

ESTUDIOS SOBRE LA ECONOMÍA ESPAÑOLA - 2014/06

**The Spanish Economy at a Glance**

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## The Spanish Economy at a Glance

This report is a brief synopsis of the Spanish economy aiming at introducing a descriptive analysis that highlights recent developments in different aspects of the economy as well as summarizing stylized facts related to the demographic profile of the country. The report also presents an assessment of the performance of the Spanish economy in light of key international indicators.

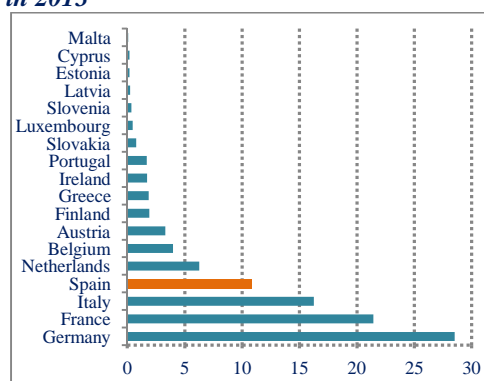
### I. Introduction

- The Spanish economy accumulated large imbalances during the long boom that ended with the global financial crisis.
- After achieving stability in 2010, the economy fell back into recession in mid-2011 as the euro area crisis spread to Spain.
- Unemployment jumped, to an unprecedented level in five years to reach 27%, besides, the fiscal position became worse and unsustainable.
- Recognizing the size of the structural problems the Spanish economy has to confront, the government designed two programs for achieving stability and economic reform that addresses the major challenges.
- The measures included in the National Reform Program (NRP) 2014 are targeting five priority areas as follows:
  - Pursuing growth- friendly fiscal consolidation.
  - Restoring lending to the economy.
  - Promoting growth and competitiveness.
  - Tackling unemployment and the social consequences of the crisis.
  - Modernizing public administration.

### II. Overview of the Current Economic Performance of the Spanish Economy

- Spain is the fourth largest country in the Euro area concerning the gross value added which represents about 10.8% of the total value added in the region. Spain comes in ranking after Germany (28.5%), France (21.4%) and Italy (16.3%).

Figure 1. Gross value added (at basic prices) in 2013



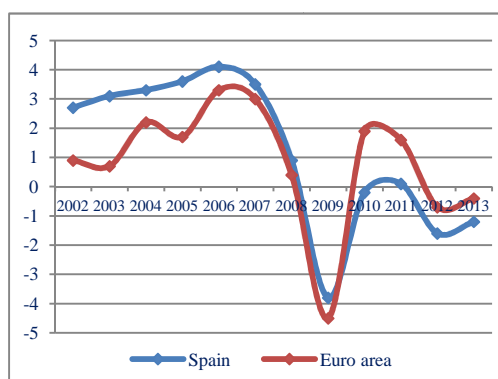
Source: Eurostat.

- Spain's economy expanded by 0.4% in the first quarter of the year topping the previous quarter's growth rate by two-tenths of a point, *the National Statistics Institute, INE*, confirmed. However unemployment remains at a record 25.93%.
- Spain's GDP grew 0.6% compared to the first quarter of 2013, after declining by 0.2% in the previous quarter. That marks Spain's first annual growth figure after nine consecutive quarters of economic contraction. The improved economic



performance was due to increased domestic demand, offset partially by a drop in external demand, the INE said.

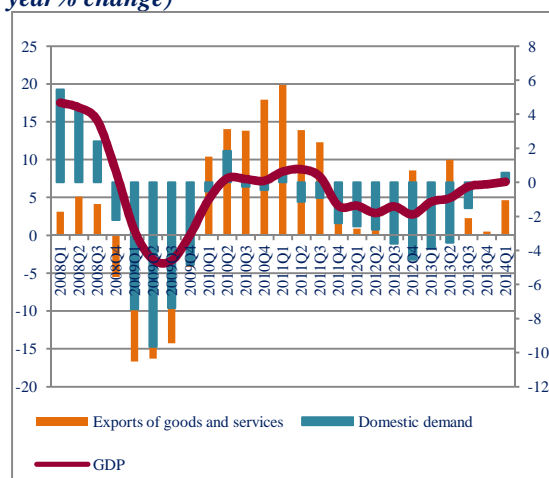
**Figure 2. Evolution of Real GDP Growth rate (2002-2013)**



Source: Eurostat.

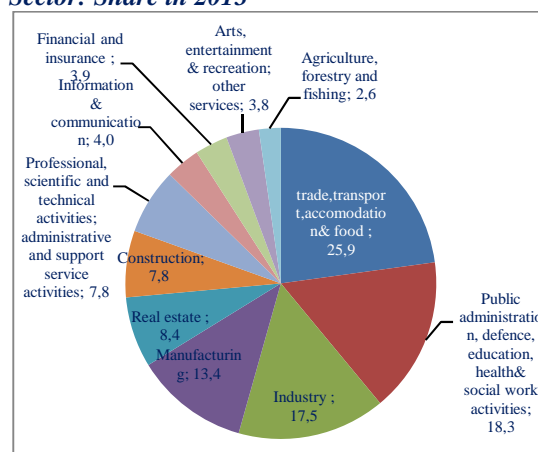
- GDP expanded by 0.2% q-o-q in the last quarter of 2013. The rate of activity is expected to accelerate during 2014, leading to an average GDP growth rate of 1.1% for the year as a whole. The positive contribution to growth from the external sector is expected to narrow progressively over the forecast horizon, while domestic demand takes over as the main growth driver.

**Figure 3. Contribution to Growth (year-on-year % change)**



Source: Eurostat.

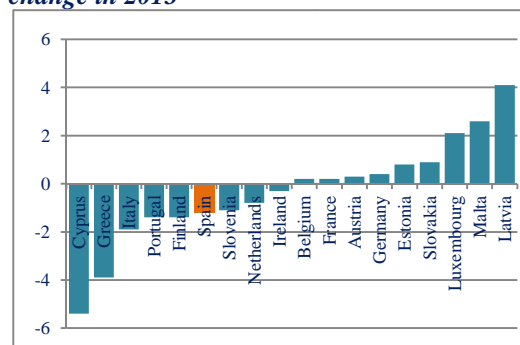
**Figure 4 Distribution of Value added by Sector: Share in 2013**



Source: Eurostat.

- The Spanish economy is a service based economy as the seven main services activities account for 72.1% of value added generated in the economy. Industry without construction sector accounts for (17.5%), while manufacturing alone represents about (13.4%) of the overall value added.

**Figure 5. Real GDP growth rate - 1 year % change in 2013**



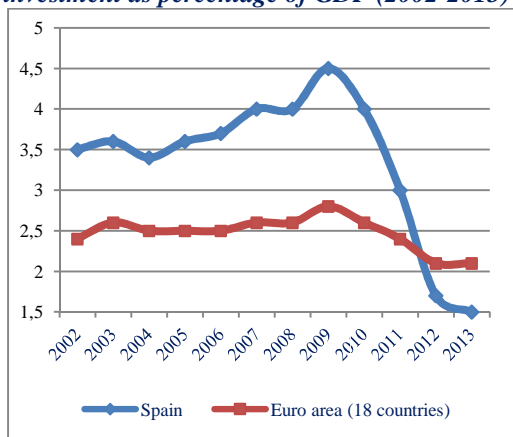
Source: Eurostat.

- Among the Euro zone, the positive growth of GDP in 2013 was achieved in Latvia (4.1%), Malta (2.4%) and Luxembourg (2.1%), while Spain was still suffering from negative growth (-1.2%).



- Early indicators for the quarter indicate that the gradual improvement in economic activity continues.

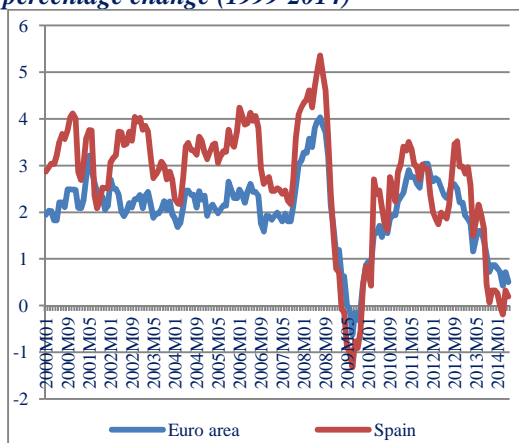
**Figure 6. General government fixed investment as percentage of GDP (2002-2013)**



Source: Eurostat.

- Gross fixed investment was growing in Spain until 2009, when it is achieved a peak level as a percentage of GDP (4.5%). During the growth period, Spain was higher than the level of Euro area. The gross fixed investment, then declined sharply about 66% decrease to reach 1.5% of GDP in 2013 which is below the realized level of the Euro area.

**Figure 7. Evolution of Inflation rate annual percentage change (1999-2014)**

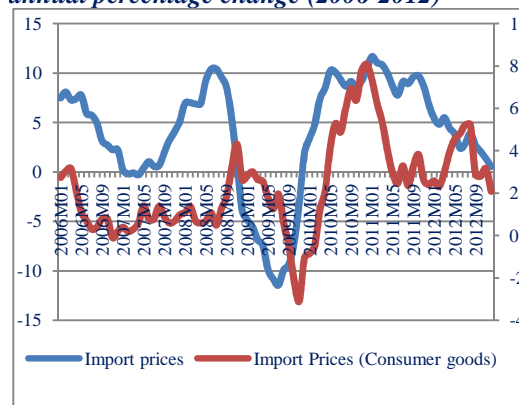


Source: Eurostat.

- Inflation has been very close to zero in 2013, even negative in some months

and prices are already falling for a third of the items in the CPI basket. Spain's inflation rate is below that of the Euro-zone.

