making the judiciary more independent; (e) possibly deepening the labour market reforms in a bid to reduce the still very high unemployment rate (18.9%); (f) reforming an education system whose early school-leaving rate of 20% is close to double the EU average; (g) bolstering the ailing pension system hit by a sharp fall in the number of social security contributors and a rapidly ageing population; and (h) making its voice heard more in the post-Brexit debate.

(2) Political scene: uncharted territory

Spain finally has a new government after 10 months of wrangling, thanks to the PSOE grudgingly abstaining at the second investiture vote in the deeply fragmented parliament and enabling the conservative PP to continue in power, but this time as a minority government. Two new parties, the far-left UP³ and the centrist-liberal C's, upended the political system –dominated by the PP and the PSOE for the past 34 years– in inconclusive elections on 20 December 2015 and 26 June 2016. Had the PSOE not abstained –which it did only after its leader Pedro Sánchez was ousted, plunging the party into its deepest crisis since 1935–, Spain would have had to have held a third election during the Christmas period and would possibly have rivalled the 541 days it took Belgium in 2010-11 to form a functioning government.

The political gridlock reflected the teething problems in adapting to a new political culture. In the much-quoted words of the Italian neo-Marxist theorist Antonio Gramsci, 'The crisis consists precisely in the fact that the old is dying and the new cannot be born'. Felipe González, a former Socialist Prime Minister, quipped that Spain has an Italian-style fragmented parliament 'but without the Italians to manage it'. The PP has 137 seats out of 350, far from the absolute majority of 186 it won in the 2011 election, the PSOE 85, its lowest number since democracy was restored after the end of the Franco dictatorship in 1975 (202 seats in 1982-86), UP 71 and C's 32 (see Figure 1).

³ Podemos until May 2016 and then Unidos Podemos after forging an alliance with the United Left (IU) party.

Figure 1. Results of general elections, June 2016 and December 2015 (seats, millions of votes and % of the vote)

	2016			2015		
	Seats	Votes	%	Seats	Votes	%
Popular Party	137	7.90	33.0	123	7.21	28.7
Socialists	85	5.42	22.6	90	5.53	22.0
Unidos Podemos (1)	71	5.04	21.1	69	5.18	20.6
Ciudadanos	32	3.12	13.0	40	3.50	13.9
Catalan Republican Left	9	0.62	2.6	9	0.59	2.4
Convergència Democràtica (2)	8	0.48	2.0	8	0.56	2.2
Basque Nationalist Party	5	0.28	1.2	6	0.30	1.2
EH Bildu	2	0.18	0.8	2	0.21	0.9
Canary Islands Coalition	1	0.07	0.3	1	0.08	0.3

(1) Unidos Podemos won 45 seats and its allies in Catalonia, Valencia and Galicia 26. In 2015, Podemos won 42 seats and its allies 27. United Left won 2 seats.

(2) In 2015, Democràcia i Llibertat.

Source: Interior Ministry.

The PP gained 14 more seats in the June election (and 700,000 more votes) than in December and would have increased its tally again if there had been a third election, according to a poll by Metroscopia. The party signed an anti-corruption pact with C's to regenerate political life, which guaranteed that that party's support but insufficient for the PP to remain in power.

The choice for the PSOE was to end their trench warfare (similar to that of the UK's Labour Party) and enable the PP to continue or opt for a third election and run the risk of being knocked into third place behind UP and losing its hegemony of the left. Sánchez never came up with a realistic alternative with UP, with whom there is no love lost, and he had neither the electoral strength nor sufficient political allies to form a government. In order to dislodge the PP, the support of C's would also have been needed and there was no way this would happen. Luis Garicano, C's chief economic advisor, described UP's expansionist fiscal policy as 'magical realism without the realism'.

The PSOE's problems are similar to those of other European social-democratic parties. To borrow an expression from Karl Marx, it is not the spectre of communism that is haunting Europe, but the collapse of social democracy. With UP seeking to outflank the PSOE on its left, a new party, C's, in the centre (an area the PSOE had occupied with some success) and a PP offering stability and continuity, a disoriented PSOE was unable to carve out a coherent position. Furthermore, the austerity measures, following the bursting of a massive property bubble as of 2008, began under the last PSOE

government, making its opposition to the PP's continuation of such policies sound hollow. The party, the engine of Spain's modernisation between the mid-1980s and the early 1990s, is caught between a rock and a hard place, and faces an uphill struggle to revive itself.

The fall in the PSOE's share of the vote in general elections, albeit from a much higher starting point, has been a lot steeper than the PP's (see Figure 2). In last June's election, the PSOE obtained less than half its peak (48.1%) of the votes it won in 1982, while the PP dropped from its maximum of 44.5% in 2000 to 33%. The two parties' combined share has fallen from a high of 83.8% in 2008, before the economy went into recession, to 55.6% in June. These two parties are wounded, particularly the Socialists, but not dead.

Figure 2. The rise and fall of the Socialists and the PP, 1982-June 2016 (% of votes in general elections)

	1982	1986	1989 (1)	1993	1996	2000	2004	2008	2011	2015	2016
PSOE	48.1	44.1	39.6	38.8	37.6	34.2	42.6	43.9	28.8	22.0	22.6
PP	26.4	26.0	25.8	34.8	38.8	44.5	37.7	39.9	44.6	28.7	33.0
Total	74.5	70.1	65.4	73.6	76.4	78.7	80.3	83.8	73.4	50.7	55.6

(1) Alianza Popular (AP) became the Popular Party (PP) in 1989.

Source: Interior Ministry.

While the protracted stalemate over forming a new government is the result of there now being four parties, opinion polls show that most Spaniards do not want to return to the two-party system and nor are they enamoured of a government with an absolute majority, whatever its political colour. Parliamentary life will now be much more vibrant, as the PP will have to negotiate every law it hopes to pass. Even with C's support, and this is not guaranteed all the time, the PP is still seven seats short of the majority of 176. The PP will no longer be able to rely to the same extent on the so-called royal decrees (emergency laws), which it used (or abused, in the view of opposition parties) between December 2011 and December 2015 more than any other government, even though it had an absolute majority. According to the Spanish Constitution, governments are allowed to issue decrees only 'in cases of extraordinary and urgent need'. Parliament has the right to reject the draft decree, but only under a heavily curtailed procedure that leaves a maximum of 30 days to examine and debate the legislation. Parliament will become the central focus of political life and, depending on how this evolves, it will be a healthy change if it forges a much-needed culture of consensus and not the kind of permanent bickering that characterised the 10 months before the formation of a new government.

The trigger for the change in the political scene was the so-called movement of the 'indignant' who camped out in the Puerta del Sol in the heart of Madrid in 2011. *Los indignados*, mainly young people, protested against high unemployment, welfare cuts, corruption, evictions of families unable to pay their mortgages and other grievances. The age profile of the electoral census had changed considerably by then, reflecting the

ageing of the population. In 1981, 35% of voters were under the age of 34 compared with 21% today. Young disenfranchised adults, in particular, felt that no party represented them. This movement spawned a political party, Podemos, which then became UP after linking up with the much smaller United Left (IU), essentially the revamped Communist Party, to contest last June's election on the same ticket. The electorate by then was very polarised: close to 98% of PP voters said before the June election they would never vote for UP and 92% of the PP's voters said the same about UP (see Figure 3).

