COUNTRY FICHE SPAIN

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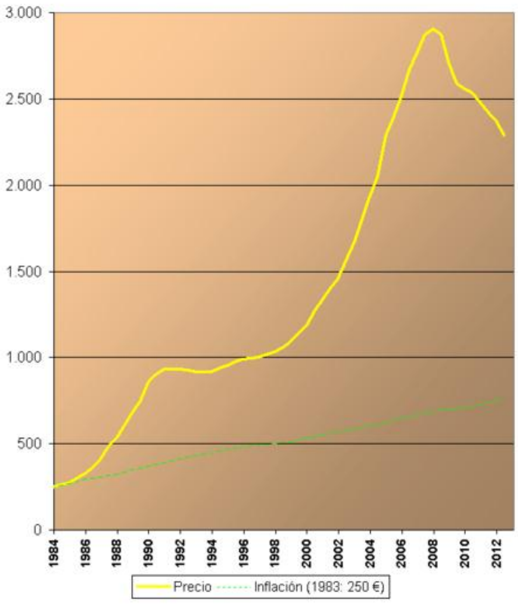
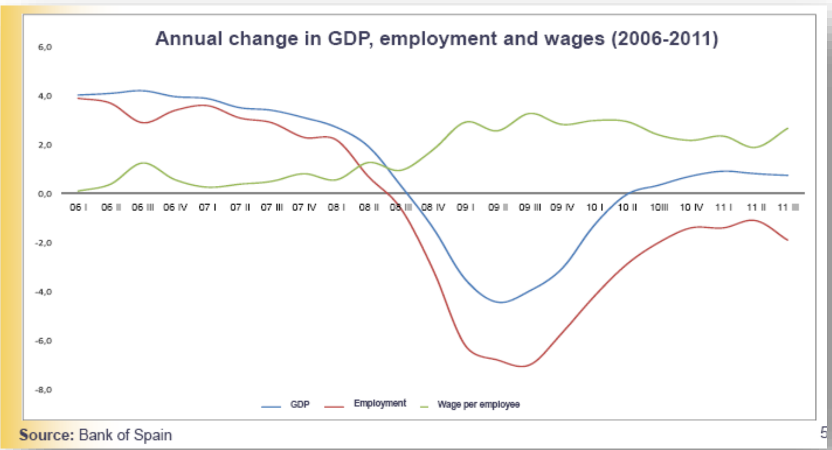
Introduction: a recent history

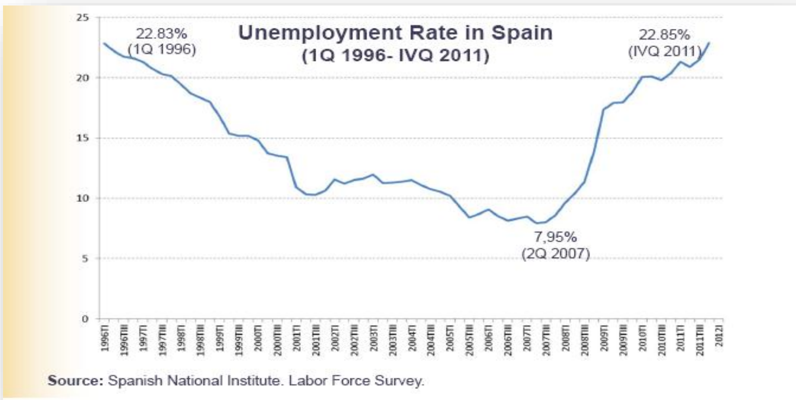
Battered by the global financial downturn, the Spanish economy collapsed into recession in the second half of 2008, taking with it millions of jobs. The crisis had lead to the collapse of the construction sector; a chain of defaults turned into a deep recession. The Spanish property bubble, the massive growth of real estate prices observed from 1985 up to 2008, popped in 2008.[i]

Nominal prices of new housing in Spain
(euro/m2)



Unemployment rose to 23% of active population (now is 25%). Poverty rate, which was almost static during the growth phase, immediately rocketed and is now above 23%.





Public income fell dramatically and the debt burden overwhelmed the financial capacity both of banks and the government. Spain risk premium (difference with German debt bonds) rocketed to more than 400 percentage points.

Generalized rumours about Spanish banks struggling for survival and falling confidence in Spanish debt bonds, corruption episodes and political distress within the Socialists (the ruling party).

The former Socialist government turned to the European Commission for support in 2011. These first EU funds came along, although with conditions: pensions and civil servants salaries reduction, rise in the age of retirement, massive cuts in public expenditures, reform of the labour market...

José Luis Rodríguez Zapatero announced an agreement to constitutionally limit the deficit on Aug. 23, and just ten days later, the Spanish Congress of Deputies approved the measure by a vote of 316 to 5 (with the approval of the lead opposition Popular Party). The amendment was ratified by the Senate soon afterwards.

However, as the public protests of the May 15th showed, all was not resolved. Self-organized and based upon Internet social networks as Twitter and Facebook, movements coincided in strongly rejecting what the government was doing, and they demanded that the people should not pay for the mistaken policies, and for the crisis they did not provoke. Lack of trust in politicians and a claim to revamp the electoral law to introduce direct democracy were other two of the big issues raised by protesters, who camped in the centric Puerta del Sol for many weeks. Their motto: "They do not represent us".

Former Prime Minister Zapatero and Minister of Economy E. Salgado in Sep.2011, after the amendment of the Constitution.

The Constitutional Pact was a signal designed to calm the markets, calm Europe, and show that Spain was committed to not being a problem for Europe. Nevertheless, neither the markets nor the European Commission (particularly German Prime Minister Angela Merkel) could believe in Zapatero as the most suitable Prime Minister to carry out the extremely strong measures against the Welfare State and the enormous web of regional and local administrations. The Popular Party won the regional elections in May, and the general elections in November 2011, and took office before Christmas. Some weeks later, they "discovered" a deviation of the supposedly official public deficit, of some 30 thousand MEURO.

The so-called "received inheritance" (mainly the financial burden) ruined the political agreement with the Socialist Party and, up to certain extent, contaminated the real chances of implementing the planification strategy for getting out of the crisis.

The worsening Eurozone debt crisis has raised Spain's financing costs amid concerns that the country might have to seek a European Union bail-out. While I am writing this report, Oct. 1st to 17th 2012, Spain is still a “candidate country” for the bail-out (either “real” or “virtual”, which is more a “preventive credit line” to grab in case of acute need).