**Figure 8. Evolution of Import Prices in Spain annual percentage change (2006-2012)**

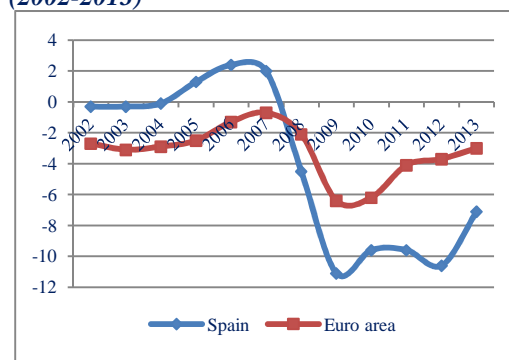


Source: INE.

### Performance of Fiscal Indicators

- According to the latest Eurostat Statistics for the Euro area, fiscal consolidation continued last year, but at a more moderate pace than in 2012. The general government deficit reached 6.6% of GDP for the full year.
- According to the European commission, the impact of the 2014 budget measures and an improving macroeconomic outlook are expected to reduce the deficit to 5.6% of GDP in 2014, mostly thanks to lower expenditure.

**Figure 9. Evolution of General Government Deficit/Surplus as a percentage of GDP (2002-2013)**

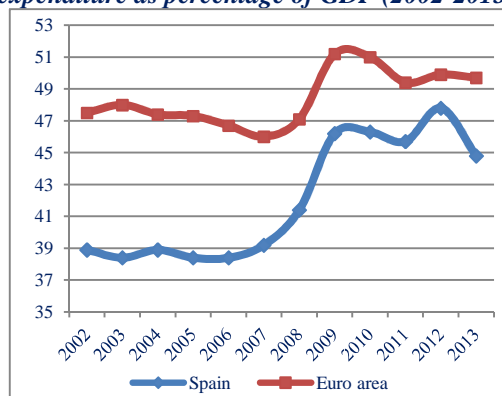


Source: Eurostat.



- It is obvious from the figure above that Spain was achieving a budget surplus until 2007 which was always higher than the surplus achieved in the Euro area- (2.4% and 2.1% respectively).
- The government budget balance witnessed a sharp decline till 2009 at which the highest level of deficit (-11.1% of GDP) achieved and was higher than that of the Euro area (-6.4%). There was some adjusting measures taken to reduce the deficit which resulted in a drop to about (-7.1%) of GDP in 2013. Still this deficit level is higher than the Euro area (-3%) which requires more efforts in the fiscal policy adopted by the government.

**Figure 10. Total general government expenditure as percentage of GDP (2002-2013)**

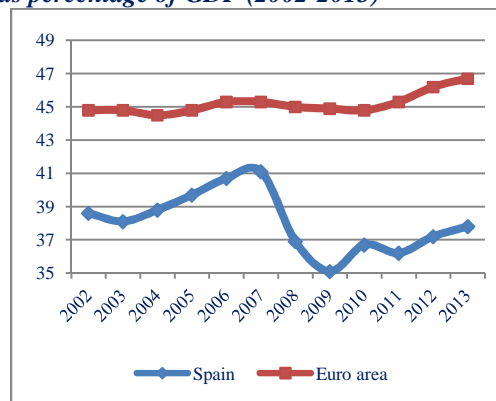


Source: Eurostat.

- Regarding the government expenditure, Spain's spending was increasing with a high rate till 2009 which was the peak year (46.2% of GDP). At the same time this level of spending was below that of the Euro-zone. The measures taken by the government to reduce the budget deficit led to a decline in the expenditures to reach (45.7%) of GDP in 2011, then it increase slightly to (47.8%) in 2012 and dropped again in 2013 to reach about (44.8% of GDP) which is

below the Euro area level by almost five percentage points (49.7%).

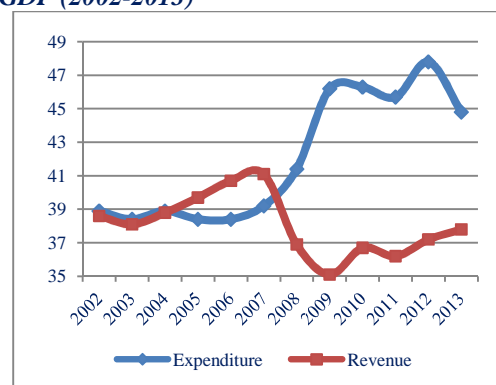
**Figure 11. Total general government revenue as percentage of GDP (2002-2013)**



Source: Eurostat.

- It is observed that the growth in the government revenues in Spain was volatile during the period (2002-2013). The revenues were growing gradually until 2007 that was the peak year (41.1% of GDP). After the crisis, a sharp decline in the revenues resulted in a trough point in 2009 (35.1%). The revenues continued growing conservatively till 2013 which achieved about (37.8%) of GDP.

**Figure 12. Total general government expenditure and revenue as percentage of GDP (2002-2013)**



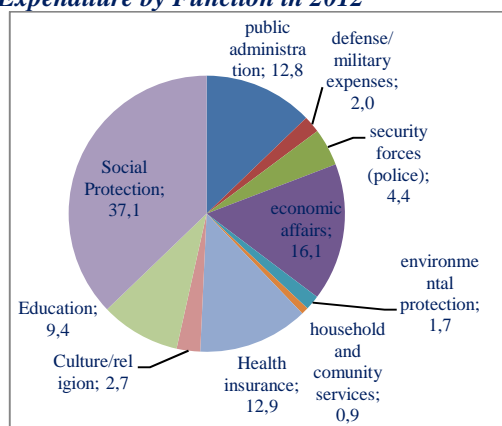
Source: Eurostat.

- During the fiscal expansion phase (2007-2009), Spain was considered the fourth country in the Euro-zone in its increase in expenditure (6% of GDP) after Ireland, Slovenia and Finland.



- The fiscal consolidation process starting in 2009 has not been able to close the gap between revenues and expenditures.
- The government is reducing expenditure mainly via the reduction of public investment, which has decreased by 60% since 2009. Public employees' wages represent the second biggest reduction, a total of 4% since 2009. On the other hand, spending on interest payments has increased by 70% since 2009 as a result of the higher level of public debt and the increased cost of market financing.

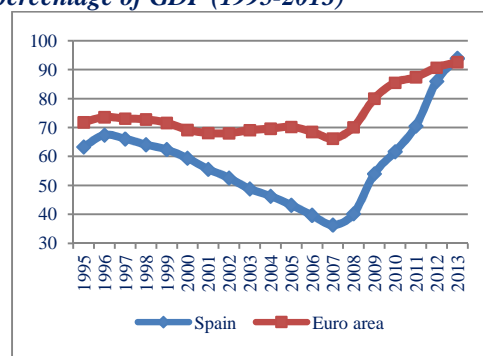
**Figure 13. Classification of Government Expenditure by Function in 2012**



Source: Ministry of Finance.

- Regarding the allocation of the budget, it is clear that social protection programs capture the big share in government expenditure (37.1%). Welfare state expenditure items account for nearly 60% of the overall budget, while the remaining funds go to economic affairs (16%), public administration (13%), and 11% of the budget is allocated to the five functions of defense, security, environmental protection, household services and cultural activities.

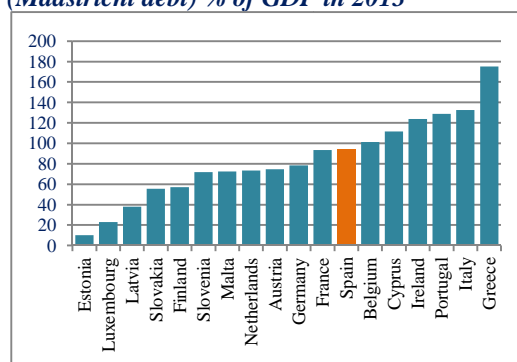
**Figure 14. General government Gross Debt as percentage of GDP (1995-2013)**



Source: Eurostat.

- The Euro area's fourth largest economy after Germany, France and Italy, Spain is one of the main contributors to the over \$11 trillion in Euro-zone debt, along with other bailout nations Cyprus, Greece, Ireland, and Portugal.
- The country has over \$1.3 trillion in public debt (954.8 billion euro at the end of Q3), which is 93.4 percent of total GDP. After the crisis hit the Spanish economy, the government debt jumped from its trough level (36.3% of GDP) in 2007 to reach (93.9%) of GDP in six years.

**Figure 15. General government gross debt (Maastricht debt) % of GDP in 2013**

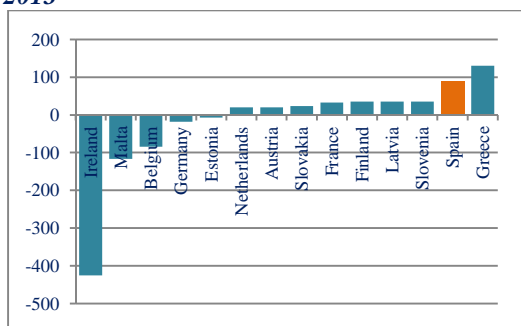


Source: Eurostat.

- In 2013, government debt accounted for 93.9% for Spain which is considered relatively less than that of Ireland (123.7%), Portugal (128.9%), Italy (132.6%) or Greece (175.1%).



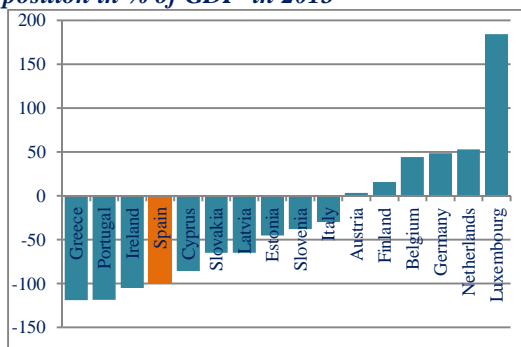
**Figure 16. Net external debt in % GDP in 2013**



Source: Eurostat.

- Net external debt was nearly (89.7%) of GDP in Spain, which represents the second highest country in the Euro-zone after Greece (130.3%).

