

## Inside Spain Nr 184

11 May - 23 June 2021

**William Chislett**

### Summary

Spain wins European Parliament support over Morocco conflict.  
Government grants controversial pardons for Catalan separatists.  
Coronavirus incidence rate below 100, obligatory use of masks outside ends 26 June.  
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### Foreign Policy

#### Spain wins European Parliament support over Morocco conflict

The European Parliament upbraided Morocco for weaponising migration after Spain allowed Brahim Ghali, head of the Polisario Front that leads the fight for the disputed Western Sahara's independence from Morocco, to be treated in a hospital for COVID-19.

Some 12,000 people, including around 1,500 under-age migrants, streamed into the Spanish coastal city of Ceuta from Morocco last month after Moroccan authorities turned a blind eye, 3,000 of whom remain there (see Figure 1).

Many reached Ceuta by swimming or paddling in small boats around breakwaters separating the two countries. International law allows Spain to deport adults in such circumstances but not minors, 830 of whom are still in the city. 'It is an absolutely unsustainable situation and it's getting worse every day', said Juan Vivas, Ceuta's top official.

**Figure 1. Spanish enclaves and the Western Sahara**



Source: The Economist.

The Parliament rejected ‘Morocco’s use of border control and migration, and unaccompanied minors in particular’, as a way of putting ‘political pressure [on] a Member State of the EU, [namely Spain]’. The resolution, which deplored putting the lives of children at risk, was adopted by 397 votes in favour, 85 against and 196 abstentions.

Ghali arrived secretly in Spain in April for humanitarian reasons from Algeria, which backs the Polisario. Madrid did not inform Rabat, triggering a diplomatic row which shows no signs of abating. He returned there on 2 June after a Madrid judge turned down a request by prosecutors aligned with Moroccan interests to detain him for alleged human-rights abuses.

The Western Sahara, a Spanish colony until 1975 and claimed by Morocco, has been home to one of the UN’s longest-running peacekeeping forces since 1991. Rabat viewed the hospitalisation of Ghali as a shift in Spain’s policy, which Madrid denies.

Morocco wants Madrid to follow in the steps of former US President Donald Trump who recognised Morocco’s sovereignty over the Western Sahara shortly before leaving office in exchange for Morocco’s recognition of Israel.<sup>1</sup> This game-changer broke with years of international consensus, bucking the UN’s official designation of the Western Sahara as a ‘non-self-governing territory’. The Biden Administration has yet to take a position.

<sup>1</sup> See the analysis by Haizam Amirah-Fernández for more background on Trump’s move at [http://www.realinstitutoelcano.org/wps/portal/rielcano\\_en/contenido?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_in/zonas\\_in/commentary-amirah-crisis-between-morocco-and-spain-the-risks-of-trumps-gift](http://www.realinstitutoelcano.org/wps/portal/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/commentary-amirah-crisis-between-morocco-and-spain-the-risks-of-trumps-gift).

Rabat's relations with Germany have also deteriorated with Morocco. After the US recognised Moroccan control over the Western Sahara, Germany pushed back by calling for a closed-door UN Security Council meeting to debate the issue. Morocco's ambassadors in Berlin and Madrid have both been recalled.

Rabat is furious at Spain for 'Europeanising' what it views as a purely bilateral crisis, overlooking the fact that Ceuta and the other Spanish city of Melilla are the southern entry points into the EU. Ceuta's border with Morocco is the EU's border.

The European Commission, before the European Parliament's resolution, was quick to come to the defence of Spain. EU Vice-President Margaritis Schinas said 'nobody can intimidate or blackmail the European Union', while Charles Michel, President of the European Council, declared: 'We reaffirm total European solidarity with the Spanish government and authorities on the migration issue'.

Images of the chaotic situation in February 2020 on the Greek-Turkish border when Turkey unilaterally opened its frontier to propel migrants and refugees towards the EU are still fresh in the minds of the European Commission.

The influx of Moroccans into Ceuta was reminiscent, on a much smaller scale, of the Green March on the Western Sahara under King Hassan II, father of King Mohammed VI, in November 1975. Madrid put up no resistance to Morocco's annexation as it did not want a colonial war in the nervous last weeks of the 39-year long Franco dictatorship.

