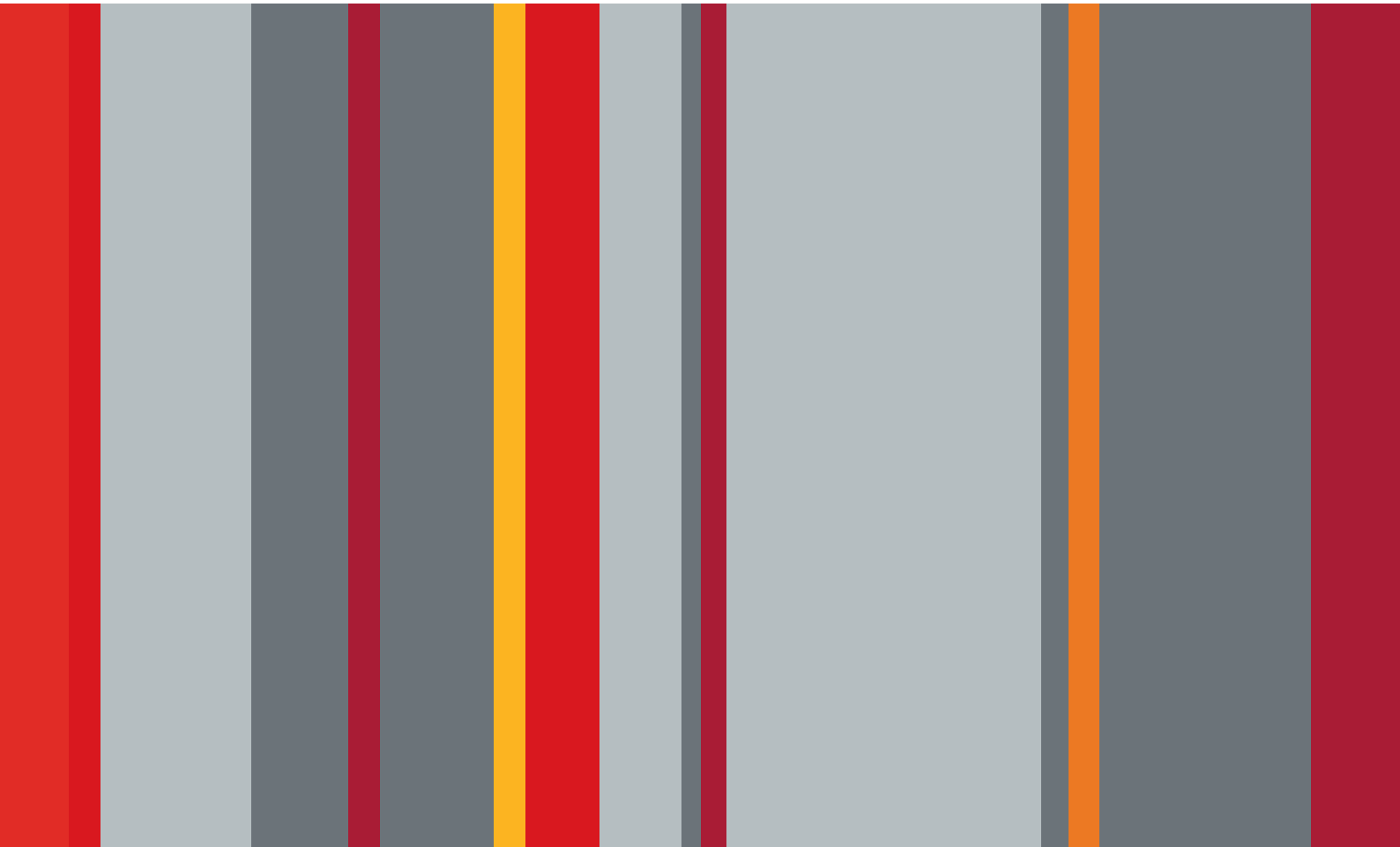


Challenging Times for Spain

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Summary

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Summary¹

Spain has another Socialist-led minority coalition government, 17 weeks after the snap and inconclusive elections on 23 July, and one that continues to rely for parliamentary support on Basque and Catalan separatists and other parties. It took office at a time when public trust in the country's political parties was worryingly low and the quality of the democracy gave cause for concern.

The government faces a host of challenges, most of them not new but with an added urgency. Six years after the illegal and failed Catalan independence referendum, the movement for secession has ebbed significantly, but the two pro-independence parties are far from relenting. Their price for supporting the government was a hugely controversial amnesty for those involved in the referendum. The economy, which plummeted 11.2% in 2020, the steepest fall in the euro zone, has recovered its pre-pandemic level and is rebounding. Unemployment is below 12%, the lowest rate since 2008, but productivity growth is sluggish and the high public debt and structural budget deficit make Spain vulnerable to external shocks. Despite reforms, doubts remain on the sustainability of the pensions system in a country with a fast-ageing population. In education, the early school-leaving rate has come down significantly but at 13.9% is still well above the EU average, while the share of secondary school students who repeat a grade also remains high. Much progress has been made in gender equality, but domestic violence remains a problem. Spain has successfully absorbed more than 7 million immigrants over the past 30 years, without whom the population would have shrunk. Few, if any, however, play a notable role in public life. Muslims still encounter obstacles to the practice of their religion on a range of fronts. The divide between young adults and the elderly is too deep: while pensioners are relatively well looked after, 28% of the workforce under the age of 25 is jobless and they are forced to live with their parents for much longer than most other EU countries. Spain is quite advanced in the use of renewable energy, but is lagging in the rollout of electric vehicles and charging points. The country has been hit hard by climate change, with sweltering temperatures, sometimes followed by torrential rain. A prolonged drought lowered the level of reservoirs with water for drinking and agriculture to 32.2% of their capacity in November, way down on the 10-year average of 44.4%. The impact on the vital tourism industry could be substantial. Lastly, in foreign policy Spain has shown unswerving support for Ukraine and is strongly involved in European Defence Fund projects. Thorny problems remain, however, including agreeing a post-Brexit agreement for the UK overseas territory of Gibraltar, claimed by Spain, and patching up relations with Algeria.

1 The author would like to thank the following for helping with this report: Joaquín Almunia, Rafael Arenas García, José Ignacio Conde-Ruiz, Alain Cuenca, Gonzalo Escribano, Carmen González Enríquez, José Herce, Emilio Lamo de Espinosa, Jim Lawley, Felipe Sahagún and Friedrich Schneider.

1. Political scene: a full but deteriorating democracy

The Socialist-led minority coalition government headed by Pedro Sánchez with the hard-left Sumar as its junior partner won another four-year term in office on 16 November, 2023, 17 weeks after the snap and inconclusive election on 23 July, mainly thanks to the parliamentary support of two Catalan pro-independence parties. The heavy price of the backing of 14 Catalan MPs was a hugely controversial and divisive amnesty for several hundred people charged with or convicted of various crimes, largely related to the illegal and failed referendum on secession in October 2017. Had Sánchez not won backing by 27 November, Spain would have gone to the polls again in January 2024, for the fourth time since 2019.

Sánchez justified the amnesty, which he had previously said was a red line, on the grounds that it was 'in the interest of Spain, in defence of coexistence among Spaniards'. The hope is that the amnesty, which covers all events related to the Catalan independence drive from 2012 to 2023, will provide an 'historic opportunity' to resolve the conflict politically. The Popular Party (PP) called it 'shameful' and 'humiliating'. The PP has a majority in the Senate, the upper house of parliament, and is likely to slow the passage of the amnesty law, but the Senate does not have the final say in approving laws. The last word on whether the amnesty complies with the constitution lies with the Constitutional Court, seven of whose 11 members are 'progressive' as opposed to 'conservative' (colour coded in newspapers) and whose opinion will be sought if, as seems most likely, the PP and the hard-right VOX appeal. The Court has a history of taking years to rule on hot-potato issues.

The Catalan referendum was held when the PP was last in office. Prime Minister Mariano Rajoy sent in thousands of police to prevent Catalans voting in the referendum, sometimes with brute force, and then, backed by the opposition Socialists, triggered article 155 of the 1978 Constitution,² which allowed the national government to take direct and temporary control of the autonomous region, removing its government and calling an election.

Sánchez's stance changed as soon as July's results³ came in and it was clear the support of both Together for Catalonia (JxCat) and Catalan Republican Left (ERC) would be needed in order to get over the line and obtain the support of 176 of the 350 MPs (see Figure 1). Sánchez's previous government was supported by the more pragmatic ERC, the governing party in Catalonia, but not the maximalist JxCat, whose leader, Carles Puigdemont, the Catalan Premier at the time of the referendum, fled into self-imposed exile in Belgium in 2017. This fugitive from justice, who will now be able to return to Spain, was the kingmaker, as he held out longer than the ERC in striking a deal⁴. Sánchez also won the support of three other regional parties that would like independence: the Basque Nationalist Party, EH Bildu, a left-wing party that is heir to the political wing of ETA, a disbanded Basque separatist terrorist group, and the Galician Nationalist Bloc. The support of the Canary Coalition brought the total number of MPs backing Sánchez to 179 (12.6 million votes, 51.1% of the those cast in the general election, compared to the 11.2 million supporting a PP-led government, 45.7%).

2 The constitution was approved by 90.5% of Catalans who voted in the referendum on 6 December 1978, higher than the average for Spain as a whole of 87.9%.

3 See *In search of a government*, *Elcano Royal Institute*, by William Chislett, 19 September, 2023 at <https://www.realinstitutoelcano.org/en/blog/in-search-of-a-government/>

4 The text (in Spanish) is available at <https://elpais.com/espana/2023-11-09/el-documento-del-acuerdo-firmado-por-psoe-y-junts-para-dar-via-libre-a-la-investidura-de-pedro-sanchez.html>.

Figure 1. Results of general elections, July 2023 and November 2019 (seats, millions of votes and % of total votes)

	July 2023			November 2019		
	Seats	Votes	%	Seats	Votes	%
Popular Party	137	8.0	33.1	89	5.0	20.8
Socialists	121	7.7	31.7	120	6.8	28.0
VOX	33	3.0	12.4	52	3.6	15.1
Unidas Podemos	–	–	–	35	3.1	12.9
Sumar	31	3.0	12.3	–	–	–
Catalan Republican Left	7	0.4	1.9	13	0.9	3.6
Ciudadanos	–	–	–	10	1.6	6.8
JxCat	7	0.4	1.6	8	0.5	2.2
EH Bildu	6	0.3	1.4	5	0.3	1.1
Basque Nationalist Party	5	0.3	1.1	6	0.4	1.6
Other parties	3	0.3	1.3	5	0.3	0.9
Voter turnout (%)	70.4			66.2		

Source: Interior Ministry.

Alberto Feijóo, the leader of the PP which won the most seats, was given the first stab at forming a government in September. But this was always doomed to failure, as it was clear he would never muster the votes of 176 MPs, needed in the first vote by absolute majority, or win in the second vote by simple majority if there were abstentions. The PP received 172 votes including 33 lawmakers from the hard-right VOX and two from small parties representing the Canary Islands, which subsequently supported the Socialists, and Navarra.

Politically, as opposed to the strictly legal standpoint as the 1978 constitution does not mention the word and so is open to different interpretations, the amnesty⁵ provoked a heated debate in the media and among the public and jurists on not just its pros and cons but what to do about the ongoing Catalan problem. The conservative-stacked General Council of the Judiciary, the body entrusted with ensuring the judiciary's independence and whose mandate expired in 2018 (new members have not been appointed since then because of political wrangling), said the amnesty would overturn decisions taken by the courts and imperil the rule of law. Jurists were also angered by the government's agreement with JxCat to examine alleged instances of 'lawfare'— the use of legal systems and institutions to

⁵ See *The government's controversial amnesty in order to remain in power*, by William Chislett, Elcano Royal Institute, 26 October, 2023 at <https://www.realinstitutoelcano.org/en/blog/the-governments-controversial-amnesty-in-order-to-remain-in-power/>

damage or delegitimize opponents. European Justice Commissioner Didier Reynders raised ‘serious concerns’ about the deal in a letter to Spain’s Justice and Presidency Ministers. The amnesty was also opposed in mass protests, mainly organized by the enraged right, and by some leading and outspoken Socialist party members, including Felipe González, the Prime Minister between 1982 and 1996. Almost 60% of Spaniards regard the amnesty as unjust, according to a poll by 40dB published in December.

Sánchez made a virtue out of political necessity. A repeat election might not have gone his way and produced a PP government supported by the hard- right VOX (in the July election the Socialists and Sumar won 152 seats and the PP and VOX 170). VOX’s agenda includes the primacy of national law and the need for EU countries to regain sovereignty; defeating what it calls ‘climate religion’; dismantling the autonomous regions system; battling ‘ideological indoctrination’ in classrooms; combating ‘gender ideology’; and expelling illegal migrants.

The proportional voting D’Hondt system (11 parties represented in parliament out of 59 that fielded candidates) and deeper ideological polarisation , to some extent the legacy of Spain’s 1936-39 Civil War, and fragmentation since 2015, with the emergence of new parties, has made Spain a complex country to govern. Spain has had 16 elections since 1977, the first free once since 1936. The first 11 elections produced four governments with an absolute majority, one almost (the Socialists in 1989) and in the rest the most voted party was close to having an absolute majority and could rely on parliamentary support when needed. Since 2015 there have been five elections and governments with a hodgepodge of parties.

The results of July’s general election continued the trend seen in the May 2023 local elections⁶ of a return to the two-party system, facilitated by the collapse in those elections of the would-be centrist Ciudadanos which did not run, though the combined vote of the PP and the Socialists at 64.8% (48.8% in 2019) remained far from the peak of 83.8% in the 2008 election (see Figure 2).

Figure 2. The rise and fall of the Socialists and the Popular Party, 1982-2023 (% of votes cast in general elections)

	1982	1989 (1)	1993	1996	2000	2004	2008	2011	2016	2019 (2)	2023
PSOE	48.1	39.6	38.8	37.6	34.2	42.6	43.9	28.8	22.6	28.0	31.7
PP	26.4	25.8	34.8	38.8	44.5	37.7	39.9	44.6	33.0	20.8	33.1
Total	74.5	65.4	73.6	76.4	78.7	80.3	83.8	73.4	55.6	48.8	64.8

(1) In the 1982 and 1986 elections, the right ran as the Popular Alliance and as of 1989 as the Popular Party.

(2) November 2019 election.

Source: Interior Ministry.

⁶ See *What May’s local and regional elections tell us about politics in Spain ahead of July’s snap general election* by William Chislett, Elcano Royal Institute, 20 June, 2023 at <https://www.realinstitutoelcano.org/en/blog/what-mays-local-and-regional-elections-tell-us-about-politics-in-spain/>

Support for a German-style Grand Coalition between the Socialists and the PP was backed by 45% of respondents in a BBVA Foundation survey published before the election, but there is a seemingly unbridgeable gulf between the right and left blocs (see Figure 3).⁷ Such a government would have prevented, on the one hand, concessions to the separatists and, on the other, kept VOX directly or indirectly out of government (and hence stopped Spain joining those EU countries where the populist hard-right has been getting into power).

Figure 3. Electoral programmes of main political parties

	Socialists	Sumar	Popular Party	VOX
Labour market	Minimum wage, legally set at 60% of average wage. Shock plan to reduce youth unemployment	37.5 hour working week. Reform severance payments	More flexible working hours. Austrian style 'backpack' for workers	Repeal the 2022 reform. Reduce social security payments of companies
Taxes	Make more progressive	Same, but more so	Reduce	Cut massively
Education	Free for those under three	Same	A single national exam to gain admittance to a university	Vouchers for private schools. Right of parents to veto any sexual or ideological content of the curriculum
Foreign policy	Deepen relations with Morocco. Complete the post Brexit deal with Gibraltar	Return to previous position on the Western Sahara	More balanced relationship with Morocco and Algeria	End agricultural agreement with Morocco. No deal with Gibraltar unless it accepts Spanish sovereignty
Environment	Free public transport for under 24s. Identify areas for wind and solar power	Cut greenhouse gases by 55% by 2030. Eliminate flights to places that can be reached in less than four hours by train	Tax on promoters of renewable energy parks to be used to clear the backlog of permits. More flexible European Green Deal calendar	Pull out of the Paris agreement and repeal Spain's climate change law. Extend life of nuclear plants. Foster mining of minerals

⁷ The Hispanist J.B. Trend (1887-1958), the first professor of Spanish at Cambridge, noted in his book *The Civilisation of Spain* published in 1944: 'People of Spanish origin have always regarded their politics as a moral question, and one on which there is no possibility of concession'.