Figure 3. Which party would you never vote for? (%)

Potential voters of...				
Popular Party	Socialists	Unidos Podemos	Ciudadanos	Would never vote for
1	81	98	37	PopularParty
92	40	1	78	UnidosPodemos
28	1	24	14	Socialists
4	9	32	0	Ciudadanos

Source: Metroscopia.

Podemos eschews the terms 'left' and 'right', although its radical and abrasive leader, Pablo Iglesias, is widely viewed as a Leninist, and is engaged in what is known as transversal politics: seeking ways to cross and possibly redraw borders that mark politicised differences and painting the political establishment as a caste. Podemos is part of an EU-wide creation of new parties, on both the left and the right: Law and Justice in Poland; Syriza in Greece; Fidesz in Hungary; and the Five Star Movement in Italy.

The generational gap, the main driving force behind the party-system transformation, is profound: the largest share of PP voters is pensioners, while that of UP are the unemployed. The average age of PP voters is 57 and that of Unidos Podemos 43. Younger people are demanding change and an ageing population is resisting it. The generational cleavage is more acute on the left than on the right. The anti-establishment UP has a much larger share of voters under the age of 35 than the PSOE. UP is already the reference party among the jobless and students.

UP, like the PSOE, also has its internal divisions, broadly speaking between a more pragmatic wing, led by Iñigo Errejón, the party's number two, who apparently was not in favour of the alliance with IU as it tarnished Podemos more than was the case until then with the communist brush, and the harder stance and aggressive rhetoric of Iglesias.

Mariano Rajoy, the PP's leader who remains as Prime Minister for a second term, revealed himself during the gridlock to form a government as a master of what some call 'strategic patience' (or, in British imperial terms, masterly inactivity), meaning that that he left it to the other political leaders to move and possibly burn themselves (the case of Sánchez and the implosion of his party) while he appeared to stand still and do nothing. Felipe González recently quipped that 'Rajoy is the only creature that advances without moving'.

No one is confidently predicting that the new government will last the normal course of four years. Rajoy acknowledged the difficult task ahead, telling parliament: 'I know that every law, every reform and every project that passes this chamber will have to be the fruit of an accord, of negotiations, concessions and understanding... I have to accept that we must build a majority to govern every day'. But he also showed an uncompromising side when he told deputies: 'What is needed is a government that is able to govern, not one that is governed. I know that some want to reverse the policies that we have implemented but for that you will need others to lead the government... Don't try to impose on me what I cannot accept'.

If the same gridlock that prevented the forming of a new government hits parliament, then a frustrated PP could call an early election, possibly within a year. The Socialists ended the impasse over the formation of the government but their supports ends there. Whether the PP would increase its share of the vote, as polls showed had a third election gone ahead in December, and even perhaps win a governing majority, may well depend on how the other parties shape up to the new challenges.

(3) Catalonia: no let-up in the push for independence

Judging by the lower turnout at this year's national day in Catalonia on 11 September, known as the *Diada*, it would seem that the region's push for independence is losing steam. The *Diada* commemorates the fall of Barcelona during the War of Spanish Succession in 1714. Catalan troops fighting King Philip V were finally defeated after a 14-month siege of Barcelona. The end of the civil war led to the publication from 1707 to 1716 of various *Decretos de Nueva Planta*, reorganising the Kingdoms of Valencia, Aragón and Majorca and the Principality of Catalonia, thus transforming what had until then been the composite nature of the Spanish Monarchy. In Catalonia's case it marked the dissolution of the Principality's autonomous institutions, the restriction of Catalan as an official administrative language and the imposition of new laws from a now more centralised Spain.

According to the police, 875,000 people attended rallies this year in five cities, down from 1.4 million in Barcelona, the only city to hold a rally last year. Carles Puigdemont, the Prime Minister of the region that generates one-quarter of Spain's exports, attended one of this year's rallies, the first time a sitting premier has done so.

A sense of fatigue appears to have set in, but this is not the case. According to one poll, some 48% are in favour of Catalonia becoming an independent state, while 42% are against.

The Catalan government's moves to implement its pro-independence roadmap of laws needed for an independent state by the end of next July, which are being approved by the regional parliament after pro-separatist parties won the majority of seats in the 2015 regional election, is being countered at every stage by the Constitutional Court in Madrid. Carlos Lesmes, the Supreme Court's President, said state prosecutors would not tolerate 'the challenge to the rule of law' and the 'total contempt for the constitutional order'.

Former Catalan Prime Minister Artur Mas and two other officials are to stand trial for holding a mock independence referendum in 2014, which the Constitutional Court had deemed illegal. Undeterred, Puigdemont has called for another referendum next September whether the central government agrees or not. This referendum would culminate what the pro-independence camp calls a 'disconnection' with Spain. The ballot would be held under laws passed by the Catalan regional parliament. Although these laws are and will continue to be annulled by the Constitutional Court, the Catalan government regards them as the only valid ones. As a result, for the secessionists, the ballot would be legally binding. At that stage, Catalonia would be close to a de facto independence. The next phase would be to control the tax system for the region, which is already decentralised (Barcelona collects and transfers part of the receipts to Madrid). The Catalan government could refuse to make any more transfers.

Rajoy can be expected to carry on stonewalling the independence movement. On this particular issue, the PSOE (less so the party's Catalan branch, the PSC) broadly support him and C's more so as it was formed in Catalonia in 2006 in opposition to the independence movement. C's later garnered support nationally.

The Catalan crisis requires a political solution, which probably means changes to the 1978 Constitution. This, in turn, would require a referendum in all of Spain to approve the reforms and probably a general election. The dilemma is that giving Catalonia more autonomy and, in particular, improving its financial relation with the central government, one of the main grievances, runs the risk of opening up a Pandora's Box of competing demands from Spain's 16 other autonomous regions, while leaving the independence issue entirely to the courts does not look as if it will make the issue go away.

In the Basque Country, meanwhile, the 'definitive cessation' called by the separatist terrorist group Eta to its 40-year campaign of bombings and shootings has held for five years, but the group has yet to dissolve and disarm.

(4) Corruption: a serious concern

C's signed an anti-corruption pact with the PP in August as part of a deal to end the protracted political standoff and offer its support. The pact includes a commitment to remove party officials accused of corruption, an end to the practice of handing down pardons to corrupt officials and the PP's agreement to back a parliamentary committee of inquiry into the so-called Gürtel scandal. The European Commission, meanwhile, wants greater transparency in the awarding of public contracts.

Spanish society as a whole is not more corrupt than other Western societies, although regular readers of the Spanish press could be forgiven for thinking that corruption had reached epidemic proportions. Graft is very rare among the police or judiciary, for example. Corruption among the political elites, however, is perceived as being fairly widespread, particularly in the interface between local politicians and construction companies, and is one of Spaniards' main concerns in the regular surveys conducted by the government-funded CIS.

Spain's latest score in the Corruption Perceptions Index of the Berlin-based Transparency International dropped from 65 in 2012, its best score, to 58 this year (the nearer to 100 the cleaner the country) when the country was ranked 36th out of 167 nations. Spain, however, still has a long way to fall before it reaches the position of Italy, which is ranked 61st with a score of 44 (see Figure 4).

