

Challenges and opportunities for Spain in times of COVID-19

William Chislett



Challenges and opportunities for Spain in times of COVID-19

William Chislett - Real Instituto Elcano - April 2021



Real Instituto Elcano - Madrid - España
www.realinstitutoelcano.org

© 2021 Real Instituto Elcano
C/ Príncipe de Vergara, 51
28006 Madrid
www.realinstitutoelcano.org

ISSN: 1699-3504
Depósito Legal: M-26708-2005

Working Paper

Challenges and opportunities for Spain in times of COVID-19

William Chislett

Summary

1. International context
2. Economy: an opportunity for change
3. Labour market: living with high unemployment
4. Education: a political football still kicked around
5. Politics: polarised and fragmented
6. The independence conflict in Catalonia: no solution in sight
7. Monarchy or republic?
8. Rural development: the fight against depopulation
9. Foreign policy: 'Spain is back'
10. Conclusions

Appendix

Bibliography

Summary¹

Spain is one of the worst affected eurozone countries by COVID-19. The country went into the pandemic with weak macroeconomic fundamentals including an unemployment rate of 14% (now higher). The tsunami of funds from Next Generation EU is a golden opportunity to make the economy more sustainable and more inclusive. The government must accompany this with long overdue structural reforms, particularly in the ailing pensions system and the labour market, and improve the education system, which is not providing the skills that Spain needs (the early school-leaving rate is 16%). The funds will sorely test Spain's administrative capacity to adequately plan and execute them at a time when politics is absurdly polarised, particularly in Catalonia, whose government continues to push for independence.

¹The author would like to thank Joaquín Almunia and Emilio Lamo de Espinosa for reading and commenting on this report.

1. International context

The COVID-19 pandemic hit Spain harder than most countries. More than 3.2 million people have been infected, the eighth largest number in the world, and over 75,000 died from coronavirus (see Figure 1).² The virus was first confirmed on 31 January 2020, when a German tourist tested positive in the Canary Islands. By 13 March, cases had been confirmed in all 50 provinces and the next day the government declared a state of emergency, which ended on 21 June after three months of lockdown, the strictest in Europe. Policymakers did not take scientific advice sufficiently into account during the first wave: frontiers in Public Health ranked Spain near to bottom in its classification of 24 countries based on adhering to scientific advice (Donald Trump's US was the worst).³ The lifting of restrictions over the summer produced a second wave of infections and a six-month state of emergency as of 25 October. An irresponsible easing over Christmas and the New Year caused another spike in infections and a third wave, leading to a tightening of measures which reduced the 14-day cumulative case count per 100,000 residents from 900 in January to just over 150 at the end of March 2021, when the infection rate began to rise again.

Figure 1. Reported cases and deaths by the 10 main countries

	Total cases	Total deaths	Cases/1mn pop.	Deaths/1mn pop.
1. US	31,038,713	563,271	93,366	1,694
2. Brazil	12,577,354	314,268	58,861	1,471
3. India	12,143,955	162,454	8,736	117
4. France	4,554,683	94,956	69,664	1,452
5. Russia	4,536,820	98,442	31,078	674
6. UK	4,341,736	126,670	63,708	1,859
7. Italy	3,561,012	108,879	58,961	1,803
8. Spain	3,270,825	75,199	69,937	1,608
9. Turkey	3,240,577	31,230	38,120	367
10. Germany	2,800,917	76,664	33,351	913

Source: <https://www.worldometers.info/coronavirus/#countries> at 29/03/2021.

² Including 'excess deaths' –the difference between the observed numbers of deaths in a specific time period and expected numbers of deaths in the same period– the total number was much higher. Between 2 March 2020 and 14 February 2021, 91,800 more people died than in a 'normal year', according to the National Statistics Institute (INE), 27,053 more than the number attributed to coronavirus by the Health Ministry in that same period.

³ See <https://www.frontiersin.org/articles/10.3389/fpubh.2020.621563/full>

The economic impact was also severe. GDP shrank 10.8% in 2020, the deepest recession in 80 years and the harshest in Europe (see Figure 2). The main factor behind the larger than average impact is the weight of the tourism and hospitality sectors (26% of GDP –five points more than the EU average–), which have been decimated. The number of international tourists plummeted from 83.7 million in 2019 to below 20 million last year, the lowest figure since the late 1960s and generating just 4% of GDP compared with the usual 12%. Spain has the most bars and restaurants per capita in the world (one for every 175 people, according to a 2019 report by the National Statistics Institute).

The corporate structure also has a comparatively higher weight of SMEs than most other euro zone economies: in 2019, 90% of companies had fewer than 10 employees, compared with 75% in Germany. This makes firms more vulnerable, as they have less access to external financing and higher overheads relative to turnover.

Figure 2. Real GDP growth, selected economies, 2020 and 2019

	2020	2019
China	2.3	6.0
France	-8.3	1.5
Germany	-5.0	0.6
Italy	-8.9	0.3
Spain	-10.8	2.0
UK	-9.9	1.4
US	-3.5	2.2

Source: Governments.

The unemployment rate, which stood at 14% when the pandemic started, close to double the EU average, rose to 16.2% at the end of 2020, less than predicted by some forecasters, including the Bank of Spain, because of the success of the job retention scheme known as ERTes. Had teleworking in Spain taken a greater hold before the pandemic (only around 8% of workers regularly worked from home compared with 25% in the UK and Sweden), the rise in unemployment might have been lower. One year after the arrival of the pandemic, the teleworking rate reached almost 15% (2.8 million people), still well below the EU average of 21%.

The jobless increase, however, was a far cry from what happened during Spain's last recession when unemployment soared from 8.2% in 2007 to 26% in 2013. More than 755,000 workers were still furloughed at the end of last year (744,00 in March 2021). The scheme was extended until the end of May and probably beyond. There has been little structural job destruction. Nevertheless, all members of working age in more than one million homes were unemployed, and youth unemployment was above 40%.

High unemployment, before the pandemic, was not the only weak macroeconomic fundamental. The fiscal deficit was 2.8% of GDP in 2019 (it took a decade to get below 3%, the EU's threshold, discarded in 2020 because of the pandemic) and public debt stood at 95.5% of GDP, a worse starting position than most other EU countries. While unemployment has not risen significantly during the pandemic, albeit from an already high level, the fiscal deficit ballooned to 10.97% in 2020 including a €10 billion hit from the reclassification of the SAREB 'bad bank' as a public entity, and public debt to 120% (see Figure 3).

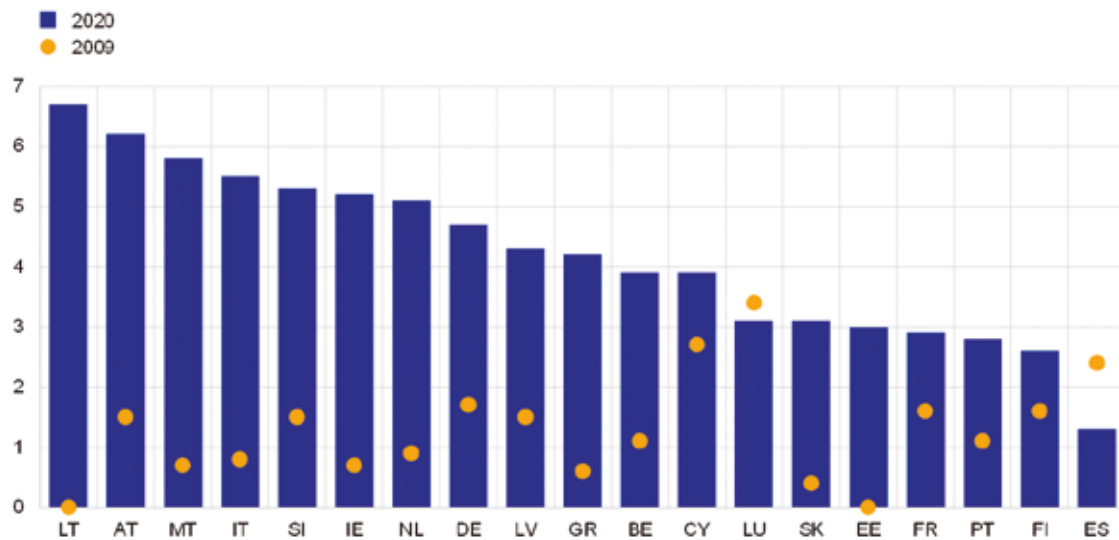
Figure 3. Unemployment, budget balance and public debt, selected economies, 2020

	Unemployment (%)	Budget (% of GDP)	Public debt (% of GDP) (1)
France	8.9	-10.9	116.5
Germany	4.6	-4.8	70.0
Italy	9.0	-11.3	154.2
Spain	16.2	-10.97	120.0

(1) Third quarter for France, Germany and Italy.
Source: Eurostat and Economist Intelligence Unit.

Spain's fiscal response to COVID-19 in 2020 was the lowest in the euro zone, according to the European Central Bank (ECB). Measures accounted for 1.3% of GDP compared with an average of more than 4% (see Figure 4). The government disputes the ECB's methodology for the calculations, as it excludes, among other things, the cost of the job retention scheme and the regional fund for health and education. The Finance Ministry says including these and other measures, Spain's response represented 5.5% of GDP.

Figure 4. Sum of fiscal measures related to COVID-19 with a budgetary impact in 2020 compared with gross discretionary stimulus in 2009 (% of GDP)



Source: European Central Bank, published in February 2021.

As regards providing COVID-19 related state aid to businesses, Spain was the least frugal EU country in GDP terms (see Figure 5).

Figure 5. COVID-19 related state aid by EU countries to support businesses (% of GDP), 2020 (1)

	% of GDP
Spain	7.3
France	6.4
Italy	6.0
Greece	4.4
EU	3.3
Hungary	3.9
Portugal	3.6
Poland	3.3

(1) Between March and December and data that is not the same for all countries. Spain, for example, includes loans that have to be returned and the recapitalisation fund for large companies.

Source: European Commission.

2. Economy: an opportunity for change

The almost €200 billion of new funds that Spain will receive from Next Generation EU and the EU's Multiannual Financial Framework (MFF) over the next six years for physical and human capital give the country a golden opportunity to make its economic model more sustainable and on a sounder footing. Whether it uses the tsunami of funds wisely and has the capacity to do so is the key economic challenge.

Two types of funds are available: €154.9 billion from Next Generation EU, the bloc's policy response to the coronavirus crisis, and €43.8 billion from the MFF (see Figure 6). There is also €36.8 billion of funds not yet executed from the 2014-2020 MFF and €39.2 billion of new funds from the European Agricultural Guarantee Fund (EAGF) within the 2021-2027 MFF to support prices and income. The funds will enable Spain to make investments which otherwise would be very difficult to achieve and hopefully will prevent public debt (120% of GDP at the end of 2020) from further spiralling. According to the government, the NGEU funds are expected to have an ambitious multiplier effect of €3.6 for each euro spent (an impact of €500 billion).

Figure 6. Estimated EU funds for Spain, 2021-27 (€ million, at current prices)

Concept	€ million	Committed before	Spending horizon
Next Generation EU	154,996		
REACT-EU	12,800	2020-21	End of 2022
Recovery & Resilience Facility, grants	69,528		
First tranche (70%)	46,603	2021-22	End of 2024
Second tranche (30%)	22,925	2022-23	End of 2026
Recovery & Resilience, loans (1)	71,600	2021-26	Not applicable
Just Transition Fund (2)	339	2021-23	End of 2026
EAFRD (rural development)	729	2021-23	End of 2026
MFF 2021-2027 (except EAGF)	43,813	2021-27	End of 2030
European Social Fund	11,153	2021-27	End of 2030
ERDF (rural development)	23,540	2021-27	End of 2030
Cohesion (ETC)	683	2021-27	End of 2030
EAFRD	7,802	2021-27	End of 2030
Just Transition Fund	451		
Brexit Adjustment Reserve (tranche 1) (3)	184		

Working Paper

Challenges and opportunities for Spain in times of COVID-19

Concept	€ million	Committed before	Spending horizon
Total NGEU+MFF (except EAGF)	198,809		
Pro memoria:			
MFF remaining balance 2014-2020	36,839		
EAGF 2021-2027	39,193		
Direct payments	37,412		
Other payments (1)	1,781		
SURE	21,300		

Notes: (1) estimate; (2) the Just Transition Fund totals €790 million, €339 million from Next Generation EU and €451 from MFF 2021-2027; and (3) the Brexit Adjustment Reserve (included here in the MFF, although legally outside the budget) is divided into two tranches (Spain will receive €184 million of the first tranche of 80%).