However, the structural adjustment --budget deficit contraction, financial, fiscal and labour reforms-- was agreed by the government and the process is carefully monitored by the

European Commission and the German government. The degree of conditionality may be relatively lighter than in the Troika countries, as the government still holds some freedom of movement and does not have to follow a Memorandum. Instead, Spain is obliged to get approved a National Action Plan to accomplish the compromises of the "Organic Law on Budget Stability and Financial Sustainability of the Public Administrations", which transposes the Fiscal Compact.[ii]

Organic Law on Budget Stability and Financial Sustainability of the Public Administrations (July 2012). Main aspects:

- Public debt is introduced as a criterion of budget sustainability: public debt <60% of GDP
- All levels of the Public Administration must present a balanced or surplus budget in ESA terms. None may incur a structural deficit.
    - In the event of structural reforms having long-term budget impact, a structural deficit of 0.4% of GDP may be incurred.
    - A structural deficit may be incurred under exceptional circumstances (natural disasters, economic recession, or extraordinary emergency)
- EU recommendations will be taken into account when setting stability and public debt targets
- All Public Administrations must approve an expenditure ceiling consistent with the stability target and spending rules.
- Public Administrations' spending may not increase above the GDP growth rate, in accordance with European regulations.
    - Absolute priority for debt servicing costs
    - Failure to meet targets will require presenting a 1-year economic and financial plan
- In the event of non-compliance with the plan: automatic approval of non-availability of credit to guarantee compliance with the established target
- A deficit due to exceptional circumstances will require a rebalancing plan to address the consequences of these situations.

Many wonder whether Mr Rajoy has any strategy to restore confidence in markets and among Spaniards. With a deficit of about 9% of GDP last year, an unemployment rate surpassing 25% and a protest movement that is showing flashes of violence, some worry that Spain is being sucked into a Greek-style death spiral. Others are convinced that the Spanish public sector still has much fat, that unemployment statistics are inflated and that the shock-absorber of Spanish society, the family, remains strong.

Macroeconomy / Context

Waiting for a Bail-out?

Mr Rajoy prevaricates over a fresh euro-zone bail-out, which now comes with a conditional promise from the European Central Bank (ECB) to help bring down Spain's stifling borrowing costs. France wants him to take the money; Germany tells him not to. Before walking through the door Mr Rajoy wants to know that Germany won't shut it on his fingers, and to be sure about what lies beyond.
What will the ECB do, and what conditions will be imposed on Spain?

October 16th. Spain wants risk premium guarantee before asking for bailout. The government wants guarantees that if it goes ahead with the request for a second European bailout, as it is being pressured to do, the European Central Bank (ECB) will intervene in the secondary debt market to ensure that the risk premium on Spanish sovereign debt goes down to around 200 points and stays there.

This is the condition that Spain is setting before it officially requests the loan, government sources say, denying rumours that the real reason for the delay are regional elections taking place in various part of Spain on October 21 and November 25. Government said that said that a risk premium of 200 points –which measures the difference between investor faith in the Spanish 10-year bond and the benchmark German one -- is “reasonable” given the economic situation of both countries.

This would make Spain’s debt situation sustainable, let the government finance itself at reasonable rates and allow the Treasury to repay maturing debt in the midterm. By comparison, last Friday the Spanish risk premium closed at 417 points, having reached a historical high of 638 points in July, well beyond the point where other European countries such as Ireland or Portugal requested a bailout. Government sources said that a Spanish bailout must meet four requirements: **Spain must request it, its conditions must be accepted, goals must be set, and all EU members must approve it**.[iii]

The euro zone has enough resources of its own to fund a bail-out. The European Stability Mechanism, a new €500 billion rescue pot backed by euro-area countries, can buy Spanish debt directly, reducing the strain at bond auctions. And once Spain has agreed a programme of economic reforms, the ECB now stands ready to intervene in secondary bond markets, pushing prices up and yields down.[iv]

October 16th. The Economy minister Luis de Guindos downplayed the significance of Standard & Poor’s’ decision to downgrade Spain’s sovereign rating to just one notch above junk status. “Ratings agencies are always behind the markets,” he said. “The Spanish government is not going to act in accordance with what the agencies do.” Moody’s finally decided not to play along.[v] This is crucial, as international investors agencies are not supposed to buy junk bonds... if Spain’s rating goes beyond this category there would be even more serious problems to funding from the markets.

Spanish Banks and their rescue still to arrive

In September Spain announced its banks needed about €40 billion of public money, and produced a plan to clean up the sector, while drawing up a budget to bring the deficit down to 4.5% of GDP next year and launched a new round of structural reforms. Yet some analysts still question whether the banks’ stress-tests were stressful enough.

The conclusion of a bottom-up review of Spain’s fourteen biggest banking groups by Oliver Wyman (a consultancy) is that the final figures are lower than some had feared. The banks will need “only” between €40-59 billion of bail-out money from European rescue funds to boost capital as protection against a serious further downturn in the country's economy. Nationalised giant BFA-Bankia will be predictably leading the way with capital needs of €25 billion. Santander, BBVA, Caixabank and several others came through unscathed.[vi] This sum is well below the €100 billion already offered by the euro zone. The IMF mission is currently supervising this bail out to the Spanish banks, although the funds have not arrived yet.

2013 Budget

The deficit is meant to fall from 6.3% (foreseen in December 2012)[vii] to 4.5% of GDP in 2013. That is some €19 billlion in a year of shrinking growth when Spain must also pay an extra €9.7 billion in debt servicing and cannot count on income generated by this year's one-off tax amnesty.

The growth projections for 2013 look over-optimistic. Analysts generally see the economy shrinking two to three times more than what the government previews (0.5% of negative growth). Bank bailouts also show up in the soaring national debt as the government expects banks to need €40 billion from euro zone bailout-funds. Debt rises to 90.5% of GDP in 2013, while Spain started the crisis with national debt at under 40% of GDP.[viii]

The 2013 budget plan released at the end of September and currently awaiting approval by Congress underpins the long-term austerity package outlined by Prime Minister Mariano Rajoy in July, aimed at reducing the central government's budget deficit by 65 billion euros over two-and-a-half years. Rajoy says the 2013 budget, 64 percent of which is comprised of social spending cuts rather than tax hikes, "guarantees" that Spain will meet a pledge to the rest of the euro zone to cut its deficit to 4.5 percent of gross domestic product next year, from a target of 6.3 percent this year -- one that is widely expected to prove too tight.

As expected, the new measures include an end to mortgage rebates, which is expected to raise 90 million euros, while an extension of the wealth tax is expected to raise 700 million euros in 2013. In total, the government says this and other fiscal measures will increase revenue by 4.4 billion euros next year.

In a specific gesture toward older people and one made to maintain one of Rajoy's election pledges, the 2013 budget includes a one-percent increase in pension payments, although many economists say the Popular Party (PP) government will eventually need to cut pension payments to meet budgetary targets. The 2013 budget includes some updates to the tax code as well. In 2013 and 2014, Spain will limit tax write-offs for large companies. And it will raise the short-term capital gains tax to discourage speculation, which is expected by the Spanish government to raise 90 million euros. A new tax on lottery winnings over 2,500 euros will raise 824 million euros, says the government.

Acceding to the fiscal discipline demanded by other euro-zone leaders is essential if the government wants to tap the new bond-buying program the European Central Bank announced recently, designed to help reduce the borrowing costs of beleaguered euro-zone members like Spain. Spain faces debt refinancing needs of 38.6 billion euros next year, according to the draft budget. That is almost 10 billion euros more than the maturities included in the 2012 state financial plan, underscoring the extent to which the government is struggling to contain its borrowing costs.[ix]

Investment hits new low

The hardest-hit area of public spending is investment, which has fallen by 56 percent since 2008. The 2013 budget reduces investment in infrastructure and public works to 10.5 billion euros, a 15.6-percent drop on this year.