	Socialists	Sumar	Popular Party	VOX
Historical Memory Law	Complete exhumations from 'Valley of the Fallen' (now renamed <i>Valle de Cuelgamuros</i>) and turn it into a place of memory. Complete the census of civil war and Franco dictatorship victims	Reform the Official Secrets Law. Approve a law that facilitates the search for 'stolen babies'	Repeal the law	Repeal all legislation on 'historical memory'

The new government took office at a time when public trust in government was low (see Figure 4). This gathered force after Spain's Great Recession as of 2008 and the anti-austerity movement that started with the massive sit-in at Madrid's Puerta del Sol in May 2011 and was later funnelled into the creation of the hard-left party Podemos (now part of Sumar). In contrast, confidence in non-political institutions such as the police, the army and doctors is high.

Figure 4. Public trust in government, total, percentage, 2022 or latest available

	%
Switzerland	83.8
Finland	77.5
Germany	60.8
Portugal	58.9
Netherlands	47.2
France	43.4
UK	39.5
Spain	37.2
Italy	35.4
Slovakia	21.6

Source: OECD, *How's Life? Well-Being*.

At the same time, the political discourse, particularly in parliament, has become very polarised and verbally aggressive. Most political leaders treat their rivals not as adversaries but as enemies of the nation. 'Why do you hate each other so much?' asked Cristina Valido, the MP representing the Canarian Coalition, during the heated vote in parliament at the end of September at which Feijóo failed to be elected Prime Minister.

With the notable exception of Catalonia (see separate section), Spanish society is not radicalised to anywhere near the same extent as the political class over a whole range of issues.⁸ In the past 20 years the average ideological self-placement of voters has moved between a minimum of 4.5 and a maximum of 5, where 5 is the centre (0 is extreme left and 10 extreme right), according to the state-funded CIS. Spaniards, as opposed to their politicians, have become one of the most moderate and tolerant people in Europe of those who think or behave differently.

The low trust stems from a decline in the quality of Spain's democracy, resulting from dissatisfaction with the way it functions (and does not function). Problems include the colonisation of state institutions and companies; the overuse of decree laws, supposed to be reserved for exceptional circumstances, which obviate the need for parliamentary debate;⁹ corruption that is perceived to be relatively high; political pressure on the judiciary; *capitalismo de amiguetes* ('crony capitalism'); the low quality of debate in parliament and the media and the closed party list electoral system. According to Eurobarometer (2023), only 7% of Spaniards say they trust political parties (as against an EU average of 27%) and only 47% local and regional public authorities (EU, 56%).

That said, Spain has maintained its position in the EIU's Democracy Index (started in 2006) as a 'full democracy' (those countries with a score of 8.01 to 10), apart from 2021 when it was downgraded to a 'flawed democracy' because of a lower score for judicial independence as a result of 'political divisions over the appointment of new magistrates to the General Council of the Judiciary (CGPJ)'. The judiciary problem remains but thanks to an improvement in other indicators Spain scraped back into the top category in 2022 and was ranked 22nd equal with France out of 24 full democracies, with a score of 8.07 (see Figures 5 and 6).

⁸ See the study by Amuitz Garmendia & Sandra León (2022), *Polarización y convivencia en España 2021*, March, https://www.icip.cat/wp-content/uploads/2022/04/AAFF_Paper_EcPol_ICIP_ESP.pdf.

⁹ In just five years, the two Socialist-led governments of Pedro Sánchez, between June 2018 (when Sánchez became Prime Minister after winning a vote of no confidence in the PP government of Mariano Rajoy) and July 2023, issued 138 decree laws compared with 129 during the 14 years of the Socialist government of Felipe González (1982-96), the 130 of the PP government of José María Aznar (1996-2004), the 108 of the Socialist government of José Luis Rodríguez Zapatero (2004-11) and the 127 of the PP government of Mariano Rajoy (2011-18).

Figure 5. The Economist Intelligence Unit's Democracy Index, 2022 (1)

	Rank (2)	Overall score	Electoral process & pluralism	Functioning of government	Political participation	Political culture	Civil liberties
Full democracies							
Norway	1	9.81	10.00	9.64	10.00	10.00	9.41
New Zealand	2	9.61	10.00	9.24	10.00	8.75	10.00
Iceland	3	9.52	10.00	9.64	8.89	9.38	9.71
Sweden	4	9.39	9.58	9.64	8.33	10.00	9.41
Finland	5	9.29	10.00	9.64	8.33	8.75	9.71
Denmark	6	9.28	10.00	9.29	8.33	9.38	9.41
Switzerland	7	9.14	9.58	9.29	8.33	9.38	9.12
Ireland	8	9.13	10.00	8.21	8.33	10.00	9.12
Netherlands	9	9.00	9.58	8.93	8.33	8.75	9.41
Taiwan	10	8.99	10.00	9.64	7.78	8.13	9.41
Uruguay	11	8.91	10.00	8.93	7.78	8.13	9.71
Canada	12	8.88	10.00	8.57	8.89	8.13	8.82
Luxembourg	13	8.81	10.00	8.93	6.67	8.75	9.71
Germany	14	8.80	9.58	8.57	8.33	8.13	9.41
Australia	15	8.71	10.00	8.57	7.78	7.50	9.71
Japan	16	8.33	9.17	8.57	6.67	8.13	9.12
Costa Rica	17	8.29	9.58	7.50	7.78	6.88	9.71
UK	18	8.28	9.58	7.50	8.33	6.88	9.12
Chile	19	8.22	9.58	8.21	6.67	7.50	9.12
Austria	20	8.20	9.58	7.14	8.89	6.88	8.53
Mauritius	21	8.14	9.17	7.86	6.11	8.75	8.82
France	22=	8.07	9.58	7.86	7.78	6.88	8.24
Spain	22=	8.07	9.58	7.50	7.22	7.50	8.53
South Korea	24	8.03	9.58	8.57	7.22	6.25	8.53

(1) Overall score out of 10.

(2) Out of 167 countries and two territories.

Source: The Economist Intelligence Unit.

Figure 6. EIU's democracy index, 2006-22

	2006	2008	2010	2012	2014	2016	2018	2019	2020	2022
France	8.07	8.07	7.77	7.88	8.04	7.92	7.80	8.12	7.99	8.07
Germany	8.82	8.82	8.38	8.34	8.64	8.63	8.68	8.68	8.67	8.80
Italy	7.73	7.98	7.83	7.74	7.85	7.98	7.71	7.52	7.74	7.69
Spain	8.34	8.45	8.16	8.02	8.05	8.30	8.08	8.18	8.12	8.07
UK	8.08	8.15	8.16	8.21	8.31	8.36	8.53	8.52	8.54	8.28
US	8.22	8.22	8.18	8.11	8.11	7.98	7.96	8.24	7.92	7.85

Note: based on five categories: (1) electoral process and pluralism; (2) functioning of government; (3) political participation; (4) political culture; and (5) civil liberties. Based on their scores on a range of indicators within these categories, each country is then classified as one of four types of regime: full democracy, flawed democracy, hybrid regime or authoritarian regime.

Source: The Economist Intelligence Unit.

Corruption has worsened over the years: Spain's score in Transparency International's Corruption Perceptions Index dropped from 70 in 2000 to 60 in 2022 (the closer to 100 the cleaner the country, see Figure 7).

Figure 7. Corruption Perceptions Index, 2022 and 2019

Rank in 2022 out of 180 countries	Score out of 100	Rank in 2019	Score out of 100
1. Denmark	90	1.	87
9. Germany	79	9.	80
18. UK	73	12.	77
21. France	72	23.	69
24. US	69	23.	69
35. Spain	60	30.	62
41. Italy	56	51.	53

Source: Transparency International.

In the view of nine academics, who collectively published a book called *España: democracia menguante* ('Spain: Diminishing Democracy'), Spain, particularly during the previous government, has moved from 'a parliamentary monarchy with a division of powers to a kind of presidentialist parliamentarism'. They also perceive what they call a *desbordamiento constitucional* ('constitutional overflow') in some areas, such as over Catalonia (see the next section). This occurs when one of the branches of government exercises its authority or makes decisions that go beyond or border the limits established by the constitution.

Another factor behind the deterioration in the quality of Spain's democracy is 'partitocracy', a form of government in which the elites of political parties are the primary basis of rule rather than citizens or individual politicians. This is most evident in the closed party list system to elect MPs, under which candidates are elected in the order they appear on the list (as decided by the party's leadership) until all the seats are filled. Closed, as opposed to open, party lists give excessive power to a party's apparatus at the expense of accountability, stifle independent and minority opinion within the party's ranks and hence a healthier debate and tend to make MPs sycophantic to the leadership. As Alfonso Guerra, a former Socialist Deputy Prime Minister (1982-91) who kept an iron grip on the party, said: 'Move and you're out of the photograph'.¹⁰ Closed lists might have been good for the elections in 1977, two years after the death of the dictator Francisco Franco, when strong and disciplined parties were needed to help anchor democracy, but not today.

The electoral system could also do with tweaking in order to reduce the disproportionate number of seats won in the Congress by substate nationalist parties that only run candidates in specific constituencies and not nationwide, although these parties win 50% or more of the votes in Catalonia and the Basque Country. This can give them too much influence on the forming of national governments through horse-trading, usually the transfer of powers, even though they win fewer votes than third or fourth nationwide parties that challenge the two main parties. Nationalist and regionalist parties were kingmakers in seven investiture votes between 1989 and 2020, either voting in favour or abstaining, in order to produce a government with a sufficient majority.¹¹ The 3%-of-votes threshold to be represented in Congress could be raised to 5%, the same as in Germany, in order to reduce the influence of substate nationalist parties.

The Senate, where the PP has an absolute majority, needs to be reformed in order to properly fulfil its role, defined in the 1978 Constitution, the eighth in Spain's history, as '... a chamber of territorial representation', along the lines of Germany's Bundesrat. It comprises 265 members, 57 of whom are appointed by regional parliaments and the rest by popular vote. It has limited legislative powers: Congress can override Senate vetoes by an absolute majority of votes, but it does have a role in constitutional amendment. It is essentially a rubber-stamp chamber which has become an 'elephants' graveyard' where the two main parties park second-tier politicians.

This reform should go hand in hand with a more clearly defined division of powers between the centre and the 17 regions in order to create formal federalism. The open-ended constitutional framework of Spain's asymmetric and quasi federal system has put an extra load on the Constitutional Court, often called on to settle disputes in the tug of war between the centre and the periphery over powers and, as a result, contributing to the judicialisation

10 This phrase was originally coined by the veteran Mexican labour leader Fidel Velázquez (1900-97).

11 Excluding the no-confidence motion of Pedro Sánchez in 2018 against the Popular Party government of Mariano Rajoy. The seven were: in 1989, the Socialist Felipe González received the 'yes' votes of Agrupaciones Independientes de Canarias (AIC); in 1993, Felipe González, those of the Catalan CiU and the Basque PNV; in 1996, the Popular Party's José María Aznar got the support of CiU, PNV and Coalición Canaria (CC); in 2004, the Catalan ERC, the Galician BNG, CC and Chunta Aragonesista (CHA) voted in favour of the Socialist José Luis Rodríguez Zapatero; in 2008, CiU, PNV, BNG and the Navarrese Nafarroa Bai abstained in favour of Rodríguez Zapatero; in 2016, the Popular Party's Mariano Rajoy obtained the 'yes' votes of Unión del Pueblo Navarro (UPN), CC and Foro Asturias; and, in 2020, the Socialist Pedro Sánchez obtained the support of PNV, Compromís, Nueva Canarias, BNG and Teruel Existe, with the abstention of ERC and the Basque EH Bildu.

of politics and the politicisation of the judiciary. Changes to the 1978 Constitution require a two-thirds parliamentary majority, almost impossible to achieve as it means combining the votes of the PP and the Socialists. There have only been two amendments in the last 45 years, both to please the EU. In comparison, France's Fifth Republic has amended its 1958 constitution 24 times, and Germany's Basic Law has had 62 changes since 1949.

Since the 1980s, Spain has undergone a deep process of political and fiscal decentralisation, with education and health devolved to the 17 autonomous communities.¹² Yet almost 20% of votes cast in July were from parties not happy with the architecture of the regional system: those supporting the hard-right VOX want to re-centralise, while Catalan, Basque and Galician parties want independence.

Spain has been unable to forge a national identity sufficiently wide to embrace its plurality since the beginning of the 19th century. Notably, Catalan separatists have been much better at creating and controlling their discourse through disseminating their version of the history and culture of Catalonia, shaping an identity and raising consciousness, than the Spanish state has been in promoting a national history. It is striking there is a Museum of the History of Catalonia, opened in Barcelona in 1996, but nothing comparable in Madrid for the history of Spain.

The financing system for the regions, a divisive issue that risks opening up a Pandora's Box of competing demands, needs updating. The last reform in 2009, and not reviewed in 2014, as was supposed to have happened, raised the share of taxes that regions can keep for themselves; for example, that of personal income tax was increased from 33% to 50%. This did not apply to the Basque Country and Navarra as under their special statutes they collect all the taxes in their territory and transfer a negotiated fee for the services that the central government provides.

As well as the amnesty, in return for enabling the previous Socialist government to stay in power, the two Catalan separatist parties won a cancellation of €15 billion of the region's debt of €84.3 billion, around one-third of the total regional debt originated by the 2008 crisis to be wiped out. The Catalan government, the most heavily indebted in absolute terms (€10,982 per capita, double that of the Madrid region) has not been able to finance itself in the markets since 2009.

Since the 2009 reform, factors have appeared that have become more pressing, such as some regions having a disproportionately larger share of the elderly or children of school age or immigrants than other regions, as well as other issues like the unequal financing per head of adjusted population and the widening gap between the best and worst financed regions. The best financed regions, such as Cantabria, want to maintain their position and are loath to cede to the poorest like Valencia and Murcia, which complain they are unfairly underfunded (see Figure 8). Little has changed in regional sentiment since the English writer

¹² According to *Assessing Regional Authority* (Oxford University Press, 2010), Spain is the world's most decentralised state after Germany. The 1978 Constitution distinguishes between 'nationalities' (the Basque Country, Catalonia and Galicia) and regions (the 14 other autonomous communities).

Richard Ford noted in his *Handbook for Travellers in Spain*, first published in 1845, that Spain was a ‘bundle of local units tied together by a rope of sand’.

Figure 8. Regional financing per adjusted inhabitant (1), 2021 and 2011 (€ per person)

	2021	2011	% change 2021/2011
Cantabria	3,417	2,615	30.7
Balearic Islands	3,397	2,260	50.3
La Rioja	3,340	2,634	26.8
Extremadura	3,286	2,411	36.3
Canary Islands	3,174	2,100	51.1
Castile & León	3,150	2,397	31.4
Asturias	3,053	2,358	29.5
Madrid	3,024	2,201	37.4
Catalonia	3,015	2,187	37.9
Aragón	3,011	2,363	27.4
Galicia	3,002	2,325	29.1
Average	2,963	2,195	35.0
Castile La Mancha	2,814	2,158	30.4
Andalusia	2,793	2,105	32.7
Valencia	2,730	2,030	34.5
Murcia	2,691	2,079	29.4
Gap between best and worst	726	604	

(1) Population weighted by a region’s needs using criteria such as elderly population and dispersion.

Source: Fedea.

Top of the new government’s agenda for the justice system will be sorting out the lamentable spectacle of the two main parties wrangling in public over renewing the 20 members (12 judges and eight other experts) of the General Council for the Judiciary (CGPJ), the body entrusted with ensuring the judiciary’s independence, by exercising key functions, such as appointments, including some judges to the Constitutional Court and the Supreme Court, promotions and inspection of the functioning of courts. The Council has been operating *ad interim* since December 2018 when it was due to be renewed as required by the 1978 Constitution. By September 2023, 84 vacancies in the various courts had not been filled because it was illegal to do so until a new CGPJ was formed.

Congress and the Senate each elect 10 members of the Council by a qualified majority of three-fifths, seemingly impossible to achieve in the polarised climate. The PP wanted reform while the then governing Socialists said this could only be done after the new appointments were made under the system in force. The European Commission’s 2023 report on the rule of law raised ‘serious concerns’ over the deadlock and on other issues such as ‘the incompatibilities regime for judges with other professions such as political appointments’.¹³

The deadlock is one factor behind the decline in the perceived lack of independence of courts and judges. This is exacerbated by articles in the media coding in graphics members of the CGPJ, the Constitutional Court and the Supreme Court in blue or red as if they were MPs. Fifty-six percent of Spaniards view the independence of courts and judges as ‘fairly or very bad’ compared with an EU average of 36% (see Figure 9), and of those rating the independence as bad 71% said it was due to interference from government and politicians as against an EU average of 54% (see Figure 10). This is a worrying condemnation of the justice system.