Figure 4. Corruption Perceptions Indexes, 2009-15 for the main EU countries (1)

	2009	2010	2011	2012	2013	2014	2015
France	6.9	6.8	7.0	71	71	69	70
Germany	8.0	7.9	8.0	79	78	79	81
Italy	4.3	3.9	3.9	42	43	43	44
Spain	6.1	6.1	6.2	65	59	60	58
UK	7.7	7.6	7.8	74	76	78	81

(1) 2009-11: on a scale from 0 (perceived to be highly corrupt) to 10 (perceived to have low levels of corruption); 2012-15 on a scale of 0 (highly corrupt) to 100 (very clean).

Source: Transparency International.

The Gürtel trial, the biggest in decades, opened in October. Among the 37 people in the dock are three former treasurers of the ruling PP including Luis Bárcenas, accused of salting away €8 million in various Swiss bank accounts. The kickbacks-for-contracts case (which benefited individuals as well as the party) is the first in a series of macro trials that will examine corruption during Spain's boom years and which tainted not just the PP. Francisco Correa, the alleged Gürtel ringleader, who handed out bribes in exchange for contracts, faces up to 125 years if found guilty. He went by the nickname 'Don Vito', after the main character in the film *The Godfather*.

In a much smaller but emblematic trial (most corruption is at the local level), María Victoria Pinilla, the Mayor for 24 years of La Muela, a municipality with a population 5,000, was jailed in September for 17 years for misappropriation of public funds, trafficking of influences, fraudulent use of state subsidies and money laundering. Her former husband, three sons and sister were also on trial. Despite being a small town, she managed to build a covered bullring, three museums, an aviary, an auditorium and a vast sports centre, and, among other personal luxuries, she acquired a mansion in the Dominican Republic where she rubbed shoulders with the legendary crooner Julio Iglesias.

The Socialists are also embroiled in corruption scandals, though to a lesser extent than the PP. Manuel Chaves and José Antonio Griñán, both former Socialist Prime Ministers of Andalusia, the party's fiefdom, have been formally accused in the ERE corruption case involving the alleged misappropriation of millions of euros of public money to help companies make severance payments to laid-off workers.

Corruption has been a major factor behind the erosion of the hegemony of the PP and the PSOE, which colonised institutions such as the governing body of the judiciary and

the Court of Auditors responsible for the comptrolling of public accounts, as well as the more than 40 savings banks (whittled down to fewer than 10 since 2012 as a result of a banking crisis). Not only did politicians invade new areas, but also they abandoned their natural environment –parliament, one of whose functions is to demand accountability–.

(5) The judiciary: not sufficiently independent

The politicisation of the judiciary and the judicialisation of politics have deprived Spain of an effective system of checks and balances and made impunity easier.

The 20 members of the General Council of the Judiciary (CGJP), the governing authority, are appointed by parliament and the Senate by a simple majority vote (previously, before a controversial reform in 2013, by a three-fifths supermajority vote). As a result, they are largely beholden to the parties that appointed them. The PP and C's agreed to reform the CGJP so that 12 of its members are chosen by the legal profession and the rest by parliament.

The Council of Europe's Group of States against Corruption (Greco) warned in a report last month that it is 'crucial' that the CGJP is 'not only free, but also seen to be free from political influence' and stressed that the 'political authorities should not be involved, at any stage, in the selection process of judicial staff'.⁴ A survey carried out by the CGJP among the legal profession found that 75% of respondents felt that the CGJP does not sufficiently protect the principles of judicial independence. The latest EU Justice Scoreboard showed that the public's perception of judicial independence in Spain is at the bottom of the EU ranking –in 25th position out of 28 countries–. Nor does Spain do well in the global ranking by the World Economic Forum, which places the country 97th out of 147 nations.

Greco said only five of the 11 proposed measures had been adopted since its last report, albeit partly. The six measures not implemented to Greco's satisfaction are:

- The Congress and the Senate adopt a code of conduct made easily accessible to the public.
- Appropriate measures be taken to ensure effective supervision and enforcement of the existing and yet-to-be established declaration requirements and other rules of conduct of members of parliament.
- Rules on how members of parliament engage with lobbyists and other third parties who seek to influence the legislative process should be introduced.
- Assess the legislative framework governing the CGPJ and of its effects on the real and perceived independence of this body from any undue influence, with a view to remedying any shortcomings identified.

⁴ The full report is available at [http://www.coe.int/t/dghl/monitoring/greco/evaluations/round4/RC4/GrecoRC4\(2016\)1_Spain_EN.pdf](http://www.coe.int/t/dghl/monitoring/greco/evaluations/round4/RC4/GrecoRC4(2016)1_Spain_EN.pdf).

- Objective criteria and evaluation requirements be laid down in law for the appointment of the higher ranks of the judiciary, in order to ensure that these appointments do not cast any doubt on the independence, impartiality and transparency of this process.
- Extend the limitation period for disciplinary procedures.

The justice also system moves at a snail's pace. Many of the courts are in a deplorable state due to the lack of material resources and understaffing. In one of the most notorious cases, it took 10 years for Carlos Fabra, a prominent PP politician best known for promoting the building of the ghost airport at Castellón, to come to trial on charges that included tax fraud.

(6) Unemployment: falling but still very high

Spain is out of recession and the economy is growing at 3%, double the euro zone's average, but the pre-crisis GDP level (2008) will not be regained until next year. Furthermore, it has taken six years for the jobless rate to drop below 20% (18.9% in the third quarter of 2016), down from a peak of 27% at one stage in 2013, and youth unemployment (those under the age of 25) was 42% (see Figures 5 and 6). Over 1.4 million households have no bread winners. Spain is one of the very few countries (along with Italy) that has not recovered its pre-crisis (2008) level of people at risk of poverty or social exclusion (see Figure 7). The shadow economy (estimated at 18% of GDP) cushions this still dire situation.

Figure 5. Unemployment rate, seasonally adjusted (% of the labour force)

	2007	2013	2016 (1)
France	8.0	10.3	10.5
Germany	8.5	5.2	4.2
Italy	6.7	12.1	11.4
Spain	8.2	26.1	19.5
UK	5.6	7.6	4.8
EU-28	7.2	10.9	8.6

(1) August.

Source: Eurostat.

Figure 6. Youth unemployment rate, seasonally adjusted, age group 15-24

	2004	2013	2016 (1)
France	19.8	24.1	24.9
Germany	13.0	7.8	6.9
Italy	24.4	40.0	38.8
Spain	22.5	55.5	43.2
UK	10.7	20.7	13.5 (2)
EU-28	18.7	23.7	18.6

(1) August.

(2) June.

Source: Eurostat.

Figure 7. People at risk of poverty or social exclusion, 2008 and 2015 (% of total population) (1)

	2008	2015
France	18.5	17.7
Germany	20.1	20.0
Italy	25.5	28.7
Spain	23.8	28.6
UK	23.2	23.5
EU-28	23.7	23.7

(1) This means that they were in at least one of the following three conditions: at-risk-of-poverty after social transfers (income poverty), severely materially deprived or living in households with very low work intensity.

Source: Eurostat.

Apart from the real estate bubble period (2002-08), Spain's jobless rate since 1980 has been at least five percentage points above that in Germany, France, Italy, the UK and the US, 10 points higher in the early 1990s, 15 points in 2013 and 2014 and around 10 points in 2016 (in the case of Germany 15 points). Even in 2007, at the height of the economic boom, Spain's jobless rate was 8%, a disastrous level by the standards of developed countries. Some companies complained during the boom they could not find suitable workers to fill posts, and so the 8% figure was regarded as full employment.