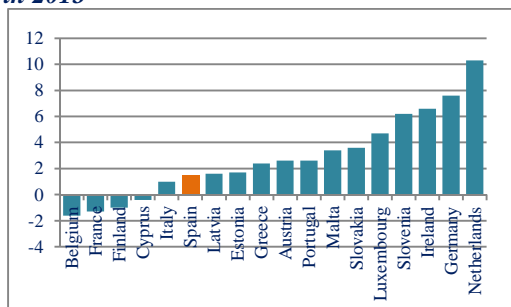
**Figure 17. Net international investment position in % of GDP in 2013**



Source: Eurostat.

- It is obvious from the figure above that Spain still witnesses a deterioration in its net international investment position, since it is the fourth country in the Euro-zone after Greece, Portugal and Ireland with nearly (-98.2%) of GDP.

**Figure 18. Net lending / borrowing in % GDP in 2013**



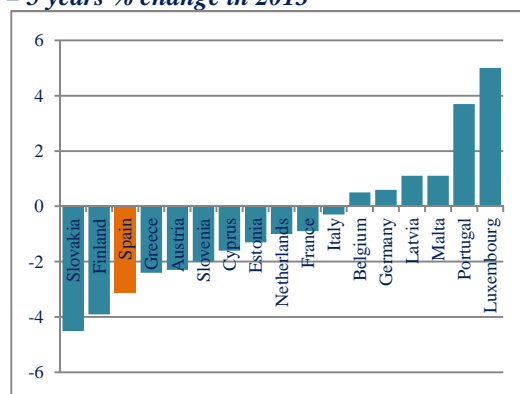
Source: Eurostat.

- Concerning the net borrowing as a percentage of GDP, Spain is one of the

lowest countries in the Euro-zone in its positive position (1.5%).

## Exports and External Balance

**Figure 19. Terms of trade (goods and services) – 5 years % change in 2013**



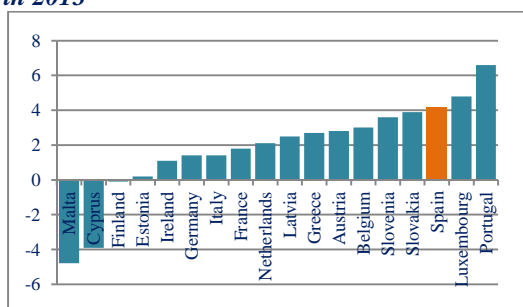
Source: Eurostat.

- In 2013, Spain is the third country in the Euro-zone that have a negative growth of the terms of trade (-3.1%), that is after Slovakia and Finland. Contrary to this, Luxembourg and Portugal are the largest countries with positive change in the terms of trade (5% and 3.7%) respectively.
- Spain's trade balance has significantly improved in the last 5 years (from -7% in 2007 to 2.9% of GDP in the second quarter 2013)
- According to the Ministry of Economy and Competitiveness, the main exporting sectors in 2013 were capital goods with a share of 20.7% of total exports, food (15.2%), vehicles (14.3%) and chemicals (14.2% of total).





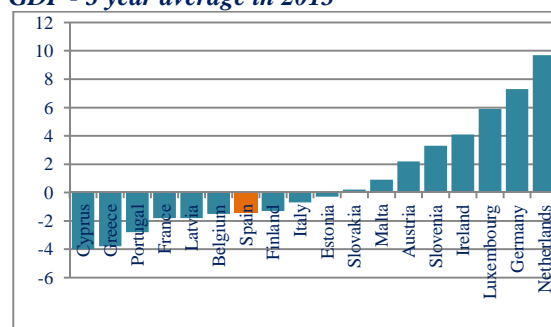
**Figure 20. Shares of world exports - % change in 2013**



Source: Eurostat.

- The export performance has been very robust, contributing to the re-balancing of the economy.
- Exports of goods and services increased from, respectively, 17.6% and 8.8% of GDP in 2008, to 23.5% and 10.6% of GDP in 2013.
- Export of goods as a share of GDP is still well below the share of Germany (42.7% in 2013), but compares well with two other large Euro area economies (21.4% of GDP and 25% of GDP in France and Italy respectively).
- Moreover, the share of services in Spanish exports is well above other large Euro area economies (Germany, France and Italy are at 7.7% of GDP, 6.1% of GDP and 5.4% of GDP respectively).
- The change in Spain export share in 2013 (4.2%) is twice that of Netherlands (2.1) and is the third in the Eurozone after Portugal (6.6%) and Luxembourg (4.8%).

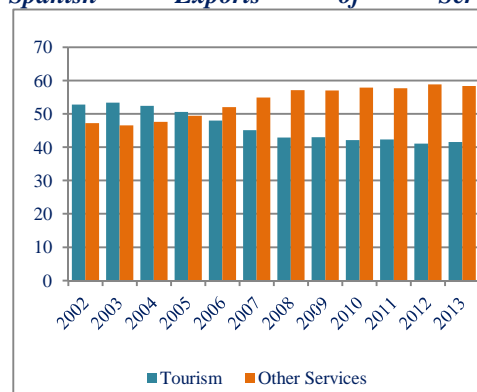
**Figure 21. Current account balance in % of GDP - 3 year average in 2013**



Source: Eurostat.

- In 2013 there was a current account deficit that represented about 1.4% of GDP in Spain. While the four biggest countries which realized surplus- were Netherlands (9.7%), Germany (7.3%), Luxembourg (5.9%) and Ireland (4.1%).
- The current account has turned into surplus, as a result of a combination of import compression and strong exports, supported by competitiveness gains. The housing market has approached stabilization.

**Figure 22. Sectoral Composition of the Spanish Exports of Services**



- Tourism exports had declined slightly from 45.1% in 2007 to 41.6% in 2013, while other services had increased from 54.9% to 58.4% during the same period.

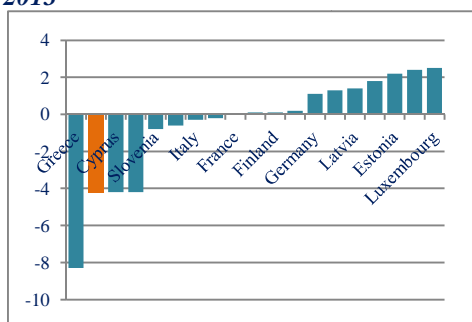




### Labor Market Performance

- Spain has two measures of unemployment. The stated rate is based on a quarterly survey of households and the registered rate reflects those recorded in the government's employment offices as jobless and actively looking for work (job seekers) at the end of each month.
- Having peaked at 27.2% in the first quarter of 2013, the unemployment rate retreated to 26% at the end of 2013, mainly due to the decline in the labor force, whereas employment kept falling until the third quarter. However, the process of job destruction bottomed out in the last quarter of 2013 and employment is expected to grow faster in 2014, prompting a moderate fall in unemployment.

Figure 23. Employment - 1 year % change in 2013



Source: Eurostat.

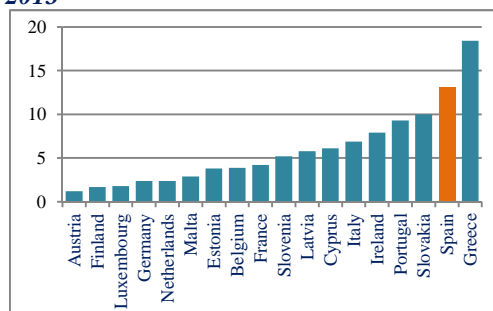
- Spain achieved the same annual change in employment as Cyprus and Portugal (-4.2%). Spain is considered the second country in the Euro-zone after Greece.

### Labor Market Developments in Spain

- Spain witnessed a five-year economic and financial crisis, which resulted in an employment crisis that is evidenced by the high rate of youth unemployment which accounts for almost 60% as Greece.
- Ranked as Europe's second-highest jobless rate, Spain has embarked on an ambitious program for reforming the labor market. The reform focused primarily on collective bargaining and on dismissal regulations.
- Since the onset of the crisis, Spain, had implemented labor market reforms. The main aims of these reforms were:
  - Increasing the internal flexibility of firms
  - Paving the way for companies to be able to modify certain aspects of their working conditions relative to the provisions of sectoral-level collective bargaining agreements
  - Reducing employment volatility by increasing the incentives for permanent contracts.
- The collective bargaining system was also modified to allow firm-level collective agreements to prevail over upstream ones and, more recently, in February 2012, a new labor market reform has been passed with additional measures to significantly increase wage bargaining decentralization and reduce employment protection legislation for permanent workers.
- The 2012 labor market reform was one of the most successful reforms.
- The situation of young adults in Spain is particularly worrisome since they are the segment of the population with the highest unemployment rate. This problem is predominantly due to a mismatch in the skill set demanded and that supplied due to an over-qualification of the workforce.
- To combat this, it is necessary to improve the Spanish education system by increasing the number and appeal of technical schools and improving those institutions that match the unemployed with jobs.



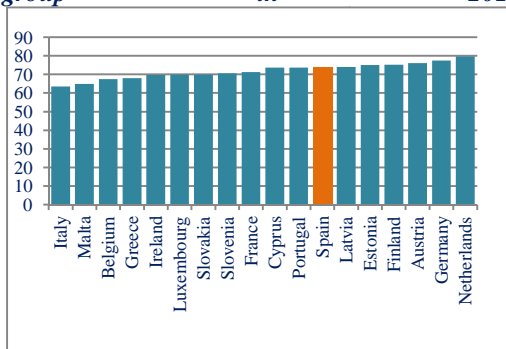
**Figure 24. Long-term unemployment rate - % of active population in the same age group in 2013**



Source: Eurostat.

- Spain is the second largest country in the Euro-zone after Greece (18.4%) in long term unemployment, since it suffers from 13.1% of active population is long term unemployed.