Ceuta and Melilla are the only European territories on the African mainland. In Morocco they are known as the occupied 'Sebtah and Melilah' and have never been recognised by Rabat, which demands their return. According to a secret telegram (declassified in 2014) sent by the US Embassy in Madrid to Washington, King Juan Carlos told Senator Edmund Muskie, the special envoy of President Jimmy Carter, on 30 April 1979 that Spain might cede Melilla to Morocco and negotiate a 'Tangier-like situation for Ceuta'.<sup>2</sup> Such proposals were never made and today, in a much more nationalistic Spain with the rise of the hard-right VOX, would be politically untenable.

### Spain reopens Libya embassy after seven years

Prime Minister Pedro Sánchez visited Tripoli and in a gesture of support for the new government reopened Spain's embassy, closed in 2014 following the escalation of violence between Islamic militias and government forces.

Businessman Abdul Hamid Dbeibah assumed office in March as the transitional Prime Minister after an election that was part of a UN approved roadmap to take Libya into general elections in December.

France and Greece preceded Spain in reopening their embassies.

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<sup>2</sup> See <https://aad.archives.gov/aad/createpdf?rid=215679&dt=2776&dl=2169>.

Sánchez, who travelled with a group of businessmen, signed memorandums of understanding to boost cooperation in sectors such as health, infrastructure and renewable energy.

#### Venezuela seeks extradition of prominent opposition activist

The Venezuelan government asked Madrid to extradite Leopoldo López, a former Caracas-area mayor who fled to Spain last year, so that he can see out the remaining eight years of a 14-year prison sentence for instigating violence in anti-government protests and other alleged crimes.

The Spanish government has yet to respond to the request. The judiciary has refused in the past to extradite former Venezuelan officials on the grounds that concerns they would be politically persecuted were founded.

López has received widespread international support for his stand against authoritarian Venezuelan President Nicolas Maduro. He is a close associate of Juan Guaidó, the opposition leader recognised by the US and many other countries including Spain as Venezuela's legitimate leader.

#### Spain at the forefront of desiring a more unified EU

Close to 50% of respondents in Spain want the EU, after the pandemic is over, to be more active in achieving a unified response to global threats and challenges, the highest percentage among the four largest euro zone countries (see Figure 2).

The survey carried out in April by the European Council on Foreign Relations also showed Spain as the country, among the four, most in favour of EU states doing more to share the financial burden of a crisis.

**Figure 2. Once the coronavirus crisis is over, which, if any, of the following best reflect how you think things should change in Europe? (%)**

	Spain	Germany	France	Italy
The EU should ensure a more unified response to global threats and challenges	48	36	41	45
EU states should be more prepared to share the financial burden of a crisis	49	36	36	43
There should be more control over the EU's external borders	33	35	43	33
Businesses should be pushed to produce more medical supplies in the EU, even if this means higher prices	26	46	44	21
The EU should increase its efforts to transition away from carbon in the EU	27	20	33	29
There should be more control over borders between EU states	23	24	33	26
The EU should return more powers to the national level	14	23	31	25

Source: European Council on Foreign Relations.

A small majority of Spaniards (52%) said they had little confidence in the EU or said their confidence had deteriorated compared with 62% in France, 57% in Italy and 55% in Germany. Spaniards' disillusionment with national politics, however, was much higher at 80%, the same as Italy, as against 66% in France.

### Spain to host 2022 NATO summit

Spain will celebrate its 40<sup>th</sup> anniversary of joining NATO by hosting the organisation's summit in Madrid next year.

The country was excluded from NATO during the Franco dictatorship, which ended in 1975. It joined in 1982, the first new member since West Germany in 1955. Membership was ratified in a referendum in 1986 when 57% of votes were in favour on a turnout of 59%.

## Domestic Scene

### Government grants controversial pardons for Catalan separatists

The pro-independence movement in Catalonia embarked on a new phase, following the formation of the new regional government and the granting of deeply divisive pardons for nine separatists jailed for organising in 2017 an unconstitutional referendum on secession.

In a non-binding report, the Supreme Court opposed the pardons, but Prime Minister Pedro Sánchez said the time had come to be magnanimous in order to try to resolve the secession problem politically. 'There is a time for punishment and time for concord', he told Parliament.

The nine remain barred from public office and the reprieve would be reversed if they commit serious offences. A full amnesty, as demanded by the secessionists, would have been a step too far.