There is no lack of diagnoses of the Spanish labour market. According to a former executive director for Spain at the International Monetary Fund, Spain is the most over-diagnosed country in the world in terms of the labour market. What he told his colleagues six years ago remains valid today. 'One could talk for hours and one could fill this room

with labour-law experts and economists, and they will have 150 solutions or 150,000 solutions for the troubles of the Spanish labour market. The Spanish labour market is a disaster in terms of efficiency. I have no trouble admitting this and neither do my authorities. It has produced a phenomenon that can be described in many ways, but basically, for the past 20 years, something between 40%-50% of the Spanish population has been either unemployed permanently or in precarious job conditions in fixed-term contracts'.

Spain also has the distinction of holding the world record in the number of labour market reforms over a 35-year period. Fifty-two were enacted between the 1980 Statute of Workers' Rights, which laid the foundations for post-Franco labour relations, and the end of 2015, and yet the labour market remains dysfunctional.

A particularly serious problem today is very long-term unemployment (more than two years); the longer someone is jobless the more difficult it is to get work. Spain's rate is not the highest in the EU (that dubious honour goes to Greece), but it was more than three times higher in 2015 than in 2007, by far the steepest rise (see Figure 8).

Figure 8. Very long-term unemployment (% of total unemployment) (1)

	2007	2015
Greece	28.1	51.2
Italy	28.8	38.8
Spain	9.8	34.6
EU-28	25.5	30.1
Germany	39.4	28.6
France	20.9	22.0
UK	10.8	17.5

(1) More than two years.

Source: Eurostat.

Spain's crisis decimated jobs, especially in the construction sector, one of the engines of a decade-long boom. The bursting of the real-estate bubble had a huge knock-on effect. Construction jobs were shed almost as quickly as they had been created: more than one million between 2008 and 2012 (see Figure 9). The number of those working in the construction sector in September 2016 (just over one million) was still less than half that in 2008.

Figure 9. Employment in Spain by Sectors, 2008-16 (million jobs) (1)

	2008	2010	2011	2012	2014	2015	2016 (2)
Services	13.83	13.40	13.19	12.71	13.23	13.57	13.95
Industry	3.04	2.62	2.52	2.38	2.38	2.48	2.50
Construction	2.18	1.57	1.27	1.07	0.99	1.07	1.07
Agriculture	0.80	0.80	0.80	0.78	0.74	0.74	0.76
Total jobs	19.85	18.40	17.80	16.95	17.34	17.86	18.28

(1) Average figures for each year.

(2) First nine months.

Source: INE, based on labour force survey.

Job creation during the boom was at the expense of precarious (temporary) employment contracts, which intensified the duality between insiders (those on permanent contracts) and outsiders (those on temporary contracts). Many of those who lost these jobs were on temporary contracts as they were cheaper to sack than those on permanent contracts. This two-track labour market, introduced in 1984 as a way to give employers more flexibility and get around Franco's paternalistic labour laws, split workers into castes and gave companies little if any motivation to hire people as permanent employees. It also discourages firms from investing in training, because such employees are temporary. The temporary employment rate peaked at 34.5% in 2006, dropped to 21.9% in 2013 and increased to 27% in the third quarter of 2016.

One of the most worrying factors behind unemployment is the large number of workers with low levels of education and hence a lack of basic skills, many of who left school early at 16 to work on building sites during the boom years. Only 25% of those aged between 25 and 34 in 2015 in Spain had completed their upper secondary education compared with an OECD average of 42% (see Figure 10). At the other end of the spectrum, university graduates often find themselves in jobs for which they are over-qualified.

Figure 10. Upper secondary attainment of 25-34 years olds (%)

	2015 (%)
France	42
Germany	58
Italy	49
Spain	25
UK	36
US	44

Source: Education at a Glance, 2016, OECD.

Many young people, particularly males, concluded that education did not pay and swapped the classroom for a building site. At the height of the boom in 2006, the number of housing starts in Spain (865,561) was more than that of Germany, France and the UK combined (an estimated 70,000 in 2016). These low-skilled jobs in an economy excessively based on a labour-intensive but unsustainable construction sector were destroyed as soon as the economy ground to a halt and they may have vanished forever. Part of Spain's unemployment problem is due to the nature of its economic model. This is not a problem exclusive to Spain, but it is fair to say that it is more accentuated than in other EU countries.

Tourism, unlike the construction sector, has continued to flourish and on a much more sustained basis but it, too, is not a panacea for unemployment. This year Spain will receive a record of more than 74 million tourists, the third-highest number in the world, partly thanks to the loss of tourists to Egypt, Tunisia and Turkey because of political violence and security concerns. The Canary Islands will receive around 13 million tourists (six times their population) and yet the jobless rate is still astronomically high at 26%.

The PP tackled labour market reforms in 2012 during its last government. These reforms were more ambitious than those in 2010 by the Socialist government (which led to a general strike) as they allowed companies to opt out of collective pay-setting agreements within industries and to make their own deals with workers. They also gave companies greater discretionary powers to adopt internal measures to limit job destruction. Dismissal regulations were also modified, redefining the conditions for fair dismissal and improving further on the greater clarity introduced by the 2010 reform, severance payments in the case of unfair dismissal for those on permanent contracts were reduced (from 45 days per year worked with a maximum of 42 months to 33 days per year with a maximum of 24 months) and the requirement of administrative authorisation in the case of collective redundancies eliminated. Compensation for permanent contract termination in the case of redundancies for objective reasons was set at 20 days per year worked with a maximum of 12 months. A new open-ended contract, which can be used by small and medium-sized businesses for employees who are under the age of 30, allows dismissals without justification during the first year of employment.

A study by the bank BBVA said that had this reform been adopted earlier, in 2008, it would have saved the destruction of one million jobs. The auto industry, in the face of falling production, adopted measures with the support of trade unions that allowed for a longer working day and lower salaries for new hires, enabling many jobs to be kept. Spain's hourly labour costs were unchanged between 2012 and 2015 and increased the least since 2008 among the five largest EU countries (see Figure 11). This is one reason why the economy has become more competitive and moved from 37th position in 2015 to 34th in this year's IMD ranking (see Figure 12).

Figure 11. Hourly labour costs for the whole economy (€) (1)

	2008	2012	2013	2014	2015	Change 2008/15
France	31.2	34.3	34.3	34.6	35.1	+12.5
Germany	27.9	30.5	31.0	31.4	32.2	+15.4
Italy	25.2	27.7	28.1	28.3	28.1	+11.5
Spain	19.4	21.1	21.2	21.3	21.2	+9.2
UK	20.9	21.7	20.9	22.3	25.7	+22.9
EU-28	21.5	23.9	24.2	24.6	25.0	+16.2
Euro zone	25.3	28.3	28.7	29.1	29.5	+16.6

(1) Excluding agriculture and public administration.

Source: Eurostat.

Figure 12. Competitiveness input factors, ranking in each category and overall ranking

	2011	2012	2013	2014	2015	2016
Economic performance	47	51	53	51	39	30
Government efficiency	38	40	50	46	43	49
Business efficiency	38	46	50	42	46	41
Infrastructure	26	27	27	27	29	27
Overall ranking	35	39	45	39	37	34

Source: IMD World Competitiveness Yearbook 2016.

Spain also rose one notch this year (to 32nd out of 190) in the World Bank's 2017 Ease of Doing Business ranking (see Figure 13). The country's distance-to-frontier score – which seeks to capture the actual distance it has to go to reach the frontier of 'best performance' – was almost the same as France and not far from Germany.