Further pay cuts for public sector employees

At the same time as state enterprises and services are cutting staff, public sector employees have already lost around a quarter of their spending power over the last three years. Nevertheless, spending on wages will increase by 0.4 percent in next year's budget, largely due to pension contributions. The result will be further pay cuts. This might be done by not paying the summer or Christmas extra payment.[x]

Deficit reduction target: even the IMF says it's too much

October 11th. IMF Managing Director Christine Lagarde on Thursday called for financially strapped euro-zone countries such as Spain, Portugal and Greece to be cut more slack in reducing their public deficits. Lagarde said that the criteria used for deficit targets should be set in structural terms – i.e. corrected for the fall in economic activity – rather than in nominal terms. All three countries are currently in recession, a situation that will continue into next year. The European Commission has given Spain and Portugal another year to bring their deficits back within the European Union ceiling of 3 percent of GDP. But in its World Economic Outlook report released earlier this week, the IMF said it does not expect Spain to achieve that goal until 2017, when Brussels wants the government of Prime Minister Mariano Rajoy to get there in 2014. The IMF also questioned the government's ability to meet its targets for this year and the next of 6.3 percent and 4.5 percent of GDP, respectively, putting its own estimates at 7 percent for this year and 5.7 percent for next year. It also forecast a contraction in GDP of 1.3 percent for next year when the government estimates a fall of 0.5 percent. In response, Economy Minister Luis de Guindos said the Rajoy government is sticking by its own figures, arguing those of the IMF are not written "in stone." Lagarde also urged "creditor countries" to facilitate bailouts to countries such as Spain if they request them. Germany has argued Spain does not need a second rescue package on top of that granted to recapitalize its banks.[xi]

Does the government have a growth strategy?

It does not look like. The hypothesis on the matter is that we will need to wait until the deficit reduction target is accomplished in order to spare resources for growth and employment policies.

Meanwhile, it is said that Spain needs to undergo far-reaching structural reforms to improve their labour and product markets in order to regain competitiveness, and correct the brutal imbalances that have built up in the Eurozone. Failing this, apparently, the euro will have to either break up or go for a full fiscal union. But is it possible to achieve such adjustment – and save the euro – through internal devaluation alone?

Income distribution (wages)

Talking about "wages" might be tricky. While they are massively downsizing in the last years, the CEO's salaries and Board Directors income have been rocketing. Spain's economy minister called on the stock market's largest companies to lower the salaries of its executives. On July 16, Luis de Guindos said the government had asked society to make sacrifices through measures like tax increases, while executives had seen their salaries rise in 2011. An annual corporate governance study published by the stock market regulator that showed Spain's board members had seen compensation rise by five percent on average in 2011 despite a drop in results.

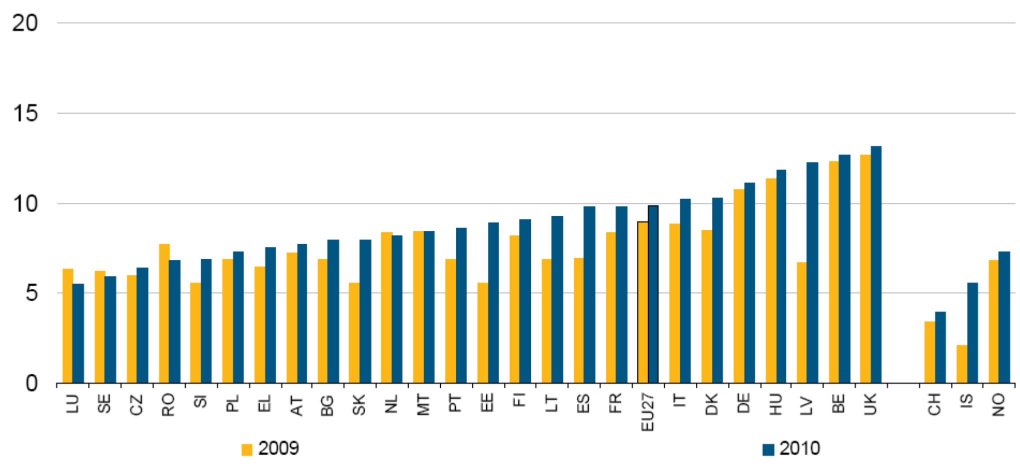
Unemployment rate

Structural unemployment has been a very remarkable problem in Spain since the last decades, affecting families and young people, as shown in the following table. In this crisis there is a higher incidence of concurrent unemployment situations between household members. Unemployment data show that, although the Spanish unemployment rate has not reached the maximum reach of previous recessions in 2010, it has increased the likelihood that the main household income earner is unemployed. In addition, the percentage of unemployed living in households where no one works also exceeded the level recorded in the crisis of the early nineties.

Years	1994		2007		2010	
Percentage of unemployed in jobless households	37,7		25,9		39,8	
Average of Unemployed by household	0,4		0,1		0,3	
	Percentage of households	Percentage of households where all the working age members are unemployed	Percentage of households	Percentage of households where all the working age members are unemployed	Percentage of households	Percentage of households where all the working age members are unemployed
Households with one working age member	45	17,8	39,3	6,6	38,8	17,3
Households with two active members	40,3	7,1	45,7	1	47,6	6,1
Households with three working age members	10,5	5,1	11	0,5	10,3	4,3
Households with four or more working age members	4,2	2,7	4	0,3	3,3	2,9
Unemployment rate	24,2		8		20,1	
Ratio of households with all the working age members unemployed	11,5		3,1		10,2	

Source: Banco de España (2010), "La incidencia del desempleo en los hogares", in Boletín Económico, November, p. 78. Authors: José María Casado, Cristina Fernández y Juan F. Jimeno *http://www.bde.es/webbde/SES/Secciones/Publicaciones/InformesBoletinesRevistas/BoletinEconomico/10/Nov/Fich/art5.pdf*

Figure 2: People (less than 60) living in households with very low work intensity (%), 2009 and 2010



EUROSTAT shows how overall at the EU, low work intensity indicator has increased slightly (0.9pp) between 2009 and 2010. But it rose by more than 2 pp in Latvia (by 5.5 pp), Estonia (3.3 pp), Spain (2.8 pp), Slovakia and Lithuania (both 2.3 pp).[xii]

Unemployment in the eurozone hit a fresh high of 18.2 million in August 2012. More than 5 million of those are solely from Spain. This shows an outstanding negative performance of the labour market, which the Labour reforms cannot stop.