Source: prepared by Federico Steinberg and Enrique Feás, Elcano Royal Institute.

The €155 billion from Next Generation EU (NGEU), out of a total of €750 billion, comes with strings attached in the form of structural reforms that Spain is expected to make. Of the €155 billion, €141.1 billion comes from the Recovery and Resilience Mechanism for 2021-26, the largest amount among the bloc's 27 countries after Italy. These funds are more than the total amount of the US\$12 billion Marshall Plan (equivalent to €112 billion today), launched in 1948 by the US after World War II to help re-build 16 non-communist countries in Europe, and from which Spain was excluded because of the pariah status of the Franco dictatorship.

The reforms include reducing the very high level of temporary employment in public administrations (42% in health, 29% in education and 30% overall), cutting the early school-leaving rate (16%); more support for R&D (at 1.2% of GDP almost half the euro zone average); greater energy efficiency in homes, and measures to lower the structural fiscal deficit and make the pensions system more sustainable (see Appendix A for the full list of the government policy levers and lines of action). The much-needed reform of pensions is politically very sensitive; the Socialist-led minority government, whose junior partner is the hard-left Unidas Podemos, kept its cards close to its chest on this issue.

The government submitted its basic framework on how to use the funds to build an economy that is more knowledge-based, digital, greener and inclusive to Brussels last October. Its guidelines are aligned with the NGEU's objectives (digitalisation, sustainability and inclusion). Since then, it has been working in coordination with the 17 regional governments to define projects and administrative procedures to guarantee quick access to the funds. EU governments have to include in their investment plans the following areas and submit them to the European Commission for assessment by the end of April 2021:

- Power up: frontload future-proof clean technologies and accelerate the development and use of renewables.
- Renovate: improve the energy efficiency of public and private buildings.
- Recharge and refuel: promote future-proof clean technologies to accelerate the use of sustainable, accessible and smart transport, charging and refuelling stations and extension of public transport.
- Connect: roll out rapid broadband services to all regions and households, including fibre and 5G networks.
- Modernise: the digitalisation of public administration and services, including judicial and healthcare systems.
- Scale-up: increase European industrial data cloud capacities and develop the most powerful, cutting edge, and sustainable processors.
- Reskill and upskill: adapt education systems to support digital skills and educational and vocational training for all ages.

In the sphere of digitalisation, Spain starts in a relatively good position; very high capacity networks covered 89% of households in 2019 compared to an EU average of 44%. The country ranked 11th in the European Commission's Digital Economy and Society Index (DESI), which encompasses five dimensions: connectivity, human capital, the use of internet services, the integration of digital technology in companies, and digital public services. It is strong in connectivity and digital public services (second in this component in the 2020 DESI), but below the EU average for digital indicators related to human capital (around 40% of the population lacks basic digital skills).

The digital divide, however, is deep. During the pandemic confinement only half of schools had adequate digital learning platforms in place, and four out of every 10 households with a monthly income of no more than €900 did not have a computer at home. As a result of these deficiencies in material resources, the sudden shift to digital learning, during the pandemic's first wave, particularly in rural areas, because of the closure of schools left behind students with no access to digital solutions. They will be hard pressed to catch up, raising the prospect of greater inequality and social exclusion.

Spain intends to allocate 18% of the €69.5 billion of grants from the Recovery and Resilience Facility to education by 2023, a sector whose weaknesses are holding back the creation of a more sustainable and productive knowledge-based economy, as we will later see (see Figure 7). The next largest chunk will go on modernising industry, SMEs and tourism. Realistically speaking, the labour-intensive tourism industry (in a country whose jobless rate has rarely been below 10% in the last 40 years) will always play a vital role in the economy, as it is an area where Spain has clear competitive advantages. However, as the coronavirus exposed, tourism proved to be an Achilles heel in a pandemic crisis.

Figure 7. Distribution by sector of €69.5 billion of EU grants to be disbursed between 2021 and 2023 (%)

	%
Education	17.6
Industrial, SMEs and tourism modernisation	17.1
Science, innovation and health	16.5
Urban and rural development	16.0
Resilient infrastructure and ecosystems	12.2
New care economy and employment policies	5.7
Energy transition	8.9
Administration	5.0
Promotion of culture and sport	1.1

Source: Government of Spain.

The idea that the unprecedented influx of funds is going to change Spain's economic model significantly is magical thinking, but some things can be done. Notably, the government hopes to use some of the pandemic recovery funds to create a public-private consortium with automaker SEAT (part of the Volkswagen Group) and power-company Iberdrola to build Spain's first electric-car factory. This will require a factory for batteries. As Europe's second-largest car manufacturer, Spain could become an electric car hub. SEAT-branded electric cars are currently produced in Germany and Slovakia. Spain's automotive sector (including components) generates 8.5% of GDP in a normal year and almost 20% of merchandise exports, and employs around two million people.

But, as Josep Borrell, the EU's foreign policy chief, said: 'Our only message to an unemployed waiter on the Costa del Sol cannot be that their future will be green and digital. He will say "fine, but what about now?".'

Such a large amount of EU funds will sorely test Spain's administrative capacity to adequately plan and execute them. In the 1990s and early 2000s Spain was very successful in using EU funds for large infrastructure projects, such as the 3,086km high-speed rail network (AVE), the world's second-largest after China, but since then it has slipped. Spain has also been painfully slow to put into force the EU's single market directives, taking almost 50% longer than the bloc's average; only 12% of the European Commission's country-specific recommendations issued every year under the Semester Framework between 2011 and 2019 were implemented, slightly better than the Netherlands' 11%. Before the pandemic Spain was far, too, from reaching the Europe 2020 targets, the EU's agenda for growth and

jobs, based on five goals for employment, R&D, climate change, education and poverty and social exclusion (see Figure 8).

Figure 8. Europe 2020: national targets and Spain's progress

Europe 2020 targets	Spain's position
Employment rate target: 74%	The rate for the 20-64 age group was 68% in September 2019.
R&D target: 2% of GDP	With R&D spending at 1.24%, reaching the 2% target in 2020 remains practically unattainable.
National greenhouse gas emissions target: -10% in 2020 compared with 2005 (in sectors not included in the EU emissions trading scheme)	Emissions from sectors not covered by the EU Emission trading scheme were reduced by 14% between 2005 and 2018, above Spain's 2020 target of -10% compared to 2005. Based on the latest national projections taking into account existing measures, the 2020 target is expected to be exceeded by a margin of 4 pp. However, Spain is expected to miss the 2030 target of -26% by 10 pp.
2020 renewable energy target: 20%	With a renewable energy share of 17.4% (2018), Spain is above its indicative trajectory to reach the 2020 target, despite a slight decrease compared with 2017, which will make the increase to meet its 2020 target, steeper.
Early school/training leaving target: 15%	The rate of early school leaving (18-24 years old) decreased by 0.4 pp in 2018 to 17.9%, but is still the highest in the EU and almost 3 pp above the target. The indicator varies greatly across regions and it is especially high for students with disabilities and non-EU born background.
Target for reducing the number of people at risk of poverty or social exclusion, expressed as an absolute number: -1.4 million compared with 2008	Although the number of people at risk of poverty or social exclusion has been declining since 2014, in 2018 it was still 1,261,000 more than in 2008. The 2020 target is far from reach.

Source: European Commission.

The transformation to a climate-neutral economy will require considerable investments, as Spain's very ambitious €241 billion 2021-30 National Energy and Climate Plan recognises. Eighty per cent, however, would apparently come from the private sector. Spain is in the forefront of renewable energy –wind turbines, for example, generate 20% of electricity and earn more export revenue than wine–. The Spanish start-up, Vortex Bladeless, recently pioneered a turbine design that can harness energy from wind without the large blades synonymous with wind power. The design recently won the approval of Norway's state energy company, Equinor. If Spain meets its goals, renewables would account for 42% of the country's energy mix and generate 74% of its electricity by the start of the next decade.

This would enable the country to be a significant exporter of energy to the EU, particularly to France, provided the country's interconnection capacity is increased.

Like other countries, Spain is spending and borrowing its way out of the economic crisis. Interest rates are historically low, but not for ever. At some point, the fiscal gap will have to be reduced and the government is going to have to boost tax revenue, which, in GDP terms, was lower in 2019, before the pandemic, than in 2007, unlike in the other main EU economies (see Figure 9). The Popular Party's tax reductions in 2015, at a time when the structural fiscal deficit had not been corrected and the country was coming out of the Great Recession, were demagogic.

Figure 9. Tax-to-GDP ratio, 2002, 2007 and 2019 (1)

	2002	2007	2019
France	44.1	44.5	47.4
Italy	39.7	41.5	42.6
Germany	39.6	39.3	41.7
EU	38.6	39.2	41.1
Portugal	33.9	35.0	36.8
Spain	34.1	37.3	35.4
UK	33.2	35.0	35.3

(1) The sum of taxes and net social security contributions as a percentage of GDP.

Source: Eurostat.

Marginal income tax rates are similar to the EU average. The problem lies with the effective rates for individuals and companies because of tax benefits, exemptions, deductions, rebates and loopholes. In 2017 (latest information), 112 of Spain's leading companies with 9,939 subsidiaries abroad paid an average effective rate of 17%, well below the 25% nominal rate, according to the Tax Agency. In the case of 22 of them whose profits accounted for more than 25% of the €88.4 billion total, their average effective rate was just 1.3%. Tax fraud and evasion remain high, despite the Tax Agency's considerable success in recent years. The shadow (unofficial) economy is still large, although not much higher than the EU average (see Figure 10).

Figure 10. Size of the shadow economy of the largest EU countries, 2003-19 (% of official GDP)

	2003	2005	2007	2009	2011	2013	2015	2017	2019	2020
France	14.7	13.8	11.8	11.6	11.0	9.9	12.3	12.8	12.4	13.6
Germany	16.7	15.0	13.9	14.3	12.7	12.1	11.2	10.4	8.5	10.4
Italy	26.1	24.4	22.3	22.0	21.2	21.1	20.6	19.8	18.7	20.4
Poland	27.7	27.1	26.0	25.9	25.0	23.8	23.3	22.2	20.6	22.4
Spain	22.2	21.3	19.3	19.5	19.2	18.6	18.2	17.2	15.4	17.4
EU-28	22.6	21.8	20.3	20.1	19.6	18.8	18.3	17.3	16.3	17.9

The values for some countries in 2020 are projections and the figures for 2019 and 2020 are rounded to the nearest decimal. The EU average includes the UK, which left the bloc on 31 January 2020.

Source: calculations by Professor Friedrich Schneider, University of Linz, Austria, January 2021.

The government is also going to have to get to grips with a pensions system that was ailing before the pandemic and is a major part of a structural fiscal deficit that has been too high for too long.

The OECD noted in its 2020 Pensions Outlook that population ageing, low growth, low returns and low interest rates were already weighing heavily on pension plans throughout the developed world, and the shocks from the health and economic crisis will likely keep economic growth, interest rates and returns low long into the future, putting many people at risk of not being able to save enough for retirement. Spain's population is ageing particularly fast and will have one of the highest old-age to working-age ratios among OECD countries, exerting strong pressure on financial sustainability (see Figure 11). The United Nations forecasts there will be 78 people in Spain over the age of 65 per 100 people aged 20-64 in 2050 against 33 currently, and 53 and 31, respectively, in OECD countries on average.

Figure 11. Demographic indicators

	2008	2012	2014	2015	2016	2017	2018	2019	2020
Average age	40.8	41.6	42.1	42.4	42.7	42.9	43.1	43.3	44.5
65 and older (%)	16.5	17.4	18.1	18.4	18.6	18.8	19.1	19.3	19.4
Dependency rate (1)	24.5	26.1	27.4	28.0	28.4	28.8	29.3	29.6	29.8

(1) Population of 15 years or less+65 or more years/ working population of 16-64 years.

Source: FUNCAS.

According to BBVA, the accumulated pensions deficit (the difference between payments and revenue) was €101 billion between 2011 and 2018, the period when the main imbalance was created. This was intensified by suspending some of the measures implemented as of 2014 to make the system more sustainable. Pensions were increased in line with inflation at 1.6% in 2018 and 2019 instead of by 0.25% had the Revalorisation Pensions Index been still applied. The sustainability factor, which was supposed to start being applied in January 2019 to adjust initial pensions –when retiring– based on life expectancy changes has been suspended until 2023. A Spaniard’s average life expectancy has risen 10 years since 1978 to more than 83 years, one of the highest in the world.