Figure 13. Ease of doing business (DB) ranking

Ranking in DB 2017	Distance to frontier in 2017 DB (1)	Distance to frontier in 2010 DB (1)
1. New Zealand	87.01	88.84
7. UK	82.74	83.58
8. US	82.45	85.72
17. Germany	79.87	79.49
29. France	76.27	69.79
32. Spain	75.73	68.18
50. Italy	72.75	66.12

(1) An economy's distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier. For example, a score of 75 means an economy was 25 percentage points away from the frontier constructed from the best performances across all economies and across time. A score of 80 would indicate the economy is improving.

Source: Doing Business 2017, World Bank.

The 2012 reforms lowered the GDP growth rate needed to create jobs from around 2% to 1%-1.5%. The pace of job creation has been accelerating since Spain emerged from recession (the number of unemployed dropped from 6.27 million in early 2013 to 4.32 million in the third quarter of 2016), but around 90% of new hires are employed on short-term contracts. Spain has the highest level of labour-market segmentation in the EU. A further reform, which C's has promoted, could be to put new workers on the same unified (single) contract, which would offer more protection than temporary contracts but less layoff money than permanent contracts.

The case for a single type of contract was bolstered in October when a Madrid court ruled that a temporary worker who was fired without any severance pay must be compensated like a permanent employee. The court said making a distinction between workers by contract type is a form of discrimination, applying the same criteria laid out in an EU court ruling in September. Temporary staff are given compensation equivalent to 12 days per year worked compared with 20 days for those on permanent contracts. The ruling could set a legal precedent for temporary workers in Spain.

Another issue that needs to be clarified more is the role of labour courts in allowing collective dismissals. The 2012 reforms enable a company that has registered losses for three consecutive quarters to shed workers without having to seek administrative authorisation. But the courts, according to employers, are excessively arbitrary when dealing with these cases.

(7) Education: need for a political pact

The labour market and education are closely linked. Spain has made considerable progress in educational attainment in the last 40 years, particularly when it is borne in mind that it was not compulsory to attend school (between the ages of six and 14) until

1970, much later than most other developed countries. The country has also done better than many other European countries as regards educational mobility: about 40% of adults have a higher level of education than their parents.

The system, however, is in crisis, particularly at the secondary-school level. During the economic boom, many teenagers came to the conclusion that education did not pay, and, sadly, they were right. They dropped out of school early at 16 (the age at which compulsory education ends) and flocked in drives to work in the construction and tourism sectors, buying their first cars when they were 18 or so. The early school-leaving rate peaked at 31.7% in 2008 (precisely at the height of the economic boom) and last year was down to 20%, still almost double the EU average (see Figure 14). This is not the result of any government measure, but simply the fact that there are far fewer jobs to go to.

Figure 14. Early leavers from education and training, age group 18-24

	2004	2008	2015
France	12.3	11.8	9.2
Germany	12.1	11.8	10.1
Italy	23.1	19.6	14.7
Spain	32.2	31.7	20.0
UK	12.1	16.9	10.8
EU-28	16.0	14.7	11.0

Source: Eurostat.

Nowhere was early-school leaving rifer than in Villacañas, which became the door-making capital of Spain. At the height of the boom, this town of 10,000 inhabitants had 10 door-manufacturing plants employing 6,000 people and producing 11 million doors a year, 60% of the national total. Hardly anyone stayed on at school. One bright lad saw the writing on the wall and stopped working in one of the factories so he could complete his education. He did so well that he won a place at the London School of Economics and went on to work for the Bank of Spain.

Even more worrying is the rise in Spain's NEETs –those aged between 20 and 34 who are neither employed, in education or in training–. The NEETs rate was 15.6% in 2015 (see Figure 15). These people form a 'lost generation'.

Figure 15. Youth neither in employment nor in education and training (NEET) rate, age group 15-24

	2004	2013	2015
France	10.9	11.2	12.0
Germany	10.1	6.3	6.2
Italy	16.8	22.2	21.4
Spain	12.5	18.6	15.6
UK	8.4	13.2	11.1
EU-28	12.9	13.0	12.0

Source: Eurostat.

Spain has 12 universities in the latest Shanghai ranking of the world's top 500 universities, but none of them are in the top 100 (see Figure 16). Since the ranking was launched in 2003, Spain has had a low of nine and a high of 13 universities among the 500 best.

Figure 16. Shanghai global ranking of universities

Position	University	Change 2015/16
151-200	Barcelona	=
201-300	Autónoma Madrid	↑
	Granada	↑
	Autónoma Barcelona	↓
	Complutense Madrid	↓
301-400	Politécnica Cataluña	↑
	Politécnica Valencia	=
	Pompeu Fabra	↑
	Santiago de Compostela	↑
	País Vasco	=
401-500	Valencia	↓
	Rovira I Virgili	↑

Source: ARWU.

The education system needs a national pact between politicians. For far too long education had been kicked around like a political football with each change of government. Instead of focusing on key problems such as the high drop-out rate or the

large number of students who repeat a course before they reach 15 (which, in turn, demotivates them and results in them leaving school at 16), the public debate is an ideological one about far less important issues such as whether to increase or decrease the amount of religious instruction or introduce or get rid of citizenship courses.

The proposals contained in the white book on education prepared for the last PP government by José Antonio Marina and shelved are a starting point. Among other things, Marina proposed that teachers be assessed more. Teachers in Spain are appraised to access the profession but not regularly afterwards. However good or bad a teacher is, they earn the same.

(8) Budget deficit: still struggling to meet the EU target

Spain became something of a poster boy for getting to grips with its economic crisis, particularly in the German government's eyes, imposing orthodox austerity measures, cutting pensions, reducing welfare spending, freezing public sector wages and increasing income taxes and VAT. But this is no longer so. The credibility the last PP government won was lost as a result of its persistent failure to lower the budget deficit (the difference between revenues received and spending made) to 3% of GDP and finally comply with EU fiscal guidelines.

Spain was supposed to reach the 3% figure this year, but that proved impossible after the government missed the targets in 2014 and 2015. The deficits in those years were 5.8% and 5% (0.8 pp above target) of GDP, respectively. Under a new deal with the European Commission, the deficit (revised target for 2016 of 4.6% compared with an initial objective of 2.8%, a difference of some €20 billion) has to be below 3% in 2018 or Spain will face a financial punishment (a maximum of 0.2% of GDP), which it narrowly missed this year. The latest forecast puts next year's deficit at 3.6%, well above the 3.1% agreed with Brussels. The PP needs to find €5.5 billion of extra revenues or spending cuts in 2017. Approving the budget for next year (the 2016 budget was rolled over in order to meet an EU deadline) is the first challenge facing the new government and one when its ability to strike a deal with other parties in order for it to be approved will be sorely tested.

The ailing social security system is a major contributor to the budget deficit (see Figure 17). The number of contributors to the social security system is still 1.8 million less than the peak of 19.5 million in 2007, while, on the spending side, the population is rapidly ageing and living longer. According to Antonio Huertas, president of the insurance company Mapfre, 26 million contributors are needed to maintain the current pension system. The average pension has risen from €646 in 2006 to €906 in 2016. The special reserve built up during the boom to help pay pensions during times of crisis and which stood at €66.8 billion in 2011 (€24.2 billion in July 2016) will be depleted by the end of 2017. Another reason for the deficit overshoot was the government's income and corporate tax cuts, widely viewed at the time as something the country could ill afford and implemented in 2015, an electoral year.