Parliament supported the pardons (190 MPs voted in favour vs 150 against), as well as some business and Roman Catholic Church leaders, but the conservative Popular Party (PP), the hard-right VOX and the would-be centrist Ciudadanos are vociferously opposed to them. 'Appeasement is not an option, it is only a postponement that grants new strength to the threat', said Pablo Casado, the leader of the PP which is likely to challenge the pardons.

Tens of thousands of their supporters rallied in a Madrid square beneath the world's largest Spanish flag earlier this month to protest the pardons. Some Socialist regional 'barons' are also opposed. Among the wider public, a recent poll for *El Mundo* found that 61% of those surveyed did not agree with the pardons, while 29.5% backed them.

The Committee on Legal Affairs and Human Rights of the Parliamentary Assembly of the Council of Europe (PACE) recommended pardons in a report, which the Spanish Foreign Ministry criticised as it was 'based on an erroneous approach presuming that the pro-independence political leaders were indicted for expressing their ideas in the exercise of their mandate'.<sup>3</sup>

The Court sentenced in October 2019 nine politicians and activists to between nine and 13 years in jail for misusing public funds and sedition after organising the referendum and issuing a unilateral declaration of independence. Three others were sentenced for the lesser crime of disobedience, but were not imprisoned. Its report said the sentences were appropriate for the crimes and added 'there is not the slightest evidence or faintest hint of contrition'. However, regret is not strictly one of the requirements for granting a pardon, which is a political decision reserved for the government.

The issue of pardons, which began to be mooted last year, took on momentum after the divided pro-independence parties formed a government in May, after three months of on-and-off negotiations, following elections in February, and narrowly avoiding another election. Voter turnout was a record low of 53.6%.

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<sup>3</sup> See the Foreign Ministry's statement at [http://www.exteriores.gob.es/Portal/en/SalaDePrensa/NotasdePrensa/Paginas/2021\\_NOTAS\\_P/20210603\\_NOTA124.aspx](http://www.exteriores.gob.es/Portal/en/SalaDePrensa/NotasdePrensa/Paginas/2021_NOTAS_P/20210603_NOTA124.aspx) and the report at <https://pace.coe.int/pdf/364eb950a83334f8d78db180220409fae2bd324b31a4a5578d0e3c6604a42622/doc.%2015307.pdf>.

This time the leftist and more pragmatic Republican Party of Catalonia (ERC) is in the driving seat with Pere Aragonès at the helm of government and not the centre-right and more hardline Junts per Catalunya (JxCat), whose leader Carles Puigdemont, a fugitive from justice, has been in self-imposed exile since the 2017 referendum. The ERC's leader, Oriol Junqueras, and Deputy Premier when Puigdemont was Premier (2016-17), received the longest sentence (13 years). Puigdemont does not benefit from the pardons.

ERC backs in parliament the Socialist-led minority government whose junior partner is the hard-left Unidas Podemos. The 190 votes in favour of pardons were more than the 167 'yes' votes (one more than required) that Sánchez garnered to form his coalition government in January 2020. The PP accuses Sánchez of selling out to ERC in order to stay in power.

Junqueras eased Sánchez's path for pardons a little by publicly stating that unilateral efforts to secure independence are now 'neither viable or desirable' and the best way to resolve the political standoff is to agree a Scottish-style referendum with the Spanish government. He also intimated support for pardons, without explicitly mentioning them, by saying 'there are gestures that can ease the conflict.' He had previously said, following his conviction, that the government 'can stick their pardons where the sun doesn't shine'.

Elisenda Paluzie, President of the Catalan National Assembly, said, before the pardons were granted, they would be 'an intelligent political decision' as they would 'disarm us on a political level'.

It is extremely unlikely there will be a negotiated referendum on independence as it would require constitutional reform, which would have to be approved by a two-thirds majority in both the Congress and Senate, followed by elections and ratification of the reform by two-thirds of the new Congress and Senate. The highly polarised and fragmented political life makes the reform impossible. The government will try to resolve the issue by offering Catalonia more money and autonomy in a package that could be put to a referendum.

Junqueras' strategy may have changed, but not the goal. He recognises that more support for independence is needed, while Puigdemont, still the power behind Junts with his Council for the Republic based in Waterloo, Belgium, believes there is already enough support and a more confrontational approach will eventually win the day.