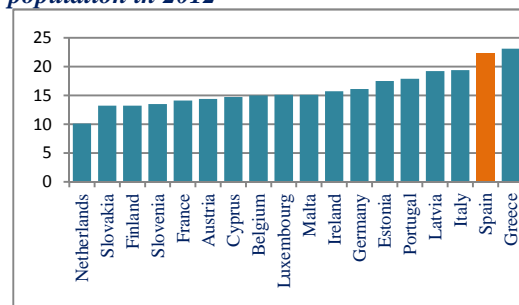
**Figure 25. Active population aged 15-64 as a percentage of Population in the same age group in 2013**



Source: Eurostat.

- Currently the unemployment rates stands at 26 percent, which the government hopes to trim down to 25 percent or less by the end of 2014, which is still twice the Euro area average of 12 percent.
- Active population in Spain is nearly 74%, which is not far from Germany (77.5%) and Netherlands (79.7%) and almost the same as Latvia, Estonia and Finland.

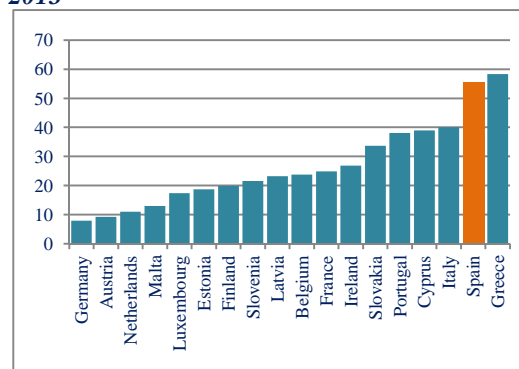
**Figure 26. At risk of Poverty Rate - % of total population in 2012**



Source: Eurostat.

- Spain is the second largest country in the vulnerability rate of population, which is the persons who are at the risk of falling under the poverty line which is 22.2% of total population. This is a very high rate especially when it is compared to the Netherland's rate (10.1%).

**Figure 27. Youth unemployment rate - % of active population in the same age group in 2013**

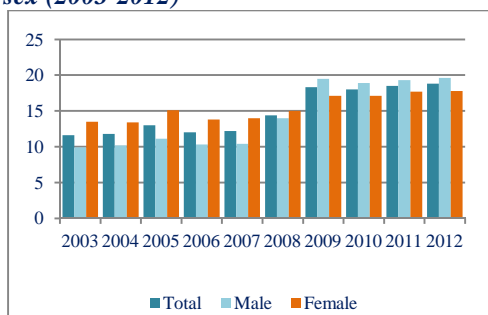


Source: Eurostat.

- Youth unemployment is the biggest problem in the labor market in Spain. Spain is the second largest country (55.5%) after Greece (58.3%).



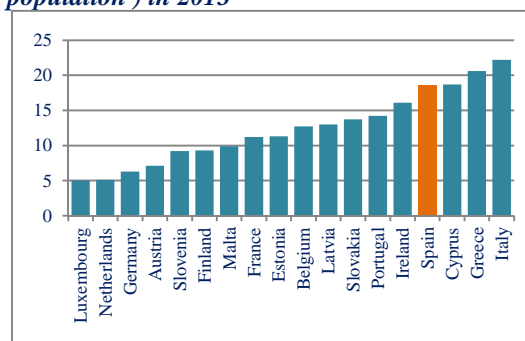
**Figure 28. Share of Young people not in employment, education or training (NEET) by sex (2003-2012)**



Source: Eurostat.

- It is clear that the share of young people neither in employment nor in education or training is increasing both for men and women. For women, the share increased from 14% in 2007 to 17.8% in 2012. For men, the share increased from 10.4% in 2007 to 19.6%. The overall share of young people (NEET) is 18.8% in 2012.

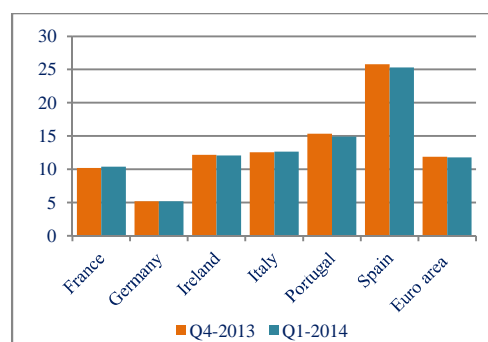
**Figure 29. Young people not in employment, education or training (NEET) (% of total population) in 2013**



Source: Eurostat.

- Spain is considered the fourth country in the Euro-zone after Italy, Greece and Cyprus with (18.8%) of young people (NEET).

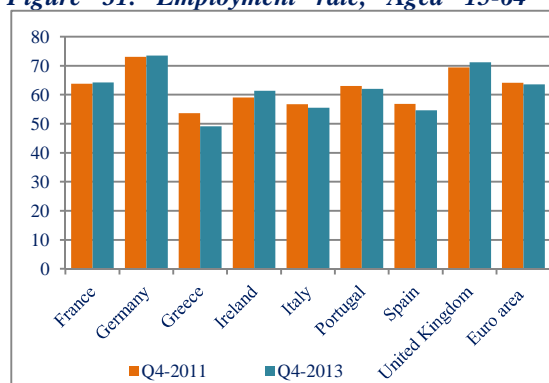
**Figure 30. Harmonized Unemployment rates**



Source: OECD (2014). Short-term Labor Market Statistics.

- According to OECD latest statistics, the harmonized unemployment rate for Spain decreased from 25.8% in the fourth quarter of 2013 to 25.3% in the first quarter of 2014. The Euro-zone rate is 11.8% and only Germany and France are the countries that are under the Euro-zone rate.
- It is also observed that the employment rate for those aged 15-64 decreased from 56.8% in the fourth quarter of 2011 to 54.6% in the fourth quarter of 2013.

**Figure 31. Employment rate, Aged 15-64**



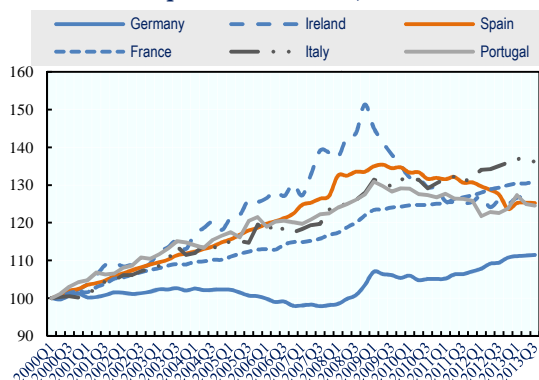
Source: OECD (2014). Short-term Labor Market Statistics.

- Germany is the highest country in the Euro-zone in employment with about (73.5%) employment rate, followed by the



United Kingdom (71.2%). Both countries are above the Euro-zone rate (63.6%).

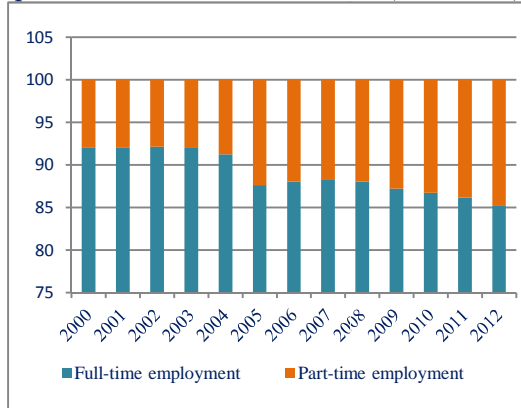
**Figure 32. Evolution of unit labour costs in selected European countries, 2000-2013**



Source: OECD, Eurostat.

- Unit labor costs rose steadily relative to Germany – not only in Spain but also in all of southern Europe, and in France – in the decade beginning in 2000, following the euro’s introduction.

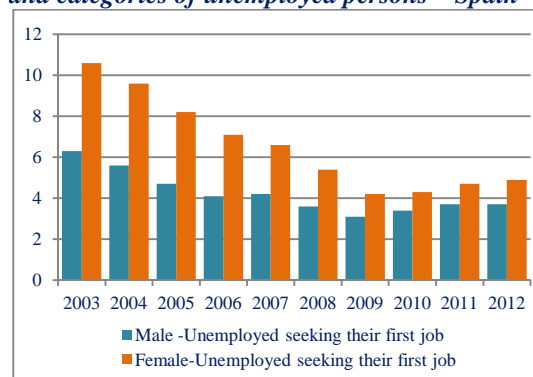
**Figure 33. Incidence of FTPT employment in Spain (2000-2012)**



Source: Eurostat.

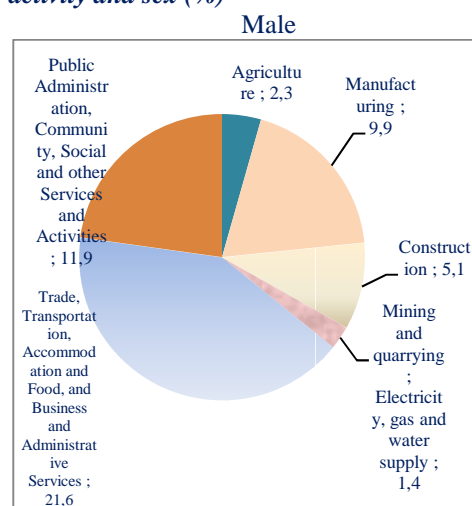
- Regarding the Incidence of full time part time employment, it is observed that there is an upward trend towards part time jobs. This pattern represents an increase from (11.8%) in 2007 to (14.7%) in 2012. Contrary to this, the full time employment is decreasing from (88.2%) in 2007 to (85.3%) in 2012.

**Figure 34. Unemployment distribution by sex and categories of unemployed persons – Spain**

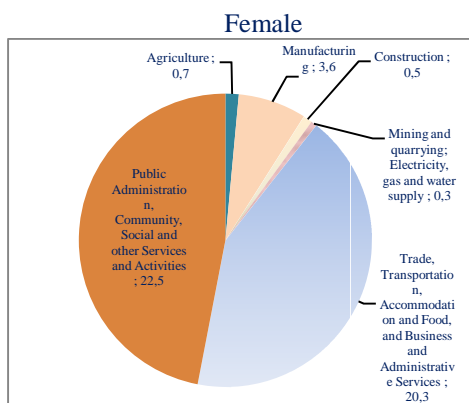


- The unemployment problem is more significant for men as shown in the figure above. Female unemployment improved relative to its level in 2007 while male unemployment did not change much.