Figure 17. Balance of public administrations, 2014-15 (% of GDP)

	2014	2015
Central government	-3.57	-2.53
Regional governments	-1.75	-1.66
Local administrations	+0.57	+0.44
Social security	-1.04	-1.26
General government deficit	-5.79	-5.00

Source: Economy and Competitiveness Ministry.

Under a reform in September 2013, pension payments under the pay-as-you-go system stopped being automatically indexed to annual inflation, something long demanded by the European Commission. This is helping to contain long-term pressure on public spending. A complex formula known as the Pension Revaluation Index replaced pension indexation in order to calculate annual pension rises. This formula uses a series of criteria such as the number of pensioners, the financial situation of the social security system and the level of pension payments over many years. From 2014 onwards, pension payments rose by a minimum of 0.25% every year, while maximum increases were capped at inflation rates plus a 0.25% top-up.

Inflation, however, was negative in 2014 (-0.2%) and 2015 (-0.6%), making the apparently meagre rise of 0.25% an increase in real terms in both these years. Spain's net pension replacement rate –the individual net pension entitlement divided by net pre-retirement earnings, taking into account personal income taxes and social security contributions paid by workers and pensioners– is one of the highest among OECD countries (see Figure 18).

Figure 18. Net pension replacement rates (% of pre-retirement earnings) (1)

	% of individual earnings
Spain	89.5
Italy	79.7
EU-28	70.9
OECD average	63.0
Germany	50.0
UK	28.5

(1) 2014 (latest year available).

Source: Pensions at a Glance 2015, OECD.

On the revenue side, the government, among other things, needs to narrow the gap between the legal and effective tax rates which, according to the Association of Tax

Inspectors, is the widest after Ireland and the Netherlands. This is because of tax deductions that are widely regarded as excessive, particularly for R&D. Tax fraud also remains high, though the previous PP government scored some notable successes in this area. The Tax Agency collected a record €15.6 billion from fraud in 2015, 27% more than in 2014, while the introduction of form 720 in 2013, which it is obligatory to fill in for those who have assets worth more than €50,000 abroad, has yielded €840 million.

(9) Exports: flourishing

Exports increased impressively during Spain's recession years and they are continuing to grow, despite the recovery in domestic demand. Exports of goods increased from €185 billion in 2007 (17.6% of GDP) to €250 billion in 2015 (23.3%) and €167 billion in the first eight months of 2016 (+1.3% year-on-year). Even allowing for the shrinkage in Spain's economic output, which has made exports in GDP terms look better, this is still a significant achievement (see Figure 19). Exports have contributed half the cumulative growth in the economy since the third quarter of 2013 when the economy began to recover.

Figure 19. Merchandise exports, as a percentage of GDP and coverage, 2007-15 (€ billion and %)

	Exports (€ bn)	% of GDP	Coverage (%) (1)
2007	185.0	17.6	64.7
2008	189.2	17.3	66.8
2009	159.9	15.2	77.6
2010	186.8	17.7	77.8
2011	215.2	20.2	81.8
2012	226.1	21.5	87.7
2013	235.8	22.8	93.4
2014	240.6	22.9	90.6
2015	250.3	23.3	91.2
2016 (2)	167.0	–	93.8

(1) Exports as a percentage of imports.

(2) First eight months.

Source: Ministry of Economy and Competitiveness.

Buoyant exports and the reduction in the import bill, mainly due to much lower energy prices, have substantially reduced the trade deficit which in the first eight months of 2016 was €5 billion lower than in the same period of 2015 at €19 billion. Spain is estimated to have saved around €43 billion in 2015 and 2016 thanks to cheaper oil and gas.

Between July 2010, when the Spanish economy was in recession, and July 2016 Spain's export volume rose by 18.8% compared with a 9.2% increase for Germany (from a much higher starting point), 4.1% for Italy, 3.2% for France and 1.0% for the UK. There have also been shifts in the structure of exports, with food, drinks and tobacco almost overtaking the automotive sector (car sales in Spain have picked up considerably) and capital goods holding up as the main segment, a sign that more products with a relatively high technological component are being sold abroad (see Figure 20). Chemical exports are also rising: they are forecast at close to €23 billion in 2017, almost 50% higher than in 2007. Spain, however, still has a low level of high-technology exports (see Figure 21).

Figure 20. Merchandise exports by sector, 2007 and 2016 (1) (% of total)

	2007 (exports €181.5bn)	2016 ¹ (exports €167)
Food, drinks and tobacco	13.7	17.1
Energy products	4.6	4.7
Raw materials	2.0	2.1
Semi-manufactured non-chemical products	13.1	10.1
Chemical products	13.1	14.5
Capital goods	21.6	20.2
Automotive industry	18.2	17.9
Consumer durables	3.1	1.7
Manufactured consumer goods	8.6	10.0
Other goods	2.0	1.7

(1) First eight months.

Source: Ministry of Economy and Competitiveness.

Figure 21. High-technology exports, 2015 (% of exports of industrial goods)

	%
France	28.5
UK	20.8
Germany	16.7
Poland	8.8
Italy	7.3
Spain	7.1

Source: World Bank.

The distribution by countries is also changing, with the EU taking a smaller share and other markets increasing, particularly Asia and Africa, two areas where Spanish exports have traditionally been low (see Figure 22).

Figure 22. Merchandise exports by geographic area, 2007 and 2016 (1) (€ billion and % of total)

	2007 (exports €181.5bn)	2016 (exports €167bn)
EU	70.1	66.3
Euro zone	55.9	51.6
France	18.6	15.1
Germany	10.8	11.3
Italy	8.5	7.9
North America	4.6	5.1
Latin America	4.9	5.3
Asia	6.2	9.4
China	1.1	2.0
Africa	4.5	6.3
Rest	9.7	5.6

Source: Economy Ministry.

(10) Banks: in better shape

The banking sector is in much better shape, following the crisis in 2012 at Bankia and several savings banks which led to a €41.3 billion bailout by the European Stability Mechanism and a series of reforms and measures to strengthen capital. Spain exited the programme in January 2014. The bruising crisis, generated to a significant extent by over-exposure to a real-estate sector whose bubble burst, produced the closure of 31% of branches, the shedding of 25% of employees and a clean-up that was the equivalent of 25% of GDP.

The six largest banks passed the European Banking Authority's stress tests this year, which submitted them to an adverse scenario set in 2018. The EBA put the banks' balance sheets under a severe economic scenario including a 7.1% drop in GDP, a drop-off in interest income and a new collapse in the real-estate market. It did not test for a Brexit of the UK from the EU or a prolonged period of negative interest rates.

BFA (Bankia group), the result of the merger of five tottering savings banks which almost collapsed and had to be nationalised, has the best fully-loaded common capital Tier 1 ratio (9.6%), a closely-watched measure of a bank's strength, and Banco Popular (6.6%) the worst (see Figure 23). The minimum requirement is 5.5%. Popular, the smallest of

the main banks, plans to cut 3,000 jobs after it was forced to raise funds to absorb real-estate losses.