Spain’s net pension replacement rate –the individual net pension entitlement divided by net pre-retirement earnings– is one of the highest among OECD countries at 83.4% in 2018 (see Figure 12). By mid-century, the pension liability could reach 14% of GDP, according to the OECD, unless reforms take hold.

Figure 12. Net pension replacement rates (%) (1)

	% of pre-retirement earnings
Turkey	93.8
Italy	91.8
Spain	83.4
France	73.6
OECD	58.6
Germany	51.9
UK	28.4

(1) 2018 or latest available.

Source: OECD.

The government’s proposals included creating a voluntary private pension plan at the workplace, which would require people to opt in rather than being automatically enrolled, as in the UK, and would supplement the state system, bolstering tax incentives to encourage workers not to retire early and revamping the system for the self-employed, aligning contributions with what they ultimately receive. Another idea was to change the inflation link for pensions. In 2020, inflation fell 0.2% (ie, it was negative), but pensions rose at the start of that year by 0.9%, in line with the inflation forecast and thus giving pensioners a gain in real terms. This could be changed by raising pensions by the previous year’s rate of inflation and a mechanism to absorb the rise in pensions when inflation is negative, though this was considered politically impossible.

Workplace pension schemes might not be very effective because the vast majority of Spanish companies are small and employ few people. Private pension schemes for individuals were introduced in 1987 but the funds locked away only represent around 13% of GDP, well below the OECD's average of 82%. Most savers are high-income workers who use individual pension accounts to reduce their annual tax bill.

Spain's economic recovery this year hangs to a large extent on what happens in the vital tourism sector which, in turn, depends on the evolution of the pandemic and the roll out of vaccinations.

The 14-day cumulative case count per 100,000 residents was just over 150 at the end of March 2021 (the threshold at which the government considers the country should be put on high alert) after hitting 900 in January. The hope was that by maintaining restrictions over Easter there would not be a fourth wave of infections that would ruin the summer mass tourism season for the second year running.

The OECD forecast in March GDP growth of 5.7% this year, above the 3.9% average growth in the euro zone. Exports helped Spain out of its Great Recession and could do so again. They held up relatively well in 2020 against a backdrop of a fall in global trade. They were down 10% to €261.2 billion, compared to a decline of 9.7% in Italy's exports, 9.3% in Germany's, 16.3% in France's and 14.6% in the UK's, albeit all from much higher levels than Spain's (see Figure 13). In GDP terms, exports rose from 15% in 2009 to 23% in 2019 (the last normal year) and 2020 (when economic output shrank 10.8%). The number of regular exporters (four years or more) rose from 52,956 to 55,133, an encouraging sign in a country with a notable degree of internationalisation among its largest companies (see Appendix D).

Figure 13. Merchandise exports, 2011-20 (€ billion) (1)

	Exports	Exports as a % of imports
2011	215.2	81.8
2012	226.1	87.7
2013	235.8	93.4
2014	240.6	90.6
2015	249.8	90.9
2016	256.4	93.6
2017	276.1	91.3
2018	285.3	89.2
2019	290.9	90.2
2020	261.2	95.1

(1) Provisional figures for 2020.

Source: Ministry of Industry, Commerce and Tourism.

3. Labour market: living with high unemployment

Spain's governments in the last 40 years have passed more than 50 labour market reforms of one sort or another, apparently a world record, and yet unemployment has never been lower than 7% during that period (a crisis level for most other developed countries, particularly the US and UK). The country has got used to living with high unemployment. In 2013, the jobless rate at the height of the Great Recession reached 26%. That rate was down to around 17% in March 2021, excluding 744,000 furloughed workers.

The labour market is exhausted with so many reforms, and they cannot be said to have had much success in lowering unemployment, particularly among workers under the age of 25 whose jobless rate in 2020 was more than 40% (see Figure 14). The rate was still double the EU average in 2019, before the pandemic, at 30%.

Figure 14. Seasonally youth (under 25s) unemployment, 2020 (as % of labour force)

	%
Spain	40.7
Italy	29.7
France	23.4
EU	17.8
Germany	6.1

Source: Eurostat.

Why is unemployment in Spain so stubbornly high? Part of the problem lies with the nature of Spain's economic model, disproportionately based on tourism (a seasonal industry), the hospitality sector and construction (there is a limit to how many homes and how much infrastructure can be built, as Spain discovered when its massive property bubble burst in 2008). The 762,000 housing starts in 2006 were more than Germany, France and the UK combined.

Some of the unemployment reflect the failures of the education system. There is a high negative correlation between youth unemployment and a low level of intermediate vocational training (VT) after leaving school at 16 when compulsory education ends. In 2019, 30.2% of Spaniards between the ages of 25 and 34 had dropped out of school after completing their basic education and were not pursuing any other form of education, double the EU level (see Figures 15 and 16). These early school-leavers were qualified for only the most basic jobs.

Figure 15. Distribution of the population by maximum level of studies attained, 2019 (% of the population between the ages of 25 and 34)

	Spain	Italy	Germany	France	UK	EU-22
Compulsory education	30.2	23.8	13.1	12.6	14.6	13.4
Upper secondary	12.1	13.8	23.4	8.7	14.9	17.8
Intermediate vocational training	11.3	34.6	30.2	30.7	18.8	25.6
Advanced vocational training	13.8	0.1	0.3	13.8	7.3	5.5
University	32.7	27.7	32.9	34.2	44.5	37.7

Source: OECD.

Figure 16. Unemployment rate by educational level, 2019 (% of the population between the ages of 25 and 34)

	Compulsory education (1)	Upper secondary and intermediate vocational training	University and advanced vocational training
Spain	23.4	16.5	11.8
Italy	21.3	13.7	11.9
France	23.7	11.5	5.8
Sweden	16.9	4.7	4.3
Finland	16.7	7.2	4.9
Belgium	16.7	6.5	4.1
Austria	15.4	4.4	3.9
Germany	11.9	3.1	2.6
Denmark	10.3	5.6	7.5
UK	6.9	3.2	2.4

(1) The school leaving age varies between 16 and 18 (16 in Spain).

Source: OECD.

It is an axiom that higher educational attainment increases employment prospects: 23.4% of Spaniards aged between 25 and 34 in 2019, whose education ended at 16, were unemployed compared with 11.8% of the same age group with a university degree or advanced vocational training. The latter level is high by the standards of most EU countries and again can be attributed, to some extent, to Spain's economic model. Surveys repeatedly show the dissatisfaction of many university graduates with the jobs they attain. 'Rising educational attainment has created a large supply of highly-qualified adults, but many of them are working in jobs for which they are over-qualified', the OECD noted in a report on Spain.⁴ As a result, those that can seek employment abroad. A favourite country and not just for the better qualified until 2020 was the UK, an avenue now largely blocked because of Brexit. Spain would do well to attract back the legions of scientists, engineers, doctors, nurses and other skilled workers who left the country during the 2008-2013 slump.

Apart from the 2002-08 boom period, 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 and 15 points in 2013 and 2014 during the Great Recession. The gap has not narrowed significantly in recent years (see Figure 17).

Figure 17. Seasonally adjusted unemployment rates, 2020 (%)

	%
Spain	16.2
Italy	9.0
France	8.9
EU	7.5
US	6.7
Germany	4.6

Source: Eurostat.

Some of the unemployment is overstated because workers have off-the-book jobs in the informal economy, which cushions the impact of the high unemployment (see Figure 10). More importantly the wide use and widespread abuse of temporary contracts, introduced in 1984 by the first Socialist government of Felipe González, created a two-tier system of 'insiders' (on permanent contracts) and 'outsiders'. These contracts were brought in as a way to make the labour market more flexible as Spain prepared for entry into the European Economic Community (EEC) in 1986. Employers complained that the rigid labour-market rules inherited from the Franco regime would put them at a disadvantage in the EEC's free

⁴ Available at https://read.oecd-ilibrary.org/employment/getting-skills-right-spain_9789264282346-en#page1.

market. Employers were quick to use them and by 1997 around one-third of jobholders held temporary contracts, three times the EU average. That level stood at 22% in 2019 (see Figure 18), the latest year for comparative EU figures, down from 27% in 2006 when the economy was roaring along.

Figure 18. Temporary employees as percentage of the total number of employees, 2006 and 2019

	2006	2019
Spain	27.1	21.9
France	10.6	13.3
Italy	9.4	13.1
EU-28	11.1	10.8
Germany	10.5	9.3

Source: Eurostat.

Temporary workers are the first to lose their jobs when a crisis hits (Spain's construction sector shed 1.3 million jobs between 2008 and 2018, many of the workers having left secondary school at 16). The degree to which temporary employment can be reduced is a moot point, particularly in a seasonal sector like tourism. There is no doubt, however, that many employers are abusing the system, if not breaking the rules, by not converting endless temporary contracts into permanent ones when they should do, including public administrations where trade unions estimate up to 30% of workers are on temporary contracts, particularly in entities created by the 17 regional governments. One way to create a level playing field between temporary and permanent workers would be to introduce a single employment contract but the idea has yet to be taken up.

Another factor behind high unemployment has been the influx of immigrants, particularly needed in the booming construction sector in the decade to 2008 and more traditionally in agriculture, as there are not enough Spaniards to work in them or willing to work in them. The jobless rate among foreigners in 2020 was 26.6%, 12 percentage points higher than that for Spaniards.

The last major labour market reforms were in 2012. Among other things, 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. Employment protection legislation (EPL) became less strict, though severance pay for permanent workers in relative terms remained among the highest in OECD countries, despite the significant reduction in compensation for unfair dismissal. The reforms lowered the GDP growth rate needed to create jobs from around 2% to 1%-1.5%.

4. Education: a political football still kicked around

It is widely accepted that the education system is not providing the skills that Spain needs, and this in a country where skill demands are more polarised than in many other OECD countries, with a big share of jobs requiring either very low levels of education or very high levels. The share of all jobs requiring only a primary education is higher in Spain (25%) than in any other OECD country; however, the supply of low-educated workers exceeds demand. This is one factor behind the persistently high unemployment (see Figures 14 and 15). At the other end of the labour force, Spain faces high over-qualification and field-of-study mismatch among university graduates.

The country's eighth education law in 40 years was approved at the end of 2020 and yet again without a political consensus. Moreover, the focus of attention, among those parties opposed to it –the conservative Popular Party, the hard-right VOX and the liberal Ciudadanos– and in much of the media (and hence among the wider public debate) was the elimination in a previous law of the reference to Spanish as the language of instruction (*lengua vehicular*) in classrooms, a reform greeted jubilantly by Catalan secessionists who want the region, with its own language, to break away from Spain. This reform was a sop to Republican Left of Catalonia (ERC), the pro-independence party that gives the Socialist-led minority government parliamentary support. Castilian Spanish, however, ceased to be the language of instruction years ago under the Catalan government's policy of linguistic immersion, in violation of Article 3 of the 1978 Constitution. The change just legalised what was already happening. Little attention was paid to the much more pressing and shockingly high rates of grade repetition and early-school leavers, although the government introduced measures to try to alleviate these serious problems. In previous education laws, under a Popular Party (PP) government, the political battle has been on other very marginal issues such as increasing the importance of religion classes towards a student's end of course grade.

In 2017-18 more than 30% of 15-year-olds repeated a year (see Figure 19) compared with less than 20% in Germany and virtually no one in the UK (around 2%) and between 12% and 14% since 2000 of students in the last year of primary education (an average of 4% for 10 countries analysed by the *Consejo Escolar del Estado*).⁵ The likelihood of repeating a course is four times greater among poor than better-off students, the second highest gap among OECD countries. The latest package of education reforms makes it easier to go through to the following academic year, by reducing the number of exam passes needed and giving teachers more discretion in deciding. The government also planned to reform the curriculum and move it toward critical thinking and away from excessive rote learning.

⁵ See 'Ganar el futuro educativo para todos', Enrique Rojas, President of the *Consejo Escolar del Estado*, in *El País*, 19/ XI/2020, <https://elpais.com/opinion/2020-11-18/ganar-el-futuro-educativo-para-todos.html>.

Figure 19. Percentage of students by ages who have repeated an academic year at least once

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
8 years	6.5	6.2	6.4	6.3	6.3	6.0	6.4	6.3
12 years	16.3	16.1	15.6	15.1	14.7	13.9	14.3	13.5
15 years	38.8	38.3	37.5	36.4	34.2	32.5	31.4	30.6

Source: Consejo Escolar de Estado, Education Ministry.