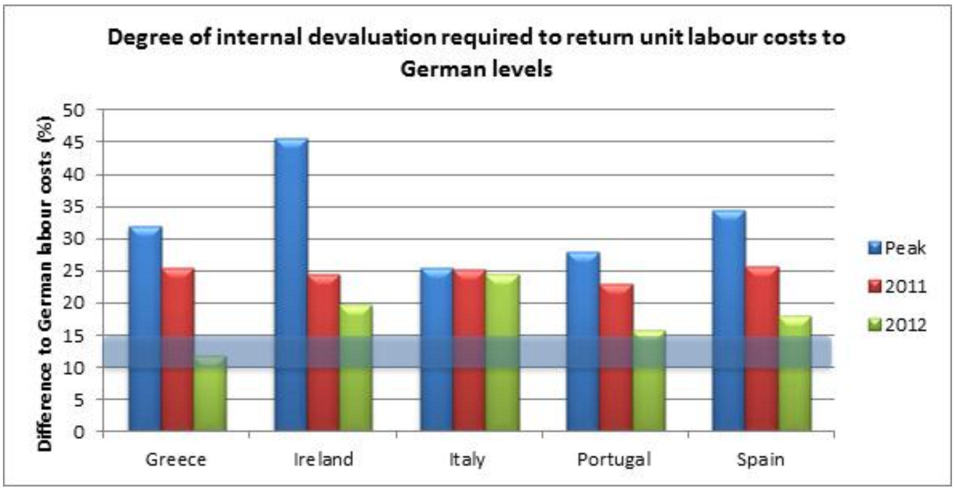
Workers who leave the labour market make a negative impact on Social Security accounts. The reduction in household income leads to lower tax revenues, both directly and indirectly (by the fall in consumption, despite the increase in VAT and other indirect taxes). In turn, the effort in the maintenance and expansion of non-contributory benefits has a negative impact on public spending and deficit.[xiii]

But it also has other effects in the medium term: families become virtually "non-viable" in financial terms. In this context, child poverty is transmitted between generations, dragging also the rate of school failure and early school dropout and training.

Lost generation? In October, the European Commission warned of the existence of "a real social emergency crisis" due to the fall in household income and growing household poverty. Youth unemployment remains a particular concern, with the rate among under-25s hitting 22.8% across the eurozone, and 52.9% in Spain. The commission repeated its call to governments and businesses to act to try to avoid the "disaster" of "a lost generation".[xiv]

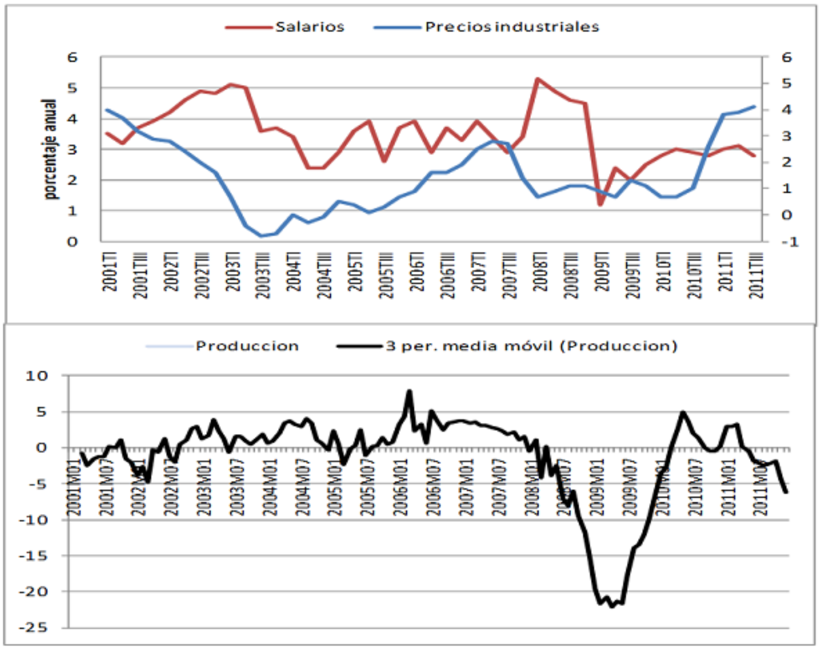
Internal devaluation

The dilemma for Spain and other weaker euro countries is similar: since they don't have the option of currency devaluation to get their economies back on track, all adjustment must instead be achieved by nominal prices, wages and asset values falling ('internal devaluation'). In turn, the population will have to pick up all the slack through falling wages, fewer social benefits, less job security and so on.
According to the analysis published by Open Europe in September 2012,[xv] by 2011 Spain had achieved over 50 per cent of its scheduled internal devaluation – but *it still has a long way to go* (and 2013's budget was based on a clearly optimistic forecast).



Source: Open Europe

The "bad news": in Greece, Spain and Portugal, high wages, social benefits and public services have been a feature of life for decades, meaning that it is far more challenging than in the Baltic countries (that have already achieved huge internal devaluation) to get voters to accept the kind of rapid economic adjustment now being pursued. Spain will have to repeat what it did last year for a least another year or two. Cultural and political change is possible, but it will be an extremely tough sell, even if continued euro membership is at stake.



http://www.thecorner.eu/2012/03/internal-devaluation-in-spain-and-unemployment/

How can Spain restore normal employment? As we have seen, the current Spanish strategy is "internal devaluation", which means expecting Spain to keep cutting costs, mainly wages, and thereby restore competitiveness.[xvi] As Paul Krugman remarks, "The trouble with this strategy is twofold: it's really, really hard to get wage cuts, and deflation in Spain makes the problem of debt overhang worse." For him, the alternative is to implement an "aggressively expansionary monetary policy"[xvii]. This could be an alternative to explore, although it is not realistic, as is clearly forbidden by the Fiscal Compact Law and other agreements.

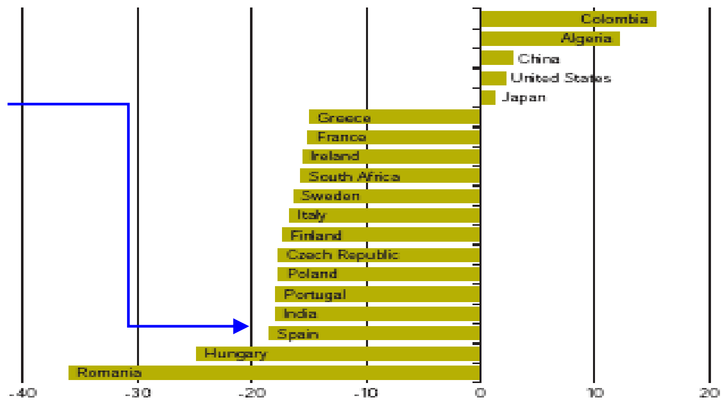
Poverty impact (services, in-work poverty, social protection)

According to the Credit Suisse annual report on wealth, "The adverse global economic climate and the USD appreciation that occurred during the year until mid-2012 meant that household wealth rose by more than USD 100 billion in only four countries: the USA (USD 1.3 trillion), China (USD 560 billion), Japan (USD 370 billion) and Colombia (USD 100 billion). Eurozone members suffered the largest losses, led by France (USD 2.2 trillion), Italy (USD 2.1 trillion), Germany (USD 1.9 trillion) **and Spain (USD 870 billion).**

These losses were exacerbated by the unfavourable euro-dollar exchange rate movement, but even in euro terms, wealth declined by EUR 50 billion in Germany, EUR 148 billion in France, EUR **177 billion in Spain** and EUR 286 billion in Italy". [xviii]