**Figure 35. Share of employment by economic activity and sex (%)**



- According to the Labor force survey, male represent about 52.2% of total employment distributed among different sectors. Male employment concentrated in the trade, transportation, accommodation, food, business and administrative services (21.6%). 11.9% of male employment were in public administration and social services. 9.9% work in manufacturing sector. 5.1% in construction, 2.3% in agriculture and 1.4% in electricity, gas and water supply.



- Regarding female employment, it represents (47.9%) of total employment distributed as follows, (22.5%) in public administration sector and social services as shown in the figure. (20.3%) are working in trade, transportation, accommodation, food, business and administrative services. (3.6%) in manufacturing. (0.5%) in construction, and (0.7%) in agriculture.

### III. Performance of the Institutional and Governance Indicators

- According to the Economic Freedom Index, Spain is ranked 22<sup>nd</sup> out of 43 countries in Europe. Spain's economic freedom score is 67.2 making its economy the 49<sup>th</sup> freest in the 2014 index.
- Spain's score is 0.8 point lower than last year due to declines in the management of government spending, business freedom, and labor freedom that outweigh small improvements in trade freedom and freedom from corruption.
- Over the 20-year history of the index, Spain has improved its economic freedom score by 4.4 points.
- Almost all of the 10 economic freedoms have shown some improvement, with the greatest gains in the areas of market openness and freedom from corruption. Regulatory efficiency and the rule of

law have been relatively well maintained.

- Modest long-term gains, however, mask the erratic path of Spain's economic freedom over the past two decades. Still ranked "moderately free" and recording its second lowest economic freedom score in 10 years, Spain continues to score below the world averages in fiscal freedom, government spending, and labor freedom.

Figure 36. Spain Rank in 2014 Index of Economic Freedom

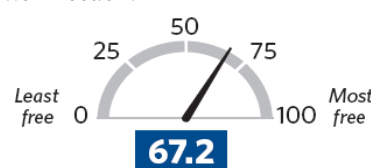
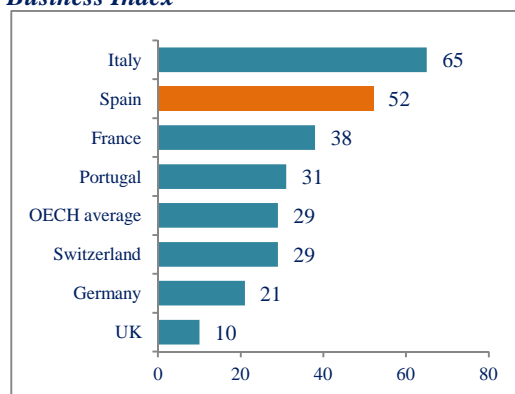


Figure 37. Spain Rank in 2014 Ease of Doing Business Index

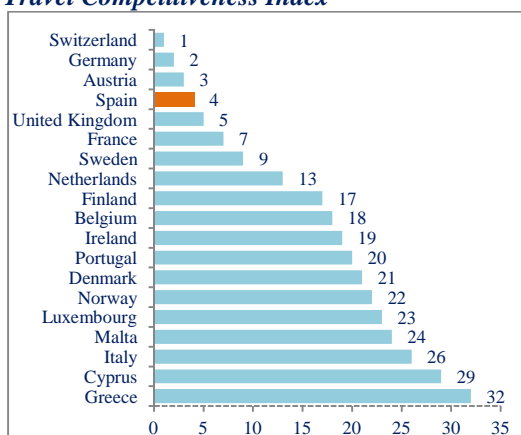


Source: World Bank.

- Spain's ranking on the World Bank's "Doing Business" indicator has deteriorated somewhat and it remains far from best performers, especially in areas such as protecting investors, getting credit, and paying taxes.
- Spain also ranks low in starting a business and dealing with construction permits. Indicators of education outcomes also remain less strong than among many of its European peers.



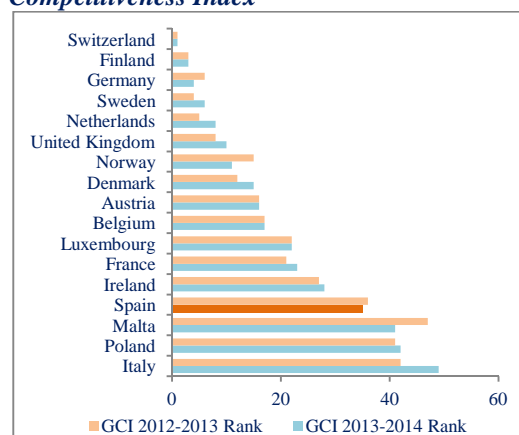
**Figure 38. Spain Rank in 2013 Tourism and Travel Competitiveness Index**



Source: World Economic Forum.

- Spain is ranked the fourth among the top ten performers in the Tourism and Travel Competitiveness Index (TTCI).
- Cultural resources, ranking 1st this year contributed to improving the rank, in addition to the numerous World Heritage sites (2nd) and the large number of international fairs and exhibitions (3rd), as well as the significant sports stadium capacity.
- One of the most important factors in the tourism industry is infrastructure (hotel rooms, car rental facilities, and ATMs and air transportation...) which is a key determinant to travel and tourism in Spain.
- It is worth mentioning that Spain is considered the destination of about 20.8% of outbound trips by EU residents. In terms of nights spent, about 644.311 thousands nights, while it is about 135.648 thousands trips.
- Domestic trips account for 92% of total trips while only 8% are outbound trips.
- Top five destination countries for outbound trips in Spain are France, Portugal, Italy, UK, Andorra. In terms of expenditure, France, Italy, USA, UK and Portugal are at the top of the list.

**Figure 39. Spain Rank in 2013 Global Competitiveness Index**



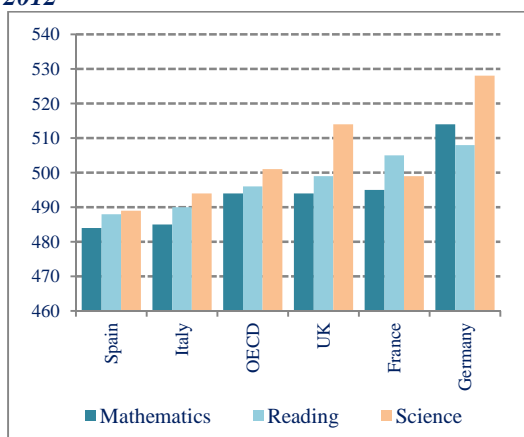
Source: World Economic Forum.

- In light of the Global Competitiveness Index (GCI), and despite the current difficult conditions, Spain goes up one notch in the rankings to 35th place. The country continues to leverage its traditional competitiveness strengths in terms of a world-class transport infrastructure (6th), a good use of ICTs (23rd), and—despite the high unemployment rate—a large and skilled labor force, thanks to one of the highest tertiary education enrollment rates in the world (8th).
- Access to financing is regarded as the most problematic factor for doing business, and the country ranks very low in terms of the ease of accessing loans (138th) or other sources of financing, either through equity markets (101th) or venture capital (105th). In addition, the reduction of both public and private budgets for research and innovation could hamper the capacity of local firms to innovate (57th) and contribute to the economic transformation of the country. Addressing these weaknesses will be crucial in order to bridge the competitiveness gap with Northern European economies the country continues to suffer.





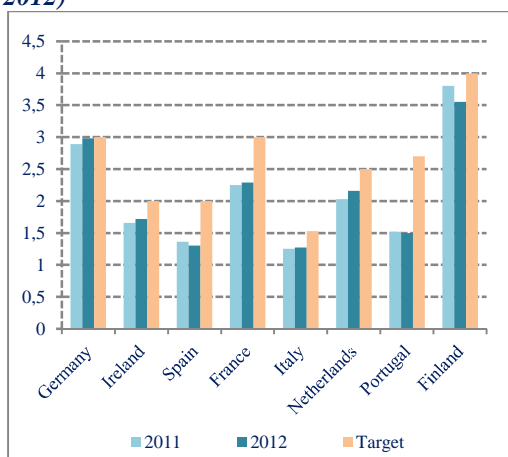
**Figure 40. Education Outcomes in PISA Score 2012**



Source: OECD. “PISA 2012 Results in Focus”.

- Regarding education outcomes, Spain’s score in PISA 2012 for mathematics was (484), reading (488) and science (489), which are all below other European peers like Italy, UK, France and Germany.

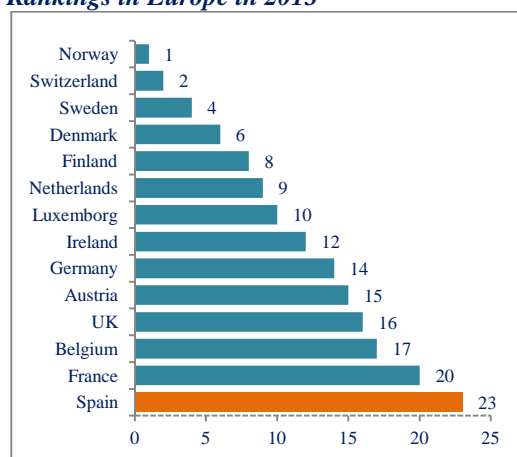
**Figure 41. Expenditure on Research and Development as a percentage of GDP (2011-2012)**



Source: Eurostat.

- The expenditure on research and development in 2012 was (1.3% of GDP) which is below its targeted level (2%). This level is still lower than other European peers like Ireland and Portugal, and far from that of France, Finland, Netherlands and Germany.