Spain's high repeat levels demotivate students and were one of the causes of the equally high early school-leaving rate of 16% in 2020 (see Figure 20). This then factors into high unemployment among early school dropouts (see Figure 16). The early school leaving rate was still far from the EU's target of 10%. The age at which students can leave education in Spain is 16 (18 in Germany and the UK). Spain would do well to raise the school leaving age.

Figure 20. Early leavers from basic education and training, 2006 and 2020 (1)

	2006	2019
Spain	30.3	16.0 (2)
Italy	20.4	13.5
EU-28	14.2	10.2
Germany	13.7	10.3
France	12.4	8.2
UK	11.3	10.9

(1) The percentage of those aged between 18 and 24 who had only lower secondary education or less and were no longer in education or training; (2) 2020.

Source: Eurostat.

The latest education package seeks to boost basic vocational training (VT) in order to enhance the employment prospects of the least academic or give greater choices to those who can go to university but for whom a degree is not going to improve their job prospects much. The number of students enrolled in VT schemes increased from 615,079 in 2012 to 837,199 in 2019 (30% of post-compulsory education enrolments).

The country 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. It

has also done better than many other European countries as regards educational mobility: around 40% of adults have a higher level of education than their parents. Spain also leads in the area of early childhood enrolment rates: 96% of three-year-olds are in education compared with the OECD average of 76%. But the results, in international tests such as TIMMS and PISA, are mediocre, though better than Italy and France.

Fourth-grade students (9-10-year-olds) performed worse in the latest TIMMS science achievement tests than in the last one in 2015. Spain scored 511 in science, down from 518, and 502 in mathematics compared with 505 (see Figures 21 and 22).

Figure 21. International science achievement, fourth grade, average scale scores

	Average scale scores
Singapore	595
Finland	555
OECD average	526
England	537
Germany	518
Spain	511
Italy	510
Portugal	504
France	488

Source: TIMSS & PIRLS.

Figure 22. International mathematics achievement, fourth grade, average scale scores

	Average scale scores
Singapore	625
England	556
OECD average	527
Finland	532
Portugal	525
Germany	521
Spain	502
France	485
Italy	515

Source: TIMSS & PIRLS.

Fifteen-year-old students also scored Spain's worst results in science and dropped a little in mathematics in the OECD's latest PISA results, held every three years. The score in science was 483, down from the best result of 496 in 2012, and 481 in mathematics compared with 486 in 2015 (see Figure 23). Spain's scores were similar to those for Hungary and Lithuania. According to Dirk Hastedt, Director of the International Association for the Evaluation of Educational Achievement (IEA), which is responsible for the PISA reports since 1995, a drop of seven points, as is the case for Spain in science, is worrying. One factor behind the fall is teacher preparedness. According to an IEA survey, 82% of Spain's science teachers said they needed more training in technology and new teaching methods.

Figure 23. PISA scores for science and mathematics

	Science	Mathematics
China (1)	590	591
Estonia	530	523
Finland	522	507
Poland	511	516
UK	505	502
Germany	503	500
US	502	478
France	493	495
Portugal	492	492
Spain	483	481
Italy	468	487
OECD average	489	489

(1) Four provinces in eastern China that do not represent the country as a whole, but the size of each compares to that of a typical OECD country.

Source: OECD PISA 2018.

As in previous PISA tests, there were comparatively few top performers in Spain. Some 5% of those tested were top performers compared with 20% and 33% for Belgium and South Korea, countries with a similar income level to Spain.

As well as the worrying trend of no improvement, the results showed considerable differences across Spain's 17 regions. For example, a science student in Galicia (510) scored considerably better than one in the Canary Islands (470, see Figure 24). PISA experts say a difference of 30 points is the equivalent of 37 weeks at school. The difference between Spain and China in mathematics is 110 points!

Figure 24. PISA results by Spain's autonomous regions, 2018 and 2015

	Science		Mathematics	
	2018	2015	2018	2015
Galicia	510	512	494	494
Castile and León	501	519	506	506
Asturias	496	501	492	492
Cantabria	495	496	495	495
Aragón	493	508	500	500
Navarre	492	512	518	518
Catalonia	489	504	490	500
Basque Country	487	483	499	492
Madrid	487	516	486	503
La Rioja	487	498	497	505
Castile-La Mancha	484	497	479	486
Spain	483	493	481	486
Balearic Islands	482	485	483	476
Murcia	482	484	474	470
Valencia	479	494	473	485
Extremadura	473	474	470	473
Andalusia	471	473	467	466
Canary Islands	470	470	460	452

Source: OECD PISA, 2018.

Last but not least, language skills leave a lot to be desired, particularly English (see Figure 25).

Figure 25. EF English Proficiency Index, 2020

Ranking out of 100 countries	Score
1. Netherlands	652
7. Portugal	611
8. Germany	616
14. Hungary	598
16. Poland	596
28. France	559
30. Italy	547
34. Spain	537

Source: Education First.

5. Politics: polarised and fragmented

It took Spain four elections between 2015 and 2019 to form a government in January 2020 that looks as if it might last its full four-year term, although there is no shortage of tensions in the country's first coalition, and a minority one, in more than 80 years, led by the Socialists and with the hard-left Unidas Podemos (UP) as their junior partner.

Political life, after 33 years of dominance by the centre right Popular Party (PP) and the Socialists, has become much more polarized and fragmented since the 2015 election, which saw UP and the liberal Ciudadanos (Cs) enter parliament for the first time, and the hard-right VOX as of the April 2019 election (see Figure 26). Furthermore, political fault lines have been deepened by Catalonia's bid for independence, which flared in October 2017 with an unconstitutional referendum on secession and a unilateral declaration of independence and shows no signs of abating (see separate section).

Society, fortunately, is nowhere near as polarised as the political class, except in Catalonia. Hence, the enormous discredit of politicians, who are viewed as part of the problem instead of the solution. Surveys by the state-funded CIS over the past decade showed very low levels of confidence in both the prime minister and the leader of the opposition.

Figure 26. Results of general elections, 1982-2019 (% of total votes cast)

	82	86	89	93	96	2000	2004	2008	2011	2015	2016	Apr 2019	Nov 2019
Socialists	48.3	44.1	39.6	38.8	37.6	34.7	42.6	43.6	28.7	22.0	22.7	28.7	28.0
Commsts ¹	4.0	4.6	9.1	9.6	10.5	5.5	4.9	3.8	5.4	3.6	–	–	–
Podemos ²	–	–	–	–	–	–	–	–	–	20.6	21.1	14.3	12.8
Popular Party ³	26.5	26.0	25.8	34.8	38.8	45.2	37.6	40.1	44.6	28.7	33.0	16.7	20.8
Ciudadanos	–	–	–	–	–	–	–	–	–	13.9	13.0	15.8	6.8
Vox	–	–	–	–	–	–	–	–	–	–	0.2	10.3	15.1
Catalan parties ⁴	3.7	5.0	5.0	4.9	4.6	4.2	3.2	3.0	4.1	4.6	4.6	5.8	6.0
Basque parties ⁵	1.9	1.5	1.2	1.2	1.3	1.5	1.6	1.2	1.3	2.0	2.0	2.5	2.7
Other	15.6	18.8	19.3	10.7	7.2	8.9	10.1	8.3	15.9	4.6	3.6	5.9	0.9

(1) Spanish Communist Party and United Left from 1986 to 2016 when United Left joined Podemos to form Unidos Podemos; (2) Unidos Podemos as of 2016 and Unidas Podemos as of 2019, and including in both cases regional allies; (3) Popular Party as of 1989 (before then Popular Alliance); (4) Convergence and Union (CiU), Republican Left of Catalonia (ERC), Together for Catalonia (JxCat) and other parties; (5) Basque Nationalist Party (PNV), Eusko Alkartasuna, Herri Batasuna and EH Bildu, among others.

Source: Interior Ministry.

The coalition government, with 155 of parliament's 350 seats held by 19 parties, mainly depended for active or passive support on the pro-independence Republican Left of Catalonia (ERC) and the Basque Nationalist Party (PNV). Prime Minister Pedro Sánchez narrowly won the second investiture vote by 167 votes to 165 when a simple as opposed to a qualified majority was required (see Figure 27). Parliament's approval of the 2021 budget in December 2020 (the 2018 budget had to be rolled over several times) made it more likely the government would see through its full term unless it decided to call a snap election or lost a vote of confidence.

Figure 27. The investiture of Pedro Sánchez, yes and no votes and abstentions, and seats of each party in Congress

167 YES votes	165 NO votes	Abstentions
Socialists (120)	Popular Party (88)	Republican Left of Catalonia (13)
Unidas Podemos (35)	VOX (52)	Bildu (5)
Basque Nationalist Party (6)	Ciudadanos (10)	
Más País (2)	Junts per Catalunya (8)	
Compromís (1)	CUP (2)	
Teruel Existe (1)	Navarra Suma (2)	
Nueva Canarias (1)	Regionalist Party of Cantabria (1)	
Galician Nationalist Bloque (1)	Foro Asturias (1)	
	Canaries Coalition (1)	

Source: Congress of Deputies.

The party that gained the most ground in the 'new' political scene is VOX (52 seats in the November 2019 general election, up from 24 in the April election) and 11 seats in the February 2021 Catalan election (none in the 2017 election), and the biggest loser is Cs (10 seats, down from 57 in April). VOX's success is making life difficult for the PP, which veers between ultra-right stridency and centrism, while UP sniping from within the government is an irritant for the Socialists.

Friction is inherent in a coalition government, and more so in Spain which has had no such experience, at the national level, since the early 1930s under the Second Republic. UP's leader, former Deputy Prime Minister Pablo Iglesias, took it to an extreme by continuously wanting to be part of the government and the opposition at the same time. Iglesias bowed out of government to run in May's snap regional election in Madrid. He was replaced by UP's Yolanda Díaz, a less disruptive figure.

UP's public disagreements with the Socialists include promoting a republic to replace the monarchy under King Felipe VI (see separate section), despite UP's ministers swearing allegiance to the 1978 Constitution, equating the situation of Catalan separatist politicians in Belgium who fled justice after the 2017 illegal referendum with that of the hundreds of thousands of exiles after Spain's 1936-39 Civil War (an insult for their families), and questioning whether Spain is a full democracy.

The pandemic's impact and with it the need to lay aside aggressive partisanship did nothing to temper the brutally vitriolic political life. Instead of fostering common sense and agreement, the scourge of coronavirus encouraged even more the destructive inertia of the political class. Spain's democracy is a vibrant one, but consensus has been woefully lacking. May's snap election in Madrid, politically very important, was pitted simplistically by Isabel Díaz Ayuso, the PP's Premier, as a contest between 'freedom and communism'. It was triggered by a power play in the region of Murcia when lawmakers from the liberal Ciudadanos (Cs) jumped ship and allied themselves with the Socialists in order to present a vote of no confidence to oust the PP over accusations of corruption. In the event the vote did not prosper. Díaz Ayuso, fearing a similar move by Cs, with whom the PP was in an uneasy coalition, as in Murcia, had already reacted by calling an election. The big loser in all this was likely to be Cs and with it the chances of a centrist party, which would accentuate the right-left divide.

Sánchez and Cs' former leader Albert Rivera could have formed a government after the April 2019 election (with 180 of the 350 seats in Congress, a clear majority) as ideologically they are not that far apart, but Rivera's hubris, following his party's results in that election (Cs won nine fewer seats than the PP's 66), which convinced him he could overtake the PP in another election by shifting rightwards, and Sánchez's preference for UP (rather than have it haranguing him as an opponent on the left) dashed hopes of such a government. An historic opportunity was lost. As a result, a second election had to be held that year.

There was also a worrying dispute over renewing the 20 members of the General Council of the Judiciary, the body that governs judges, which is intended to guarantee their independence and makes the main judicial appointments. The council's five-year term of office (begun when the PP was in power) expired in 2018 and since then it operated on a caretaker basis, as members of it have to be chosen with a three-fifths majority in parliament, a procedure that is widely perceived as politicising the judiciary.

The Socialists and the PP, the two largest parties, could not agree on candidates (the PP also wants to exclude UP from the process). The central figure in the dispute over candidates was judge José Ricardo de Prada, who gained national prominence in the 2018 case against Luis Bárcenas, the PP's former treasurer (sentenced to 33 years in jail) when he censured the PP for 'institutional corruption'. That affirmation rankled the PP and triggered in May 2018 a vote of no confidence in the PP government of Mariano Rajoy (a censure motion has to

include a candidate for Prime Minister), which lost power and catapulted Sánchez to prime minister. The government refused to drop Prada from its list of candidates.