Figure 9. Perceived independence of courts and judges among the general public, 2023 (%)

	France	Germany	Italy	Spain	EU-27
Very good	5	25	2	3	11
Fairly good	48	52	37	31	42
Fairly bad	23	10	33	38	24
Very bad	9	5	16	18	12

Source: Flash Eurobarometer 59.

Figure 10. Interference or pressure from government and politicians, 2023 (%) (1)

	France	Germany	Italy	Spain	EU-27
Very much	48	45	35	71	54
Somewhat	25	22	33	13	23
Not really	13	15	19	6	11
Not at all	11	9	7	8	9

(1) Base: those rating the independence of their national justice system as bad.

Source: Flash Eurobarometer 59.

¹³ Available at https://commission.europa.eu/system/files/2023-07/23_1_52576_coun_chap_spain_en.pdf.

The CGPJ President resigned in October 2022, arguing that the failure to renew was eroding the rule of law and deteriorating the situation of the Supreme Court. More than 30% of the judicial positions of the Supreme Court required by law were vacant, and there were long delays in preparing mandatory reports on draft legislation. The snail's pace at which the justice system works, even when the CGPJ is properly functioning, is now even slower. The ERE corruption case in Andalucía, for example, involving top Socialist officials took 11 years to reach its conclusion in the Supreme Court.

A proposal tabled at the end of 2022 by a parliamentary group to reform the CGPJ's system of appointments, which would have its judges-members directly elected by their peers, did not garner enough support. This was the system until it was changed in 1985 by the Socialist government of Felipe González after it won a landslide victory in the 1982 election, and upheld by the Constitutional Court. A large part of the judiciary at that time was tainted by Francoism. This is not the case now. The Council of Europe recommends that at least half of the CGPJ members, in line with general EU practice, should be judges elected by their peers from all levels of the judiciary.

Virtually no progress, too, has been made on replacing the archaic Law on Official Secrets of 1968, drawn up in the last years of the Franco dictatorship, with one more appropriate for a democracy. The initial draft presented in August 2022 drew criticism from a wide segment of society including public bodies, such as the Council of Transparency and Good Governance and journalists, and went back to the drawing board. This resistance of successive governments to more openness is indicative of the general lack of transparency. There is, for example, nothing remotely resembling the British system of televised grilling of ministers and senior civil servants by parliamentary committees, or public hearings at the US House of Representatives and the Senate.

The Council, created under the 2013 Transparency Law which gives citizens the right to request information from public bodies, is taking on average around seven months to respond to complaints regarding the lack of response from administrations to requests for information, more than double the time established in the law. In its 2020 annual report, the Council complained of the silence of administrative bodies in answering requests, which is 'a serious drag on the deployment of transparency and the full exercise of the right to access information'.

As well as colonising institutions, the two main parties, when in power, indulge in cronyism to an excessive degree, appointing friends, political allies and people to whom favours are owed to posts in an array of state-owned companies, ranging from *Correos* (the postal service) and *Renfe* (railway company) to *Paradores* (chain of hotels) and *Efe* (news agency), rather than much better qualified people. Political affiliation also plays too much of a role in staffing the civil service, particularly among the legion of central government advisors (1,037 in 2021, according to the General State Comptroller) and in regional administrations. Spain is the only OECD country along with Turkey where all or a high proportion of positions change systematically in the top two echelons of senior civil servants (D1 and D2 levels) after the election of a new government.

The 2023 *Dedómetro* by the Hay Derecho Foundation, a rule-of-law organisation, examined 43 public sector entities with a combined budget of €184 million in two of the 17 autonomous regions, Madrid, run by the PP, and Valencia, governed by the Socialists. It found, mainly on the basis of the public information available, that nine out of 10 of them failed to comply with at least one of their legal requirements on transparency, 77% of those in Madrid did not publish the CVs of senior executives, or did so partially, and 47% in Valencia did not release salary details.¹⁴ There was also a very high turnover of appointments mainly linked to changes in government. Some entities over a 10-year period have had up to seven different heads, and of the 101 CVs scrutinised, Hay Derecho gave 60 of them a score of less than 5 out of 10, meaning they were not suitable for the post.

¹⁴ Available at <https://www.hayderecho.com/dedometro-2023/>.

2. Catalonia: waning support for independence

Six years after the illegal and failed Catalan independence referendum, the movement for secession (known as the *procés*) has ebbed significantly. Yet without the parliamentary support of the two pro-independence parties, Republican Left of Catalonia (ERC) and Together for Catalonia (JxCat), in return for a controversial amnesty law benefiting several hundred people prosecuted or charged over the referendum, the Socialist-led minority coalition government would not have been returned to office following July's inconclusive election.

Support for an independent Catalonia as one of four options is at 31%, down from 41% in October 2015, according to the Catalan government's *Centre d'Estudis d'Opinió* (see Figure 11). The preference for independence only enjoys majority support among those aged 25 to 64 and whose first language is Catalan. Turnout at this year's National Day of Catalonia on 11 September, known as *La Diada*, was relatively low compared with past ones. Other issues such as the impact of the pandemic, higher mortgages, the lack of affordable housing and unemployment have become more immediate and pressing concerns among Catalans.

Figure 11. Preferences for the relation between Catalonia and Spain, 2015-2023 (% of respondents)

	Oct 2015	Jun 2016	Oct 2017	Oct 2018	Mar 2019	Feb 2020	Jun 2022	Mar 2023	June 2023	Oct 2023
A region within Spain	4	4	5	6	6	7	8	6	7	6
A state within federal Spain	22	21	22	22	21	24	21	23	23	24
An autonomous region	24	26	27	24	26	27	30	32	31	31
An independent state	41	42	40	39	40	35	34	33	33	31

Source: Centre d'Estudis d'Opinió.

ERC and JxCat won between them seven fewer deputies in the national parliament in the July 2023 general election than in November 2019 (see Figure 12). The Catalan Socialists sent to Madrid 19 MPs, seven more. They obtained 1.2 million votes, their best result in 15 years, 418,000 more than in 2019 and 260,000 more than the combined pro-independence vote including the anti-capitalist CUP, which lost its two seats in the national parliament. The PP, which was close to disappearing in Catalonia, also did much better, with six as opposed to two MPs previously. Its share of the vote was the same as ERC's. The slice of the votes

cast in Catalonia in the general election, which were won by Catalan parties in favour of the region's independence (including the anti-capitalist CUP), dropped from 42.5% in 2019 to 27.2%. As a proportion of the total votes cast throughout Spain, these parties captured 3.8% of the 24.9 million votes cast.

Figure 12. Results of general elections, November 2019 and July 2023 in Catalonia (seats in Congress, millions of votes and % of votes cast in Catalonia)

	July 2023			November 2019		
	Seats	Votes	%	Seats	Votes	%
Socialists	19	1.20	34.5	12	0.79	20.5
Sumar (1)	7	0.49	14.0	7	0.54	14.3
Catalan Republican Left	7	0.46	13.2	13	0.87	22.5
Together for Catalonia	7	0.39	11.2	8	0.53	13.6
Popular Party	6	0.46	13.3	2	0.28	7.4
VOX	2	0.27	7.8	2	0.24	6.3
CUP	–	0.09	2.8	2	0.24	6.4

(1) The parties that joined Sumar in 2023 ran in 2019 as En Comú Podem.

Source: Interior Ministry.

The previous government, which relied on the more pragmatic ERC for parliamentary support, but not that of the maximalist JxCat, took some heat out of the crisis by individually pardoning in 2021 nine imprisoned separatists found guilty of sedition, for which they were sentenced for up to 13 years, while keeping the ban on them holding public office for a certain period of time.¹⁵ The amnesty in November 2023 cancelled out these bans.

Sánchez justified the controversial pardon move, opposed by the Supreme Court in a non-binding decision, on the grounds that it opened 'a new era of dialogue and reconciliation'. His government scrapped the sedition law, on the books since 1822, for one of 'aggravated public disorder' and also lowered the penalty for misuse of public funds (which the Catalan government used to hold the 2017 referendum) to between one and four years in prison from up to six years if personal enrichment is not established as a motive. That also benefited some of the jailed independence leaders.

The hope is that the amnesty will further reduce tensions after years of conflict unless the separatists reactivate their unilateral route to succession (see Figure 13). JxCat, an unreliable partner, proposed in its agreement with the Socialists a referendum under Article 92 of

¹⁵ Sánchez granted a total of 50 pardons. The Socialist government of Felipe Gonzalez (1982-96) granted 5,944 and the Popular Party government of José María Aznar (1996-2004) 5,948.

the Constitution, which would apparently require it to be negotiated and held throughout Spain and not just in Catalonia.¹⁶

Figure 13. Chronology of main events since the illegal referendum on Catalan independence in 2017

Date	Events
2017 September	Catalan Parliament fast-tracks a referendum law and the regional government formally calls a referendum on secession from Spain. Catalan government officials arrested over the unconstitutional referendum
2017 October	Catalan officials said that almost 2.3 million people voted in the referendum (40% of voters eligible for the plebiscite), with 2 million voting 'Yes', a similar turnout to the informal consultation in 2014. Premier Carles Puigdemont declares independence and the central government imposes direct rule under Article 155 of the Constitution. Puigdemont flees Spain to Belgium to avoid arrest on charges of rebellion and misappropriation of public funds
2017 December	Pro-independence parties win a slim majority in the Catalan election, called by the Spanish government. The anti-independence Ciudadanos is the largest single party in the regional parliament
2018 March	Carles Puigdemont is detained in Germany as he crossed from Denmark en route to Belgium under a European arrest warrant. A German court rejects in April the request to extradite him on the charge of rebellion because such an offense in Germany would have to include 'violence', which the court says 'is not the case here'. But he can be returned to Spain on the lesser charge of misuse of public funds
2018 May	Pro-independence parties change the law to enable fugitive Carles Puigdemont to be re-elected Premier, but it is struck down by the courts. The ultra-nationalist Quim Torra is elected new Catalan Premier thanks to the abstention of MPs from the anti-capitalist and pro-independence CUP
2018 June	Madrid ends direct rule after the new Catalan government is sworn in
2019 February	Twelve Catalan independence leaders go on trial, nine of whom have been in prison for up to 15 months and face charges of rebellion which carries a sentence of up to 25 years in jail
2019 May	Former Catalan Premier Carles Puigdemont, in self-imposed exile in Belgium since 2017, is elected a member of the European Parliament
2019 October	The Supreme Court finds all 12 guilty and sends nine to prison. Oriol Junqueras, the former Deputy Premier of Catalonia and leader of Catalan Republican Left (ERC), receives 13 years for sedition. All are acquitted of the most serious charge of rebellion

16 Article 92 reads: '1. Political decisions of special importance may be submitted to all citizens in a consultative referendum. 2.The referendum shall be called by the King at the proposal of the President of the Government, following authorisation by the Congress of Deputies. 3. An organic law shall regulate the terms and procedures for the different kinds of referendum provided for in this Constitution'.

Date	Events
2019 December	The High Court of Catalonia bars Quim Torra, the Catalan Premier, from holding any elected office for disobeying the Central Electoral Commission
2021 February	Pro-independence ERC and Together for Catalonia (JxCat) are returned to power in the region's election, in which the Socialists win the most votes. The new coalition government is led by ERC (previous one by JxCat).
2021 March	The European Parliament votes to lift the immunity of former Catalan Premier Carles Puigdemont who has been in self-imposed exile in Belgium since 2017
2021 June	The central government pardons the nine imprisoned Catalan independence leaders and maintains the ban on them holding public office for a certain period of time
2021 July	The European Court of Justice says there was no reason why Puigdemont could not face extradition and trial in Spain. Puigdemont went to the Court to have the lifting of his immunity suspended
2021 September	The central and Catalan governments begin talks on how to resolve the standoff. Carles Puigdemont is detained by Italian police when visiting the island of Sardinia and released, pending a court decision on whether he can be extradited to Spain
2021 December	ERC wins one more seat than JxCat in the region's election and leads a coalition government under Pere Aragonès. The Socialists remain the most voted party
2022 April	The Central government denies illegally spying on 60 people linked to the Catalan independence movement, as reported by Canada's Citizen Lab group, but sacked the country's spy chief, Paz Esteban, in order to placate its parliamentary allies
2022 July	Third round of talks between central and Catalan governments, with agreements on fomenting the wider use of the Catalan language, reform the crime of sedition when there is a majority in favour in the national parliament, and a commitment by the Catalan government not to pursue a unilateral path. In a non-binding opinion, the EU Advocate General backs Spain's attempts to extradite Lluís Puig, a former Catalan Minister, from Belgium
2022 August	The UN Human Rights Committee found that Spain violated the political rights of former Catalan Government and Parliament members by suspending them from public duties prior to a conviction following the independence referendum in 2017
2022 September	Catalan Premier Pere Aragonès sacks his Deputy, Jordi Puigneró, after JxCat threatens to call a vote of no confidence against him
2022 October	JxCat members vote to withdraw from the region's coalition government
2022 December	The crime of sedition, on the books since 1822, is scrapped for one of public disorder and sentences for that of misuse of public funds are reduced where no personal profit of the accused is detected

Date	Events
2023 May	The PP and the radical left En Comú of outgoing mayor of Barcelona, Ada Colau, support the Socialist candidate to run the city after local elections, snatching control from the pro-independence parties that between them won the most votes
July 2023	The EU's General Court upholds the European Parliament's decision to waive Puigdemont's immunity. He appeals the ruling. The two pro-independence parties, ERC and JxCat, win between them in the general election 14 seats in the national parliament, seven fewer than in 2019. The two parties support the Socialist candidate for Parliamentary Speaker in the national parliament, in return for the relevant MPs being allowed to speak in Catalan, Basque and Galician
November 2023	An amnesty covering 2012-2023, agreed between the Socialists and JxCat for those charged with or convicted of crimes related to secession, enables the Socialists to stay in power for another four-year term

Source: the author.

In another contentious issue, the government has yet to respond to the Catalan government's refusal to implement the 2022 ruling of the High Court of Justice of Catalonia (TSJC) requiring 25% of classes to be taught in Spanish, and not just in Catalan.

Since the referendum, Catalonia has lost its status to Madrid as Spain's leading economic powerhouse. According to the College of Registrars, 8,753 companies have left Catalonia since 2017 and 3,811 arrived. Among those who moved their registered headquarters to other regions, fearing the secession drive would leave Catalonia outside the EU and its protections, were some of the largest banks and companies: Caixabank, Banco Sabadell, Naturgy (energy), Catalana Occidente (insurance), Abertis (infrastructure), Gas Natural and Cellnex (telecoms). The move means some taxes are paid in the regions to where the companies have moved. None have yet gone back. Whether they do will signal a return to some kind of normality in Catalonia.

3. Economy: improved but underlying problems

Spain's GDP, which plummeted 11.2% in 2020, the steepest fall in the EU, finally recovered its pre-pandemic level by mid-2022, about one year later than in the bloc as a whole. Since then, the economy has been catching up, principally aided by the services sector, which is much more important in Spain.

Unemployment was below 12%, two percentage points below its pre-crisis level and the lowest rate since 2008 when the global financial crisis burst Spain's massive real estate bubble (the rate peaked at 27% in 2013), but was double the EU average. Headline inflation is 3-4%, one of the lowest rates, but core inflation (excluding food and energy) is higher. The current account remained in surplus (since 2012), helping to improve Spain's negative net international investment position (external financial assets in the hands of Spanish residents less Spanish financial assets in the hands of foreign residents). In the banking industry, the non-performing loan (NPL) ratio stood at 3.6% in August, down from a peak of 13.8% in December 2013, but rising interest rates could increase NPLs.

With the economy gaining momentum, after falling so heavily, growth for 2023 was put at 2.3% (see Figure 14), well above the forecast for the whole euro zone of 0.7%. Two of the main drivers were the key tourism industry, which in 2019 before the pandemic generated 12.4% of GDP (15.2% including the indirect impact of other sectors) and was rebounding strongly. The number of international tourists in 2023 was not very far off the record in 2019 (see Figure 15). Spain is the second-most visited country in the world after France. Exports were notching up records, thanks to their continued competitiveness and broad diversification. Spain has held its global share of merchandise exports (1.7%). Also, the energy shock has had a less severe impact on Spain, given its relatively lower dependence on Russia.