**Figure 42. The Legatum Prosperity Index Rankings in Europe in 2013**



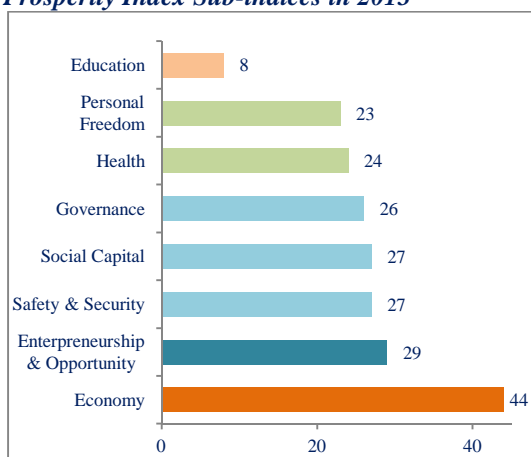
Source: Legatum Institute. (2013). “2013 The Legatum Prosperity Index”.

- The 2013 Prosperity Index reveals that, while the majority of European countries are becoming more prosperous, some are doing so faster than others.
- The Economy sub-index measures countries’ performance in four key areas: macroeconomic policies, economic satisfaction and expectations, foundations for growth, and financial sector efficiency.
- Many countries have struggled in these areas during a difficult period for the global economy. However, nearly all regions now register a higher score on the Economy sub-index than they did in 2009, thus recovering from the sharp drop in 2010.





**Figure 43. Spain's Performance in Legatum Prosperity Index Sub-indices in 2013**



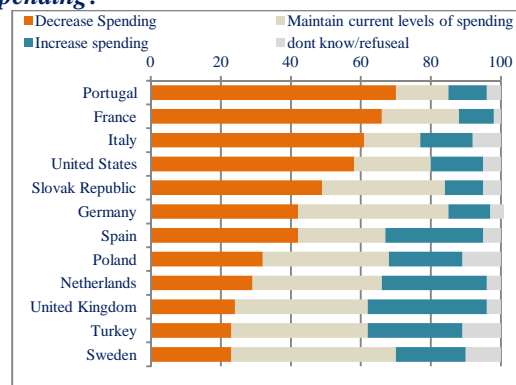
Source: Legatum Institute. (2013). "2013 The Legatum Prosperity Index".

- Spain has moved down two places to 23rd in overall Prosperity since 2009. Over the past five years, the country has declined eighteen places to 44th in the Economy sub-index, due to decreases in gross domestic saving rates, alongside increases in unemployment and non-performing loans.
- The Education sub-index has risen three places to 8th in Education since 2009, as a result of increases in gross secondary and tertiary enrolment, and years of secondary education per worker.

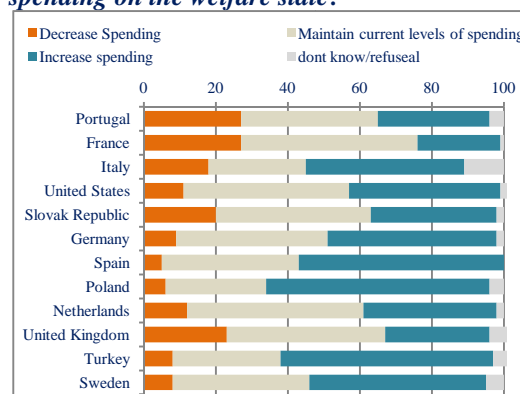
#### **People's Perception towards government imbalances**

- The figures below illustrates the findings from a 2013 OECD survey which shows how, in some countries, attitudes have shifted markedly against government debt and in favor of spending cuts.

**Figure 44. Do you think the government should increase, maintain, or decrease spending?**



**Figure 45. Do you think the government should increase, maintain, or decrease spending on the welfare state?**



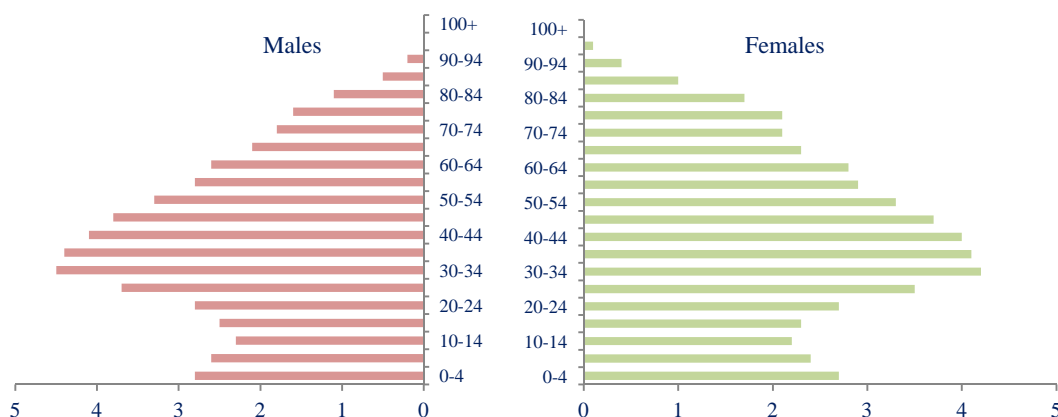
Source: OECD (2014). "Society at a Glance".

- The demand for social support has persisted despite a public awareness that something needs to be done about often-unprecedented debt levels and structural fiscal deficits.
- Concerns about the fiscal situation in some countries also underline the need for cost-efficient social protection and for the difficult task of "doing more with less".



#### IV. Spain Demographic Profile

Figure 46. Spain's population Pyramid (2001-2014)(% of population in the same age group)



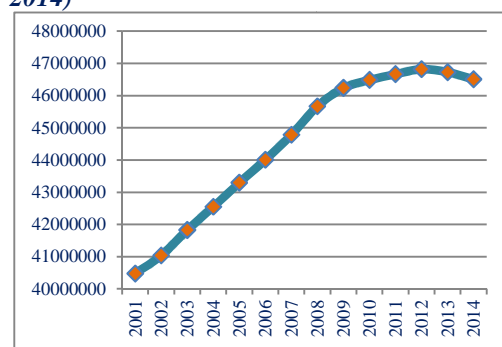
Source: INE.

- The aging of population is often measured by increases in the percentage of elderly people of retirement ages. The definition of retirement ages may vary but a typical cutoff is 65 years, and nowadays a society is considered relatively old when the fraction of the population aged 65 and over exceeds 8-10%.
- The National Statistics Institute (INE) warns that in the next 10 years Spain would lose 2.6 million inhabitants, that is, a 5.6%, if the current demographic trends continue. Thus, population would be reduced to 44.1 million persons by 2023.
- Following the trend started in 2009, the number of births in Spain would continue to decrease in the next years. Thus, around 3.9 million children would be born between 2013 and 2023.
- Life expectancy at birth would reach 81.8 years old in males and 87.0 in females in 2022.
- Likewise, life expectancy of those persons turning 65 years of age would

increase 20.2 years for males and 24.1 years for females in 2022.

- Despite the loss of population and the improvements in life expectancy, the number of deaths would continue with its growing trend, due to the progressive ageing of the population, that will result in a negative growth in the natural rate.

Figure 47. Spain's population Evolution (2001-2014)



Source: INE (2014).

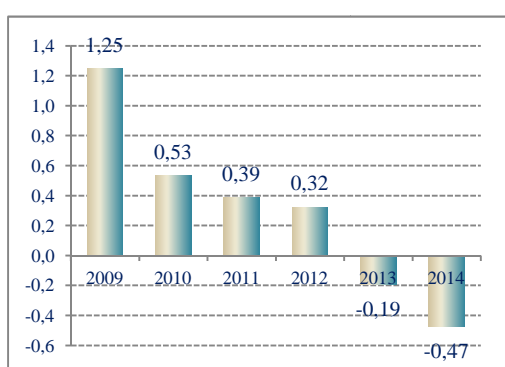
- The population of Spain was last recorded in 2012 as 46.727 million people.
- In 2013, the population decreased to reach 46.507 million people.
- According to the National Statistics Institute (INE), the population decrease occurred within the range of ages 15 -



39 years old, and among children aged under 5 years old, plus a decrease observed in the group aged 75 to 79 years old.

- On the other hand, the foreign population decreased by (7.82%), owing to the combined effect of emigration and the acquisition of the Spanish nationality.

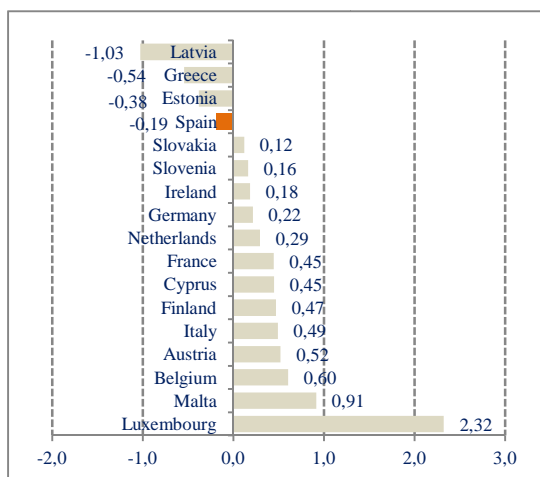
**Figure 48. Spain's Population Growth (2009-2014)**



Source: INE (2014).

- Spain witnessed a decrease in the growth rate of the population since 2013 which was 0.19% that continued in 2014 to be 0.47%.

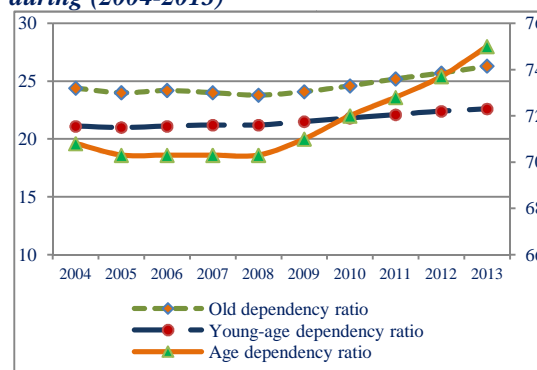
**Figure 49. Growth rate of the population in selected countries of the Euro-area**



Source: Eurostat.