The European Commission was drawn into the dispute last year when the government, frustrated by the impasse, proposed changes to the law that would allow it to install a new council with an absolute majority, something it could muster but which alarms Brussels against the backdrop of its criticisms of Poland's problems with the rule of law.

The dispute over the CGPJ was not the only ugly case of politicians' fighting to colonise state institutions. There was a similar tussle over renewing the board of state television (RTVE), finally agreed in February 2021. 'Corruption is not in our cultural DNA nor in that of the political parties', said a damning report published by the *Círculo de Empresarios*, a business lobby, but 'it is in our institutional DNA: public organisations strongly controlled by the governing political parties, which lack the weights and counterweights of power that oversee the integrity and impartiality of public action'.⁶

On the question of the rule of law, the arrest and imprisonment in February 2021 of the Catalan rapper Pablo Hasél for glorifying terrorism and slandering the monarchy and state institutions in tweets and lyrics was seized upon in some quarters including UP and Catalan secessionists as proof that Spain is not yet a fully-fledged democracy because of a lack of free expression. His nine-month sentence sparked more than a week of violent protests, particularly in Barcelona. The sentence, reduced from two years, was not suspended because Hasél had been previously convicted and given a suspended sentence on similar charges. Hasél (whose real name is Pablo Rivadulla Duro) has a long criminal record beginning in 2014 with a conviction for glorifying terrorism, which included encouraging the Basque terrorist group ETA to kill a Socialist politician, assaulting a journalist in 2016 and assaulting a witness during the course of a trial in 2017 (for which he was fined €12,000 but refused to pay).

As a result of the outcry over Hasél, who was not the first person to be charged with glorifying terrorism, the government was reviewing the penal code related to 'excesses of freedom of expression' and proposing to punish only the most dangerous ones and then only with fines. Amnesty International called Hasél's jailing 'unjust and disproportionate'.⁷

Jurists say the terrorism speech laws made some sense when ETA was at its most active (the group killed 854 people, 811 of them after dictator Franco died in 1975, until it disbanded in 2018) and the sensibilities of the families of victims deserved to be protected. Equally, it can be argued that defamatory speech protection for the monarchy, an institution reinstated after Franco died and the transition to democracy began, was needed then.

⁶ See *The Quality of Institutions in Spain*, <https://circulodeempresarios.org/app/uploads/2018/05/THE-QUALITY-OF-INSTITUTIONS-IN-SPAIN-Circulo-de-Empresarios-2018.pdf>.

⁷ See <https://www.amnesty.org/en/latest/news/2021/02/spain-jailing-of-rapper-for-song-lyrics-and-tweets-unjust-and-disproportionate/>.

The human rights situation in Spain is miles from the fascist state painted by Hasél's supporters. The European Court of Human Rights upheld 167 cases against Spain between 1959 and 2018 compared with the 340 cases of Germany, 547 of the UK, 1,013 of France and 2,396 of Italy.⁸ Since the 1978 Constitution, Spain has formed part of the group of around 30 countries with consolidated democracies and liberal practices, according to the main rankings.

Spain dropped from 16th position equal with Austria out of 167 countries to 22nd in the EIU's 2020 Democracy Index on a slightly lower score but remained part of the top group of 23 'full democracies' (see Figure 28). The score fell from 8.18 out of 10 to 8.12. Spain was overtaken by Taiwan and Japan, which moved from the 'flawed democracy' category to 'full democracy' (a score of 8 or more), and by Mauritius and Costa Rica, which improved their position in the 'full democracy' classification. Taiwan was the star-performer, rising 20 places to 11th.

Figure 28. The Economist Intelligence Unit's Democracy Index, 2020 (1)

	Rank (2)	Overall score	Electoral process & pluralism	Functioning of government	Political participation	Political culture	Civil liberties
Full democracies							
Norway	1	9.81	10.00	9.64	10.00	10.00	9.41
Iceland	2	9.37	10.00	8.57	8.89	10.00	9.41
Sweden	3	9.26	9.58	9.29	8.33	10.00	9.12
New Zealand	4	9.25	10.00	8.93	8.89	8.75	9.71
Canada	5	9.24	9.58	8.93	8.89	9.38	9.41
Finland	6	9.20	10.00	8.93	8.89	8.75	9.41
Denmark	7	9.15	10.00	8.93	8.33	9.38	9.12
Ireland	8	9.05	10.00	7.86	8.33	9.38	9.71
Australia	9=	8.96	10.00	8.57	7.78	8.75	9.71
Netherlands	9=	8.96	9.58	9.29	8.33	8.75	8.82
Taiwan	11	8.94	10.00	9.64	7.22	8.13	9.71
Switzerland	12	8.83	9.58	8.57	7.78	9.38	8.82
Luxembourg	13	8.68	10.00	8.57	6.67	8.75	9.41
Germany	14	8.67	9.58	8.21	8.33	8.13	9.12
Uruguay	15	8.61	10.00	8.57	6.67	8.13	9.71

⁸ See https://echr.coe.int/Documents/Stats_violation_1959_2018_ENG.pdf.

	Rank (2)	Overall score	Electoral process & pluralism	Functioning of government	Political participation	Political culture	Civil liberties
UK	16	8.54	10.00	7.50	8.89	7.50	8.82
Chile	17	8.28	9.58	8.21	6.67	8.13	8.82
Austria	18=	8.16	9.58	7.50	8.33	6.88	8.53
Costa Rica	18=	8.16	9.58	6.79	7.22	7.50	9.71
Mauritius	19	8.14	9.17	7.86	6.11	8.75	8.82
Japan	21	8.13	8.75	8.57	6.67	8.13	8.53
Spain	22	8.12	9.58	7.14	7.22	8.13	8.53
South Korea	23	8.01	9.17	8.21	7.22	7.50	7.94
Flawed democracies							
France	24	7.99	9.58	7.50	7.78	6.88	8.24
US	25	7.92	9.17	6.79	8.89	6.25	8.53
Portugal	26	7.90	9.58	7.50	6.11	7.50	8.82

(1) Overall score out of 10.

(2) Out of 167 countries and two territories.

Source: The Economist Intelligence Unit.

The index is based on five categories: (1) electoral process and pluralism; (2) functioning of government; (3) political participation; (4) political culture; and (5) civil liberties. Spain's score since the index was launched in 2006 has varied between a high of 8.45 in 2008 to a low of 8.02 in 2011-13 (see Figure 29).

Figure 29. Overall score of Spain, France, Italy and the US in the EIU's democracy index, 2006-20 (1)

	2006	2008	2010	2012	2014	2016	2018	2019	2020
France	8.07	8.07	7.77	7.88	8.04	7.92	7.80	8.12	7.99
Italy	7.73	7.98	7.83	7.74	7.85	7.98	7.71	7.52	7.74
Spain	8.34	8.45	8.16	8.02	8.05	8.30	8.08	8.18	8.12
US	8.22	8.22	8.18	8.11	8.11	7.98	7.96	8.24	7.92

(1) Out of 10.

Source: The Economist Intelligence Unit.

Spain also slipped in the latest V-Dem liberal democracy index from 9th to 13th place out of 179 countries (see Figure 30), again on a very slightly lower score (0.80, the same as France and the UK, against 0.81). The index is based on a wider range of indicators than the EIU's ranking and includes as well as free and fair elections, property rights, media bias, freedom of religion and lower court independence.

Figure 30. Liberal democracy index ranking and components' indices

Liberal democracy index ranking out of 179 countries and score out of 1	Electoral democracy index (EDI) ranking	Liberal component index (LCI) ranking	Egalitarian component index (ECI) ranking	Participatory component index (PCI) ranking	Deliberative component index (DCI) ranking
1. Denmark 0.88	1	1	1	9	4
8. Germany 0.83	11	8	6	23	2
13. Spain 0.80	9	27	10	26	28
14. UK 0.80	15	19	29	38	19
15. France 0.80	13	22	26	38	19
21. Italy 0.78	20	20	12	3	22
31. US 0.73	33	30	59	24	106

Source: V-Dem 2021 Report.

6. The independence conflict in Catalonia: no solution in sight

The government's hope that the victory of Salvador Illa, the former Socialist Health Minister and candidate in February's Catalan election, would enable it to, in his words, 'stitch Catalonia back together' after a decade of polarisation over independence for the region did not materialise, although the Socialists almost doubled their number of seats to 33 in the 135-strong Catalan parliament and were the most voted party (see Figure 31).

Figure 31. Catalan parliament elections, 2021 and 2017 results (number of seats and % of votes)

	2021	% of votes	2017	% of votes
Catalan Socialist Party (PSC)	33	23.0	17	13.9
Catalan Republican Left (ERC)	33	21.3	32	21.4
Together for Catalonia (JxCat)	32	20.1	34	21.6
VOX	11	7.7	–	–
Popular Unity Candidacy (CUP)	9	6.7	4	4.5
<i>Catalunya en Comú-Podem</i>	8	6.9	8	7.5
<i>Ciudadanos (Cs)</i>	6	5.6	36	25.3
Popular Party (PP)	3	3.8	4	4.2
Voter turnout		53.6		79.1

Source: Catalan Government.

The three pro-independence parties won a larger number of seats on, for the first time, more than 50% of the voter turnout, but only 53.6% of people eligible to vote went to the polls, due to the pandemic, political disaffection and fatigue after a decade of the secession conflict, compared with 79.1% in 2017. That hardly gives these parties, with 74 seats, four more than in 2017, a clear mandate to continue to push for secession, which began in earnest with the unconstitutional referendum on independence in 2017 and a unilateral declaration of independence. Nine separatist leaders are serving jail sentences for their role in secession after they were found guilty of sedition. Catalan Republican Left (ERC) and Together for Catalonia (JxCat), the two main independence parties, lost 35.6% and 32%, respectively, of their votes compared to 2017 (the latter including PDeCAT, which split from it and won no seats on its own). A total of 2.8 million people voted, down from 4.7 million in 2017.

ERC won the same number of seats as the Socialists and one more than JxCat, putting it, unlike in December 2017, at the head of the divided secession movement which also includes the backing of the anti-capitalist Popular Unity Candidacy (CUP). CUP doubled its seats to nine, making it the kingmaker.

ERC takes a more gradual approach to independence than the confrontational JxCat, whose former leader, Carles Puigdemont, the Catalan Premier at the time of the referendum, fled to Belgium. The means might be different, as Pere Aragonès, the ERC's leader, is apparently in favour of negotiating a referendum, but the goal is the same.

Such were the divisions that Aragonès, who became Catalonia's acting Premier in 2020 when JxCat's Quim Torra stepped down after he was barred from public office for 18 months for refusing to remove banners during an election campaign from a public building calling for the release of the nine, failed to be elected Premier by parliament in the first investiture vote (by qualified majority) on 26 March and the second on 30 March (simple majority) because JxCat's deputies abstained. If there is no agreement by 26 May Catalans will have to go to the polls again.

Not only did the pro-independence parties win more seats, but at the other end of the spectrum, the hard-right VOX stormed into the Catalan parliament for the first time with 11 seats, two more than the centre-right Popular Party (PP) and the liberal Ciudadanos combined and further polarising Catalan politics. The collapse of Cs from its stunning result in 2017, when it was the most voted party with 36 seats, mirrored that in the November 2019 general election which saw it drop from 47 to 10 seats in the national parliament. Those who voted for Cs, a party founded in Catalonia in 2006 to combat secessionism, either returned to the Socialists, which might soften the discourse in the 'constitutionalist' camp, or moved to VOX. The PP's result (three seats and almost four times fewer votes than VOX) was its worst ever in Catalonia.

Where does Catalonia go from here as there is no let up on either side? On the one hand, the European Parliament's stripping of Puigdemont's immunity in March and that of two other Catalan separatist MEPs, a victory for Madrid, increased the judiciary's chances of finally being able to extradite them to stand trial, although it was by no means a done deal. If that happened, it would incense secessionists. At the same time, a judge ordered seven of the jailed separatists, who were granted semi-liberty before the Catalan election in order to be able to take part in the campaign, back to prison. On the other, the minority national government, which has won support for crucial laws, including the 2021 budget, thanks to the backing of ERC's 13 MPs and other parties, planned to review the crime of sedition (the definition of which is much broader than in most EU countries) and was considering possible pardons for the nine jailed separatists.

