

ECONOMIC CRISIS IN SPAIN

1. THE BEGINNING: CONSTRUCTION CRISIS

- The worldwide crisis (2007) caused the burst of the housing bubble in Spain. The bubble began at the end of the nineties...
 - * A bubble: An extremely increase on prices of one asset (in this case, property) until unsustainable levels. The house rising prices were boosted by demand and speculation.
 - * At the same time, there was in Spain a high increase in mortgages, causing extremely high levels of private debt.
 - * Construction sector represented in this date more than 18% in the GDP (Gross Domestic Product)
- The burst of the housing bubble in Spain was caused by two facts:
 - * Short term facts:
 - Subprime crisis in the USA and an increase in the rate of interests (the amount you have to pay when you apply for a loan)
 - The credit crunch: The credit squeeze in Spain. The banks find out that lending money is a risk they cannot afford (they are not determined to take more risks)
 - * Long term facts
 - Land and property speculation.
 - Strong demand crisis: Dramatically decrease on property demand.
- Construction sector crisis goes public in the mid-2008. At the same time the first property companies' bankruptcies, took place dragging with them the banks that were financing these companies.
- Main consequences:
 - * A growth in unemployment rate.
 - * A consumption decrease
 - * Risk of instability of banks, especially, the ones more exposed to property assets (troubled assets), driving them to merger processes in order to survive. Saving Banks in Spain turned into Commercial Banks by mergers, absorptions or simple transformation.
 - NOTE: *All banks are forced to carry out merger processes*
 - * First evictions: A lot of people, unable to pay the monthly rates of their mortgages is evicted. This is one of the saddest consequences of the current crisis. (It's fair to recognize that our mortgage law has received a lot of critics. According to many

experienced people, it doesn't respect the main human rights)

2. INFLATION DURING THE CRISIS AND LATER DEFLATION (FURTHER DEFLATION).

- As regards inflation, we can distinguish four stages:
 - * In 2007, inflation rate reached 4,2% boosted by strong energy dependence on foreign energy. In 2008, the inflation rate reached the troubling 5,3%
 - * In March, 2009, Spain entered a period of deflation. It was our first deflation since data about prices in Spain are available (1961).
 - There's only one thing even more dangerous than inflation...Deflation: A deflation situation makes that all economic agents delay their consumer and investment plans, waiting for the prices to decrease.
 - * In 2011 and 2012, consumer prices increased again, reaching 3,5%. This amount, combined with the austerity measures, high unemployment level, as well as, the cuts in private and public wages depress the Spanish people standard of living.
 - * Currently, consumer prices have declined again, standing close to levels near 0%.

3. BANKING SISTEM

- At the beginning of the crisis, Spanish banking system was considered by most experts as one of the most solvents in Europe. At the end, our banking system turned out to be more vulnerable than the experienced economist thought due to the great exposure of the main banks to property assets (assets related to low quality mortgages)
- The government reacts stepping in (intervening) the banking system in order to clean the banks up and encouraging the banking concentration. The main consequences of this measures are:
 - * An increase in unemployment rate in banking sector.
 - * The forced disappearance of our historic model of Saving Banks (now transformed in Commercial Banks)
- In this context, the Banking Bailout in Spain takes place: 40.000 millions to bail out the four more troubled banks in Spain. Before that, these four companies are nationalized before. At the same time, Spain is forced by the rescuers to create what in Spanish is called "banco malo", a bank which will collect all the toxic and troubled assets of banking system to clean these banks up.

4. CRISIS INDICATORS

- **Unemployment.**
 - * Unemployment has always been a problem in Spain, even during periods of economic expansion. The minimum rate in Spain was reached in 2007 (a little less than 8%). Most experts believe that this is caused by duality in labour market:

- On the one hand: Workers with permanent (fixed jobs) contract and a great labour protection as well as wages increases
- On the other hand: Workers, especially the youngest, less protected and more exposed to unemployment risk with fixed term contracts
- * The long term unemployment (the one which lasts one year or more) is especially worrying in Spain is that affects particularly to unskilled workers.
- * There is a strong relationship between unemployment in Spain and our productive and growth model based on sectors that generate little added value and represents a big percentage of the GDP. (Out of 100 € of GDP, more than 50 are generated by construction and its auxiliary industries as well as tourism). When things start to go wrong, these two sectors suffer from the worst consequences. We cannot forget the above mentioned land speculation.
- * The consequences of jobs destruction are, at least, two:
 - An important decline in household disposable income.
 - A decrease in consumption

- **GDP.**

- * Spanish economy has undergone during this crisis period, two recessions:
 - The first one: From the last six months of 2008 to the second quarter of 2010.
 - The second one: From the second quarter of 2011 to the last in 2013. It's the longer recession of our economy since we have a democratic system.
 - A recession: It's a period of at least six months where the GDP decreases. When the reduction lasts less than six months, we cannot consider it as a recession.