Figure 23. Spanish bank's stress test results, CET1 capital ratio (%)

	Current	2018 baseline scenario	2018 in adverse scenario
BFA (Bankia group)	13.7	14.4	9.6
Santander	10.2	13.2	8.2
BBVA	10.3	12.0	8.2
Sabadell	11.7	12.8	8.0
Criteria Caixa Holding	9.7	11.0	7.8
Banco Popular	10.2	13.5	6.6

Source: EBA.

The average capital ratio for Spain in the adverse scenario, however, is among the lowest at 8.13% (see Figure 24).

Figure 24. Average CET1 capital ratios by country (%)

	2015	2018 in adverse scenario
Sweden	18.97	16.61
France	12.50	9.57
Germany	13.30	9.44
Europe	12.57	9.22
UK	12.49	8.51
Spain	10.45	8.13
Italy	11.41	7.62

Source: EBA.

The non-performing loans (NPLs) of all banks stood at 9.40% of total lending in August, down from a peak of 13.6% in 2013. The NPL figure does not include the large volume of toxic loans that Bankia and regional savings banks transferred to the 'bad bank' Sareb in 2012 and 2013. Sareb made a loss of €1.52 billion in 2015.

Most banks' profits for the first nine months of this year in a tough environment of very low interest rates beat forecasts. Santander, the euro zone's second-largest bank by market capitalisation, posted an underlying profit (excluding non-recurring items and on a currency-neutral basis) of €4.97 billion, 8% higher year-on-year (attributable profit was 22.5% lower at €4.60 billion). BBVA's net recurring profit was 9.1% higher at €4.32 billion.

Santander and BBVA have continued to benefit from their geographical diversification. The UK, for instance, generates around 20% of Santander's profit. Even Popular managed to notch up a tiny third-quarter profit as it continues to clean up its balance sheet.

Banks are still very exposed to bricks and mortar. The loans of the six largest banks to the construction and real-estate sectors including doubtful ones amounted to €48.52 billion at the end of June, albeit 9.2% lower than a year earlier. The portfolio of foreclosed properties and land in the hands of banks stood at €63.13 billion, down 0.5%.

Spain has only recovered €2.69 billion of the €53.55 billion spent on propping up ailing banks four years ago, a fraction of what the previous PP government hoped for, according to the latest figures.

(11) Foreign policy: punching below its weight

Even when Spain had a functioning government between the end of 2011 and the end of 2015, let alone during the 10 months it took to form a new government, foreign policy was not particularly active. This was partly due to the three crises that have gripped the country and which diverted a lot of the government's time and energy: an economic crisis, which could but did not produce a sovereign bailout like Greece's, the movement for independence in Catalonia and the political crisis following two inconclusive elections. The lame-duck government prevented the ratification of treaties that other countries had already signed (such as the Paris accord on climate change), put back the holding of bilateral summits and led to the cancellation of some official trips by King Felipe.

Spain is a member of the UN Security Council for 2015-16, but has remained fairly silent in that role and its voice has been largely absent in the EU debate on Brexit. Rajoy, when acting Prime Minister, was not invited to an informal summit on the Italian island of Ventotene in August 2016 with Italy's Matteo Renzi, Germany's Angela Merkel and France's François Hollande; and he refused to attend a September summit of Mediterranean EU countries in Athens, where leaders informally discussed the union's post-Brexit future.

The Socialist Prime Minister Felipe González (1982-96) brought Spain into the EU and Nato and worked to expand Spanish business power in Latin America, the PP's José María Aznar sought to forge the kind of special relationship with the US that the UK has and strengthen an Atlantic alliance and the Socialist José Luis Rodríguez Zapatero focused on the Arab world.

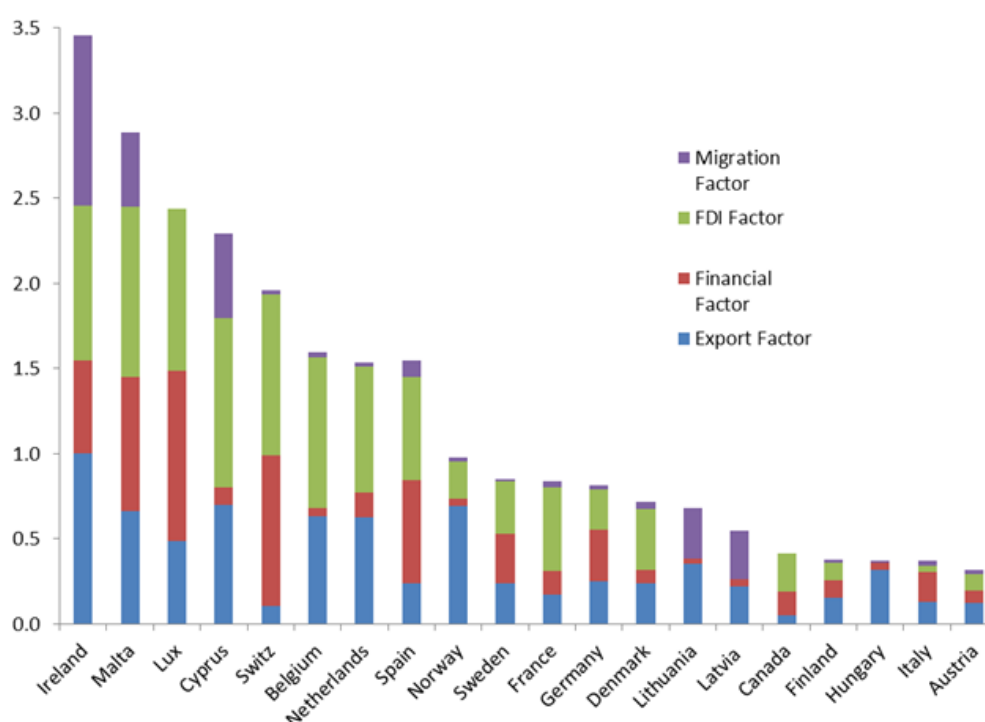
Spain under Rajoy joined the International Syria Support Group, and together with France prepared a resolution on Syria which was vetoed by Russia at the UN Security Council. And together with Italy it joined Germany and France in their proposal for a EU defence union.

Nonetheless, there is a feeling among independent observers that Spain has been punching below its weight over the last five years –and a weight that could very well increase because of the opportunity provided by Brexit if Spain seizes it–. The country,

according to a recent poll conducted as part of a Demos think-tank project, is the most pro-European along with Germany among the six nations surveyed (the other four are Sweden, the UK, France and Poland).⁵

S&P Global Ratings, before the UK referendum, classified Spain as the eighth country most exposed to Brexit (see Figure 25). The UK is the main destination for Spanish investment abroad (with a stock of £58.7 billion in 2014) and the UK is the fifth-largest investor in Spain (€1.7 billion). One-fifth of all foreign direct investment in Spain since 1993 has been British. Spanish companies in the UK with major investments include Telefónica, Iberdrola, Santander and Ferrovial. Sixteen million British tourists came to Spain in 2015 (and 2.2 million Spaniards to the UK). The sharp depreciation of sterling against the euro since the referendum has made holidays for Brits in Spain significantly more expensive.