The nationalist vote in Catalan elections since the first one in 1980 (see Figure 3), not all of which was pro-independence, particularly in the first two decades, has never been more than 37% (in 2017) while the non-nationalist vote peaked at 42% (also in 2017). As a result of the way the electoral system works, pro-independence parties have tended to win a majority of seats in the Catalan parliament, sometimes a slim one, although

without a majority of the votes. There is a deep political divide between unionists and secessionists.<sup>4</sup>

**Figure 3. Catalan elections, 1980-2021, votes of nationalist and non-nationalist parties (%)**

	Nationalist	Non-nationalist including blank and invalid votes	Abstention rate
1980	24.5	36.8	38.7
1984	33.6	30.8	35.6
1988	29.4	30.0	40.6
1992	29.6	25.3	45.1
1995	32.0	31.6	36.4
1999	27.4	31.8	40.8
2003	29.5	33.0	37.5
2006	25.4	30.6	44.0
2010	29.2	29.6	41.2
2012	33.0	34.8	32.2
2015	35.7	39.3	25.0
2017	37.4	41.6	20.9
2021	27.1	26.5	46.4

Catalan government, prepared by Adolf Tobeña, author of the forthcoming *Fragmented Catalonia* (Policy Network).

### Coronavirus incidence rate below 100, obligatory use of masks outside ends 26 June

The 14-day incidence rate of COVID cases per 100,000 people dropped below 100 on 16 June for the first time since last August, spurring the government to lift the obligation to wear a mask outside as of 26 June (see Figure 4).

<sup>4</sup> A timely and nuanced book, *Fragmented Catalonia* (Policy Network), by Adolf Tobeña, Emeritus Professor of Psychiatry at the Autonomous University of Barcelona, to be published in July, usefully recapitulates the push for secession.



**Figure 4. Coronavirus (COVID-19) 14-day cumulative number of cases per 100,000 people by region**

	12 April	10 May	21 June
Andalucía	225	180	173
Aragón	218	291	83
Asturias	163	95	72
Balearic Islands	57	57	40
Basque Country	320	407	107
Canary Islands	134	84	94
Cantabria	161	205	89
Castilla y León	196	166	80
Castilla-La Mancha	157	193	67
Catalonia	227	253	92
Extremadura	135	91	60
Galicia	75	93	40
Madrid	336	304	82
Murcia	67	68	49
Navarre	425	271	102
La Rioja	211	233	145
Valencia	36	36	42
Spain (1)	199	189	92

(1) Including the North African enclaves of Ceuta and Melilla. At 21 June, 2021.

Source: Health Ministry.

The vaccination campaign has speeded up considerably in the last five weeks (see Figure 5). Just over one third of the adult population (34%) has received the full dose (15.5% at 10 May) and 55% at least one (34.4%).

**Figure 5. COVID-19 vaccination by age groups (%) (1)**

	+80	70-79	60-69	50-59	40-49	30-39	20-29	Average
At least one	100	98.2	92.9	85.7	49.6	14.4	11.5	55.1
Full	100	96.2	30.7	54.5	15.2	10.3	8.6	34.3

(1) At 21 June 2021.

Source: Health Ministry.

Spain is the EU country that most agrees that vaccine is the only way to end the pandemic (see Figure 6).

**Figure 6. To what extent do you agree with the following statement?: vaccine is the only way to end the pandemic (%)**

	Totally agree	Tend to agree	Totally disagree
Spain	48	37	4
Sweden	50	33	5
Italy	45	36	6
Portugal	37	44	5
Germany	47	30	8
EU-27	40	35	9
France	32	38	10
Latvia	20	34	20

Source: European Commission.

### Deaths outstrip births for sixth year running

The coronavirus pandemic intensified the demographic trend of deaths outnumbering births. Last year 492,930 people died, 17.7% more than in 2019, compared with 339,206 births (-5.9%).

The difference (153,724) was three-times greater than in 2019 and by far the largest figure since the National Statistics Office (INE) began the series in 1941 two years after the end of the civil war (see Figure 7).

**Figure 7. Births and deaths, 1941-2020**

	1941	1964	2008	2020
Births	511,157	694,625	365,193	339,206
Deaths	487,748	272,962	360,511	492,930

Source: INE.

The fertility rate dropped from 1.24 to 1.18 and average life expectancy from 83.58 years to 82.34.

In a bid to increase the number of children born in the region of Madrid, Isabel Díaz Ayuso, the territory's new Premier, said €14,500 spread over 29 months would be given to pregnant women under the age of 30, provided they earned less than €30,000 a year and could prove they had lived in the region for more than 10 years. The aid would benefit around 14,000 women, a drop in the ocean.