Percentage change in total wealth 2011–2012:
Biggest winners and losers

Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2012



Main gainers				**Main losers**			
country	Adults (thousand) with wealth above USD 1m			country	Adults (thousand) with wealth above USD 1m		
	2011	2012	change		2011	2012	change
USA	10061	11023	962	Italy	1544	1170	-374
Japan	3121	3581	460	France	2606	2284	-322
Peru	4	18	14	Germany	1753	1463	-290
Chile	28	42	14	Denmark	296	117	-179
Morocco	1	14	13	Australia	1079	905	-174
Colombia	37	46	9	Sweden	485	343	-142
Philippines	18	25	7	Canada	940	842	-98
Thailand	17	20	3	Brazil	319	227	-92
UAE	40	43	3	Taiwan	343	253	-90
Hong Kong	89	92	3	Spain	400	313	-87
world	29674	28640	-1034	world	29674	28640	-1034

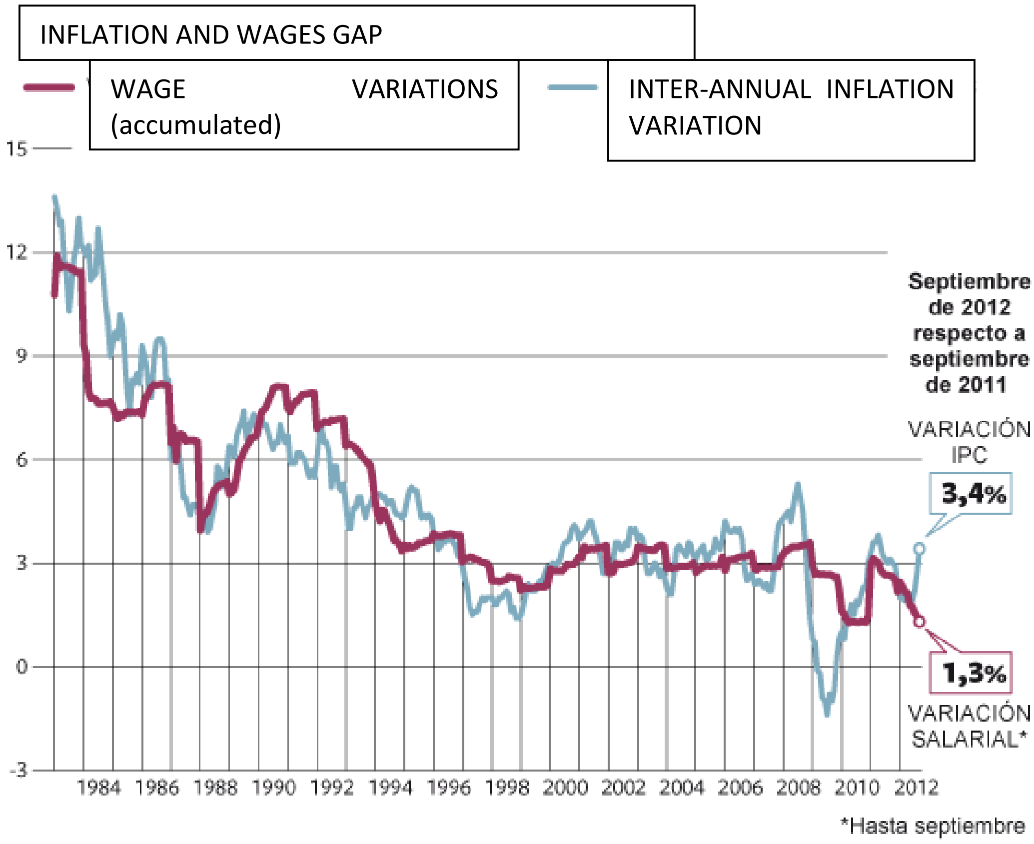
Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2012.
https://infocus.credit-suisse.com/app/article/index.cfm?fuseaction=OpenArticle&aoid=368968&refresh=true&lang=EN

In work poverty. Workers' purchasing power suffers biggest fall in 27 years

Figures released Monday by the Labour Ministry revealed that salary increases as part of collective agreements in the year up to September were 1.3 percent, compared with an inflation rate of 3.4 percent. That, combined with higher personal income taxes under the government's austerity drive, means that the spending power of workers has suffered its biggest fall in 27 years, helping drive the economy into recession once more.

Given that it heralded historically low interest rates, no one dared criticize Spain's entry into the single-currency bloc. But, deprived of its own monetary policy and with fiscal policy hostage to the imperative of reducing the budget deficit, the only way Spain's economy can recover competitiveness is by containing salaries and prices. But high inflation has scuppered that approach.

Figure: Inflation and Wages Gap (yearly)



Pensions: the big issue

Pensions increases have been calculated in the 2013 budget on the basis of inflation for 2012, an approach that many economists say is mistaken.

So far this year, contributive pensions spending, which consumes 90 percent of the pension system's resources, has been growing at 4.4 percent on the previous year. The 2012 budget foresaw an increase of 2.9 percent. This will likely mean that in December, the total amount spent will have reached 104 billion euros, and not the 102 billion that the Finance Ministry anticipated. Those two billion euros will throw the government's calculations out for 2013.

It is relatively easy to calculate how much spending on pensions will be from one year to the next. There are three variables: the number of pensioners; the average amount of pensions; and the increase decreed by the government, in this case one percent. The equation for 2013 on that basis is 4.3 percent. But as Miguel Ángel García, an economist at the CCOO labor union points out: "That figure is close to reality, but the calculation isn't made on what will be spent this year, but on the budget." García says this means pensions spending will be close to 108 billion euros, and not the government's calculation of 106.3 billion.

There are also problems with the amount the government calculates will be paid into the Social Security system. The Social Security department estimates that contributions for next year will be 105.8 billion euros, barely 0.4 percent down on this year. The labor market will continue to shrink, and unemployment rise -- but by how much? Again it is all a question of who is right about the outlook for 2013 -- the government, or international organizations such as the IMF? The latter said last week that Spain's GDP is set to fall by 1.3 percent in 2013, almost a full percentage point more than the PP administration's figure.

The government is predicting that unemployment will increase by just 0.5 percent next year, and that salaries will rise by 1.5 percent. Furthermore, the government's calculations for pensions spending are, by any objective standards, also overly optimistic. Up until August the fall in contributions was 2.6 percent on the previous year. If that rhythm is maintained until the end of the year, contributions for this year will be 102.5 billion euros, and 102 billion for next year.

In any event, 2012 will end with spending well above budget estimates. For the government to meet its target of almost 27 billion euros, the fall in spending on unemployment benefits will have to be much greater than the 1.5 billion it has calculated.