Figure 14. Macroeconomic forecasts 2023-25

	2023	2024	2025
GDP (% change)	2.3	1.8	2.0
Consumer inflation (% change)	3.6	4.3	1.8
Unemployment rate (% of labour force, annual average)	12.0	11.5	11.3
General government fiscal balance (% of GDP)	-3.7	-3.4	-4.1
General government gross debt, Maastricht definition (% of GDP)	108.8	106.9	107.9

Source: Bank of Spain, September 2023.

Figure 15. Number of international tourists, 2016-24 (mn)

2016	2017	2018	2019	2020	2021	2022	2023(f)	2024(f)
75.3	81.9	82.8	83.5	18.9	31.2	71.6	80.7	83.7

(f) Forecast.

Source: World Travel and Tourism Council and ING for 2023 and 2024 forecasts.

The impact of NextGenerationEU funds, of which Spain is the second-biggest beneficiary (€77.2 billion in grants, up to €83.2 billion in loans and €2.6 billion of RePowerEU) after Italy, is also beginning to be felt, albeit more slowly than hoped for. Spain has received €37 billion so far, thanks to fulfilling 29% of the milestones and targets set with the EU and had adopted 60% of the reforms by the end of 2022. It appeared likely extra time would be needed to undertake investment projects that address climate objectives, digitalisation and social cohesion, as use of the grants was running well behind the initial 2026 deadline. Spain was not the only country facing delays, due to various factors including reduced administrative capacity, anti-corruption oversight and EU state aid rules. There is also a lack of transparency in the execution of these funds.

Problems that have dogged the economy for years remain, such as the relatively low level of productivity of companies, a key element of a country's prosperity and for sustainable growth, a high structural fiscal deficit, public debt (Maastricht definition that rose from 39.7% of GDP in 2008 to 111.2% in June 2023, a stretched pensions system (see separate section) and a dysfunctional labour market (see separate section).

The high public debt and structural fiscal deficit (ie, as opposed to the cyclical deficit) of around 4% of GDP (1.5% in 2015) make Spain, according to Cristina Herrero, the head of the Independent Authority for Fiscal Responsibility (AIReF), 'somewhat vulnerable' to a tightening of monetary policy and external shocks. Spain is considered to face low fiscal sustainability risks in the short term, but medium-term sustainability risks appear high.¹⁷ Spending on pensions, unemployment benefits and interest payments on the debt account for more than 50% of total public expenditure. Pensions alone absorb 42%.

The Stability and Growth Pact, suspended during the pandemic and at the start of the war in Ukraine, will be resumed in 2024, but under different circumstances. The reform of the fiscal rules proposed by the European Commission might give Spain more flexibility in correcting its imbalances, but even so the new government has work on its hands.¹⁸ The fiscal cost of the response (more than €38 billion) to the pandemic limited its impact but took a toll on public finances. Sustained fiscal consolidation needs to get underway, given the demographic outlook and high public debt. The Bank of Spain's says it should be framed in a detailed multi-year programme in order to ensure its credibility from the outset and

¹⁷ See the European Commission's Post-Programme Surveillance Report on Spain published in May 2023 at https://economy-finance.ec.europa.eu/system/files/2023-05/ip204_en_0.pdf.

¹⁸ Enrique Feás explains the proposals at <https://www.realinstitutoelcano.org/en/analyses/an-insufficient-reform-of-the-eus-fiscal-rules/>.

increase the likelihood of a gradual consolidation. This will not be easy for a government supported by parties with such disparate agendas. The risk is that in order to satisfy all of them, structural reforms will not be effective. Furthermore, Spain has marked income inequalities compared with its EU peers, with over one quarter of the population at risk of poverty and social exclusion in 2021.

The Pact required countries to keep their fiscal deficit below 3% of GDP (Spain's was projected at 3.8% in 2023) and public debt under 60%, thresholds that Spain has long exceeded, along with other countries, after years of intense spending to cushion the impact of the 2008 financial crisis, the pandemic, the war in Ukraine and the energy crisis (see Figure 16). The European Commission wants to keep the 3% and 60% targets but add some flexibility so that governments can adapt the objectives to the specific circumstances of their countries.

Figure 16. EU countries by debt-to-GDP ratio, 2019 and 2022 (%)

	2008	2019	2022
Greece	127.2	180.6	171.3
Italy	106.2	134.1	144.4
Spain	39.7	98.2	111.6
France	68.8	97.4	111.6
Euro zone	69.4	84.0	91.5
Germany	65.5	59.6	66.3
Poland	46.7	45.7	49.1

Source: Eurostat.

Low labour productivity growth (0.6% per year between 2010 and 2022 compared to 0.8% in the euro area) is an important factor behind Spain's lagging convergence with the EU in terms of per capita GDP, which in 2022 was 15% below the average (see Figure 17) and suffered the biggest fall among the bloc's countries since 2019. Between 2002 and 2009, when the economy boomed until the global financial crisis, per capita income was above the EU average. Real GDP per person fell by 2.4% between 2019 and 2022, while in the whole of the EU it grew by 2.7%.

Figure 17. GDP per capita (EU-27 = 100), purchasing power parities, 2019 and 2022

	2019	2022
Luxembourg	251	261
Denmark	126	137
Germany	121	117
France	106	102
Italy	97	96
Spain	91	85
Poland	73	80
Bulgaria	53	59

Source: Eurostat.

There are many reasons for Spain's relatively lower productivity (see Figure 18): the sectoral composition of the economy skewed more towards services such as commerce and the hospitality sector, sectors of low value-added; the scant investment in R&D+i (1.2% of GDP, 0.8 pp below the EU average); the lower quality of human capital (for example, the still high early school-leaving rate of 13.7%); the complex regulatory environment (different between regions and even between municipalities and hence not a level playing field) and its impact on an efficient assignment of funds; a labour market, despite reforms, which still has a relatively high proportion of workers on temporary contracts (in itself a cause of low productivity); cronyism (a Bank of Spain study indicated that the companies that grow the most are sometimes those closest to political power and not the most productive); and the reduced confidence in public institutions and their management capacity, including a judiciary system whose efficiency is below that of comparable countries.¹⁹ In 2022 alone, central and regional governments approved 11,000 new pieces of legislation.

¹⁹ See the speech by Pablo Hernández de Cos, Governor of the Bank of Spain, on 13 June 2023, at <https://www.bde.es/f/webbe/GAP/Secciones/SalaPrensa/IntervencionesPublicas/Gobernador/Arc/Fic/IIPP-2023-06-13-hdc-en.pdf>, and the article by Joan R. Rosés & Leandro Prados de la Escosura, at <https://cepr.org/voxeu/columns/long-run-perspective-productivity-slowdown-spain-1850>.

Figure 18. Labour productivity per person employed and hour worked (EU-27, 2020 = 100)

	2005	2010	2015	2020	2022
France	120.2	117.4	115.8	115.1	109.5
Germany	109.1	104.7	105.3	105.1	102.1
Italy	117.0	113.5	106.7	103.3	106.3
Poland	62.0	69.8	74.5	82.0	84.2
Spain	100.5	102.1	102.4	92.8	94.6

Source: Eurostat.

The lower productivity cannot be attributed to the smaller size of Spain's companies. When the registry data on firms from Spain, Germany, France and Italy are grouped together by size, Spanish companies are between 10% and 20% less productive than their European peers, regardless of size.²⁰

The institutional framework for companies and the self-employed is also made very complex by a proliferation of rules that are not always the same in the 17 regions, responsible for 70% of them. The Bank of Spain reported there were 386,650 new rules approved by administrations between 1979 and 2021, 12,704 of them approved in 2021 alone.

Productivity is one element of a country's competitiveness. The IMD ranked Spain 36th out of 64 countries in its 2023 competitiveness league, the same position as in 2019 (see Figure 19), despite its deterioration in three out of the four factors, most notably in government efficiency, that between them take into account 336 criteria (see Figure 20). It stood still, despite falls in some of the competitiveness factors, because other countries did worse and so maintained Spain's position.

Figure 19. IMD's overall competitiveness ranking, 2019-23

Ranking out of 64 countries	2019	2020	2021	2022	2023
France	31	32	29	28	33
Germany	17	17	15	15	22
Italy	44	44	41	41	41
Poland	38	39	47	50	43
Spain	36	36	39	36	36

Source: IMD World Competitiveness reports.

20 According to Eurostat business statistics data, (SBS_SC_OVW) in 2021 Spanish firms' productivity (measured as sales over employment) in industry, construction and services, as compared with the average for French, German and Italian firms in the same size group, was 62% for firms with between zero and nine workers, 77% for those with between 10 and 19 workers, 75% for those with between 20 and 49 workers, 87% for those with between 50 and 249 workers, and 79% for those with more than 250 workers.

Figure 20. IMD's competitiveness factor rankings for Spain, 2019-23

	2019	2020	2021	2022	2023
Economic performance	29	31	42	35	32
Government efficiency	40	44	49	50	51
Business efficiency	39	42	39	40	37
Infrastructure	26	26	26	25	27

Source: IMD World Competitiveness reports.

Spain's position in the IMD's World Talent Ranking also remained unchanged between 2019 and 2023 at 32nd out of 64 countries (see Figure 21). This assesses the status and development of the skills necessary for companies and the economy to create value in the long term, based on three factors: investment and development in home-grown talent; the appeal of foreign talent; and the readiness of skills and competencies in the talent pool. Spain's quality of life favours the 'appeal' of qualified talent, but the lack of language and finance skills are strong weaknesses in its 'readiness'.

Figure 21. World Talent Ranking, 2023 (%)

Ranking	Overall score	Investment and development	Appeal	Readiness
1. Switzerland	100.00	100.00	97.06	80.31
6. Finland	80.55	77.01	66.36	75.66
12. Germany	78.46	75.04	71.18	66.54
15. US	74.55	71.25	67.89	61.64
24. France	66.24	59.32	62.49	54.30
25. Portugal	64.64	61.09	50.84	59.37
32. Spain	62.15	62.93	56.02	44.88
35. UK	60.51	45.53	57.05	56.34
42. Italy	56.10	57.16	45.59	42.94

Source: IMD.

Spain also held its position in Elcano's 2022 Global Presence Index, remaining in 13th position in the ranking of 150 countries with a score of 282, more than recovering the score it obtained in 2021 (278) but not that in 2020 (307, see Figure 22).

Figure 22. Elcano Global Presence Index, 2022 and 2019

2022 Ranking	2022 score	2019 score
1. US	3,654	3,309
2. China	1,779	1,417
3. Germany	908	892
4. Japan	831	803
5. UK	817	847
6. Russia	707	679
7. France	686	736
8. Canada	446	442
9. Netherlands	391	393
10. India	389	371
11. Italy	373	407
12. South Korea	303	322
13. Spain	282	308

(1) The index, the result of adding together 16 indicators of external projection which are aggregated according to the criteria of experts in international relations, measures the ability of countries to project themselves beyond their borders and the extent to which they are participating in and shaping the process of globalisation. First, it ranks a country's economic presence, including outward foreign direct investment and other elements such as energy, services and exports. Secondly, it assesses a country's military presence, which is determined by the number of troops deployed abroad and the equipment available for deployment. Third, it includes statistics on a country's soft presence, which is based on a wide number of factors including exports of cultural products, tourist arrivals and official development aid.

Source: Elcano Royal Institute.

Spain's tax-to-GDP ratio, including net social security contributions, rose from 34.8% in 2019 to 38.3% in 2022, below the EU average of 41.2% (see Figure 23). The fact that Spain's marginal income tax rates are relatively high compared to other countries, but the amount of revenue is less in GDP terms, reflects tax evasion and the impact of the array of deductions, exemptions and tax benefits, which makes effective tax rates considerably lower than the marginal ones. The size of the shadow economy, enlarged in all countries during the coronavirus pandemic because of recession and higher unemployment, is much greater than in France and Germany, but lower than in Italy and the EU average (see Figure 24). The Tax Administration Agency (AEAT) needs more resources.

Figure 23. Total tax revenue, 2022 (% of GDP)

	% of GDP
France	48.0
Germany	42.1
Italy	42.9
EU-27 average	41.2
Spain	38.3

Source: Eurostat.

Figure 24. Size of the shadow economy, 2019 and 2023 estimate (% of official GDP)

	2019	2023 estimate
France	12.37	15.27
Germany	8.54	10.46
Italy	18.66	21.81
Spain	15.36	17.48
EU average	16.28	18.78

Source: Dr Friedrich Schneider.

Spain's standard rate of VAT, the main indirect tax, is 21%, but this only applies to around 42% of goods and services, making the average rate 9.5%, compared with Germany whose standard rate of 19% applies to 82%, France's 20% to 71% and Italy's 22% to 58%. The reduced rate of 10% and the super-reduced rate of 4% apply to 49% and 9%, respectively, of goods and services. Tax experts say it would be more effective to support the most vulnerable families through more public spending measures, such as the minimum living income approved in 2020, than with lower VAT. A government-commissioned report in 2022 on tax reform recommended removing the 10% and 4% rates. This would generate €17 billion (about 23% of its current yield) and a net gain of €14.5 billion after offsetting compensation for the poor. Taxes on distilled spirits, beer and wine are among the lowest in the EU, as are environment-related taxes.

In research and innovation, the government needs to accord science the position it has in most other EU countries. Despite all the obstacles and the lack of spending, Spain is not short of talented scientists, but thousands of them are working abroad (12,000 in 2011 and 20,000 in 2015, according to OECD estimates). Most of them had been trained with public money at an average cost of €500,000. Aided by the NextGenerationEU funds, the

previous government sought to hire 12,000 researchers on indefinite contracts and not on the precarious short-term contacts that have generally been the norm.

Science remains under-funded, over-regulated and stifled by bureaucracy, undermining the ability to attract international talent (brain gain) and retain its own (brain drain). The brain gain is also stymied by foreign researchers having to validate their degrees in the Education Ministry, a process that can take several years. There should be a much quicker route for those who studied at the world's best universities, for example the Shanghai Ranking of the Top 500.

A Science Ministry was created for the first time in 2008, absorbed into the Economy Ministry in 2011 and revived in 2018. A national science funding agency was launched in 2015, four years after the government pledged to do this, but it came with no new money as it usurped existing research budgets.

Spain's R&D spending is among the lowest in the EU at 1.43% of GDP (see Figure 25). The Popular Party government in 2013 set an R&D target of 2% for 2020 and the Socialist government promised after the 2019 general election to reach that goal in 2023. The failure to do that cannot be entirely laid at the door of the COVID-19 pandemic.

Figure 25. R&D expenditure, 2019 and 2021 (% of GDP)

	2019	2021
Sweden	3.39	3.35
Germany	3.17	3.13
France	2.19	2.21
Italy	1.46	1.48
Poland	1.32	1.44
Spain	1.25	1.43

Source: Eurostat.

The good news is that the number of articles published in scientific publications has increased considerably in the last 30 years and also the number of projects approved by the European Research Council. Spain is ranked 11th in the world in scientific output, in line with the size of its economy (15 out of every 100 documents form part of the 10% of the most cited in the world), but 30th in innovation.

The problem is not the quantity or quality of the research, but the development of it. Transferring knowledge from the academic to the corporate world is woefully inadequate. According to an OECD report,²¹ incentive mechanisms are 'overly focused towards academic success criteria, resulting in outputs with low connection with the market, limited impact on protectable intellectual property and low rates of research commercialisation'.

21 See https://www.oecd-ilibrary.org/science-and-technology/improving-knowledge-transfer-and-collaboration-between-science-and-business-in-spain_4d787b35-en.

4. Labour market: better but scope for further improvement

The unemployment rate came down during the last government from 13.7% in 2019 to 12% in October 2023, but was still double the EU average (see Figure 26). Youth unemployment is even more of a problem at 28% (30.3% in 2019). The employment rate, which measures the extent to which people available to work are being used and so affects economic growth and productivity, is one of the lowest among the 38 OECD countries (see Figure 27).

Figure 26. Seasonally adjusted total and youth (under 25s) unemployment rates, (1)

	Total	Youth
Poland	2.8	10.5
Germany	3.1	5.6
EU	6.0	14.8
Italy	7.8	24.7
France	7.3	17.7
Spain	12.0	28.0

(1) October 2023.

Source: Eurostat.

Figure 27. Employment rate (% of working age population, aged 15-64, seasonally adjusted), 2Q23

Country	%
Germany	77.5
Poland	71.9
OECD	70.1
France	68.5
Spain	65.4
Italy	61.3

Source: OECD.