### Roman Catholic Church receives record amount from taxpayers

Taxpayers contributed a record €301 million to Spain's Roman Catholic Church in 2020, 5.6% more, under the system that enables them to donate 0.7% of their income tax to the church, without increasing their total tax bill.

The church is the only one that benefits from the system. Yet there are significant numbers of Muslims (more than two million), with small numbers of Jews and Protestants. The other option in the annual tax declaration is to donate that same percentage to social purposes.

The Church's funding was changed in 2007 by the Socialist government of José Luis Rodríguez Zapatero when the amount that can be contributed was increased from 0.5% to 0.7% in order to compensate for the state ending its annual allowance (see Figure 8).

**Figure 8. Taxpayers' funding of Spain's Roman Catholic Church (€ mn)**

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
253	249	248	247	249	259	250	249	256	268	285	301

Source: Roman Catholic Church.

One in three taxpayers (7.3 million) ticked the 0.7% box when making in 2020 their 2019 tax declaration. The Church also receives voluntary donations.

The Roman Catholic Church's overbearing influence during the dictatorship of General Franco (1939-75), in return for supporting his 'crusade' during the Civil War, has waned since the 1978 Constitution that separated church and state. But it remains considerable in social welfare (via Caritas, a Roman Catholic charity), education (2,433 Church-run but publicly subsidised schools with around a quarter of children and 15 universities with

118,000 students) and management of heritage (in 500 municipalities the only asset of cultural interest belongs to the Church).

## The Economy

### European Commission endorses Spain's COVID recovery plan

Brussels gave the green light to the government's plan to use €69.5 billion of grants from Next Generation European Union (NGEU) to make the economy greener and more digitalised. The first €9 billion will arrive in July.

Spain's economy is one of the worst affected by COVID-19 in the euro zone. GDP shrank 10.8% in 2020, partly because of the collapse of the key tourism and hospitality sectors (26% of GDP, five points higher than the EU average). The government forecasts growth of 6.5% this year, boosted by the plan, but full recovery will not come until 2023.

The plan envisages 110 investment projects including using some of the funds to make electric car batteries in partnership with private investors. Some 40% of the funds will go towards fighting climate change and 28% on digitalising public administrations, industry and digital equipment for education and training.

The release of tranches of the funds is contingent on the government meeting milestones such as progress on reforms, particularly in the labour market, taxes and pensions.<sup>5</sup>

### Spain sets its sights on 2050

Spain's governments have not been noted over the past 45 years for their long-term planning, except when circumstances left them no alternative, particularly after the death of the dictator General Franco in 1975 and the desire, overwhelmingly supported, to prepare for entry into the European Economic Community (in 1986) and be a 'normal' country.

The minority Socialist-led coalition government has sought to rectify this with a plan, prepared by 100 experts, that covers the next 30 years. Whether the ambitious goals are reached is anyone's guess, but at least the plan should serve to focus minds on where Spain lags behind compared with the other major euro zone economies and what it needs to do.

The problems have been endlessly diagnosed: stubbornly high unemployment, low R&D spending, a very high early school-leaving rate, a fast-ageing population exerting pressure on the healthcare and pensions systems, low productivity in an economy disproportionately based on tourism and a tax system that needs overhauling.

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<sup>5</sup> The plan is available at [https://ec.europa.eu/info/system/files/spain-recovery-resilience-factsheet\\_en.pdf](https://ec.europa.eu/info/system/files/spain-recovery-resilience-factsheet_en.pdf) and challenges are set out in my Working Paper [http://www.realinstitutoelcano.org/wps/portal/rielcano\\_en/contenido?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_in/zonas\\_in/wp01-2021-chislett-challenges-and-opportunities-for-spain-in-times-of-covid-19](http://www.realinstitutoelcano.org/wps/portal/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/wp01-2021-chislett-challenges-and-opportunities-for-spain-in-times-of-covid-19).

If past experience is anything to go by, it will be a miracle if the plan's goals are reached. Not only has the pace of reforms slowed down in recent years, and without them the targets for 2050 are a pipedream, but successive governments have been particularly prone to overturning the reforms of their predecessors, particularly in the areas of the labour market, education, pensions, taxes and town planning.