- **Public Debt (Sovereign Debt) and Country Risk Premium.**

- * Since the beginning of the crisis, the Public Debt (the amount that the government debts to other national or international agents) has grown from 36,1 % of GDP in 2007 to almost 94%.
- * The Country Risk Premium (the difference between the German-ten year bond interest and the Spanish one) reached its highest level of 616 basis points in the summer of 2012. This rate meant that Spain were in this date on the border of bailout. Spain has been able to avoid the bailout (not the banking one, but the whole economy one) by reducing this rate to the current level of 172 basis points.

- **Public deficit.**

- * Public deficit shows the difference between Public Spending and Public Incomes.

- * The amount of this indicator has dramatically increased during the crisis: From a surplus budget of 2% in 2007 to a deficit of more than 10% in 2013.

- **Private debt**

- * Public debt is the less of a problem if we compare it with private debt levels.
- * According to some well known experts, the private debt is the main problem in Spain, further compounded by the increasing public debt levels.
- * The private debt is formed by household and private companies debt. The rate reaches now an outrageous 190% over the GDP that represents an unsustainable level.
- * Most experienced people criticizes that Spain has allowed such levels of private debt. This may have been caused by:
 - The lack of regulations by Central Bank in Spain.
 - The commercial banks didn't make a rigorous evaluation of risks.
 - People should have been more far-sighted.

5. ECONOMIC POLICY DURING THIS PERIOD.

- * The first signs of economic downturn began in 2007 in the USA, with the subprime crisis, as we mentioned before.
- * In between the electoral campaign of 2007, two popular measures are taken by the government:
 - “Cheque bebé”: A state payment for everyone having a baby. No matter natural or adopted and no distinction between rich and poor.
 - A 400 Euros deduction in income tax for everyone who generates incomes associated with work
- * In an official denial environment, the government refused to use the term “crisis” to describe the current situation in Spain. The then president and the Ministers preferred to call it “economic slowdown”. Anyway, the government implements the first anti-crisis measures, such as the freeze of pensions.
- * After being reelected, the government began to use the word “crisis”. At the same time the first austerity measures are taken:
 - The freeze of 400 ALTOS CARGOS wages
 - A decline on the public employment offer.
- * In 2008, the first two bankruptcies in property sectors took place. That caused, at least, two consequences:
 - The stagnation of property sales (terrible decrease on housing demand)
 - A credit squeeze: The banks think more than twice before (about) granting a credit. They are not determined to take more risks.

- * In 2009, the government approves the polemic and famous “Plan E” (Spanish program for the Economy Stimulation and Employment). This program includes more than 80 measures that can be grouped into the following categories:
 - Support for families going through financial troubles.
 - Promoting employment measures.
 - Support to the financial system
 - Modernization of the economy, in general terms (generally speaking)
 - Promotion of rental and social housing sectors
 - Special benefits for car industry aimed at boosting sales in this sector.
 - Reduction of public current expenditure, in order to balance the public budget.
- * In 2009 took place the above mentioned banking interventions as well as the first increase in Added Value Tax of the period, which rises from 16% to 18%
- * In 2010, the government approved a great spending cut, that mainly consist of:
 - Suppression of recent state benefits, such as “cheque bebé” or the 400 € income tax deduction.
 - A 5% reduction on public worker wages.
 - First labour reform that leads the country to its first general strike of the crisis.
- * In the summer of 2011, there was a reform of the National Constitution to include an article related to a budget ceiling fixing. This measure was supported by the two biggest parties. The one in the government and the other in the opposition.
- * In November, 2011, take place a change of government. The new party began this period taking several austerity and controversial measures, such as:
 - Second Labour Reform aimed at increasing labour market flexibility. The cuts on workers rights are among the most controversial measures of this reform.
 - Widespread cuts in public services, especially, in Education and Health.
 - A remark about our healthy system: Spain have the reputation for having a health system that is the envy of the rest of the world, with high levels of social protections, well known professionals. For example, in Spain, the treatment against cancer is at the same level as the famous hospital in Houston, where famous and wealthy people go. Unfortunately, this situation could change if austerity measures and cuts to fight against the crisis persist.
 - A new increase of V.A.T, which reaches by now 21%. The reduced one also increased from 8% to 10%. Besides, several goods and products that were taxed with the reduced rate, are now reclassified to be charged with the standard rate of 21%the standard 21%. This new increase took effect in the