The 2021 labour market reforms (the seventh package since 1994) that came into effect in March 2022 have reduced the overall rate of temporary employment, one of the most pernicious elements of Spain's dysfunctional labour market, from 25% at the end of 2021 to 17% in the second quarter of 2023, but it remains high in the public sector at around 30%. This was the first reform that has proved to be very effective against fixed-term employment and hence reduced labour market duality. Previous reforms tried to restrict the use of temporary contracts by raising their termination compensation, limiting their duration or penalising the roll-over of contracts, but with little success.

The reforms, agreed between the government, trade unions and employers and thus reducing uncertainty, essentially reduced the number of contracts to three –open-ended (permanent, the default option), fixed-term temporary (for specific reasons) and training–,²² and kept in place many of the changes introduced in 2010 and 2012. They included employers' unilateral ability to make substantial changes to employment terms for economic, technological, organisational or productive reasons, proved to have helped safeguard jobs.

The reform toughened temporary hiring terms and conditions, a system widely abused, set limits on how long temporary contracts can be used, penalised their successive rollover, banned project-based contracts, made fixed-discontinuous (intermittent) contracts more flexible and reinstated the primacy of collective sectoral agreements over company-level agreements for setting wages, a continued rigidity for those firms whose circumstances make it harder for them to accept the collective agreement. The switch from temporary to permanent contracts has contributed to the recovery in consumption. Greater importance is finally being given to dual vocational training scheme contracts and vocational education and training (VET) in general, which is far from Germany's level of enrolment or quality. For every five Spaniards at university, one instead is doing VET, whereas in Germany it is the other way round.

While temporary contracts were made more onerous, permanent contracts were not rendered more flexible, thereby maintaining, albeit to a lesser extent, the divide between the conditions for 'insiders' (open-ended contracts) and those for 'outsiders' (temporary contracts). The cost of ending permanent contracts (both ordinary and fixed-discontinuous) was not changed and remains significantly higher than for temporary contracts, although most new contracts are now open-ended. The 2012 reform cut severance pay to 33 days pay per year worked from 45 days. The *Círculo de Empresarios*, the main business lobby, says it should be closer to the 12 days in other EU countries.

²² The historical context of the reforms and more detail on the latest ones is set out in this article by Rafael Doménech at <https://www.funcas.es/wp-content/uploads/2022/04/03-Domenech-11-2-1.pdf>.

While the reform has reduced the 'contractual' temporary employment rate, it has not succeeded in mitigating precariousness or curtailing 'empirical' temporary employment, according to the first evaluation of the reform.²³ In order to give companies the flexibility needed to compete in the global economy, the reform promotes other open-ended contracts that are much less stable such as the special one for the construction sector. These new contracts labelled as open-ended do not provide the same security to workers as 'proper' permanent contracts.

Spain's historically high unemployment (it has not been below 10% since 2007) has been responsible for 80% of the change in inequality over the past 30 years, according to evidence. This has weakened the stock of human capital and eroded economic efficiency. At one extreme of the labour force, the early school-leaving rate is still high at 13.7%, although down from a whopping 31% in 2005, leaving too many poorly qualified people, and at the other there is a serious over-qualification and field-of-study mismatch among university graduates, the brightest or boldest of whom seek to emigrate if they cannot fill their job aspiration. The share of Spanish students who go directly from study or training to unemployment is the highest in the OECD.

Despite having 2.8 million unemployed, Spain, paradoxically, is suffering from labour shortages in various sectors including the hospitality sector, mainstay of the tourism industry. For example, the human resources company Randstad put the number needed for this sector before the summer season began at 60,000 in order to meet rising demand.

In the absence of a supply of Spanish workers, the previous government relaxed work-permit rules for foreigners (see the section on international migration). SEPE, the public employment service, was also reformed under a law that came into force in March 2023 in order to make it more active in filling job vacancies instead of being little more than 'a registry of the jobless' in the words of Pepe Álvarez, the leader of the UGT trade union.

The adoption of artificial intelligence (AI) is relatively low, while the installation of industrial robots in factories relative to the population is high and is the 12th largest (see Figure 28).

²³ I am grateful to José Ignacio Conde-Ruiz for sending me a preliminary version of *Reforming Dual Labor Markets: 'Empirical' or 'Contractual' Temporary Rates?* to be published by Fedea.

Figure 28. Installed number of industrial robots, 2022

	'000 of units
China	290.3
Japan	50.4
US	39.6
Republic of Korea	31.7
Germany	25.6
Italy	11.5
Chinese Taipei	7.8
France	7.4
Mexico	6.0
Singapore	5.9
India	5.4
Spain	3.8

Source: International Federation of Robotics.

When considering all automation technologies including AI, 28% of employment in Spain is in occupations at high-risk of automation, just above the OECD average of 27%.²⁴ The occupations at the highest risk of automation are typically lower-skilled and held by younger workers. Spain is one of the few OECD countries financing an overarching state-wide skills strategy that focuses not only on digital skills, but also on cognitive and transversal skills necessary to develop and interact with AI systems.

²⁴ See the section on Spain in the OECD Employment Outlook 2023 at <https://www.oecd-ilibrary.org/sites/5f46e70c-en/index.html?itemId=/content/component/5f46e70c-en>.

5. Pensions: doubts remain on sustainability

The profound change in Spain's demographics over the last 40 years raises serious questions on the continued sustainability of the pay-as-you-go pensions system in its current form, despite several reforms in recent years, the last in March 2023,²⁵ but which, according to experts, have only kicked the can down the road (see Figure 29).

Figure 29. Socio-economic and demographic data, 1980-2020

	1980	2000	2020	% change
Total population (1 July) (mn)	37.5	45.5	47.3	26.3
Under 40 (mn)	23.0	21.9	20.2	-12.5
Aged between 40 and 50 (mn)	4.9	5.9	8.6	74.8
Over 50 (mn)	9.5	12.7	18.6	95.4
Social Security contributors (mn)	11.2	16.0	18.8	67.5
Average monthly salary (€)	334	1,335	1,904	470.4
Number of pensioners (mn)	3.9	6.9	8.8	122.4
Average monthly retirement pension (€)	101	539	1,161	1,047.7
Ratio between average salary and average pension (% , all retirees, all schemes)	3.3	2.5	1.6	-50.3
Average monthly pension of new current year's retirees in the mandatory scheme (€)	148.8	818.0	1,528.7	927.4
Ratio between average pension (newly retired, employees' schemes) and average salary (%)	44.6	61.2	80.3	80.1
Ratio between population over 51 and pop. 39 and under	0.4	0.6	0.9	123.4
Average age of total population	33	39	43	29.8
Average age of voters	43	43	49	13.9
Ratio between social security contributors and pensioners	2.8	2.3	2.1	-24.7

Source: prepared by José Herce based on figures from the Social Security, Labour Statistics and INE, <https://www.revistadelibros.com/ya-es-hora-de-trazar-la-linea-de-las-pensiones/>.

25 The reform was approved by Royal Decree, avoiding a parliamentary debate. Bypassing parliament on such an important issue was criticised by the main opposition parties. The government relented, promising the reform would be debated. But this did not happen before the calling of the snap election on 23 July.

In their view, the latest reforms, far from culminating ‘the process of modernising the public pensions system’, in the words of José Luis Escrivá, the minister responsible for them, have made the system more generous, but less self-sufficient, with a larger structural deficit, no adjustment for increased life expectancy and greater dependence on transfers from the State via the national budget. The reform was opposed by the CEOE employers’ organisation, but gained the acquiescence of the European Commission, needed in order to release a further tranche of NextGenerationEU funds.

The average pension in Spain has risen 43% since 2008, while the average salary has only increased 15%. The size of pensions equates to 80% of net pre-retirement income, more generous than France’s 74% and an average of 67% among EU countries (see Figure 30). The pension reserve fund created in 2000 when the economy was humming along and the social security system was in surplus, in order to finance future shortfalls, reached €66.8 billion in 2011 and by the end of 2022 was almost depleted.

Figure 30. Net old-age pension replacement rate for workers with average wage, % 2020
(1)

	%
Netherlands	89.2
Italy	81.7
Spain (2)	80.3
France	74.4
EU-27	67.6
Germany	52.9
Poland	36.5

(1) The replacement rate shows how much a person’s pension represents relative to their final salary.

(2) 89.2% without the sustainability factor.

A reform in 2011 by the Socialist government of José Luis Rodríguez Zapatero gradually raised the statutory age of retirement for a full pension from 65 to 67 by 2027 and a measure in 2014 by the Popular Party government of Mariano Rajoy stopped pensions being automatically indexed to inflation every year. The annual rise was set at 0.25%, with a maximum increase capped at 0.5% above inflation, if the system could afford it. Indexation, however, was restored in 2018 by the then minority PP government in order to win belated approval from other parties, particularly the Basque Nationalist Party (PNV), for that year’s budget, and reaffirmed by the Socialist-led government in 2021. A ‘sustainability’ factor was introduced in 2013, which sought to link initial pensions to life expectancy.

Pensions rose by 8.5% in 2023, in line with the previous year's average inflation, well above the average increase of around 3% for salaried workers. The reforms in 2021 and 2023, among other things, increased the social security contributions from companies and employees, especially the highest paid, and eliminated the 'sustainability' factor, replacing it with an 'intergenerational equity mechanism', which is the opposite of its name implying redistribution from older to younger people, as it relies on higher contributions from younger generations.²⁶

Airef, Spain's independent fiscal watchdog, the Bank of Spain, BBVA's research department, the economic research institute Fedea, the OECD and the *Círculo Cívico de Opinión*, a civil society organisation, believe the latest reforms are insufficient. There is an automatic adjustment mechanism, to be activated as of March 2025, which envisages the adoption of fresh measures or, failing that, an additional increase in social security contributions should pension expenditure depart from the baseline path. The OECD recommends lengthening working lifetimes by linking the statutory retirement age to life expectancy at retirement, rather than impose extra contributions.

Spain's has one of the world's highest life expectancies at 83 years (69 years in 1960 and 75.3 in 1980). Its baby boom came late because of the 1936-39 Civil War and it did not follow the surge of babies after the Second World War in the rest of Western Europe. The birth rate began to increase in the late 1950s when the economy began to take off. As a result, the first baby boomers (born between 1958 and 1975, and more than 650,000 births each year) are only just beginning to retire. Spain needs to be better prepared for the wave of retirements, as these pension beneficiaries will enjoy the longest life expectancy of any generation to date, 23 years for women and 19 years for men, exceeding that of the year 2000 (20.5 and 16.6 years, respectively).

The population is rapidly ageing (see Figure 31) and this is not being compensated by a higher fertility rate, which has been steadily declining since 1970, from 2.86 to 1.3 in 2022, the lowest in the EU after tiny Malta. For the past six years, there have been more deaths than births. But for the influx of immigrants over the past 20 years Spain's population would have shrunk significantly (see separate section), and thus the size of the labour force whose active workers finance the benefits of current retirees. The National Statistics Institute (INE) forecasts the number of social security contributors per pensioner dropping from 2.24 to 1.35 in 2050 when the population over 64 will have risen from 20% to 30% of the total and that under that age fallen from 65% to 57%.

²⁶ More detail is available at <https://www.wtwco.com/en-us/insights/2023/04/spain-state-pension-reforms-cost-versus-sustainability>.

Figure 31. Median age and life expectancy in years (1)

	Median age	Life expectancy
Japan	48.6	84.6
Germany	47.8	81.0
Italy	46.5	82.9
Portugal	44.6	81.3
Spain	43.9	83.3
France	41.7	82.5
UK	40.6	80.8

(1) Figures from the years 2018 to 2021.
Source: United Nations.

Surveys show that more than 70% of women in Spain would like to have two children, but fewer than 30% actually do. The average age of first-time Spanish mothers is 33 and that of foreign mothers almost 31. Due to the relatively modest family benefits and lack of Nordic-style free childcare (only made possible by much higher tax burdens than Spain's) many women are only able to work thanks to the care role of grandparents. Spending on family benefits represented 1.6% of GDP in 2020 (latest comparative figure) as against an EU average of 2.5% and 3.4% in Germany. Spending on family benefits represented 1.6% of GDP in 2020 (latest comparative figure) as against an EU average of 2.5% and 3.4% in Germany. Expanding access to early childhood education and care, a government priority since 2021, would enable more women to get jobs.

Spain is not alone in seeking to overhaul its pensions system. France was hit by a wave of protests in 2023 by left-wing forces and trade unions after President Macron raised the pension age to 64 from 62 by signing a bill in order to avoid a vote in parliament the government risked losing. The debate in Spain has become a dialogue of the deaf between, on the one hand, a majority of citizens who turn their back knowingly or unknowingly on the economic reality of a welfare system that has grown above its possibilities and, on the other hand, pension experts who have been unable to transfer to society their concerns or convince those running the system to make deeper changes.

The average age of voters is close to 50, well above the average age of the total population, and they are not inclined to accepting a cut in their benefits. The more than nine million pensioners (19% of the population) who contribute to social security²⁷, more than double the number in 1980, are a political force that no party would willingly alienate with reforms, but circumstances might leave no option.

²⁷ The total number of pensioners is 10.3 million, including those who have not paid social security and civil servants who pay into their own system.

The government needs to implement other measures to reinforce the pensions system, such as making private pension plans taken out by individuals more attractive. Private pension funds in Spain (individual and sponsored by employers) were equivalent to 10.5% of GDP in 2020 against a world average based on 78 countries of 29.4%, according to the latest World Bank figures. The maximum amount that is tax deductible has been reduced over the years from €12,000 to €1,500 for individual retirement plans. Saving, however, is beyond the means of a large swathe of the working population who barely make it to the end of the month as it is.

There is a correlation between the higher the replacement rate for public pensions, the lower the percentage of workers with private pension plans. In Denmark and the Netherlands, for example, public pension replacement rates are among the lowest in the EU, yet between 93% and 100% of the working-age population has a private pension fund (mostly employer sponsored). This is because it is practically mandatory to have this type of savings instrument. Spain has one of the highest replacement rates, and the percentage of the working-age population with private pension plans has hardly changed since 2005 and is below 30%.

As a result, the elderly's reliance on state pensions is higher than in many other comparable countries. There are also disincentives to combine work and a full state pension. Spain is one of only seven OECD countries that still applies limits to the earnings above which pension benefits are reduced. Because of trade union opposition, a pensioner receiving his or her full state pension is limited to earning, as occasional income, no more than the annual minimum interprofessional wage (SMI), which currently stands at €15,120, instead of being able to earn as much as they want and pay tax on it.

The Social Security Ministry made projections in a report published in October 2023 that it believes support its reform and hence the sustainability of pensions. The report is one of Spain's commitments under the EU Recovery Plan and can be seen as a response to those who continue to question the sustainability of pensions pressured by the retirement of baby boomers.²⁸ Among the projections are: the population rises from 47.8 million to 52.4 million in 2050; the fertility rate from 1.19 to 1.36; average life expectancy from 83.05 years to 89.25; unemployment falls from 12.2% to 5.5%; and the employment rate for those aged 65 increases from 30% to 54%, due to incentives to postpone retirement or having to retire at 67 and not 65 because of not fulfilling contribution requirements. Only time will tell.

28 Available in Spanish at https://www.seg-social.es/wps/wcm/connect/wss/b7bd492e-0171-477a-be29-394c450162b9/Informe+Proyec_SS+2023_final.pdf?MOD=AJPERES.

6. Education: too many reforms, not enough basics

Spain has had eight education laws since 1980, four on universities and three on science. This lack of a stable framework has not been good for pupils, parents, teachers or researchers. A student, for example, who began compulsory education at the age of six with one law ended it at 16 with one if not two new laws, plus changes in legislation in whichever of the 17 regions (to whom primary and secondary education has been devolved) where he or she lives.

Fundamental problems remain, including a still high although gradually declining early school-leaving rate (ESL) which was down to 13.9% in 2022 from a peak of 31% in 2005 (see Figure 32), often the result of a disproportionate number of students having to repeat a grade (one in every three 15-year olds compared with an EU average of one in every 10) and becoming so demotivated they legally abandon school at 16; the quality of the education provided and of teachers that leaves a lot to be desired; a lack of sufficient vocational education and training (VET) places, and universities where degrees often take longer to complete than in other EU countries.

Figure 32. Early leavers from education and training, 2022 (% of population aged 18-24)

	%
Rumania	15.6
Spain	13.9
Germany	12.2
Italy	11.5
EU	9.6
France	7.6
Poland	4.8
Ireland	3.7

Source: Eurostat.

Political debate on education has too often concentrated on divisive issues such as increasing the importance (Popular Party and the Roman Catholic Church) or not (Socialists) of religion classes towards a student's grade and providing or not more support for concertado schools (semi-private, receiving government subsidies and mostly run by the Roman Catholic Church).