For instance, governments in the last 40 years have approved more than 50 labour-market reforms of one sort or another, apparently a world record, and yet unemployment has never been lower than 7% (and at an average of 18% between 2015 and 2019).

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, and only 12% of the European Commission's country-specific recommendations issued every year under the Semester Framework between 2011 and 2019 were implemented.

Long-term planning requires a degree of political consensus that is woefully lacking in Spain, which has had four general elections since 2015. Pablo Casado, the leader of the centre-right Popular Party (PP), said the plan was an 'insult' to Spaniards' intelligence and what the country needed was 'real and immediate solutions' to today's problems and not 'smoke screens'.

Lastly, totally unpredictable events ('black swans', such as the COVID-19 pandemic) can suddenly change the scenario and make a mockery of long-term forecasts/targets.

Prime Minister Pedro Sánchez is right to recognise that education is the key challenge. This is, however, an endless mantra of his predecessors. Yet the many education reforms (eight packages in 40 years) have not solved the main problems including an early school-leaving rate that is still high at 17% (vs an EU average of 10%), albeit almost half that in 2007, and a grade repetition rate for 15-year-olds of 29%. 'Education in Spain is for a world that does not exist', Andreas Schleicher, the education chief at the Paris-based OECD think tank, told *El País* this month. 'Remembering all of history's names and dates does not help you'.

The sharp reduction in the early school-leaving rate is not due to the efforts of governments but to the bursting of the massive property bubble and the global financial crisis, which caused the unemployment rate to skyrocket to 23% in 2011 and meant students, usually boys, could no longer easily swap the classroom for a job when they were 16. The dropout rate target for 2050 is an ambitious 3% (see Figure 9).

**Figure 9. Targets of the 2050 Plan**

	Now (1)	2030	2040	2050
Unemployment rate (%)	18	12	10	7
Workers on temporary contracts (% of total)	26	23	18	15
Tax revenue (% of GDP)	35	37	40	43
Per capita gap with the EU average (%)	-22	-18	-15	-10
R&D (% of GDP)	1.2	3.0	3.5	4.0
Early school-leaving rate (% of population aged 18-24 with lower secondary education or below that)	17	10	6	3
Grade repeaters of at least one course, 15-year-olds (%)	29	18	10	5
Health spending, excluding long-term care (% of GDP)	5.7	7.0	7.0	7.0
Greenhouse gas emissions (thousand tonnes of CO <sub>2</sub> )	330,640	223,000	126,000	29,000
Environmental tax revenue (% of GDP)	1.8	2.6	4.0	5.0

(1) Latest available or average of 2015-19.

Source: Office of the Prime Minister.

Another challenge, which the government is taking up, is to make the education system based less on rote learning and more on critical thinking. ‘Spaniards are the best at remembering facts and figures but weak in critical thinking, in resolving problems or applying knowledge to new situations’, said Schleicher. The reform would also affect the system of competitive exams for civil service posts (known as *oposiciones*), under which graduates study for them for several years.

The ageing of the population, with an average life expectancy of 83 years, one of the world’s highest and forecast to reach 86 in 2050, is straining a public health system weakened by the impact of the pandemic. The plan aims to boost health spending from 5.7% of GDP to 7%. A particular challenge is the long-term care system for the elderly, much of which is managed in a family environment (57% compared with 24% in France), and will need to be financed more by the state.

By 2050, the government says one third of the population will be over 65, which would mean there would be only 1.7 people of working age (16-64 years) for every person over 65 against 3.4 today. The fertility rate (1.2 children) and the influx of immigrants are not expected to make up for the shortage of working-age people. The fertility rate is forecast to rise slightly to 1.4, still below the replacement level of 1.9, and the number of

immigrants arriving each year is estimated at an average of 191,000, roughly the same as between 1990 and 2019.

The demographic changes, said Sánchez, would reduce the number of students between the ages of 3 and 15 by 800,000, enabling the state to almost double spending per student to €9,640 (Denmark's current level) with hardly any increase in public expenditure.

The statutory retirement age is going to have to be increased. 'The pensions system will have to overcome the treble challenge of assuring its financial sustainability, offering adequate income to retirees, and guaranteeing equal treatment for all generations', the plan states.

All of this will require more public spending unless tax revenue is raised. Spain's tax burden (35% of GDP) is well below the EU average. The plan aims to increase it to 43%.