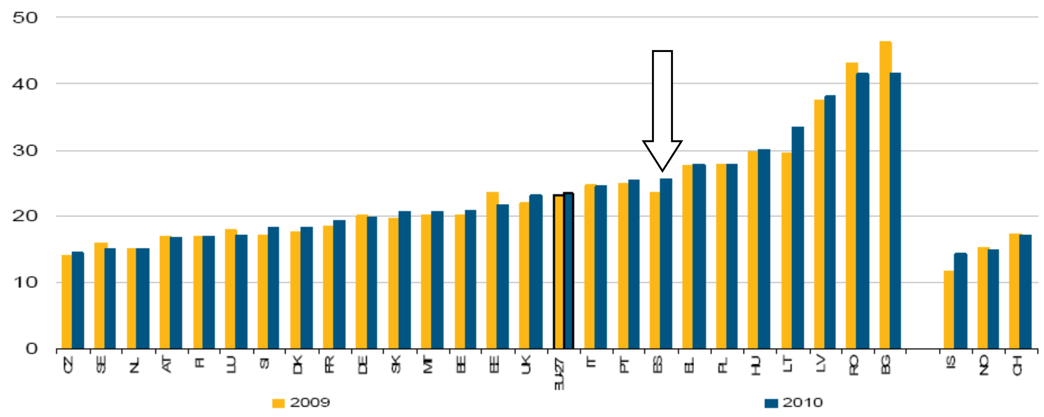
The Spanish government will restrict programs that allow people to take early retirement as part of overhauls to rein in the country's debt and shore up its shrinking economy, said Rajoy on September 28. "The retirement age is reasonable in Spain if it is actually met," he said referring to the mandated age of 65 years. "So we are going to deal with those issues of early retirement."

The prime minister explained that the government would not eliminate the option of early retirement, but would limit the capacity of individuals to stop working at around 60, as many do now. In the past, large companies such as Iberia and Telefónica have offered early retirement packages to staff, who are then paid unemployment benefit until they reach pensionable age.[xix]

Poverty increase

Spain is highly placed among the most impoverished Member States, as shown in the following figure by EUROSTAT[xx]:

Figure 1: People at risk of poverty or social exclusion (%), 2009 and 2010



People at risk of poverty or social exclusion by age group (%), 2010

	Children (0-17)	Working age population (18-64)	Elderly (65 and more)	Total
EU 27	26.9	23.3	19.8	23.4
Spain	29.8	25.1	22.6	25.5

Therefore, more than 25 percent of Spain's population lives below poverty line, 2 percent higher than last year, as the country grapples with the highest rate of impoverishment among European states.

According to the annual report issued by the Spanish Economic and Social Council (CES), lack of jobs for young people is expected to increase poverty and social inequality for several years to come, warning that further welfare and education cuts could have dire consequences for future generations.

The reports also added that the index of deprivation from social services is high among the Spanish population. The number of jobless people in Spain has hit a record high of 25 percent, with a 50-percent youth unemployment rate, it added.[xxi]

Regarding the impact of social policies and social protection, the following table show how the risk of poverty (after social transfers) increased the most in Spain (1.2 pp) in 2010 (together with Slovenia). If we consider the at-risk-of-poverty rate before social transfers a slightly different picture emerges, with the at-risk-of-poverty rate rising by 0.6 pp at EU level between 2009 and 2010, and significantly rising in several countries, with one of the largest increases in Spain (3.7 pp).

At-risk-of-poverty rate before and after social transfers (%) and at-risk-of-poverty threshold (for a single person), 2009 and 2010

	At risk of poverty before transfers		At risk of poverty after transfers		At risk of poverty thresholds in euro	
	2009	2010	2009	2010	2009	2010
EU 27	25.1	25.7	16.3	16.4	-	-
Spain	23.8	25	12.9	13.5	11856	12027

Caritas report

Catholic charity Caritas' chapter in Spain has issued a new report showing that poverty, inequality and social injustice are on the rise in the European country. Caritas says that since the economic crisis began in Spain, the number of people who have received assistance from the agency has risen sharply from 370,251 people in 2007 to 1,015, 267 in 2011 – an increase of almost 174 percent.

The report says the main causes of the increase include growing unemployment, which "drastically" reduces the economic opportunities families have, and cutbacks in entitlement programs. Between 2007 and 2011, Caritas has seen the biggest increase in requests for food assistance, followed by requests for clothing and house aid. In 2011 the agency spent over $42 million in aid for those in need.

Caritas Spain also provides aid to one-third of illegal immigrants in the country. Half of those who request for aid from the agency are immigrants, and "approximately 130,000 of them are in irregular situations." Considering that some studies estimate there are nearly 500,000 illegal immigrants in Spain, Caritas reports that it is providing aid to "one-third of the total."[xxii]

Services (health, education)

Social services

Welfare services swamped as recession cuts deeper into funding. Spain's welfare services are working overtime to help growing numbers of people hit by the ongoing economic crisis. Health Ministry figures from 2010 show that over eight million people turned to welfare centers for help to cover basic needs like buying food or paying the water bill, a 19.5-percent increase from the previous year. Although more recent figures are not available, at this rate of growth and in the opinion of several welfare workers the number of people who sought help this year is likely to be higher.

But far from increasing the budget allocated for these matters, the latest government budget slashes basic welfare services by 40 percent. Taking the two last budgets into account, the fall has been 65.4 percent: where there were once 86 million euros, there are now only around 30 million allocated.

The average users of welfare services are seniors (one out of every three), people with disabilities (10 percent) and families with children (26 percent), but there are also drug addicts, single parents, ex-convicts and ethnic minorities. In recent times, people who lived on modest means have also had to turn to their local welfare center. [xxiii]

Health

In order to cut costs in health care and shielding in the need to stop “sanitary tourism” (foreigners that enter the country to get expensive medical assistance by free, thanks to the Spanish universal health system) a new law went into effect on September 1st denying health care to illegal immigrants. Caritas has already seen “a greater presence of persons with this profile asking for health care assistance at parishes.”[xxiv]

Pensioners have to face a new copayment scheme for medical prescriptions, up to certain amount, for the first time in history of democracy. This new co-payment system is being implemented in two stages:

Stage 1: From July 1 anyone given a prescription in Spain should notice that it will include the percentage of the cost of the medication that they have to pay. This percentage will be taken from information about your income obtained from the annual resident tax declaration (IRPF). Anyone with an income greater than €18,000 a year will have to pay half the cost of the medication. Those below this amount will pay up to 40 percent. Pensioners with an income of less than €18,000 who have made a tax declaration will pay 10 percent with a maximum payment of €8 per month. Pensioners with an income greater than €18,000 will pay a maximum of €18 per month. [xxv]

Stage 2: Longer term, the intention is that this rate of pay information will be incorporated into the Spanish SIP card. A chip inside it will link to the resident tax declaration. This information will be much more specific and it will be increasingly difficult to obtain a discount if the person does not present a tax return in Spain, even if it is a zero one.

Education

Cutbacks leave half a million students without aid for textbooks. Government has slashed over one billion euros from budget for Spain’s schools compared to previous year. Some 500,000 school students across Spain won't be eligible for state aid to purchase their textbooks because of the stringent cutbacks made in education at the ministerial, regional and local levels, figures show.

The Education Ministry says there are 8.05 million students attending classes this year -- a 1.7 percent-hike in enrollment from the past school semester. These additional 136,000 students are spread out across all educational levels, from kindergarten to high school and vocational training.