second half of 2012.

- More tax collection, according to some people...more “crisis”, caused by the increasingly prices due to a higher VAT rate...Opposing points of view...
- * In the summer of 2012, the Bankia crisis takes place. Bankia is one of the biggest bank in Spain formed as a result of a merging process between several smaller commercial and safety banks. Out of 40.000 million € provided to bail our banking system out, more than 20.000 (million) were taken over by Bankia
- * In July of 2012, the government implemented the second and not less controversial, austerity measures package, where the most controversial decision was, undoubtedly the elimination (removal) of one of the extra payment, specifically, Christmas Bonus of public workers.
 - In Spain, all employees have the right to get 14 payments: The standard monthly wage and two special payments: one of them in July and the other in Christmas (Christmas Bonus). Nevertheless, the government has the intention to compensate the employees affected by this measure in five years by paying them the whole amount of the money they didn't received in the Christmas of 2012.
- * What is happening today?...The government are now discussing about a new increase on the VAT, through two fundamental channels:
 - The third increase in the standard 21% rate. It's said to reach 23%.
 - Even more goods and products now taxed with 10%, are going to be reclassified to be taxed with the new standard 23%.
- * Every day, more and more well-known economists believe that if this kind of measures persists, the social inequality is going to increase even more, as well as the number of people at risk of poverty and social exclusion.

6. FIRST SIGNS OF ECONOMIC RECOVERY (RELAUNCHING)

- * Unemployment data
 - Unemployment rate: Spain is finally being able to create employment. In the second trimester (quarter) of 2014, Spain finally begins to create employment. With this figure, 2014 turns out to be the best period regarding labor issue since the beginning of the crisis.
 - Unemployment rate has lower down from 26% in 2012 to 24% in September, 2014.
 - The whole amount of unemployed people decreases from more than 6 million

in 2013 to the current 5.4 million.

- It's also fair to recognize that (we shouldn't forget though that...) (it's worth pointing out that...) unemployment strikes people below 30 the hardest (strikes harder people who are less than 30) but even in this collective, the data are improving.

* Tourism

- The affluence of tourists has reached a record in Spain in 2014...More than 52 million people chose Spain as their holiday destination during the first nine months of the year, which represents an increase of 7,4% comparing to the same period in 2013.
- This data show that tourism is still one of our driving forces of economic growth, competitiveness and employment.

7. CONCLUSIONS.

To sum up, we can say that we are not going through our best moment by now, but we have to recognize that despite of the situation, Spain have the instruments, the people, skilled workers, very prepared professional to face the crisis and in a few years, we are going to come out of this crisis....

A growing number of people in Spain and also all over the world think that the biggest problem we have is not unemployment, is not the public or private debt, is not the deficit....The biggest problem are political class, the banks and, above all, this aggressive capitalist system of production and distribution that encourages the biggest companies to earn more and more money without restraints, forgetting that there are a lot of people all over the world living with less than 1 dollar a day.

In short, we are in a system that considers that is more important money than people.

Nevertheless, Spain is showing its own capacity to face this crisis and not exactly thanks to political class (politicians), but in spite of it. We also have a great educational system able to train our youngsters (young adults) to face the future and to contribute to Spanish economic growth.

There are also a lot of people canalizing innovative ideas towards the creation of original companies. Our secondary educational system is promoting the enterprising spirit and business initiative in its new curricula.

Finally, if political corruption has occupied the last front pages in Spain, it's also true that the government agencies are in between a "cleaning up process" to mitigate and to punish corruption in all its expressions.

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