### UK restrictions dash hopes of international tourism revival

The British government's decision to keep Spain on its 'amber' travel list, meaning that people going there must quarantine for up to 10 days on their return to the UK, dealt a severe blow to the vital summer tourism season whose largest client is Britain (see Figure 10).

**Figure 10. Tourists by main countries of origin, 2019**

	Million
UK	18.07
Germany	11.17
France	11.15
Nordic countries	5.54
Italy	4.54
Netherlands	3.70
Portugal	2.44
Ireland	2.17
Switzerland	1.82

Source: INE.

London will review its decision, taken on 3 June, as of 24 June. Spanish hoteliers were dumbfounded by the decision, pointing out that parts of Spain, such as the Balearic and Canary Islands, have lower COVID-19 cases per 100,000 than the UK, and should be on the 'green' list.

Meanwhile, Spain began to entice foreign visitors by letting in fully-vaccinated people from most of the world as of 7 June, but the impact has been limited so far, and it reopened ports to cruise ships after a year. Just over half of the Costa del Sol's 193 hotels are open, according to the region's AEHCOS hoteliers association. Non-vaccinated travellers from the EU are allowed to enter with the negative results of recent antigen tests, which are cheaper and faster than PCR tests for coronavirus.

Travellers from the UK must:

- Take a COVID-19 test before departure and have proof of a negative result.
- Book a COVID-19 test on days two and eight after returning.
- Complete a passenger locator form.
- Quarantine for 10 days.

'Amber' countries are also not eligible for UK travel insurance.

Arrivals of Britons (3.2 million in 2020) were particularly hard hit in April 2021 by travel restrictions. Their number was 98% lower than the same month of 2019, the last 'normal' year, at 23,000.

The total number of international tourists between January and April plummeted 82.6% year-on-year to 1.84 million and was 91.4% below the same period of 2019.

### OECD urges Spain to prioritise lowering public debt

As soon as the economy is growing solidly again, the government needs to start reducing public debt as a share of GDP, the OECD recommends in its latest country survey of Spain. Debt surged from 95% of GDP to 120% in 2020 and continues to climb (125.3% at the end of March).

The Paris-based think tank estimates debt would only decline to 116% of GDP in 2050 if ageing costs were offset (Spain has one of the world's highest life expectancies and a low fertility rate). If these costs are not offset the debt-to-GDP ratio would rise to 171%. With higher economic growth, debt would fall to 82%.

Interest rates remain at historically low levels, but when they rise fiscal sustainability would be at risk.

Figure 11 below sets out the OECD's main findings and recommendations.



**Figure 11. Main findings and recommendations of OECD report on Spain**

Main findings	Key recommendation
Mitigating the effect of the pandemic while addressing medium-term fiscal challenges	
<p>Fiscal policy responded quickly and effectively to the pandemic crisis. Yet uncertainty about the pace of the recovery remains high, and the impact varies across sectors, firms and workers.</p>	<p>Keep fiscal policy supportive until the recovery is firmly underway, by prolonging support measures while making them more targeted.</p>
<p>Without a credible medium-term fiscal consolidation strategy to put public debt on a sustainable downward path once the recovery is firmly underway, risks to fiscal sustainability could increase.</p>	<p>When the recovery is firmly underway, announce a multi-year path for fiscal consolidation strategy, which includes all levels of government.</p>
<p>Short-time work schemes limited the rise in unemployment, but there might be a need to reallocate some of these workers to other firms and sectors.</p>	<p>Ensure that workers on short-time work schemes, especially those in sectors facing the longest recovery periods, effectively use their priority for training.</p>
<p>Existing regulations for flexibility at the firm level can help firms adapt more easily in the post-pandemic recovery phase.</p>	<p>Maintain a flexible labour market that allows firms to adapt to changing economic conditions, including through the priority of firm level agreements over sectoral and regional ones.</p>
<p>The recent measures to provide direct aid to help viable firms facing distress solely due to COVID-19 are welcome. Speedy restructuring of viable firms in temporary distress could prevent their unwarranted liquidation, but congested courts can delay this process.</p>	<p>Ensure the swift disbursement of the new direct aid measures and increase the allocated funds, if needed. Promote out-of-court restructuring proceedings, especially for small- and medium-sized enterprises.</p>
<p>The ambitious national recovery plan contains investments and reforms in many areas, and frontloads the use of EU funds to aid the near-term recovery. A governance system, including different levels of government, has been put in place, but could face implementation challenges.</p>	<p>Prioritise reforms that enhance long-term growth, while ensuring swift implementation to also support near-term recovery. Ensure efficient coordination and governance of the recovery plan, by ensuring transparent procedures and criteria for investments.</p>
<p>Population ageing will continue to put pressure on the financial sustainability of the pension system. The gap between the average labour market exit age and the statutory retirement age is large.</p>	<p>Take adequate and socially acceptable measures to ensure the long-term financial sustainability of the pension system. Link the statutory retirement age to life expectancy at retirement, disincentive early retirement, for example by increasing the number of years of contribution periods to gain a full pension.</p>