The election cannot be interpreted as a referendum on independence, as claimed by the secessionist parties. The largest block of the electorate (46.5%) did not vote and of those that did 27.2% voted for secessionist parties and 25.2% for other parties, very different from 2017 when the abstention rate was 20.9%, independence parties got 37.6% of votes and others 40.3%.

The higher the income of a voter and the more Catalan their family background the more likely they are to vote for pro-independence parties: 87% of voters earning more than €4,000 a month and with four Catalan grandparents wanted secession from Spain compared with only 16% of those earning less than €900 and born in another region (see Figure 32).

Figure 32. People by group of origin and income who want independence for Catalonia (%)

	Under €900	€900- €1,200	1,200- €1,800	€1,800- €2,400	€2,400- €4,000	Over €4,000
Four Catalan grandparents	64	68	78	78	84	87
Two Catalan parents	63	57	59	64	68	68
One parent born in Catalonia	45	49	49	51	61	59
Catalan, with parents born elsewhere	31	30	33	32	40	31
Born abroad	28	25	26	29	33	27
Born in another Spanish region	16	15	18	20	25	26

Source: CEO/El País.

VOX won the largest share of votes in low-income areas (25%) compared with 17% for ERC and 13% for JxCat (see Figure 33). These two parties captured 29% and 36%, respectively, of votes in high income areas.

Figure 33. Votes in Catalonia by party (%) in low, medium-low, medium-high and high-income neighbourhoods (1)

	Low (%)	Medium-low (%)	Medium-high (%)	High (%)
VOX	25	25	24	26
Popular Party	19	20	22	39
Ciudadanos	21	23	25	31
Socialists	23	25	26	26
En Comú Podem (ECP)	18	23	28	31
Republican Left of Catalonia (ERC)	17	24	30	29
Catalan European Democratic Party (PDeCAT)	13	19	26	43
Together for Catalonia (JxCat)	13	22	30	36
Popular Unity Candidacy (CUP)	14	23	31	32

(1) Small areas with around 1,000 inhabitants.

Source: Catalan government and INE/El País.

The independence drive, most of it paid for with public money, has been at the expense of not resolving far more pressing issues such as bolstering Catalonia's health and education systems, weakened by the pandemic, tackling the decline in the size of the economy (the Madrid region's GDP overtook Catalonia's in 2019, before the pandemic) and dedicating more time to how best to deploy the share of the EU's pandemic recovery funds that Catalonia will receive, all of them issues more important for Catalans' wellbeing than breaking away from Spain, as if that act alone in itself would be a panacea. The problem is that a large part of the Catalan political class lives from confrontation.

7. Monarchy or republic?

The scandals and financial irregularities surrounding King Juan Carlos I have ignited a debate in some political circles on whether Spain should change its form of state and replace the monarchy with a republic. In the past 150 years, a large part of it turbulent, Spain had its First Republic (1873-74), a restoration of the Bourbon monarchy under Alfonso XII, which lasted until 1931 with the exile of his son Alfonso XIII and the establishment of the Second Republic, a Civil War (1936-39), the dictatorship of General Franco (1939-75) and a return to monarchy under Juan Carlos and since his abdication in 2014 Felipe VI. Few countries experienced so many abrupt changes during that period.

Juan Carlos oversaw Spain's transition to democracy which apart from the continued violence by the Basque terrorist organisation ETA, fighting for an independent Basque Country, and some other groups was peaceful and widely respected inside and outside the country. The King quickly realised that democracy was what the vast majority of the population wanted, that it would go a long way toward healing the festering wounds of the Civil War and that without the transition he might lose his job. In 1981, he stared down an attempted military coup, winning universal praise.

The 1978 Constitution enshrined Spain as a parliamentary monarchy. More than 40 years later, do Juan Carlos's financial crimes, recognised with two voluntary tax settlements of more than €5 million, in connection with the funding by individuals of his lifestyle including travel expenses (payments-in-kind in Spain are subject to taxes), and an ongoing investigation into whether he received a commission for a mega high-speed railway contract awarded to Spanish companies in Saudi Arabia, warrant abolishing the monarchy and yet another upheaval?

The high esteem in which Juan Carlos was held until his abdication, brought about by ill health, a lavish elephant hunt he took in 2012 to Botswana in the midst of Spain's Great Recession and a corruption investigation into the business dealings of his daughter's husband (subsequently sentenced to five years in jail), has plummeted and led him to leave Spain for Abu Dhabi in 2020.

For the hard-left Unidas Podemos (UP), the junior partner in the Socialist-led minority government, Franco's re-establishment of the monarchy in 1947 and naming Juan Carlos his successor in 1969 comprise an 'original sin' that damaged the monarchy's legitimacy and led the architects of the transition to add special protections for the royalty, including the monarch's inviolability while in power.

UP, the Catalan secessionist parties and Basque nationalists are spearheading the emotionally charged call for a republic. They lament there was no complete break with the Franco dictatorship, which even the Spanish Communist Party (PCE), outlawed when the dictator

died in 1975, recognised as being unviable and unrealistic as it would have provoked Francoists who wanted to keep the status quo. Santiago Carrillo, the PCE leader at the time, said that but for Juan Carlos, ‘the shooting would have already begun’.

The success of Spain’s transition lay precisely in the consensus reached between the reformist right and the non-violent left and the combination of a top-down movement toward democracy, piloted by Juan Carlos, and bottom-up pressure to ensure it happened.

The premise of Pablo Iglesias, UP’s leader and the former Deputy Prime Minister, is that the monarchy is no longer a symbol of unity and harmony and has outlived its purpose as it brought democracy, though Iglesias questions its quality.⁹

Juan Carlos’s failings are those of an individual and not of an institution, and in a country so sharply politically polarised as Spain the non-partisan monarchy serves the country better by standing above the vociferous fray and not being identified with any political trend that an elected president would be from the Popular Party, the Socialists or UP. If the past Prime Ministers of these parties, such as José María Aznar and Felipe González, were to run for the presidency of a republic they would probably generate more rejection than keeping Felipe VI.

If Iglesias’s argument that the monarchy has ceased to be a symbol of unity and harmony is taken to its logical conclusion then the US should abolish its republic because of the far more damaging behaviour of Donald Trump or the Bank of Spain should be eliminated because a former governor was briefly imprisoned for tax fraud and insider trading.

There is no reason, as Iglesias believes, why ‘democracy would be deepened with a head of state who is elected to the role, not one who inherits the position’. Suffice to look at the republics around the world, particularly those in Latin America which are hardly a shining example of democracy. Indeed, a large part of the world’s fullest democracies are parliamentary monarchies and lead the democracy rankings of the Economist Intelligence Unit (see Figure 28), Freedom House and V-Dem. Monarchies are accused of being anachronistic institutions, but countries with parliamentary monarchies are among the most modern and progressive (see Appendix B).¹⁰ In March 2021, Spain became the fifth country in the world to approve a law regulating euthanasia, and in 2005, the fourth to legalise same-sex marriage.

Eliminating the monarchy because it is costly is also not a sufficient argument. The Spanish monarchy, based on what the Royal Household receives via the state budget (€8.4 million in 2021), is not expensive compared to the British monarchy or the presidency of the French

9 See Pablo Iglesias (2028), ‘What’s the Spanish monarchy still good for?’, *El País*, 16/XI/2018, https://english.elpais.com/elpais/2018/11/26/inenglish/1543234577_165448.html.

10 See Emilio Lamo de Espinosa (2020), ‘¿Monarquía o república? Diez razones’, *El País*, 17/VIII/2020, <https://elpais.com/opinion/2020-08-16/monarquia-o-republica-diez-razones.html>.

Republic (10 times more). The €8.4 million does not include items covered by various ministries, however.

Proclaiming a third republic would entail constitutional reform that would require a degree of political consensus impossible to achieve in the current polarised climate. The reform would require approval by two-thirds of the members of Congress and Senate, followed by elections, ratification by two-thirds of the new Congress and Senate and a referendum. It would be an unnecessary leap in the dark.

King Felipe has increased transparency in the monarchy including auditing the royal family's accounts by an external agency, in line with practices in the UK, the Netherlands, Denmark, Sweden and Norway. He has also barred members of the family from working in the private sector. Prime Minister Pedro Sánchez speaks of a 'road map' for the renewal of the monarchy, but it will stop short of a specific law. In a rare spirit of cooperation, the Socialists, historically a republican party, and the Popular Party discreetly worked on details as a matter of state.

Three-quarters of respondents in a survey last year said Felipe VI was quite or well prepared for the job of head of state and 42.5% rated his six-year reign as very good or good (see Figure 34).

Figure 34. Survey on King Felipe VI

	% of respondents
How would you describe him?	
Prepared	75.7
Capable	66.7
Honourable	64.9
Affable	57.2
He understands people's problems	53.2
How would you rate Felipe VI's performance in the first six years of his reign	
Very good	15.2
Good	27.3
Normal	33.7
Bad	8.3
Very bad	10.7
N/A	4.9

Source: 40dB.

There was not a very significant difference, however, between the 46.3% who wanted the monarchy to last many or quite a few years and the 41.7% who hoped it did not last long (see Figure 35). Those in favour of the monarchy lasting a long time were predominantly people who voted for the Popular Party and the far-right VOX in the November 2019 general election.

Figure 35. Survey on the future of the monarchy

	% of respondents
How long would you like the institution to last?	
Many years	25.9
Quite a few years	20.4
Few years	41.7
N/A	12.0
Political affiliation of respondents based on party voted for in November 2019	
Many years	
Socialists	19.3
Popular Party	58.5
VOX	39.8
Unidos Podemos	5.2
Ciudadanos	46.6
Quite a few years	
Socialists	22.1
Popular Party	28.9
VOX	28.7
Unidos Podemos	8.3
Ciudadanos	23.1
Few years	
Socialists	46.4
Popular Party	9.9
VOX	24.4
Unidos Podemos	83.6
Ciudadanos	21.6

Source: 40dB.

8. Rural development: the fight against depopulation

The government's agenda on how to use the EU's recovery funds includes measures to try to readjust the balance between densely populated urban areas and what has become known as la *España vacía* ('empty' or 'emptied' rural Spain). Some €10 billion of the funds will be set aside to combat depopulation.

The country's industrialisation in the 19th and 20th centuries, coupled with the decline in agriculture, produced an exodus from the countryside to cities and towns, particularly in the 1950s and 1960s to Barcelona, Madrid and Bilbao. Almost half of the 50 provinces lost during the 20th century a third of their inhabitants.

Today, Spain's population density of 93 inhabitants per square kilometre is far lower than the UK's 279, Germany's 240, Italy's 206 and France's 119. The difference is even greater in relation to smaller countries such as the Netherlands (507) and Belgium (381), although not so with Sweden (24), Finland (18) and Norway (15).

The least populated provinces, excluding in the calculation capital cities and towns of more than 50,000 inhabitants, have a population density of less than 12.5 inhabitants per square kilometre. They are: Soria, Teruel, Cuenca, Palencia, Zamora, Huesca and Burgos. They have the poorest infrastructure, some of the oldest people in a fast-ageing population (the fertility rate of 1.31, one of Europe's lowest, is below the replacement rate) and the highest unemployment rates. Deaths in the whole of Spain have outstripped births every year since 2015. Some villages have become virtually abandoned (more than 3,500 in Galicia) and are being marketed for sale.

Municipalities of fewer than 50,000 inhabitants in these provinces lost 1.4 million inhabitants between 1900 and 2019 (see Figure 36). The urban population (in towns of more than 50,000) rose from 23.2% of the total population in 1900 to 53.1% in 2019.

Figure 36. Evolution of Spain's population, 1900-2019 (million people)

	1900	2019
Municipalities with less than 50,000 inhabitants in depopulated provinces	6.45	5.08
Municipalities with less than 50,000 inhabitants in provinces have not depopulated	7.84	16.95
Capitals of provinces and municipalities with more than 50,000 inhabitants	4.31	24.98

Source: *La despoblación de la España interior*, Vanessa Azón & Eduardo Bandrés, Funcas, 2021.

The deserted rural interior is becoming a political issue. The inhabitants of Teruel felt so abandoned by successive governments that they founded a movement in 1999, *Teruel Existe* ('Teruel Exists'), which was the most voted party in the province in the November 2019 election and won one seat in Congress and two in the Senate. In return for greater investment in Teruel, the party's parliamentary support helped the Socialists form their coalition government.

The pandemic has made some people move from urban areas to villages, but this is an option only available to those who already worked from home by Internet, those who can continue to commute comfortably to their place of work or are able to find a new job.