Figure 25. Brexit sensitivity index



One area, in the post-Brexit scenario, where the government has wasted no time in seizing the moment is the British Overseas Territory of Gibraltar, perched on the southern tip of Spain, which was ceded to Great Britain under the 1713 Treaty of Utrecht and has long been claimed by Madrid. Gibraltarians, unlike those in mainland Britain, voted overwhelmingly in favour of staying in the EU. The caretaker PP government, and there is no reason why the new government will change its position, though perhaps in a manner less shrill, is adamant that the only way for the Rock to remain within the EU

⁵ Available at demos.co.uk/project/nothing-to-fear-but-fear-itself.

after the UK exits is to agree to shared sovereignty, a proposal predictably and determinedly rejected by Gibraltar's Chief Minister, Fabian Picardo.⁶

Spain cites the UN principle of territorial integrity, through UN resolution 1514 (XV) – which says 'any attempt at the partial or total disruption of the national unity and the territorial integrity of a country is incompatible with the purposes and principles of the Charter of the United Nations'–. For the British government it is the preference of the inhabitants of Gibraltar that is paramount.

With the UK out of the EU as of April 2019, the border between Spain and Gibraltar would become an external and not an internal EU frontier (which, as at present, has to be kept open under EU rules). As such, Spain could close it and a legal challenge by the UK and Gibraltar would be more difficult.

(12) Immigration: well integrated

Spain's population rose from 39.6 million in 1996 to a peak of 46.8 million in 2012, an unprecedented increase of more than 7 million in just 16 years and largely due to the influx of immigrants. Since then the population has declined as immigrants have been returning to their country of origin, because of the economic crisis. The jobless rate among foreigners was 24.8% in September 2016 compared with 18.1% for Spaniards.

The foreign-born population dropped by 1.3 million to 4.4 million between January 2012 and January 2016 (see Figure 26). This population peaked at 5.7 million in 2012 (12% of the total), compared with around 800,000 in 1990 (2% of the total). Rumanians comprise the largest foreign community at almost 700,000, close to 200,000 fewer than in 2012, according to official figures. In 1996, there were only 2,258 Rumanians.

⁶ See the recent analysis of this issue by Alejandro del Valle Gálvez at http://www.realinstitutoelcano.org/wps/portal/web/rielcano_es/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_es/zonas_es/ari75-2016-delvallegalvez-gibraltar-ano-cero-brex-it-cosoberania-opportunidades-espana.

Figure 26. Foreign population by nationality, 2016 and 2015, top-10 countries

	1 January 2016 (1)	1 January 2012	Change
Rumania	699,502	897,203	-197,701
Morocco	678,467	788,563	-110,096
UK	297,000	397,892	-100,892
Italy	192,053	191,901	+152
China	171,508	177,001	-5,493
Ecuador	158,967	308,174	-149,207
Germany	142,316	196,878	-54,562
Colombia	135,954	246,345	-110,391
Bulgaria	130,506	176,411	-45,905
Portugal	102,318	138,682	-36,364
Total (2)	4,418,898	5,736,258	-1,317,360

(1) Provisional figures.

(2) Including all other nationalities.

Source: INE.

Whereas between the harsh years of 1960 and 1973 more than one million Spaniards emigrated, Spain during its boom period that ended in 2008 became the favoured country in Europe for migrants in search of a better way of life. To Spain's great credit immigrants have been largely integrated into society. The country does not have any relevant xenophobic, far-right, populist parties and violent attacks on immigrants have been rare.

According to a study by Alejandro Portes, professor of sociology at Princeton University, eight out of every 10 children born of immigrant parents in Spain (second generation) feel Spanish. 'Spain is a friendly society, which does not have an integration model, but there is no general trend of discrimination against immigrants, said Portes. 'Perhaps this is because not so long ago Spaniards were emigrants'.

(13) Demographics: a rapidly ageing population

Immigration is not the only factor that has changed Spain's demographics. Rising average life expectancy –from 77.4 years to 83.2 since 1990, a testimony to the creation of an inclusive welfare state and Spaniards' healthier life style– and one of the lowest fertility rates in the world (1.33 children) are producing significant changes in the population pyramid. The share of the population over the age of 65 now stands at 18.5%, up from 16.6% in 2005 (see Figure 27). Life expectancy in Spain at the age of 80 rose from 8.8 years in 2004 to 10.4 in 2014, the second-highest figure after France (11 years).

Figure 27. Population over the age of 65, 2015 and 2005 (% of total population)

	2015	2005
Italy	21.7	19.5
Germany	21.0	18.6
EU-28	18.9	16.6
Spain	18.5	16.6
France	18.4	16.3
UK	17.7	15.9
Ireland	13.0	11.1

Source: Federal Statistical Office of Germany.

The ageing population, high unemployment for the foreseeable future and 1.8 million fewer social security contributors than in 2008 are lifting the old-age dependency ratio (the inactive elderly as a percentage of the working age population) and exerting considerable pressure on the pension and public health systems to provide for a significantly older population.

(14) Conclusion: consensus the watchword

The new minority government faces a bumpy ride as it gets to grips with a series of problems that will significantly shape Spain's economic and political future. Consensus, a virtue in short supply, will have to be the watchword if Spain is to continue to progress.

Appendix

Basic socioeconomic statistics, 2007 and 2015

	2007 (1)	2015 (2)
Population (million) (3)	44.8	46.4
Foreign-born population (% of total)	9.8	9.5
Number of unemployed (labour force survey, mn)	1.9	4.3 (September 2016)
Unemployment rate (%)	8.3	18.9 (September 2016)
Nominal GDP (US\$ trillion)	1.47	1.25
Per capita income (EU-28 = 100, PPS)	103	92
GDP structure (% of total)		
Agriculture	2.8	2.5 (provisional)
Industry	17.4	18.1
Construction	13.7	5.6
Services	66.1	73.8
Employment by sectors (% of total)		
Agriculture	4.4	4.2 (September 2016)
Industry	16.0	13.7
Construction	13.1	5.9
Services	66.5	76.3
Exports of goods and services (% of GDP)	25.7	33.1
Exports as % of imports (coverage)	64.7	93.8 (August 2016)
Imports of goods and services (% of GDP)	31.7	30.7
Current account balance (% of GDP)	-10.0	+1.4
Number of tourists (mn)	59.2	68.2
Consumer price inflation (annual rate, %)	2.8	0.7 (October 2016)
Gross public debt (% of GDP)	36.2	100.5 (June 2016)
Public expenditure (% of GDP)	39.2	43.8
Tax burden (% of GDP)	37.1	34.4 (2014)
General government fiscal balance (% of GDP)	+1.9	-5.0
Ibex-35 stock market index (Dec 1989 = 300)	15,182.30	9,143.30 (1.11.16)
Inward stock of foreign direct investment (US\$ bn)	585.8	533.3
Outward stock of direct investment (US\$ bn)	582.0	472.1
Stock of new and unsold homes	413,642	490,000 (estimate)
Spending on R&D (% of GDP)	1.27	1.23 (2014)
UN Human Development Index (3)	0.955	0.876 (2014)
Early school leaving rate (4)	31.0	20.0
Gini coefficient of income equality (5)	31.9	34.7 (2014)
Net official development assistance (% of GDP)	0.37	0.13

(1) 2007 has been chosen as the reference year as it was the last year of a long boom period.

(2) 2015 or latest available figure.

(3) The maximum value is one. The index is based on life expectancy at birth, mean years of schooling, expected years of schooling and per capita income.

(4) The percentage of people aged 18-24 who have only lower secondary education or less and are no longer in education or training.

(5) Zero is perfect equality and 100 absolute inequality.

Source: National Statistics Office (INE), Eurostat, UN Human Development Reports, UNCTAD, Economy Ministry, Madrid Stock Exchange and Afi.

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