With respect to the school budget last year, the government has made some 1.12 billion euros in cuts, which will greatly affect those who rely on aid to buy books.
But the ministry states that 15,000 more students this year will be given grants even though money was cut from that budget by 185 million euros compared with the 2011-2012 school year.[xxvi]

More jobless, less unemployment payments

As part of the cuts he announced in July, Rajoy reduced spending on unemployment benefit, one of the areas likely to continue draining the state's resources.

The Finance Ministry, Mr. Cristobal Montoro, had been predicting that this year would see spending fall for the first time since the depression kicked in, but up to August, spending was up 5.7 percent on last year as the recession drags on. Montoro had predicted that benefit payments, which fall over time for the long-term unemployed, would actually come down by five percent this year. By the end of the year, unemployment benefit payments will have reached 31 billion euros.

The only way to reduce spending on unemployment benefit in a country where there are almost six million out of work is to make it harder to qualify for payment. Which is what the government did this summer.[xxvii]

Social and civil dialogue

Is civil dialogue still possible? The answer seems to be "No". Reasons?

Falling trust in politicians (local, regional, national, EU…)

The situation becomes politically explosive, as the recent protests sweeping Athens, Madrid and Lisbon have shown. Economic imperatives and deep-rooted political forces are clashing head-on.

Most Spaniards now feel that politicians, political parties and the government are the country's third-worst problem, behind "unemployment" and "the crisis of the economy" (Centre of Sociological Research CIS survey in July 2012).[xxviii]

Poverty target has been forgotten or has become a soft target. National Social Reports are not compulsory either.

Incidentally, trust in the EU amongst voters in the so-called PIIGS has fallen from 55 per cent in 2001 to 25 per cent in 2012, in the wake of EU-mandated cuts. If you sit in Berlin or Brussels that perfectly illustrates the risk involved: do what's economically necessary but risk massive political and social fallout.[xxix]

Increased social needs, which are left apart, until the deficit reduction target is accomplished

Who are the groups most heavily affected?

- Households, with all the active members unemployed, with children and without income, after public assistance gets to an end.

- Long-term unemployed people, falling into depression and other mental illnesses, without access to mental health services;
- Homeless families due to evictions, and lack of social, affordable housing;
- Regrouped households, with all the relatives living on the pensions of grandparents
- Salaried and pensioners with growing difficulties to make ends meet, whose fixed incomes are falling behind inflation;
- Children and seniors suffering from malnourishment;
- Disabled people without access to dependency services;
- Single parents who do not receive any sort of help, and who cannot even look for a job, due to the lack or closure of flanking services;
- Minorities affected by increasing discrimination and xenophobia, on top of the other issues.

Despite these issues are clearly documented by thorough official statistics and specific academic reports, government is not sensitive to them, and does not prioritise social investment at all.

Governance has stopped (at least for now)

In EU2020 (Recital 16) it is clearly stated the need of getting the participation of all stakeholders. EAPN Spain has been actively involved in the former NRP, on behalf the Spanish social NGOs.

Revising and making comments on the different draft versions of the document, making proposals, and eventually getting a fairly good feedback of them into the final text. An agreed Protocol committed the Social NGOs with the monitoring, assessment and drafting of the new NRP process. With the new government, the cooperation and participation have stopped unilaterally, despite EAPN's major efforts otherwise.

NRP 2012 was revised without consultation with EAPN and/or the Social Third Sector. "New" NRP launched in September 27th is based exclusively on 3 exclusive guidelines: fiscal consolidation, structural and financial reform (meaning regressive taxation), while announcing a 40 MEURO cuts in 2013 budget. What is cut in welfare goes to pay the debt services, 38.5 MEURO.

Donations and government funding are drying up, leaving NGOs more dependent on volunteers than ever

Veterans within Spain's non-governmental organizations (NGOs) say that they have never experienced such a prolonged and profound crisis in the sector. Most of Spain's humanitarian aid and international charities emerged in the years after the country returned to democracy in the 1980s.

Over that time, the Spanish economy, with one or two blips, has grown steadily. But the depression that kicked in three years ago has hit NGOs hard. Government funding, along with support from businesses and private donations, has dried up. Even larger organizations, such as Intermón Oxfam and Ayuda en Acción, have cut their workforces of around 500 people by 20 percent and 25 percent, respectively. The smaller players say that they are near to closure, and are looking at ways to merge, while trying to find new sources for funding.

A recent survey by the ESADE business school says that up to a third of smaller charities in Spain have already gone to the wall. Consuelo Vidal, who for the last 23 years has run Atelier ONGD, which works with women, describes the current situation as having gone from "critical to extremely critical."[xxx]

Increased social exclusion jeopardizes social stability and democracy. Strikes and public demonstrations are frequent.

The announcement of a second general strike by the trade unions in the first eleven months of government (November 14th) shows the deterioration of the social and political environment.

Campaigns in your country (including EAPN)

15 M Indignados and other groups meet German MEP because "our government does not listen to us"

October 11th 15-M, Real Democracy Now, Platform for Mortgage Affected (PAH) and other protest movements met The Bundestag committee for Work and Social Affairs for them to get to "know the political and social reality of this austerity-wracked country".

In a 48-page document they handed to the Germans, the indignados expressed their regret that no committee from either Spain's Congress or Senate had requested a similar meeting with them. Among the things the German delegation — which included members of Chancellor Angela Merkel's Christian Democratic Union (CDU) party, social democrats of the SPD, liberals of the FDP, the left, and the Greens — wanted to know was the group's estimation of the number of evictions scheduled for the next few months after being alarmed by the figure of 500 a day given by the PAH.

Although the one-and-a-half-hour meeting in Madrid was reported to have been a cordial affair, the indignados did not refrain from criticism, pointing out to the visitors that "the German banks are the beneficiaries of Spanish misfortunes."[xxxi]

"Occupy Congress": indignados encircle Parliament

How the activists explain themselves: "On September 25th, the Spanish Parliament building will be surrounded symbolically to rescue it from the kidnapping which has turned this institution into a useless organ. A kidnapping of our popular sovereignty by the Troika and by the markets, executed under the guise and and with the collaboration of most of the political parties. Parties which have betrayed their electoral programs, their voters and the people in general, breaking their vows and contributing to the gradual pauperization of the people".[xxxii]

Spanish Red Cross launches first ever campaign to help poverty-stricken Spaniards

October 8th. The Red Cross reported that it helped more than two million people in Spain last year with donations of food or money and that they need to raise 30 million euros (£24 million) over the next two years to help an extra 300,000 people identified as "extremely vulnerable". The charitable organisation reports a significant change in the demographics of those seeking help since the crisis hit four years ago.