The government will focus on an energy transition plan in villages of fewer than 5,000 inhabitants, fostering rural tourism (away from the mass tourism on beaches), strengthening public services and rolling out the 5G network.

9. Foreign policy: 'Spain is back'

Shortly after taking office in January 2020, Foreign Minister Arancha González Laya came up with a snappy way of telling the world that Spain will be more globally engaged, following a period of enforced introspection during the 2008-14 financial crisis and with a more stable government after four elections between 2015 and 2019. Furthermore, she did it in her perfect English: 'Spain is back. We are here to stay'.

By that she meant Spain was ready to engage more actively with the world through fostering greater international cooperation (multilateralism) and helping to craft policies promoting interdependence, in stark contrast to the UK's supposed bid for independence (sovereignty) with its exit from the EU at the end of that same month. The Minister, a trade expert, later made herself popular among anti-Brexiteers when she told Sky News, in response to a question about Brexit trade talks: 'Trade agreements are not about trying to assert one's independence, they are made to manage our interdependence'.

The government's 2021-24 foreign policy strategy, the first one since 2015, focuses on: human rights, with a new emphasis on feminist policy and diversity; economic diplomacy and the demographic and migration challenges; climate diplomacy and improving global governance mechanisms including in the technology sector. It is the first such strategy that explicitly upholds the liberal international order.

Up to 2,900 military personnel took part in international peacekeeping missions around the world in 2021, a little-known part of the country's international projection (see Figure 37). The largest contingents were in Mali and Afghanistan.

Figure 37. Spain's ongoing international military missions

Place	Mission	Started	Mandate
Mediterranean	SNMG/SNMCMG	September 2001	NATO
Bosnia and Herzegovina	EUFOR Althea	December 2004	EU
Lebanon	FINUL	September 2006	UN
Baltic area	Air space control	August 2006	NATO
Indian Ocean	Atalanta	January 2009	EU
Somalia	EUTM-Somalia	February 2010	EU
Colombia	UN Peace verification	2016	NATO
Mediterranean	Sea Guardian	2016	NATO
Mali	EUTM-Mali	January 2013	EU
Iraq	Support	January 2015	NATO

Working Paper

Challenges and opportunities for Spain in times of COVID-19

Place	Mission	Started	Mandate
Colombia	Peace process verification	2016	UN
Turkey	Protection from missiles from Syria	January 2015	NATO
Afghanistan	Resolute Support	January 2015	NATO
Central African Republic	EUTM RCA	July 2016	EU
Various zones	Sea Guardian	November 2016	NATO
Latvia	Enhanced Forward Presence	2017	NATO
Rumania	Enhanced air policing	January 2021	NATO

Source: Ministry of Defence.

The goal of doubling spending on official development aid (ODA) to 0.5% of GNI by 2024 exemplifies the more assertive foreign policy. ODA plummeted from a high of 0.46% in 2009 to 0.12% in 2015 and then picked up to 0.21% in 2019 (see Figure 37). The target of 0.41% for 2020, an abnormal year because of the pandemic, was not reached. The EU is committed to increasing collective ODA to 0.7% by 2030, in line with the UN target and made more difficult by the departure of the UK, one of the largest contributors (0.7% every year since 2013), from the bloc.

Figure 38. Official Development Aid (% of GNI), 2019

	% of GNI
France	0.44
Germany	0.60
Italy	0.24
Netherlands	0.59
Spain	0.21
Sweden	0.99
UK	0.70

Source: OECD.

The Democrats' victory in the US election and the arrival of Joe Biden as President gives the government an opportunity for better relations with Washington. Donald Trump's aggressive tariff policy against Spain's exports of olive oil, cheese, wine and pork products, as part of trade sanctions against the EU, provoked the Spanish government to say this

could have consequences for other parts of the bilateral relation, particularly defence and the US military bases at Morón de la Frontera and Rota established in 1953. This represented a change in the traditional policy of separating the bases from the rest of the bilateral relation and irritated Washington, which responded by warning that the bases agreement did not necessarily guarantee a good relation in other areas. Madrid is seeking the lifting of the ‘unjust unilateral measures’. Pushing Spain’s interests is not easy because the country is neither a priority or a problem for Washington.

Brexit gives Spain, now the EU’s fourth largest economy and one of the most pro-Europe countries, a chance to push for a more globally engaged and more federal Europe (González Laya’s Socialist predecessor, Josep Borrell, is the EU’s policy chief). Spain, ranked 12th out of 130 countries in the latest Elcano Global Presence Index, based on figures for 2019 (before the pandemic), is in a position to punch more in accordance with its weight (see Figure 39).

Figure 39. Elcano Global Presence Index, top 20

Country	2019 score	2013 score	Country	2019 score	2013 score
1. US	3,043.9	2,830.6	11. S. Korea	310.2	259.5
2. China	1,137.2	747.4	12. Spain	285.4	299.6
3. Germany	809.4	808.6	13. India	273.4	263.6
4. UK	795.6	807.6	14. Australia	232.5	244.9
5. Japan	729.7	610.5	15. Belgium	205.3	219.7
6. France	683.2	694.5	16. Switzerland	201.2	227.7
7. Russia	534.2	579.9	17. Singapore	178.9	175.3
8. Canada	415.0	390.6	18. Turkey	176.3	108.1
9. Netherlands	361.8	369.0	19. Ireland	141.2	102.4
10. Italy	352.7	371.3	20. Brazil	139.9	165.2

Source: Elcano Royal Institute.

The index, the result of adding together 16 indicators of external projection that are aggregated according to the criteria of experts in international relations, measures the ability of countries to project themselves beyond their borders and the extent to which they are participating in and shaping the process of globalisation.

It measures global presence based on three dimensions. First, it ranks a country’s economic presence, including outward foreign direct investment and other elements such as energy, services and exports. Secondly, it assesses a country’s military presence, which is determined by the number of troops deployed abroad and the equipment available for deployment. And

third, it includes statistics on a country's soft presence, which is based on a wide number of factors including exports of cultural products, tourist arrivals and official development aid.

The index does not measure power and nor does it reflect a country's effort to achieve greater internationalisation or its degree of openness. Instead, it shows the results of internationalisation and examines the external projection of countries more than the way in which they absorb the external action of other countries within their national territory. The index thus takes into account the exports of manufactured goods, for example, but disregards imports. By comparing a state's presence with its actual power (or influence), it is possible to gauge the extent to which it is punching above or below its weight. Spain is regarded as punching below its weight.

Two-thirds of Spain's global presence is economic, 25% soft power and 12% military (see Figure 40).

Figure 40. Spain's global presence index absolute values and % share in the index of the economic, military and soft presence dimensions, 1990-2019

Variable	1990	1995	2000	2010	2014	2016	2017	2018	2019
Economic presence	61.2	79.0	128.3	230.5	183.4	171.2	176.3	186.7	178.5
% of global presence	48.0	53.4	61.9	66.5	66.2	63.6	62.7	63.7	62.5
Energy	1.6	0.7	1.6	2.2	3.6	2.4	1.9	2.9	3.4
Primary goods	5.7	9.4	9.6	12.2	13.7	13.0	13.4	14.0	14.0
Manufactures	18.8	24.3	28.1	28.9	29.5	28.6	28.8	29.4	29.5
Services	25.9	28.7	34.7	41.4	36.3	35.1	37.1	38.2	38.8
Investments	9.2	15.9	54.2	145.8	100.2	92.1	95.1	102.2	92.8
Military presence	46.6	44.7	45.5	52.1	32.4	32.2	31.9	34.2	35.1
% of global presence	36.5	30.2	22.0	15.0	11.7	12.0	11.4	11.7	12.3
Troops	0.4	8.1	13.4	12.1	3.9	5.0	4.8	7.4	8.3
Military equipment	46.2	36.6	32.1	40.0	28.4	27.2	27.1	26.8	26.8
Soft presence	19.9	24.2	33.4	64.0	61.3	65.6	72.8	72.0	71.9
% of global presence	15.6	16.4	16.1	18.5	22.1	24.4	25.9	24.6	25.2
Migrations	1.6	1.8	2.8	9.4	8.6	8.4	8.4	8.3	8.3

Variable	1990	1995	2000	2010	2014	2016	2017	2018	2019
Tourism	9.0	7.3	9.7	9.7	10.8	11.9	13.0	14.0	14.0
Sports	0.9	2.7	1.2	2.8	3.4	3.2	3.1	3.0	3.0
Culture	0.3	0.9	4.2	11.2	11.5	10.9	11.1	11.8	12.0
Information	0.0	0.1	0.3	3.1	4.8	9.9	9.8	9.7	9.5
Technology	0.9	1.2	2.1	3.4	3.3	3.6	3.9	4.4	4.5
Science	2.1	3.3	4.8	8.5	10.4	10.6	10.9	11.1	11.1
Education	1.0	1.9	3.3	3.6	4.0	4.0	3.4	4.4	4.3
Development coop.	4.0	4.9	5.1	12.3	4.4	3.1	9.1	5.3	5.0
Global presence index value	127.6	147.9	207.2	346.6	277.0	269.0	281.0	292.9	285.4
Position in the index	13	10	10	11	11	12	11	12	12

Source: Elcano Royal Institute.

On the thorny issue of Gibraltar, the British Overseas Territory at the southern tip of Spain, Brexit enabled Madrid to strike with the UK its first explicit agreements regarding the Rock in the more than 300 years since the territory was ceded to Britain under the 1714 Treaty of Utrecht.

London and Madrid reached an agreement in principle on free movement between Spain and Gibraltar, less than a day before the deadline expired at the very end of 2020, narrowly avoiding the creation of the only hard border because of Brexit. Without the agreement Gibraltar would have become the external border of the EU, complicating life for the 15,000 people who cross it every day to work in the territory. More than 95% of Gibraltarians voted to remain in the EU in the 2016 Brexit referendum.

Gibraltar was not covered by the Brexit trade deal between the EU and the UK. The agreement on movement, a victory for pragmatism, paved the way for a separate treaty between the UK and the EU seeking 'maximised unrestricted mobility', which it was hoped would be in place by the end of June along with a customs regime for the trade of goods. This would make Gibraltar part of the passport-free Schengen zone of 26 countries (which the UK never joined) and convert Gibraltar's airport and port into the EU frontier, not the land border between Spain and the Rock.¹¹ Frontex, the European border agency, would be responsible for the Schengen rules being observed in the first four years of the implementation period.

¹¹ See my analysis of the consequences of Brexit for Spain at http://www.realinstitutoelcano.org/wps/portal/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/ari1-2021-chislett-the-consequences-of-brexite-for-spain.

The issue of who controlled passage through the airport and port was a sensitive one because of the sovereignty issue. Neither side has changed its position on sovereignty. Juan González-Barba Pera, Spain's Secretary of State for Europe, said the agreement was one of 'co-responsibility' not co-sovereignty, an idea overwhelmingly rejected by Gibraltarians in a referendum in 2002.

An eventual removal of the border gate between Spain and Gibraltar, not the whole fence, would integrate the Rock and the La Línea-Algeciras-Gibraltar triangle and enable more of Gibraltar's wealth to flow into one of Spain's most deprived areas.

The agreement on movement was followed this year by the entry into force of a tax treaty between Spain and Gibraltar. Gibraltar joined the OECD white list of territories committed to tax transparency in 2009 but remained on Spain's list of tax havens. Spain was expected to remove Gibraltar from its list. The treaty provided rules for resolving conflicts over tax residency and enables administrative co-operation, through sharing of information and addressing disputes by means of a Joint Committee.

10. Conclusions

The EU's unprecedented recovery fund gives Spain a chance to make its economy more sustainable, innovative, productive and resilient. Now is the time for the country to invest in human capital and not more physical infrastructure (much of which is already world class) and emerge with an economy that is more knowledge-based, digital, greener and inclusive. The huge influx of funds will sorely test the administrative capacity to adequately plan and execute them at a time when politics is absurdly polarised and fragmented, and is in urgent need of consensus. History will judge the political class badly if it squanders the opportunity.