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Promoting an inclusive and sustainable recovery

<p>The efficiency of active labour market programmes in terms of individualised support and training is low.</p>	<p>Introduce the use of profiling tools to identify job-seekers at risk of becoming long-term unemployed and their training needs.</p>
<p>The wide range of justifications for using a temporary contract and the related hiring incentives contribute to a high use of short-term hiring.</p>	<p>Target existing hiring incentives to specific vulnerable groups and link them to training programmes. Simplify the menu of contracts firms can choose from.</p>
<p>The recent rises in minimum wages have not been introduced gradually, which could potentially lower employment for vulnerable groups.</p>	<p>Establish a permanent commission to regularly evaluate the changes to the minimum wage, in line with changing labour market conditions and productivity.</p>
<p>There is room to improve carbon pricing for both road and non-road emissions.</p>	<p>Over the medium term, increase taxation of fuels to better reflect emissions of CO<sub>2</sub>, together with redistribution towards poorer households.</p>

Boosting digital diffusion and higher productivity growth

<p>Digital services by public administration are fairly developed. However, there is scope to deepen them further, such as the provision of e-procurement by regional contracting authorities.</p>	<p>Fully roll out the National Plan for Digitalisation of Public Administration.</p>
<p>Barriers to 'rights of way' (permission to install necessary equipment) are excessive in some regions and municipalities, hampering further development of communication infrastructure.</p>	<p>Continue to reduce excessive regulatory burdens to develop communication infrastructure, while reducing regulatory differences across regions, through the consultation mechanism in place.</p>
<p>Many small businesses lack the capacity to conduct R&amp;D and do not know how to access the newest technologies.</p>	<p>Strengthen technology centres' capacity to effectively conduct R&amp;D through partnerships between firms, especially SMEs, and research institutes.</p>
<p>Training needs are often not well identified and do not reach workers that need it the most, such as low-skilled and older workers.</p>	<p>Shift job training subsidies to individuals at least partially or develop public job training programmes targeted to low-skilled and older workers for specific purposes, such as promoting ICT skills.</p>

Source: OECD.

### Jump in Economic Freedom Index

Spain rose from 58<sup>th</sup> to 39<sup>th</sup> position out of 178 countries (see Figure 12) in the Heritage Foundation's 2021 Economic Freedom Index and was close to returning to 'mostly free' from 'moderately free'.

Its score of 69.9 out of 100 was three points higher than in 2020 and was mainly due to an improvement in government integrity and a lower fiscal deficit. Spain fell from the 'mostly free' (score of 60-69) list of countries nine years ago because of the size and cost of government.

**Figure 12. Economic Freedom Index**

Ranking	Score
1. Singapore	89.7
5. Ireland	81.4
7. UK	78.4
20. US	74.8
29. Germany	72.5
<b>39. Spain</b>	<b>69.9</b>
64. France	65.7
68. Italy	64.9

Source: Heritage Foundation.

The index is based on four categories: rule of law, government size, regulatory efficiency and open markets (see Figure 13). Spain's worst results are in public spending and labour flexibility.

**Figure 13. Economic Freedom Index, categories, Spain and EU average scores**

	Spain	EU-27 average
Rule of law		
Property rights	76.4	77.0
Judicial effectiveness	65.4	64.5
Government integrity	70.3	70.7
Government size		
Tax burden	61.7	67.5
Government spending	48.1	43.5
Fiscal health	69.8	89.1
Regulatory efficiency		
Business freedom	66.3	72.5
Labour freedom	57.9	59.8
Monetary freedom	83.5	80.8
Open markets		
Trade freedom	84.0	84.0
Investment freedom	85.0	79.6
Financial freedom	70.0	67.0

Source: Heritage Foundation.