- It is worth mentioning that Spain is one among other three countries in the Euro area (Latvia, Greece and Estonia) which suffers from a negative growth of population. The remaining countries in the Euro-zone are growing with a positive rate that ranges between 0.12% in Slovakia (the lowest) and 2.32% in Luxembourg (the highest).

**Figure 50. Evolution of dependency ratio during (2004-2013)**



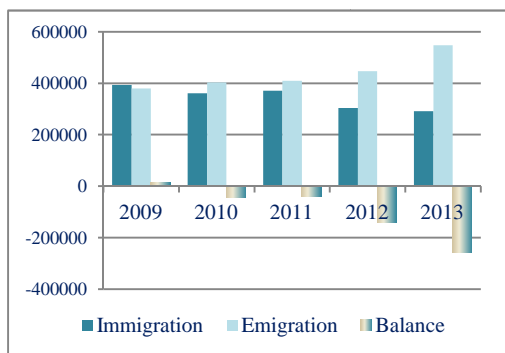
Source: Eurostat.

- The figure shows alternative definitions to dependency ratio in Spain. The first indicator measures old dependency ratio; that is population 65 and over to population 15 to 64 years. The second indicator measures young-age dependency ratio; that is population aged 0-14 to population 15-64 years. The third indicator measures age dependency ratio; that is population aged 0-19 and 60 and more to pop. aged 20-59.
- All previously- mentioned indicators exhibit an upward trend through time but with a different rate of growth. For example, the age dependency ratio increased 5.6% from 71% in 2009 to 75% in 2013. On the other hand, old dependency ratio went up from 24.1% to 26.3% during the same period. Finally,



young dependency ratio had a slight increase from 21.5% in 2009 to 22.6% in 2013.

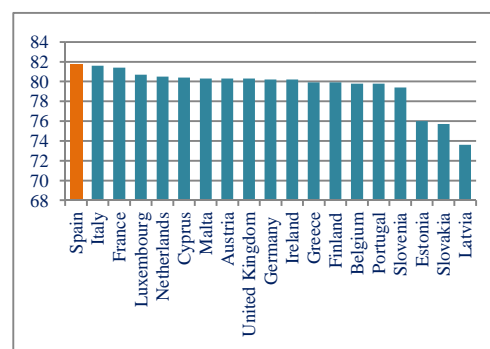
**Figure 51. Spain's Immigration, Emigration and Balance Position (2009-2013)**



Source: INE (2014).

- The evolution of Spain's population is the outcome of an equation between the number of people who leave the country and those who enter as well as the difference between births and deaths.
- According to (INE), the immigration flow in 2013 would reach a lower level than that prevailed in 2012 by approximately 7.1%.
- INE projections refer to the expectation that, for each person coming to reside to Spain two other persons would leave.
- As a result, Spain would register once again a negative foreign migratory balance for the fourth consecutive year.
- Between 2013 and 2012 immigration decreased by 4.3%, whereas emigration registered a 22.7% increase.

**Figure 52. Life expectancy in 2012**

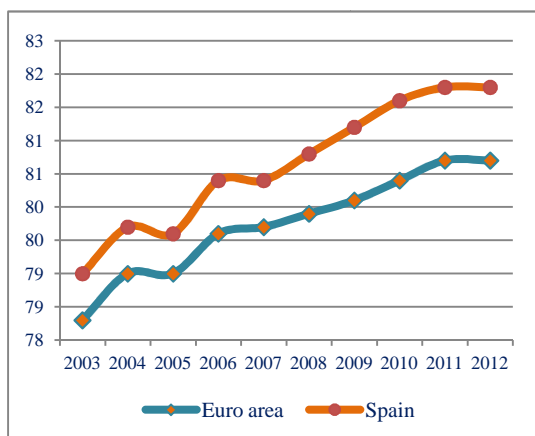


Source: Eurostat.

- OECD health statistics 2014 revealed that life expectancy at birth in Spain increased from (79.4 years) in 2000 to reach (82.5 years) in 2012 (which is higher than the OECD average (80.2 years)). Spain ranked 4<sup>th</sup> out of 34 OECD countries after Japan, Iceland and Switzerland.
- Eurostat statistics also confirm the fact that Spain is ranked the first in the Euro-zone in life expectancy in 2012.
- Life expectancy for women is ranked 2<sup>nd</sup> out of 34 countries in OECD, since it increased to (85.5 years) in 2012 (OECD average is 82.8)
- Life expectancy for men increased from (75.8 years) to (79.5 years) in 2012. Spain is ranked 9<sup>th</sup> out of 34 countries.
- Life expectancy at 65 for women is ranked 3<sup>rd</sup> out of 34 countries (22.8 almost the same as the OECD average 20.9). This highlights the phenomenon of feminization of the elderly in Spain.



**Figure 53. Evolution of Life expectancy in Spain and Euro-zone**

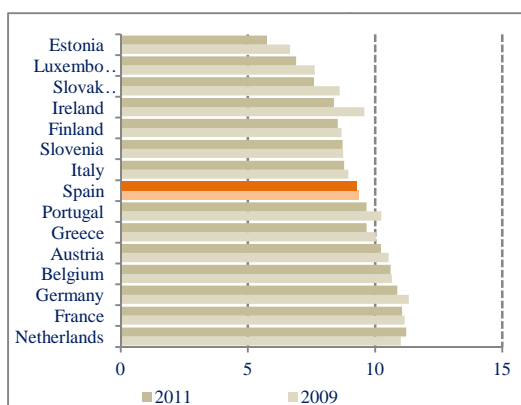


Source: Eurostat.

- It is worth mentioning that the life expectancy indicator in Spain is always growing through time and always higher than that of the Euro area.

## V.Social Protection

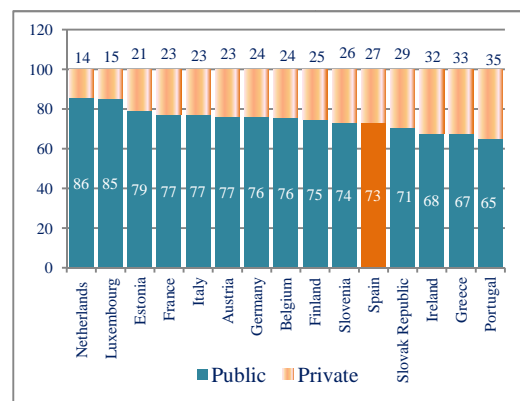
**Figure 54. Health expenditure as a percentage of GDP (revise figures)**



Source: OECD

- The most recent OECD Health Statistics pointed out that total health spending in Spain accounted for 9.4% of GDP in 2011 (latest year available), slightly above the OECD average of 9.3%.
- In the Euro-zone, health spending as a share of GDP is highest in Netherlands (11.8%) followed by France (11.6%).

**Figure 55. Public & Private Health expenditure as a percentage of total health expenditure in 2011**

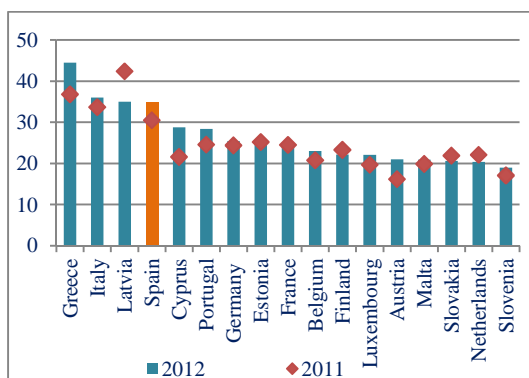


Source: OECD (2014).

- The public sector is the main source of health funding in nearly all OECD countries. The highest share of health expenditure in the Euro area is observed in Netherlands (86%), Luxembourg (85%) and Estonia (79%).
- In Spain, 73% of health spending was funded by public sources in 2011, which is very close to the average of 72% in OECD countries.
- Before the economic crisis, health expenditure was growing rapidly in Spain, but after the crisis, it dropped rapidly and became negative in real terms in 2010 and 2011. The observed decline in health spending could be interpreted in light of the reduction in pharmaceutical expenditure, which fell by more 6% in real terms in 2011.

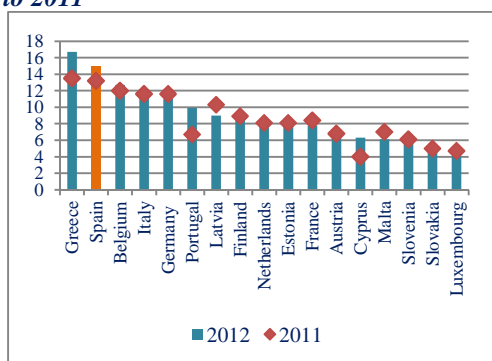


**Figure 56. Young people at risk of poverty or exclusion as a percentage of total population in 2012 compared to 2011**



- Spain is ranked the 4<sup>th</sup> among the member countries in the Euro area in the young people who are vulnerable or at risk of falling into poverty. The highest vulnerability rates are observed in Greece, Italy and Latvia. The situation even became worse in 2012 as the vulnerability rate jumped 14% from 30.5% in 2011 to 34.8% in 2012.
- It is worth mentioning that EU poverty and exclusion headline targets are determined using three indicators; that are at-risk-of-poverty, the severe material deprivation rate and the share of people living in households with very low work intensity.

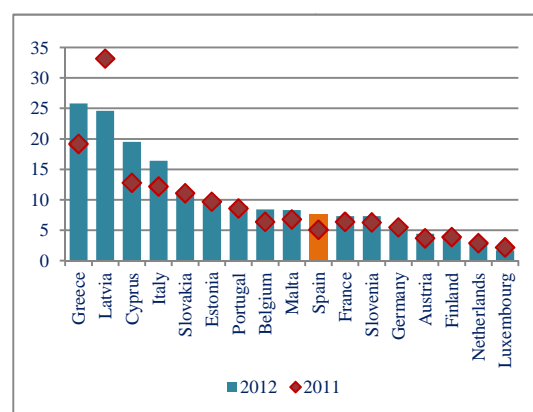
**Figure 57. Young people living in households with very low work intensity in 2012 compared to 2011**



Source: Eurostat.