Around half of Spaniards, according to the World Values Survey, are ‘very or quite worried’ about the quality of education and 70% in the case of those aged 30 to 49 with children or planning to have them, compared to 12% in the Netherlands, 19% in Sweden and 31% in Germany.

Despite the ESL achievement, the rate is still above the European Commission target of 9% and there are notable regional disparities, with rates ranging from 7.4% in Galicia to 20.8% in Murcia, and significant differences in the extent to which the regions have reduced their rates. Extremadura’s rate plummeted from 33.6% in the second quarter of 2013 to 8% in the same period of 2023, while that of Madrid fell from 23.5% to 13%.

There are also considerable differences in ESL rates by income groups: around 36% of children from poor families leave school early, putting them at a greater risk of social exclusion as they often face challenges finding and holding down a job, compared with 5% from better off families.²⁹ Far more men leave school early than women (16.2% and 11.2%, respectively, in 2022).

The proportion of young adults neither studying nor in employment (NEETs) has also continued to fall from a peak of 22.5% in 2013 to 12.7% in 2022 (see Figure 33). NEETs face worse labour-market outcomes later in life than their peers who remained in education or training at this age.

Figure 33. Young people (aged 15-29) neither in education and training nor employment, 2022 (%)

	%
Italy	19.0
Spain	12.7
France	12.0
EU average	11.7
Poland	10.9
Germany	8.6
Sweden	5.7
Netherlands	4.2

Source: Eurostat.

²⁹ See OECD (2023), *Proposal for an Action Plan to Reduce Early School Leaving in Spain*, June, <https://www.oecd.org/publications/proposal-for-an-action-plan-to-reduce-early-school-leaving-in-spain-0c249e7a-en.htm>.

Spain has one of the OECD’s highest shares of grade repeaters, and it can begin as early as eight. In 2021-22, 7.6% of ESO students (lower secondary) and 6.9% of *bachillerato* students (upper secondary) repeated. The 2020 LOMLOE law, the last reform, establishes the exceptionality of grade repetition, to be adopted only after having exhausted various support measures. The risk here, and it is too early yet to tell, is that without sufficient support measures, weak students will go through to the next year and struggle to cope, only to repeat a year later. Also, easing grade promotion can contribute to lowering the quality and general level of education.

Another factor behind the high degree of grade repetition is the over emphasis on rote learning as opposed to critical thinking, although this is slowly beginning to change. ‘Memorising names and dates in History does not help you’, said Andreas Schleicher, the OECD’s director of education. ‘Education in Spain is preparing people for a world that does not exist’. The selection process for teachers entering the civil service for state-school places subject knowledge over pedagogical competences, the acquisition of which might help more students to not repeat. Too many teachers have insecure jobs and inadequate training: around one-third of secondary school teachers are on fixed-term contracts, higher than the OECD average of 18%. This makes it difficult to build stable teams in schools. There is no formal national teacher appraisal system, with a quarter of teachers working in schools where they are never appraised, against 7% OECD-wide.

Although an upper secondary qualification (16-18 years) is often the minimum attainment needed for successful labour-market participation, in 2022, 27% of young adults (25-34 year-olds) left school without it, well above the OECD average of 14%. At the other end of the attainment range, 41% of 25-64 year-olds have tertiary attainment, just above the OECD average, but evidence shows they often end up with jobs for which they are over qualified (see Figure 34). Spain’s over-qualification rate in 2022 was the highest in the EU at 36%, well above the bloc’s average of 22.2%.³⁰ It has been stuck at this level for more than a decade.

Figure 34. Educational attainment of 25-64 year-olds, 2022 (% of adults with a given level of education as the highest level attained)

	Below upper secondary	Upper secondary or post-secondary non-tertiary	Tertiary
France	17	42	42
Germany	16	51	33
Italy	37	43	20
Spain	36	23	41
OECD	20	40	40

Source: OECD, Education at a Glance 2023.

30 The rate is calculated for employed persons with a tertiary level of educational attainment and shows the proportion of people employed in jobs for which this level of education is not required.

Spain's mean results for science, mathematics and reading in the OECD's PISA tests for 15-year-olds in 2022 was the worst since the Programme for International Student Assessment was launched in 2000. However, due to the unprecedented drop in most countries' performance, largely because of the pandemic impact, Spain was closer to the OECD average (see Figure 35).

Figure 35. PISA mean scores for science, mathematics and reading literacy, 2022 and 2018 (in brackets)

	Science	Mathematics	Reading
Finland	511 (522)	484 (507)	490 (520)
Poland	499 (511)	489 (516)	489 (512)
UK	500 (505)	489 (502)	494 (504)
Germany	492 (503)	475 (500)	480 (498)
US	499 (502)	465 (478)	504 (505)
France	487 (493)	474 (495)	474 (493)
Portugal	484 (492)	472 (492)	477 (492)
Spain	485 (483)	473 (481)	474 (477)
Italy	477 (468)	471 (487)	482 (476)
OECD average	485 (489)	472 (489)	476 (487)

Source: OECD PISA 2022 and 2018 results.

In the latest TIMMS international tests for reading comprehension for 9 to 10-year-olds, Spain did slightly worse (see Figure 36).

Figure 36. International results in reading comprehension, 2016 and 2021, average scale score

	2016	2021
Singapore	576	587
Finland	566	549
Poland	565	549
England	559	558
Italy	548	537
Germany	537	524

	2016	2021
Spain	528	521
France	511	514

Source: TIMSS & PIRLS.

The level of English has improved over the last 20 years, but still leaves a lot to be desired (see Figure 37). The bilingual Spanish-English schools introduced as of 1996 have, generally speaking, not met expectations. A significant number of these schools have ceased to be bilingual.

Figure 37. EF English Proficiency Index, 2022

Ranking out of 100 countries	Score	Level
1. Netherlands	661	Very high
9. Portugal	614	Very high
10. Germany	613	Very high
13. Poland	600	Very high
32. Italy	548	Moderate
34. France	541	Moderate
33. Spain	545	Moderate

Source: Education First.

There has been a proliferation of universities (93, 51 public and 42 private) over the past 40 years. It seems, however, to be a case of quantity not quality: only 38 of them made it into the 2023 Shanghai ranking of the world's top 1,000 and none into the top 200 (see Figure 38).

Figure 38. Number of top universities by country (1)

	Top 100	Top 500	Top 1,000
US	38	117	187
China	11	100	214
UK	8	38	64
Australia	6	24	34
Canada	5	18	25
Germany	4	31	45
France	4	18	27
Japan	2	12	32
Italy	0	17	40
Spain	0	9	38

(1) The methodology is explained at <https://www.shanghairanking.com/methodology/arwu/2023>.

Source: Shanghai Jiao Tong University.

Spain's universities do much better in specific subjects. According to QS World University Rankings by subject, the University of Barcelona, for example, has three subjects ranked in the top 50 in their field (philosophy, archaeology and library and information management) and two in the top 100 (anatomy and physiology and medicine), while civil and structural engineering at the Polytechnic University of Catalonia is in the top 40 and computer science, mechanical engineering and electric and electronic engineering in the top 100. Students often go to the university nearest their homes rather than to the best in the subject they wish to study. Spain has no equivalent of the US's 'Ivy League' or the UK's 'Russell group' of the leading universities. Amongst the general public one university is regarded as being as good as another. Only one-third of students finish their degree course on time.

Universities suffer from endogamy (73% of lecturers and researchers in 2019-2020 obtained their PhD from the same university where they studied and only 2.5% were foreign). Unfair selection procedures contribute to the 'brain drain': many of the most talented academics end up working in universities outside Spain. There is insufficient cooperation between the academic and corporate worlds.

Funding of universities is also insufficient. Spain's economy grew 12.8% between 2012 and 2018 but spending on higher education, including vocational training, only increased 1%. The March 2023 law on universities calls for spending on public universities to reach at least 1% of GDP in 2030 and afterwards to boost expenditure by €3.1 billion a year.³¹

³¹ See <https://elpais.com/educacion/2023-09-14/la-universidad-espanola-necesita-3100-millones-extra-para-no-quedarse-atras-en-la-competicion-internacional.html>.

7. Gender equality: the kiss that belied much progress

The unwanted kiss planted in August on the lips of Jenni Hermoso, who played in Spain's victorious team in the 2023 World Cup Final against England (but failed a penalty kick: the winning goal was scored by Olga Carmona), by an exultant Luis Rubiales, the head of the RFEF, Spain's football federation, provoked uproar and Rubiales's suspension. Such was the outrage in a country that gave the world the word *machismo* that the photo of the kiss went viral and #SeAcabó ('It's over') became the Spanish equivalent of #MeToo. But it also overshadowed the considerable progress Spain has made in feminism over the past 40 years.

The country is ranked ahead of Italy and Germany in the UN's Women's Empowerment Index and in the Global Gender Parity Index, is only one of 13 countries in the world where women hold at least half of the ministerial portfolios and has the third most gender-equal parliament in the EU (43.7% of total MPs are women in the parliament elected in July compared to only 5% in the elections in 1977 after the death of dictator Francisco Franco). All three of the Deputy Prime Ministers in the previous government were women as well as the Ministers of Justice, Defence, Finance, Transport, Education, Territorial Policy, Social Affairs, Science and Equality (12 of the 22 posts, the same number in the new government). Spain was ranked 27th out of 177 countries in 2023 on women's status in the Women, Peace and Security Index, based on inclusion, justice and security (see Figure 39).

Figure 39. Women, Peace and Security Index, 2023

Ranking out of 177 countries	Score (ranging from a low of 0 to a high of 1)
1. Denmark	0.932
9. Netherlands	0.908
21. Germany	0.871
27. Spain	0.859
34. Italy	0.827

Source: Georgetown University's Institute for Women, Peace and Security and The Peace Research Institute Oslo.

The legal position of women as regards gender equality has advanced considerably. Spain was ranked ahead of Finland and France in the 2023 Gender Equality Index for the EU drawn up by the European Institute for Gender Equality (see Figure 40). Abortion was decriminalised in 1985 in several cases, including rape; a law in 2010 introduced the right to a free choice by the mother alone in the first 14 weeks of pregnancy; a gender-violence law was approved in 2004; gay marriage has been legal since 2005 (making Spain the third country in the world to allow this) and paid menstrual leave was introduced in 2023

(the first country in Europe to do so). Domestic violence, however, remains a problem: 55 women were murdered by their partners or ex partners in the first 11 months of 2023, six more than in all of 2022.

Figure 40. Gender Equality Index, 2023

Ranking	Score
1. Sweden	82.2
4. Spain	76.4
6. France	75.7
8. Finland	74.4
11. Germany	70.8
EU-27 average	70.2
14. Italy	68.2

Source: European Institute for Gender Equality.

The area for women that has not changed anywhere near as much as politics is business, while female football has some way to go (only 38 of the RFEF's 411 officials are women). According to the latest figures from the UN Women Data Hub, only 34% of women hold senior and middle management positions, and inequality persists in pay. Nevertheless, almost 40% of members of the boards of the companies that comprise the Ibex-35, the benchmark index for Spain's stock market, are women –close to the EU directive–.

8. International migration: successful integration so far

The new government faces an increasingly multiracial society, with all the benefits and challenges this brings. At the end of 2022 there were 5.5 million foreigners officially resident in Spain (11.7% of the population), up from 5.2 million in 2019 (923,879 in 2000, 2.3%), when the last general election was held. The number of Moroccans, the largest foreign community, increased by 120,000 during this period (see Figure 41).

Figure 41. Resident foreign population, 2022 and 2019, top 10 countries (1)

	2022	2019
1. Morocco	883,243	761,122
2. Rumania	627,478	666,936
3. Colombia	314,679	261,537
4. UK	293,171	300,987
5. Italy	275,654	268,151
6. China	223,999	197,390
7. Venezuela	212,064	187,268
8. Honduras	134,125	96,382
9. Peru	120,255	84,179
10. Ecuador	119,885	133,084

(1) Excluding foreigners who have become Spaniards.
Source: INE.

Including nationalised Spaniards (almost 650,000 gained this status between 2019 and 2022), the foreign-born population has soared from just over one million in 1996 to 7.3 million (see Figure 42). Of this number, 5.6 million were born in a non-EU country. The foreign-born share of the population (15.8%) is larger than in the US and the UK and well above the EU average of 12%. For years, Spain has had the highest level of immigration per capita in the EU. Without the influx of immigrants, the population would have shrunk: it grew a whopping 19% between 1998 and 2022, from 40 million to 47.5 million. Close to 30% of babies born in Spain in 2022 had a mother born abroad.

Figure 42. Foreign-born population, 2022

	Million	% of total population
Germany	15.2	18.4
France	8.6	12.7
Spain (1)	7.3	15.8
Italy	6.1	10.4
Netherlands	2.5	14.5
Poland	0.9	2.5
Luxembourg	0.3	49.4

The foreign-born population stood at 8.4 million at 1 July, 2023 and the number of foreigners at 6.3 million.
Source: Eurostat.

Spain also has a significant number of refugees, though well below Germany and France (see Figure 43).

Figure 43. Total refugees harboured (1)

	Number
Germany	1,494,621
France	542,960
UK	223,578
Italy	191,185
Spain	219,016
Poland	8,492

(1) Mid-2021 and excluding the 2022 Ukraine situation.
Source: UN High Commissioner for Refugees.

The country has to a large extent successfully integrated into society a large number of foreigners in a relatively short time –much more than many other countries of comparable size–.³² The country has been helped by Latin Americans speaking Spanish, sharing cultural values, including the Roman Catholic religion, and Rumanians picking up the language quickly. There is no equivalent in Spain of France’s *banlieues*, with their concentration of Arab and sub-Saharan immigrants prone to exploding with violent rage when they feel persecuted.

32 See Carmen González Enríquez (2016), ‘Highs and lows of immigrant integration in Spain’, *ARI*, nr 38/2016, Elcano Royal Institute, 13/VI/2026, <https://www.realinstitutoelcano.org/en/analyses/highs-and-lows-of-immigrant-integration-in-spain/>.

Spain, however, is still far from those countries where first-generation immigrants and their children have succeeded in playing a notable role in public life, like the UK Prime Minister, Rishi Sunak, the son of South-East African-born Hindus, or the mayor of London, Sadiq Khan, the son of Pakistani immigrants. Also, despite Islam being Spain's second most important religion by adherents (more than one million) and the Spanish State being officially non-denominational, the Roman Catholic Church and faith continue to enjoy privileges that the other faiths decry.³³ Muslim immigrants still encounter obstacles to the practice of their religion on a range of fronts: the building of mosques, burials, harmonising some of their most important religious festivals, such as Eid, with the working calendar and the teaching of their religion in classrooms.

Spain's exception as a country without a political party campaigning on an anti-immigration platform came to an end in 2018 when the hard-right VOX entered the Andalusian parliament and a year later the national parliament. VOX won 33 of the 350 seats in the 2023 general election, down from 52 in 2019.

The vast majority of immigrants, contrary to perceptions, arrive in Spain with tourist or student visas. They then stay and usually can regularise their situation after two years once they are officially registered in their local town hall (*empadronado*). Citizens of Latin American countries (who in 2022 accounted for 43% of the foreign-born population) do not need a visa for a short stay, except for Ecuador and Bolivia, a requirement that enabled arrivals to be controlled to some extent. These irregular arrivals have created a large pool of immigrants living on the margins of society and surviving either by working in the black economy or with the support of family members who have regularised their situation. These people do not just live below the poverty threshold (defined as earning less than 60% of the average national income) but lack basic needs.

The spotlight in the media and the discourse among political parties is on those who arrive by sea (a tiny proportion), often in dramatic circumstances and sometimes with tragic consequences like the boat that sank in the Atlantic Ocean off the Canary Islands in June 2023, with the loss of 30 lives. Only 115km from the north-western African coast at their closest point, the Islands are the main sea route for undocumented migrants, asylum seekers and refugees trying to reach Spain. More than 1,200 migrants in wooden boats arrived in just two days in early October at El Hierro (population 11,423), which has become Spain's Lampedusa, the small Italian island overwhelmed by migrants, and 30,705 reached the archipelago's seven islands in the first 10 months, nearing the full-year peak in 2006. Those arriving in the Canaries accounted for 70% of the total of 43,290 arrivals to Spain by sea, 66% higher.

Spain received in 2022 the fourth largest number of permanent-type migrants among the 37 OECD countries, and recorded the largest increase among EU nations (see Figure 44).