Appendix

Appendix A. Spain's policy levers and lines of action related to its Recovery, Transformation and Resilience Plan

Policy levers	Lines of action
1. Urban and rural agenda and combating depopulation	1. Sustainable mobility plan, safe and connected in urban and metropolitan environments 2. Housing rehabilitation and urban regeneration 3. Transform and digitalise the logistics chain of the agri-food and fisheries system
2. Resilient infrastructure and ecosystems	4. Conserve and restore ecosystems and their diversity 5. Conserve coastlines and water resources 6. Sustainable, safe and connected mobility 7. Massive deployment of renewable energy
3. Just and inclusive energy transition	8. Electricity infrastructure, promote intelligent networks 9. Renewable hydrogen road map and sectoral integration 10. Just transition strategy
4. An administration for the 21st century	11. Modernise public administrations 12. 2030 industrial policy 13. Boost to SMEs
5. Modernise and digitalise the business ecosystem	14. Modernise and enhance the competitiveness of the tourism sector 15. Digital connectivity, strengthen cybersecurity and deploy 5G 16. Artificial Intelligence National Strategy
6. Science and innovation pact to strengthen the national health system	17. Institutional reform to strengthen science, technology and innovation 18. Renew the capacities of the National Health System
7. New care economy and employment policies	19. Care economy plan and strengthen inclusion policies 20. Develop public policies for a dynamic, resilient and inclusive labour market
8. Education and knowledge, continuous training and development of skills	21. Drive to improve digital skills 22. Boost vocational training 23. Modernise and digitalise the education system

Policy levers	Lines of action
9. Boost to culture industry and sport	24. Reevaluate the culture industry 25. Position Spain as the reference centre in audiovisual and videogames production 26. Foster sport
10. Modernise the tax system for inclusive and sustainable growth	27. Measures to prevent and fight tax fraud 28. Adapt the tax system to the 21st century 29. Improve the efficiency of public spending 30. Ensure the sustainability of state pensions

Source: España Puede.

Appendix B. Basic socioeconomic statistics, 1978-2019

	1978 (1)	2019 (1)
Total population (mn)	37.0	47.1
Foreign population (mn) (2)	0.16	5.0
Unemployment rate (%)	7.6	13.8
Per capita GDP (purchasing power parity, US\$)	7,883	40,139
GDP (% of total)		
Agriculture	8.9	2.9
Industry	31.8	18.1
Construction	8.8	5.7
Services	50.3	73.3
Employment by sector (% of total jobs)		
Agriculture	20.3	4.3
Industry	27.4	14.0
Construction	9.5	6.0
Services	42.8	75.6
Labour force participation rate (%)		
Men	80.0	64.6
Women	20.0	53.3
Exports of goods and services (% of GDP)	15.0	34.1
Imports of goods and services (% of GDP)	14.0	31.4
Number of international tourists (million)	36.9	83.7
Consumer price inflation (%)	16.5	0.9

	1978 (1)	2019 (1)
Public spending (% of GDP)	27.0	41.7
Public revenue (% of GDP)	25.7	38.9
Public debt (% of GDP)	15.3	96.7
Total tax revenue (% of GDP)	21.5	34.6
Inward stock of foreign direct investment (US\$ bn)	5.1	659.0
Outward stock of Spanish investment (US\$ bn)	1.9	562.9
Spending on R&D (% of GDP)	0.35	1.2
Patents presented to European Office of Patents	3	1,676
UN Human Development Index (3)	0.680	0.904
UN planetary pressures-adjusted Human Development Index (4)		0.795
Average life expectancy at birth (years)	74.3	83.2
Population aged 15 and under (% of total)	26.7	15.4
Population aged 65 and over (% of total)	10.7	19.1
Old age dependency rate (5)	19	30.6
Urban population (% of total) (6)	71.5	80.0
Average number of children per woman	2.54	1.31
Illiteracy rate, over age of 16 (% of total)	9.0	1.75
Illiteracy rate, over age of 65 (% of total)	30	5.4
University educated (% of over 16s)	3.6	28.2
Early abandonment of education (%) (7)	17.7	17.3
Passenger cars per 1,000 population	136	515
Trade union membership (% of labour force)	26,0	13,9
Defence spending (% of GDP)	2,1	0.9

(1) Figures for 2020 are not provided except in very few cases because it was an abnormal year due to the impact of COVID-19. To do so would distort comparisons with 1978.

(2) Excluding foreigners who have become nationalised Spaniards.

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

(4) This new index (PHDI) as of 2020 takes into account indices measuring carbon dioxide emissions per capita and material footprint per capita. If a country puts no pressure on the planet, its PHDI and HDI would be equal.

(5) The number of people aged 65 and over for every 100 people of working age (those between 20 and 64).

(6) People in urban areas with 50,000 or more inhabitants.

(7) The percentage of people aged 18.24 who have only lower secondary education or less and are no longer in education or training.

Source: National Institute of Statistics (INE), Eurostat, World Bank, International Monetary Fund, United Nations' Human Development Reports, UNCTAD, International Labour Organisation, Spain's Economy Ministry, European Office of Patents, BBVA Foundation and NATO.

Appendix C. Spain's position in international rankings (1)

	Ranking
EIU Democracy Index	22 nd out of 167 countries
WJP rule of law index	21 st out of 126
V-Dem Liberal Democracy Index	13 th out of 179
Freedom in the World	40 th out of 210
World Press Freedom Index	29 th out of 180
Transparency International Corruption Perceptions Index	21 st out of 180
Gallup's Global Law and Order Index	19 th out of 80
World Energy Trilemma	18 th out of 128
Logistics Performance Index	17 th out of 160
Global Connectedness Index	23 rd out of 140
Digital Economy and Society Index	11 th out of 49
Global Innovation Index	29 th out of 129
International Tax Competitiveness Index	23 rd out of 36
Global Talent Competitiveness Index	31 st out of 125
WEF Global Gender Gap Index	8 th out of 153
Gender Equality Index	9 th out of 28
Most Gender-balanced Cabinets (UN Women)	2 nd out of 188
Women's Workplace Equality Index	4 th out of 189
Women, Peace and Security Index	15 th out of 165
Global Diplomacy Index	9 th out of 61
Elcano Global Presence Index	12 th out of 120
IMD World Competitiveness Ranking	36 th out of 63
WEF Global Competitiveness Index	23 rd out of 141
World Bank Ease of Doing Business	30 th out of 190
Sustainable Development Goals Index	21 st out of 162
English Proficiency Index	34 th out of 100
Economic Freedom Index	57 th out of 180
United Nations Human Development Index	25 th out of 189
United Nations planetary pressures-adjusted Human Development Index	14 th out of 189
World Health Organisation ranking	7 th out of 190

	Ranking
Global Health Security Index (Johns Hopkins)	15 th out of 40
Bloomberg Healthiest Country Index	1 st out of 169
OECD Best Work-life Balance	4 th out of 38
The Most Attractive Countries for the World's Workers	6 th out of 197
Travel and Tourism Competitiveness Index	1 st out of 140
Number of World Heritage sites (UNESCO)	3 rd out of 168
Number of biosphere reserves (UNESCO)	1 st out of 129
Global Happiness Index	24 th out of 149

(1) Latest available.

Source: The institutions responsible for the rankings.

Appendix D. Spanish multinationals with the largest global market positions (1)

Company	Sector	Global market position
Ebro Puleva	Food processing	#1 producer of rice and #2 of pasta
Deoleo	Food processing	#1 producer of olive oil
Viscofán	Food processing	#1 producer of artificial castings for the meat industry
Freixenet	Sparkling wine	#1 producer of cava
Inditex	Clothing	#1 fashion retailer by sales
Pronovias	Clothing	#1 maker of bridal wear
Acerinox	Steel	#1 producer of stainless steel
Roca	Sanitary equipment	#1 producer of bathroom equipment
Grupo Antolín	Automobile components	#1 producer of linings
Zanini	Automobile components	#1 producer of wheel trims
Siemens Gamesa		#1 in installed capacity of offshore wind turbines and #2 onshore
Iberdrola	Energy	#1 producer of wind energy ²
Grupo Ferrovial	Infrastructure	#5 in construction and management of transport infrastructure ³
ACS/Hochtief	Infrastructure	#1 in construction and management of transport infrastructure ³
Abertis	Infrastructure	#4 in construction and management of transport infrastructure ³
Telefónica	Telecoms	#7 by total revenue

Company	Sector	Global market position
Santander	Banking	#2 by market capitalisation in euro zone and #1 franchise in Latin America
Sol Meliá	Hotels	#1 holiday hotel chain by number of beds

(1) Latest available year.

(2) Excluding China for which there is no data to compare it with Iberdrola.

(3) Ranked by number of road, bridge, tunnel, rail, port, and airport concessions over US\$50 million investment value put under construction or operation as of October 2018.

Source: Public Works Financing and reports of companies.

Appendix E. Some economic and socioeconomic realities (1)

Global ranking	Description
Top 5	Largest international manager of infrastructure
Top 5	Biggest producer of olive oil
Top 5	Biggest producer of sparkling wine (cava)
Top 5	Second largest high-speed rail network after China
Top 5	Second largest tourist destination in terms of visitors after France
Top 5	Third largest number of sites (48) in UNESCO's World Heritage List
Top 5	Third largest exporter of wind turbines
Top 10	6th largest stock of inward foreign direct investment in Europe and 10th in world
Top 10	10th largest stock of outward direct investment among European countries and 12th in world
Top 10	Longest years of healthy life (out of 31 European countries): men 8th, women 9th
Top 10	7th longest life expectancy at birth
Top 10	9th largest producer of cars
Top 15	15th largest economy in purchasing power parity terms

(1) Latest available at the end of 2020.

Source: Public Works Financing, UNESCO, World Tourism Organisation, Spanish Foreign Ministry, UNCTAD, IMF.

Bibliography

Azón, Vanessa, and Eduardo Bandrés (2021), *La despoblación de la España interior*, Funcas, <https://www.funcas.es/wp-content/uploads/2021/02/La-despoblacion-de-la-Espa%C3%B1a-interior.pdf>.

Chislett, William (2020), *Microhistoria de España*, Espasa.

European Commission (2020), *Council recommendation on the 2020 National Reform Programme*, https://ec.europa.eu/info/sites/info/files/2020-european-semester-csr-comm-recommendation-spain_en.pdf.

Feás, Enrique, & Federico Steinberg (2021), *The European Recover Plan: the figures for Spain*, Elcano Royal Institute, http://www.realinstitutoelcano.org/wps/portal/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/ari35-2021-feas-steinberg-european-recovery-plan-figures-for-spain

Feás, Enrique, Miguel Otero Iglesias & Federico Steinberg (2020), *¿Recuperación o metamorfosis? Un plan de transformación económica para España*, Real Instituto Elcano.

Ministerio de Educación (2020), *El éxito en la educación primaria y secundaria*, <http://www.educacionyfp.gob.es/dam/jcr:7873d83e-b36c-4708-94e5-e66ecb7d2e94/exito-educacion-comparado.pdf> y <http://www.educacionyfp.gob.es/dam/jcr:4836cbd6-1f18-4ff9-a438-eb421691db3b/exito-educacion-anexo.pdf>.

Real Instituto Elcano (2020), *España y la crisis del coronavirus: Una reflexión estratégica en contexto europeo e internacional*, <http://www.realinstitutoelcano.org/wps/wcm/connect/06547cd6-3756-4c9f-b5da-a444813dd3d0/Documento-Espana-y-la-crisis-del-coronavirus.pdf?MOD=AJPERES&CACHEID=06547cd6-3756-4c9f-b5da-a444813dd3d0>.

Real Instituto Elcano (2021), *España en el mundo 2021: perspectivas y desafíos*, http://www.realinstitutoelcano.org/wps/portal/rielcano_es/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_es/zonas_es/policy-paper-espana-en-mundo-2021-perspectivas-desafios.

Spanish government (2020), *España puede: Recovery, Transformation and Resilience Plan*, https://www.lamoncloa.gob.es/lang/en/presidente/news/Documents/2020/20201007_RecoveryPlan.pdf.

Spanish government (2020), *Reconstruir lo común. La implementación de la Agenda 2030 en España*, https://www.agenda2030.gob.es/recursos/docs/Informe_de_Progreso_2020_Reconstruir_lo_Comun_.pdf.

Board of Trustees

 GOBIERNO DE ESPAÑA	MINISTERIO DE ASUNTOS EXTERIORES UNIÓN EUROPEA Y COOPERACIÓN	 GOBIERNO DE ESPAÑA	MINISTERIO DE DEFENSA
 GOBIERNO DE ESPAÑA	MINISTERIO DE ASUNTOS ECONÓMICOS Y TRANSFORMACIÓN DIGITAL	 GOBIERNO DE ESPAÑA	MINISTERIO DE CULTURA Y DEPORTE



Business Advisory Council



Collaborating Entities





Príncipe de Vergara, 51
28006 Madrid (Spain)
www.realinstitutoelcano.org
www.blog.rielcano.org
www.globalpresence.realinstitutoelcano.org