- The figure above illustrates the situation in the Euro area, for young people living in households with very low work intensity (where adults worked less than 20% of their total work potential during the past year).
- Again, Spain is in a challenging situation where the share for young people living in households with very low work intensity increased 13.6% from about 13.2% in 2011 to reach 15% in 2012.

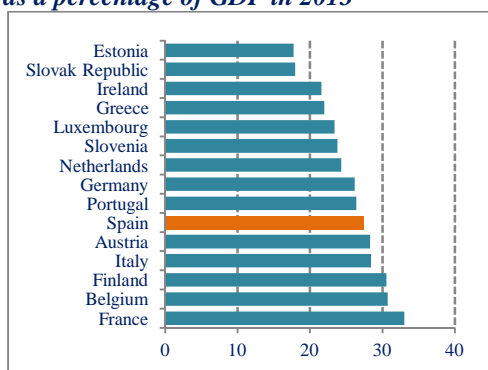
**Figure 58. Severe material deprivation of young people in 2012 compared to 2011**



- In terms of material deprivation of young people, the rate increased from 5.1% in 2011 to 7.6% in 2012.
- Spain, in this indicator, is performing like France and Slovenia, while the highest rates observed in Greece, Latvia, Cyprus and Italy.



**Figure 59. Public Social expenditure as a percentage of GDP in 2013**



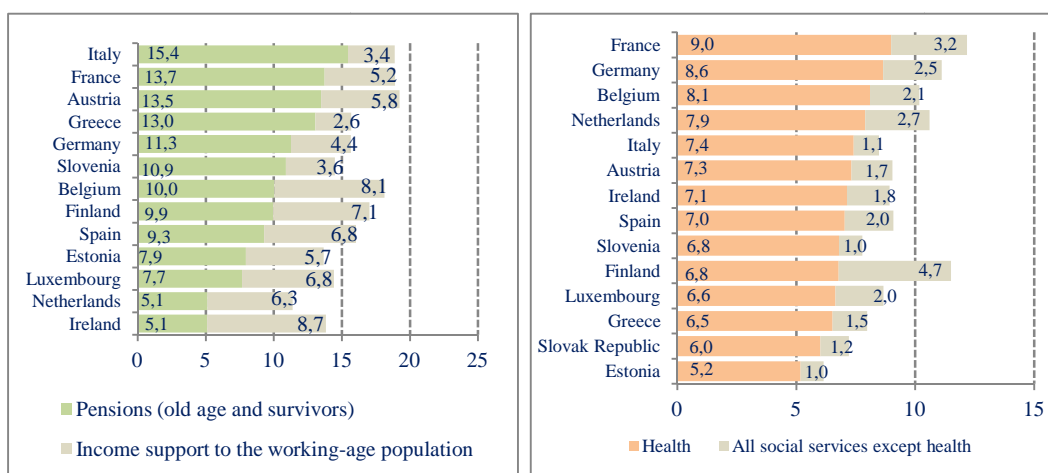
Source: OECD (2014).

- New OECD social expenditure data shows that, Spain is ranked 6<sup>th</sup> among the member countries of the Euro area. Public social expenditure is about 27.4% of GDP. The top five performing countries in the Euro area are France (33%),

Belgium (30.7%), Finland (30.5%), Italy (28.4%) and Austria (28.3%).

- Social expenditure comprises income support to the working-age population, spending on unemployment compensation, and spending on sickness and disability.
- Cash benefits to older people (pensions) and public health expenditure are the most important expenditure items as shown in the figure (58). Spain allocated 9.3% of GDP for pensions and about 7% of GDP for health expenditure IN 2009 which increased to 9.4% of GDP in 2011 according to the latest health statistics released by OECD.

**Figure 60. Public social expenditure by broad social policy area, in percentage of GDP, in 2009**



Source: OECD

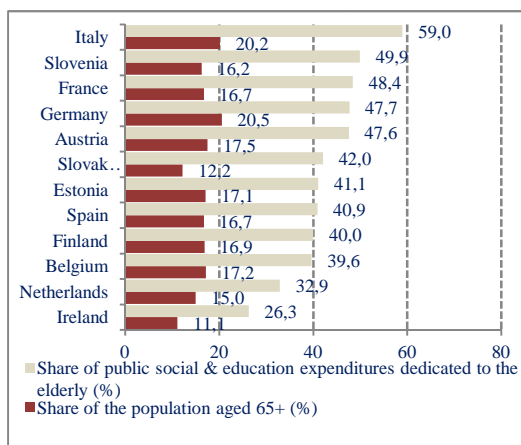
- Among the member countries of the Euro-zone, Italy comes first in social spending related to old age and survivors (15.4%), followed by France (13.7%), Austria (13.5%) and Greece (13%). While in health expenditure, France is ranked first (9%) followed by Germany (8.6%) and Belgium (8.1%).
- The demographic phenomenon of population ageing plays a crucial role in

determining the targeted increases in public social spending. For example, health care services might almost double from 7% in 2009 to 13% in 2050 on average across the OECD.

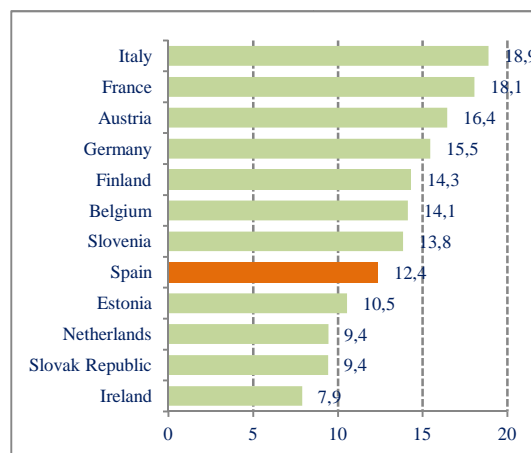




**Figure 61. Share of public social & education expenditure dedicated to the elderly compared to their share in the total population in 2009**



**Figure 62. Public social Expenditures and Education spending dedicated to the elderly in 2009 a percentage of GDP**



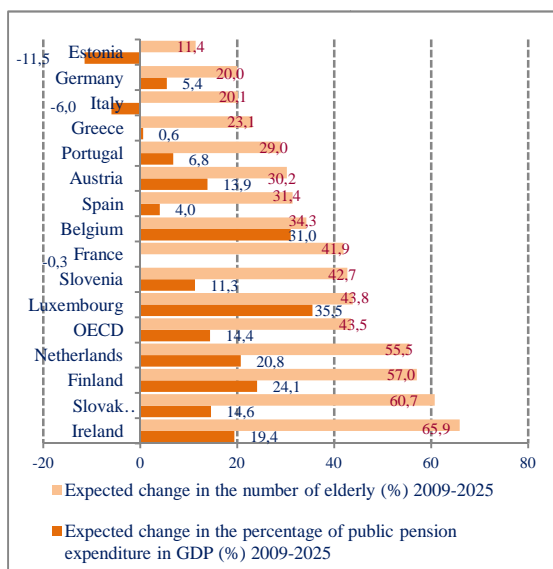
Source: OECD (2014).

- On average across the OECD, public social spending on the elderly amounted to 11% of GDP in 2009. The proportion of elderly in the population is around 15% across the OECD and on average they "receive" 40% of all public spending on education and social policy. In countries where only one in ten persons or less is over 65, only a quarter of social spending goes to the elderly.
- The share of public social & education expenditure dedicated to the elderly in Italy is the highest in the Euro area and accounted for 59% as the share of the elderly is about 20% of total population. This expenditure represents almost 19% of GDP in Italy.
- Germany allocated about 48% of the public social expenditure to the 20% of the total population. Other countries among the Euro area have elderly people who accounted for less than 20% of their population, but they devoted much spending directed towards this segment of population such as: Austria, Slovakia, Spain and Finland.

- Spain devoted about 41% of its expenditure to the elderly in 2009. This represented about 12.4% of GDP.
- On average across the OECD, public social spending on the elderly amounted to 11% of GDP in 2009. The proportion of elderly in the population is around 15% across the OECD and on average they "receive" 40% of all public spending on education and social policy.



Figure 63. Expected growth of the elderly population & pension spending (2009-2025)



Source: OECD.

- Figure 63 shows OECD projected changes in the population aged 65 and over and pension spending as a percentage of GDP in 2009 and 2025.
- A significant growth of the population 65 and over is expected to move faster than the rate of growth of public pension spending as a percentage of GDP in most member countries of Euro area.
- Compared with growth in the elderly population, pension spending is projected to rise most in Luxembourg (35.5%) and Belgium (31%), while the most substantial decline is expected in Estonia (-11.5%) and Italy (-6%). Nevertheless, for most OECD countries pension spending is expected to continue to grow. This will impose much pressure on public social expenditure and the role of welfare state that will affect the total budget balance in the region.

## VI. Conclusion

- The Spanish economy is currently facing major challenges in the aftermath of the economic crisis.
- The main economic challenge is job creation to absorb unemployment and new entrants to the labor market.
- Spain's demographic trends indicate that a sharp drop will occur in the number of people aged between 20 and 49 with progressive ageing and the consequent increase in the number of elderly dependents. This means that the need to create more jobs becomes increasingly urgent given that this is the main reason immigrants come in the first place, and why people leave to look for work abroad.
- Youth unemployment in Spain is a structural problem that has been aggravated by the crisis. It has serious consequences for the present and future of young Spaniards and limits the Spanish economy's potential for growth in the long term.
- Confronting the youth employment problems calls for more actions and regulations to improve the employability of young people, promoting equal opportunities, and encouraging entrepreneurship.



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<http://www.ine.es/>

Bank of Spain

<http://www.bde.es/bde/en/>