³³ Article 16:3 of the 1978 Constitution declares that 'the public authorities shall take the religious beliefs of Spanish society into account and shall in consequence maintain appropriate cooperation with the Catholic Church and the other confessions'. No other religion is mentioned by name.

Figure 44. Top 10 OECD countries receiving permanent-type migration, 2022 (thousands of people and % change)

	Number	% change over 2021
US	1,048.0	+25.5
Germany	641.1	+20.6
UK	521.2	+35.1
Spain	471.8	+27.4
Canada	437.5	+7.8
France	301.1	+8.3
Italy	271.6	+12.6
Netherlands	207.5	+21.4
Australia	166.1	-1.9
New Zealand	154.1	+337.4

Source: OECD International Migration Outlook 2023.

The unemployment rate among immigrants, particularly those from North Africa and Latin America, is much higher than that for the population as a whole (16.5% vs 11.0% in September 2023). Students with an immigrant background tend to be more at risk of early school leaving (ESL) as they are more likely to possess the features that are normally associated with ESL behaviour, such as having a low socio-economic status or lack of knowledge of the language of instruction, according to an OECD report.³⁴

The same can be said of the results in the OECD's Programme for International Student Assessment (PISA) where the children of immigrants tend to do much worse than native Spaniards. One reason for this is that socio-economically disadvantaged students and those from immigrant backgrounds tend to be grouped in the same schools, which exacerbates inequalities. Spain had the largest gap in 2021 in the EU between the share of foreign citizens at risk of poverty or social exclusion and that of nationals (33.8 percentage points).

Governments tackled irregular immigration in the past by carrying out mass regularisations. Six such schemes between 1986 and 2005 gave legal status to around 1.2 million immigrants, raising concerns in some EU governments that those regularised would be able to move freely to other EU states. These pragmatic processes avoided the problematic alternative of leaving these people no alternative but to work in the informal economy, depriving the state's coffers of income tax and social security contributions. In 2004 a landmark law

³⁴ See the OECD report, *Proposal for an Action Plan to Reduce Early School Leaving in Spain*, published in June 2023 and available at <https://www.oecd.org/publications/proposal-for-an-action-plan-to-reduce-early-school-leaving-in-spain-0c249e7a-en.htm>.

granted immigrants civic and social rights if they registered at town halls (*padrón municipal*) without the need to produce a residence permit, and it was made easier for employers to hire non-EU workers from abroad until the Great Recession began after the 2008 global financial crisis and the bursting of Spain's spectacular property bubble. The jobless rate for Spaniards reached a painful 24% in 2013 but this was nothing compared with the 37% for immigrants.

With the worst of the COVID-19 pandemic over and the economy recovering, the previous government reformed in 2022 via a decree law the regulations on foreigners, making it easier to incorporate migrant workers to the labour market. This allows those who have lived in Spain in an irregular situation for two years to regularise their situation and fill positions that are in low demand if they commit to formal training for employment. The reform also allows foreign students to combine studies with work as long as the job does not exceed 30 hours a week.

The pragmatic and tolerant approach, which critics regard as too permissive, has so far paid off, though not without creating some problems as stated. The arrival of VOX has so far not changed the situation significantly. Surveys show that the share of Spaniards blaming immigrants for making the country a worse place to live has declined, despite the surge in numbers and with weaker labour markets and welfare states than other countries of high immigration such as Germany, or countries that have embraced nativist populism, such as Hungary.³⁵ Long may it last.

35 See the graph on page 10 of Claudia Finotelli & Sebastian Rinke, *A Pragmatic Bet: The Evolution of Spain's Immigration System*, at <https://www.migrationpolicy.org/article/spain-immigration-system-evolution>, for this and other observations.

9. Young adults and the elderly: too deep a divide

A cartoon in *El País* by El Roto titled ‘Young lovers contemplating the moon’ showed a couple holding hands and looking up at a house in the sky, perfectly capturing one of the most pressing problems facing Spaniards under the age of 30.

Getting on the property ladder is far from being an exclusively Spanish problem, but it is a particularly acute issue. Owning or renting a home is increasingly out of reach for young adults because of high unemployment (27% of the workforce under the age of 25 are jobless, double the EU average) and if they have a job it tends to be temporary and precarious. The jobless rate reached 56% in 2013 after the global financial crisis.

As a result, young adults are forced to live with their parents for much longer than before. Two thirds of 18-34 year olds in Spain live with their parents compared with 30% in Germany and 20% in Nordic countries, mainly due to insufficient earnings and job instability. The average age when Spaniards leave home is 30 (26 in the EU) and in Nordic countries under 20. The proportion of young people aged 15-29 living in overcrowded households³⁶ is 11.2%, almost double the rate for the whole population, but this is nothing compared with Italy’s 43.7% (see Figure 45). Women have their first and usually only one child at 31 (25 in 1980). Spain has one of the world’s lowest fertility rates at 1.19, below the rate of 2.1 to keep the population steady.

Figure 45. Overcrowding rate, 2021 (%)

	People of all ages	People aged 15-29
Italy	28.0	43.7
EU	17.0	26.0
Germany	10.6	17.9
France	9.4	17.2
Spain	6.4	11.2
Netherlands	3.4	7.5

Source: Eurostat.

A recent book, *La juventud atracada* (‘Mugged Youth’, Ediciones Península, 2023) by the economist José Ignacio Conde-Ruiz and his 19 year-old daughter Carlotta Conde Gasca highlights the sharp differences between the young and the elderly, and calls for a paradigm shift in government policies. The OECD’s 2023 economic survey on Spain includes a long section on this issue. The young have been gradually losing out. The share of people aged

³⁶ See https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Overcrowding_rate for the definition.

15 to 29 at risk of poverty and social exclusion has risen in the last two decades, and is one of the highest in the OECD, especially for women.

Pensions in a country that is ageing fast already absorb more than 60% of total social protection spending. The share of this spending that went on the elderly rose from 75% in 2008 of the total to 82% in 2019, while items that most benefit young adults –family policies, housing, unemployment and social exclusion– fell in GDP terms. Pensioners received an 8.5% increase in their pensions in 2023, in line with average inflation in 2022, compared with a rise of around 3% in average salaries.

Spain, unlike Germany, has long been a home-owning society (75% vs 50% in 2020), but this is changing. In 2020 36% of those under 35 owned their home, down from 69% in 2011. Growth in salaries long ago lagged way behind that of house prices. Salaries for the under 35s have fallen in real terms since the financial crash of 2008. House prices were up 77% in absolute terms between 1996 and 2022 and per capita income by only 28%. The stock of social rental housing is stagnant and, at 1%, one of the lowest in the OECD. The cost of raising pensions was more than annual state spending on primary and secondary education.

The housing policy of successive governments focused on building VPOs (*viviendas de protección oficial*) every year for low-income families or individuals. The number built dropped from 90,000 in 1997 to 10,000 in 2021. Being assigned one was like winning the lottery, as they were sold at below market prices and the owner could sell after a certain number of years at the market price, pocketing the difference. The housing law approved in 2023 by the previous Socialist-led government aims to build 50,000 homes for rent, a move in the right direction but a drop in the ocean.

What can be done to ease the lives of young adults? Populist one-off proposals such as that announced by Yolanda Díaz, the former Labour Minister and leader of the hard-left Sumar platform, shortly before July's general election, to give every person in the country €20,000 to spend on study, training or setting up a business once they reach the age of 18, are not the solution. Nadia Calviño, her former Economy Minister colleague, quickly questioned the idea that would cost €10 billion. 'Anyone who proposes giving subsidies or grants without any kind of restrictions when it comes to income levels or aims needs to explain how it would be financed because we're going to have to carry on with a responsible fiscal policy over the coming years', she said. The proposal followed the granting of a €400 voucher in June 2022 for 18-year-olds to be spent on books, CDs, DVDs and other cultural products (€42.5 million spent in the first year).

As a group, young adults do not have the political power of pensioners, whose ranks are swelling every year as the population ages and the birth rate remains low. No government willingly alienates pensioners –witness their demonstrations whenever they are not satisfied–. The number of voters under the age of 30 in the 2023 election was 5.8 million compared

with 9.4 million over the age of 64. The 2023 national budget increased spending on social protection by €26 billion over 2022, of which €20 billion (77%) went on pensions and just €1.2 billion on items that benefited the young or, put another way, for every additional €16.5 spent on pensions only €1.0 went on the young.

The book's authors propose a new rule: every extra euro spent on the elderly should be matched by an extra euro spent on the young. But how would this be paid for? Spain's public debt –tantamount to passing on unpaid bills to future generations– soared from 40% of GDP in 2008 to 113% in 2022 and needs to come down, not continue to rise. The cost of servicing this debt means there is less money available for other things. The options are higher taxes (the left's preferred choice) or a reduction in public spending (the right's), and the largest part of it is pensions, viewed as sacred.

There is, of course, another option which could hardly be a declared government policy, and that is for young adults to vote with their feet, something, however, only really open to relatively few.

10. Energy: transitioning to renewables

Spain is already quite advanced in the use of renewable energy, which has greatly aided decarbonisation, and this should gather pace under the new government thanks to NextGenerationEU funds, a large chunk of which is earmarked for the energy transition and green transformation. Solar energy, for example, generated 19.8% of electricity in September 2023, the highest share in the world (see Figure 46), and Spain has Europe's second-largest installed wind power after Germany and the fifth in the world. It also manufactures 95% of wind farm components.

Figure 46. Solar energy as percentage of electricity supply

	%
Spain	19.8
Greece	17.4
Germany	18.9
Netherlands	15.9
Hungary	14.8
Bulgaria	14.6
Italy	10.1
France	7.5

Source: International Energy Agency.

The abundance of sunshine and wind could be a blessing for the wider EU. Spain, Portugal and France agreed last year to build a sub-sea green hydrogen pipeline (H2Med) connecting Barcelona with Marseilles, which is expected to be operational by 2030 and able to transport 10% of expected consumption. Open Grid Europe, one of Germany's largest gas grid operators, joined the project in October 2023.

Green hydrogen is created using electrolyzers powered by renewable energy. Shortly before the general election, the previous government upgraded its 2030 target for electrolyzers from 4 GW to 11 GW, and increased the targets for wind generation capacity from 50 GW to 62 GW and for photovoltaic solar generation capacity to around 76 GW. Overall, the goal is for renewables to generate 81% of electricity by 2030.

Not everyone is happy, however, at the energy transition, particularly in what is known as 'emptied out Spain', which are swathes of rural areas with very low population densities, such as Soria, where giant wind turbines and vast solar panels dominate skylines. Two films on the subject were acclaimed box office hits: *Alcarràs* about how a solar park uproots and

divides a family that has farmed for generations won the 2022 Berlin International Film Festival's Golden Bear award and *As Bestas*, about a conflict over wind power, won a 2023 Goya award in Spain. The government needs to find ways to ease the social rejection.

The investment in solar energy has also brought a raft of legal claims over millions of euros of state incentives for previous investments that were later withdrawn. After the 2008 financial crisis, Spain was no longer able to guarantee the initial incentives which were cut in 2010 by the Socialists and then by the Popular Party, prompting 51 lawsuits by investors totalling an estimated €8 billion filed under the Energy Treaty Charter, signed by 53 countries and in force since 1994. By May 2023, 28 of these claims had been resolved, 21 in favour of the investors and the government was ordered to pay €1.2 billion in compensation for cases it had lost. Instead of paying out any of these claims, it contested them and asked international arbitration organisations to annul them, claiming in some cases the tribunals were partial. In May 2023 Spain lost a bid to claim immunity in a London court in a €120 million case over cuts to incentives for two investors.

The claims issue will hang over the new government. Other internal issues facing it include deciding what to do with the country's nuclear plants (close them, maintain them or extend them) and creating a large network of charging points for electric vehicles, without which people will not be confident about switching from fossil fuel vehicles.

Spain is lagging in the rollout of electric vehicles (with a market share of 9.6% in 2022 against the EU average of 17% and has around two public charging points per 100 square kilometres. There is also a structural limitation on the private installation of charging points as 66% of the population live in flats compared with an EU average of 46%. Some 42% of the EU's total public points were concentrated in 2022 in just two countries, the Netherlands and Germany, which account for less than 10% of the bloc's surface area (see Figure 47).

Figure 47. Charging points, % of EU area and market share of electrically chargeable vehicles (ECVs)

	Number of charging points	% of the EU's surface area	Market share of ECVs (%)
France	83,317	13.7	21.5
Germany	87,674	8.7	31.4
Italy	37,186	7.4	8.7
Spain	34,380	12.5	9.6
Netherlands	111,821	0.8	34.5

Source: Acea.

Externally, the government needs to improve electricity and gas interconnections with France and patch up the situation with Algeria. Insufficient gas interconnection has also prevented a relevant contribution of Spanish LNG to gas supply diversification in the EU during the Ukraine war. Algeria's unilateral decision not to renew one of the two pipelines connecting North Africa to Spain, known as the Maghreb-Europe pipeline, was aimed at punishing neighbouring Morocco over the thorny issue of the Western Sahara, but it resulted in Spain losing its most important international pipeline and halving its capacity to import Algerian gas. Spain's U-turn in its position on the status of the Western Sahara in 2022 (see the foreign policy section) then produced a deep rift with Algeria that has continued to respect contracts but limits the potential for cooperation. The reduced gas supply from Algeria has been replaced by LNG imports from the US.

11. Climate change: heating up and drying out

Spain is one of the EU countries most affected by climate change, and much progress has been made since the mid-2000s in the fight against it. As a result of the development of renewable energy, Spain is less emissions-intensive per capita than most OECD countries (6.1 tonnes compared with an average of 10.9 tonnes). The significant fall in emissions is due to the decarbonisation of manufacturing and construction (-33% since 2005) and of energy industries (-67%), driven by the phasing out of coal from the energy mix.

Less successful has been cutting emissions in the transport and agricultural sectors, which rose 7.5% and 8.7%, respectively, between 2012 and 2021. These sectors are heavily reliant on fossil fuels, favoured by tax-exemptions, modest fuel taxes and considerable subsidies in agriculture and fishing.

The temperature in April 2023, not usually a hot month, was 3°C more than the average (1991-2020) for that time of the year, making it the hottest April since records began in 1961. At one point that month, hot air from North Africa swept over southern Spain and pushed the temperature at the Córdoba airport to 38.8°C. On 1 October, the temperature at Montoro, not far from the airport, hit 38.2°C, a record for that month in mainland Spain. Days of sweltering heat have sometimes been followed by bouts of torrential rain.

A prolonged drought lowered the level of reservoirs with water for drinking and agriculture to 32.2% of their capacity in November, way down on the 10-year average of 44.4%. Water is unevenly supplied in Spain, reflecting the lopsided distribution of rain in a 'normal' year. The areas with the highest water abundance per surface unit are in the north and particularly in Galicia (known as the 'wet' Spain), much more sparsely populated than the south, with values higher than 700 mm/year. A popular saying among Galician farmers –*la lluvia es arte*– ('rain is art') was once turned into a tourism slogan. In the north, the average level of the four watersheds was 71.5%. In the rest of the country ('dry' Spain), water availability does not exceed 250mm/year. The average level of the six watersheds there was 26.9%. The lowest availability occurs in the Segura basin (mainly the region of Murcia, followed, in order of area, by Castilla-La Mancha, Andalucía and Valencia), where it does not reach 50 mm/year (around 20 times less than in Galicia and five times lower than the national average).

More than 9 million people suffered water restrictions in November in Catalonia and Andalusia. So desperate were people for rain that parishioners in Jaén, Andalusia, whose reservoirs in the region were at 22.5% of their capacity, held a procession, bearing aloft a statue of Christ known as *El Abuelo* and calling for the first time since 1949 for the Lord to open the heavens and bring rain.

Drought is not a new phenomenon in Spain, but 2023's was extraordinary. The country has not had 'normal' levels of rain since 2020. As a result, the wildfire season started much earlier than usual, with blazes ravaging 54,000 hectares of land in the first four months, three times more than in the same period of 2022.

Spain emits around 0.8% of the world’s greenhouse gases and generates 9% of the EU’s gases, the sixth-largest emitter. Per capita carbon dioxide emissions peaked at 8.47 tonnes in 2005 and dropped to 4.92 tonnes in 2021, as measures to combat climate change began to bite and the country became more environmentally conscious (see Figure 48).

Figure 48. Per capita carbon dioxide emissions, 2005 and 2021, selected countries (1)

	Tonnes per capita 2005	Tonnes per capita 2021
China	4.50	8.05
France	6.88	4.74
Germany	10.67	8.09
Italy	8.63	5.55
Spain	8.47	4.92
US	20.68	14.86
World	4.52	4.69

(1) Carbon dioxide emissions from fossil fuels and industry. Land use change is not included. These emissions account for around 76% of total greenhouse gas emissions.