Before the crisis the majority of those seeking help at its various outreach centres across Spain were immigrants but with one in four adults now out of work, the charity has seen a dramatic rise in Spanish families, including the middle class, forced to rely on its handouts.[xxxiii]

EAPN

- March 2012. EAPN issued the Position Paper "New proposals for new times".
- EAPN supports Popular Legislative Initiative (ILP) on managing the mortgage issue in order to allow the debtors to give their houses to cancel the credit, and to promote alternative social renting. The alliance has got 375,000 signatures, the target is getting 500,000 by ending Oct. 31st, which is the amount needed to propose the initiative to the Parliament)
- EAPN held some meetings with the technical Economic Office of the President, asking to put in practice the Protocol signed with the former government (NRP 2011), in order to influence the National Reform Programme 2012. Very low success.
- EAPN issues a press release against cuts in health care, and specifically defending immigrant rights to health care.
- EAPN met the president of the Commission of Employment and Social Security in the Parliament in order to express the social situation of impoverishment and the need to take the Third Sector as an interlocutor.
- At the regional level, in Murcia (Meeting on Minimum Income and Europe 2020), Galicia (Participation in regional TV programme), Andalusia (Document "Low cost poverty"), and other.
- Conference on Poverty, October 17th, by Carlos Susias at the New Economy Forum. The event was organized and funded by Abertis Group, an international corporation in transportation and logistics. Held at the luxurious Westin Palace Hotel, it was the perfect venue for Carlos to speak about growing inequalities and the need to address them, before it is too late. Many TV news reports quoted his statements.

Platform of the Third Sector (EAPN is part of the Board)

- The Platform of the III Sector established in 2012, gathering 30,000 NGOs (EAPN has got 1 of the 7 presidencies) has sent a letter to the government and was published in the media, saying that they cannot and will not assist more people in need, while they are suffering increasing cuts in funding. Pushing for more interlocution with the government.
- Position paper with proposals against the crisis to the Ministry of Social Affairs beginning 2012.
- Joint Positioning, explaining how the social cuts are affecting the services provided by the NGO.
- EAPN ES is part of the Spanish Poverty Alliance, together with other Social NGOs and Development NGO, delivering a campaign "Rebel against poverty", against fiscal fraud, save people and not banks.

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[i] The housing burst can be clearly divided in three periods: 1985-1991, in which the price nearly tripled, 1992-1996, in which the price remained somewhat stable, and 1996-2008, in which prices grew astonishingly again.

[ii] http://www.lamoncloa.gob.es/NR/rdonlyres/D6770C5F-93B8-4A46-BE8C-E37162E44275/193056/120210PressbriefingANonfirstsetofreforms.pdf

[iii] El País, http://elpais.com/elpais/2012/10/14/inenglish/1350223616_765352.html

[iv] The Economist, http://www.economist.com/node/21564254

[v] El País, http://elpais.com/elpais/2012/10/12/inenglish/1350035218_089625.html

[vi] http://www.economist.com/blogs/schumpeter/2012/09/spains-troubled-banks

[vii] The biggest shock in the figures is the cost of Spain's banking crisis. Finance Minister Mr. Montoro says losses on bank rescues will add a further 1.1% of GDP (or €11.6 billion) to this year's deficit, bringing the real projected figure to 7.4%, though the government says such one-off costs do not compute when calculating whether it meets the Brussels-set deficit target. He has, for

the same reasons, also added an extra 0.5% of GDP (€5.1 billion) to last year's deficit taking it, in real terms, **up to 9.4%.** The Economist, http://www.economist.com/blogs/newsbook/2012/09/spains-budget

[viii] The Economist, http://www.economist.com/blogs/newsbook/2012/09/spains-budget

[ix] El País, http://elpais.com/elpais/2012/10/15/inenglish/1350299680_084123.html

[x] El País, http://elpais.com/elpais/2012/10/15/inenglish/1350299680_084123.html

[xi] El País, http://elpais.com/elpais/2012/10/11/inenglish/1349954306_176393.html

[xii] Eurostat, Statistics in focus, 9/2012, 23 % of EU citizens were at risk of poverty or social exclusion in 2010, in http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-12-009/EN/KS-SF-12-009-EN.PDF

[xiii] (Eurostat) The unemployment rate is an important indicator with both social and economic dimensions. Rising unemployment results in a loss of income for individuals, increased pressure with respect to government spending on social benefits and a reduction in tax revenue. From an economic perspective, unemployment may be viewed as unused labour capacity.

[xiv] http://www.bbc.co.uk/news/business-19784062

[xv] http://www.openeurope.org.uk/Content/Documents/Pdfs/Internaldevaluation.pdf

[xvi] Reuters, Breaking news, Gravy Train, Juy 20th 2012, http://www.breakingviews.com/spains-bosses-need-an-internal-devaluation/21030946.article

[xvii] The New York Times, The Opinion Pages, The conscience of a Liberal, July 29th, 2012, Internal Devaluation, Inflation, and the Euro (Wonkish) http://krugman.blogs.nytimes.com/2012/07/29/internal-devaluation-inflation-and-the-euro-wonkish/

[xviii] https://infocus.credit-suisse.com/data/_product_documents/_shop/368327/2012_global_wealth_report.pdf

[xix] El País, http://elpais.com/elpais/2012/10/15/inenglish/1350299680_084123.html

[xx] EUROSTAT, Statistics in focus, loc. Cit.

[xxi] http://www.presstv.ir/detail/2012/06/07/245070/25-of-spaniards-live-below-poverty-line/

[xxii] http://beforeitsnews.com/religion/2012/09/charity-reports-increase-in-poverty-inequality-in-spain-2443860.html

[xxiii] El País, http://elpais.com/elpais/2012/10/16/inenglish/1350390828_090389.html

[xxiv] http://beforeitsnews.com/religion/2012/09/charity-reports-increase-in-poverty-inequality-in-spain-2443860.html

[xxv] If you have not made an annual resident tax declaration in Spain there will be no indication on the prescription of how much you must pay. Instead, blanket charges will be made of 40 percent for non-pensioners with low incomes and 10 percent for pensioners. However, it is important to note that no income information means no cap on your monthly contribution. http://iberosphere.com/2012/07/new-co-payment-scheme-for-spanish-medical-prescriptions/6502

[xxvi] El País, http://elpais.com/elpais/2012/10/14/inenglish/1350216408_891000.html

[xxvii] El País, http://elpais.com/elpais/2012/10/15/inenglish/1350299680_084123.html

[xxviii] CIS Survey, 2012.

[xxix] The Telegraph, Mats Persson, Can the euro be saved through internal devaluation alone – and at what political cost?, September 28th, 2012 http://blogs.telegraph.co.uk/finance/matspersson/100020411/can-the-euro-be-saved-through-internal-devaluation-alone-and-at-what-political-cost/

[xxx] El País, http://elpais.com/elpais/2012/10/16/inenglish/1350387387_665692.html. ESADE report is available at http://prensa.esadeblogs.com/09/26/el-40-de-las-ong-no-se-consideran-innovadoras-y-reclaman-nuevas-vias-en-la-captacion-de-fondos-segun-un-estudio-de-esade/

[xxxi] El País, http://elpais.com/elpais/2012/10/11/inenglish/1349982211_970931.html

[xxxii] http://roarmag.org/2012/09/occupy-congress-spains-indignados-radicalize-resistance/

[xxxiii] http://www.telegraph.co.uk/news/worldnews/europe/spain/9597064/Spanish-Red-Cross-launches-first-ever-campaign-to-help-poverty-stricken-Spaniards.html