Source: CAIT Climate Data Explorer via Climate Watch, with data available at <https://ourworldindata.org/co2/country/spain>.

It took Spain 10 years to adopt its first Climate Change and Energy Transition Law, approved in 2021, which commits the country to cut emissions of greenhouse gases by at least 23% by 2030 compared with 1990 levels (see Figure 49). The law requires companies, banks and other firms to present an annual report on exposure to climate risks as well as on measures to arrest them.

Figure 49. Highlights of Spain’s first climate law

Climate neutrality by 2050 at the latest, meaning that in 2050 Spain will only emit the amount of greenhouse gases (GHGs) that its sinks can absorb	An end to the production of fossil fuels on Spanish territory by 31 December 2041 and restriction of fossil fuel subsidies
At least a 23% reduction in GHG emissions by 2030 (from 1990) with periodic reviews to increase ambition, the first taking place in 2023	Prohibition of new fossil fuel exploration on Spanish territory, as well as uranium mining or fracking
An electricity system where 74% stems from renewable energy sources by 2030 and 100% by 2050	Low emission zones in all municipalities over 50,000 inhabitants and in any over 20,000 with bad air quality before 2023. Not achieved on time

Application of Just Transition strategies, to be reviewed every 5 years	Development of a housing rehabilitation and urban renewal plan within the first six months of the law's entry into force. A new Housing Law came into effect in May 2023
A 39.5% reduction in primary energy consumption by 2030 (from 1990)	Electric vehicle charging stations in all petrol stations, 150kw for major ones, and 50kw for all others
A ban on new internal combustion engines in cars from 2040	A requirement for corporate climate action plans with measures to reduce emissions over five years

Source: European Climate Foundation.

The previous government's draft climate strategy drawn up shortly before the July 2023 general election set higher targets for solar and wind power capacity and other measures (see the energy section) in order to cut emissions of climate-warming gases by 32% from 1990 levels, up from its previous goal of 23%. The Supreme Court dismissed Greenpeace's lawsuit which proposed a 55% reduction target. The plan also speeded up Spain's exit from coal, setting it at 2025 from 2030 previously.

The Popular Party and the hard-right VOX take a softer stance on the prohibition of fossil-fuel production and instead of phasing out nuclear energy want to extend the life of nuclear power plants. All political parties, to varying degrees, want Spain to do more to combat climate change except VOX. Climate change, however, was hardly mentioned in the campaign for July's general election. In a pre-election poll by Ipsos for *La Vanguardia* newspaper, 1% of respondents named climate change as the 'most urgent issue' compared with 31% who named the economy and 2% immigration.

In the late 1970s the government turned Murcia, Alicante and Almeria, today major tourism destinations, in the south-east into 'Europe's market garden' by transferring water from the Tagus through the 300km *Tajo-Segura Trasmase*, a system of pipelines and aqueduct. In a country with 17 regional governments of different political colours, mainly run by the PP and in some cases in alliances with VOX since the May 2023 regional elections, water management is a complex issue.

Farmers benefiting from the *trasmase*, who produce around 70% of Spain's vegetables and a quarter of fruit exports under intensive agricultural production, were up in arms earlier this year over the plans of the previous government to raise the minimum level of the Tagus at source as this would result in less excess water from reservoirs being transferred. The level has to be increased in order to remain in line with EU regulations on river water levels, following court rulings. The plan is to lift the river's flow from 6 cubic metres per second to 8.6 by 2027. Water quality is generally poor with toxic levels of nitrates concentration spreading because of intensive agriculture.

Another controversy is over the farmland surrounding the Doñana national park in Andalusia, Europe's most important wetland and a UNESCO World Heritage site, which has been subject

to the drilling of illegal wells for decades. The region was ruled by the Socialists for 36 years until 2019 when the Popular Party won the Andalusian election and retained power in the 2022 election. The same groundwater that drives the wetland's flooding cycles is also accessible for uses outside the national park.³⁷ Agriculture and tourism beyond the park's borders, coupled with drought, have increasingly taxed that water supply. The nearby resort town of Matalascañas taps into groundwater and greenhouses growing strawberries and other berry crops draw from the aquifer for irrigation. Santa Olalla, the largest permanent lake at Doñana, dried up in August for the second summer running, the first time this had happened.

Virginijus Sinkevičius, the EU's environmental chief, slammed in April 2023 a plan by the PP government of Andalusia to expand water rights on 800 hectares of farmland amid the prolonged drought. This would be tantamount to an amnesty for berry farmers who have sunk illegal wells. Sinkevičius said the European Commission would use 'all the means available' to ensure Spain complied with a 2021 European Court of Justice ruling condemning it for breaking EU rules on excessive water extraction at Doñana. Conservationists say the plan would sound the death knell for Doñana. UNESCO threatened to include Doñana in its list of World Heritage in Danger and gave Spain until December 2024 to provide a report on the park's state and the efforts to protect it. The plan was paused after an agreement was reached in September between the caretaker government and the Andalusian authorities.

It is not far-fetched to see a conflict in the future in southern Spain, the oven of Europe and Spain's most popular tourism destination, between the competing water demands of the agricultural (irrigation is widespread and increasing) and tourism sectors in a situation of scarcity if drought and sweltering, inhospitable temperatures become the norm. The economic activities in Andalusia that largely depend on rainfall, principally agriculture, the agri-food industry and tourism, generate 26% of gross value added and 25% of employment. Andalusia is the world's largest olive oil producing region, while Spain as a whole produces up to 45% of the global total. The Agriculture Ministry forecast another poor year for olive oil, with production estimated at 765,362 tonnes for the season that began on 1 October 2023, 15% higher than last year, when output halved, but a third lower than the four-year average.

Some commentators believe the classic 'all-inclusive' package holiday on beaches in the south of Spain is doomed if climate change leads to ever-wilder weather.³⁸ The northern and much cooler regions of Galicia, Asturias and Cantabria received 435,500 international tourists in August, 4% more than the same month of 2022.

³⁷ A study used 34 years of satellite data to understand how human demands on the aquifer have affected the thousands of small ponds in the park. It concluded that groundwater usage caused most of the ponds analysed to flood less often, and in some cases dry out completely. See https://earthobservatory.nasa.gov/images/151492/water-woes-in-donana-national-park?utm_source=TWITTER&utm_medium=NASAEarth&utm_campaign=NASASocial&linkId=221988776.

³⁸ See <https://www.economist.com/business/2023/08/24/how-climate-change-will-hit-holidaymaking>. According to the Joint Research Council, an investigation institute which is part of the European Commission, climate change may influence tourism flows, with gains for northern Europe and losses for the south. Spain would be one of the most affected countries. See <https://joint-research-centre.ec.europa.eu/jrc-news-and-updates/global-warming-reshuffle-europes-tourism-demand-particularly-coastal-areas-2023>.

12. Foreign policy: unswerving support for Ukraine

Spain has been unswerving in its commitment to the defence of Ukraine against Russia's illegal invasion and supports –in particular– the country's accession to the EU and –in general– the bloc's enlargement, provided the procedures (and conditionality) required are respected.³⁹ This policy, broadly supported by the population, will not change (see Figure 50).

Figure 50. The EU has taken a series of actions as a response to Russia's invasion of Ukraine; to what extent do you agree or disagree with each of these actions taken (total agree, %)

	Spain	EU
Providing humanitarian support to the people affected by the war	93	88
Welcoming into the EU people fleeing the war	93	86
Providing financial support to Ukraine	78	75
Imposing economic sanctions on Russian government, companies and individuals	72	72
Financing the purchase and supply of military equipment to Ukraine	60	64
Granting candidate status as a potential member of the EU to Ukraine	69	64

Source: Spring Eurobarometer 2023, fieldwork 31/VI-20/VI/2023.

In relative terms, Spain's military, economic and humanitarian aid to Ukraine (0.3% of GDP) is higher than that of Italy and France but lower than that of much smaller countries such as Lithuania (see Figure 51). When aid is measured as a percentage of GDP, small countries benefit significantly compared to larger ones. Spain has also accepted more than 180,000 Ukrainian refugees, one-third of whom are minors (see Figure 52).

Figure 51. Government aid to Ukraine (% of GDP): top 10 countries (1)

	% of GDP
Estonia	1.3
Latvia	1.1
Lithuania	1.0
Poland	0.7
Slovakia	0.6

³⁹ For a review of Spain's response to the invasion, see the article by Charles Powell & Carlota García Encina at <https://www.realinstitutoelcano.org/en/analyses/spanish-responses-to-russias-invasion-of-ukraine/>.

	% of GDP
Norway	0.5
UK	0.4
Germany	0.3
US	0.3
Spain	0.3

(1) Commitments 24/II/2023 to 31/II/2023.

Source: The Ukraine Support Tracker, Kiel Institute for the World Economy.

Figure 52. Ukrainian refugees: top 10 countries (1)

Country	Number
Germany	1,086,355
Poland	968,390
Czech Republic	368,300
UK	210,800
Spain	186,125
Italy	167,525
Moldova	116,615
Slovakia	107,415
Netherlands	94,415
Ireland	93,810

(1) Latest available estimates of refugees recorded between February 2022 and 12 September 2023. The numbers can change quickly.

Source: UN High Commissioner for Refugees.

While support for Ukraine has been notable, Spain's defence spending (estimated at 1.26% of GDP in 2023, up from 0.9% in 2019) is still far from NATO's guideline of 2% and the third lowest in relative terms among the alliance's members after Belgium and Luxembourg (see Figure 53). The previous government said it would gradually raise spending to 2% by 2029.

Figure 53. Defence spending (% of GDP), 2023 estimates

	% of GDP
Poland	3.90
US	3.50
UK	2.07
NATO guideline	2.00
France	1.90
Germany	1.57
Italy	1.46
Spain	1.26
Luxembourg	0.72

Source: NATO.

Significantly, given the low level of defence spending, Spain is the third highest-ranking country in terms of how many firms and institutes are involved in European Defence Fund (EDF) projects after France and Italy, both of which spend more on defence than Spain in absolute and relative terms (see Figure 54). Spain punches above its weight. It is involved in 73% of all EDF projects funded so far (74 of 101 projects). This level of involvement in the EDF not only demonstrates Spain's interest in the full range of defence industrial areas being supported by the EU, but it also shows that Spain's defence and technological ecosystem is able to participate in a wide range of technology and innovation areas.⁴⁰

⁴⁰ See the analysis by Daniel Fiott at <https://www.realinstitutoelcano.org/en/analyses/investing-and-innovating-spain-and-the-european-defence-fund/>.

Figure 54. European Defence Fund investments, 2022 (total value, € million) (1)

	€ mn
France	249
Italy	217
Spain	205
Germany	191
Greece	112
Netherlands	89
Belgium	65
	€ mn
Norway	64
Sweden	63
Poland	53

(1) These values represent the total amount of money received from the EDF (ie, Spanish firms and institutes have received €205 million in grants since 2021).

Source: European Defence Fund.

Two thorny problems yet to be resolved are to patch up relations with Algeria, as a result of the previous Spanish government's U-turn over the Western Sahara, a former Spanish colony, and forge a post-Brexit agreement for the UK overseas territory of Gibraltar, one of Britain's five global hubs⁴¹ in its defence network, at the southernmost tip of Spain.

The 2020 UK-EU Trade and Cooperation Agreement does not cover Gibraltar, which voted 96% against Brexit. Since then, informal arrangements have prevented disruption in areas previously governed by EU law. Gibraltar and the UK held 13 rounds of negotiations with the previous Spanish government and the European Commission before Spain's general election on 23 July 2023. The treaty is between the UK and the EU, but Brussels has made clear it will not sign up to anything without the backing of Spain. José Manuel Albares, the Spanish Foreign Minister in the previous Sánchez government, warned that negotiations 'cannot go on eternally', although there is no specific deadline by which an agreement on a new treaty must be reached.

⁴¹ The others are Cyprus, Germany, Oman and Kenya.

The 1.7km long Spain-Gibraltar border, with only one entry point, is crossed by some 15,400 workers every day, around 11,000 of whom are Spanish and without whom the Gibraltar economy would cease to function. A hard border with strict controls including passport stamps, as opposed to people and cars continuing to cross smoothly and Gibraltar becoming in effect part of the Schengen area and closer to the EU's customs union than before Brexit, if there is no agreement, would be bad news for both sides.

A tight lid has been kept on the content of the negotiations. Sovereignty over Gibraltar was ceded to the UK by the Treaty of Utrecht in 1713 and has been claimed by Spain ever since. Spain regards itself as 'the victim of a colonial situation that seriously affects our territorial integrity', in the words of its Ambassador to the UN in June 2023. Gibraltar has been on a UN list of territories whose 'decolonisation' is pending from the 1960s.

Sovereignty, however, is not on the agenda of the negotiations. Gibraltar rejects anything that smacks at all of any erosion or change to its British sovereignty. A particular sticking point is the Spanish insistence on joint use of Gibraltar's airport. Gibraltarians rejected in a referendum in 2002 by a landslide majority a proposal by the UK government to share sovereignty with Spain. It remains to be seen which side blinks first in the negotiations.

As regards Algeria, a crucial supplier of natural gas to Spain, the country backs the Polisario Front, the Western Saharan independence movement, and supports the territory's self-determination. The Polisario leader Brahim Gali was treated in Spain in 2021 for COVID. That sparked a diplomatic row with Morocco, which had annexed the territory, rich in rock phosphate, in 1975 in the final months of the Franco dictatorship. Rabat responded by turning a blind eye to the massive crossing of thousands of people into Spain's North African enclave of Ceuta. Pedro Sánchez then reversed in March 2022 Spain's policy and supported Morocco's autonomy plan for the Western Sahara, which would allow Morocco to continue exercising its internationally unrecognised sovereignty over the territory while the Saharawi people would be allowed their own government.

Until then the Spanish government's traditional position, along with the EU's, had been to support a UN-sponsored referendum to settle the territory's decolonisation. Sánchez made the about-face in a letter to Morocco's King Mohammed VII, which broke a 46-year consensus between Spain's two main political parties and was engineered without any consultation with the Popular Party. He called the change, which was opposed by all parties in parliament including Unidas Podemos, the junior partner in his government, 'the most serious, credible and realistic basis' for solving the decades-long territorial dispute. That led Morocco to reinstate its Ambassador to Spain after 10 months and Algeria to recall its Ambassador and suspend the 20-year-old friendship treaty with Spain, under which the two countries cooperated on controlling the flow of migration and the fight against human trafficking. A first step in improving relations was taken in November 2023 when Algeria decided to send a new ambassador to Spain after a 19-month standoff.

Spain's foreign policy would be more effective if the government spoke with one voice, and not those of Sánchez and the Foreign Minister and those of Podemos/Sumar. For example, Ione Belarra, the leader of Podemos and the Social Rights Minister in the previous government, called for Sánchez to use Spain's EU Council presidency to suspend diplomatic relations with Israel and impose economic sanctions after she held Israel responsible for a hospital bombing, subsequently shown to be most likely the result of a failed rocket fired by a Palestinian militant group. This provoked the wrath of the Israeli government.

Except for oil and gas, whose revenue for Algeria is vital, virtually all trade between Spain and Algeria has stopped. Spain's exports to Algeria between June 2022, when Algeria imposed trade sanctions, and March 2023, dropped to US\$213 million from US\$1.6 billion between June 2021 and March 2022.

The relationship with Morocco is also not back on a completely even keel, despite the rapprochement over the Sahara. The borders of Ceuta and Melilla, Spain's North African enclaves claimed by Rabat, are open for the movement of people into Morocco, but not of goods, although Spain allows both into its territories. Other issues also remain to be resolved, such as the delimitation of territorial waters. In illegal migration, however, Morocco is co-operating much more, as evidenced by the drop in the number of people crossing in boats from Morocco to the Canary Islands.

In the EU, of which Spain held the rotating presidency during the second half of 2023, a Franco-Spanish axis emerged, consolidated by the signing in January 2023 of the Treaty of Barcelona covering a wide range of topics including the underwater hydrogen pipeline between the Catalan coast and Marseille, rail transport, education, defence and security. This enhanced Spain's position as a pivot state, able to move between alternative partners who may not be able to work with each other (or are even rivals).⁴²

42 See the article by Jeremy Cliffe at <https://agendapublica.elpais.com/noticia/18393/treaty-of-barcelona-confirms-spain-emergence-as-europe-top-pivot-state>.

13. Conclusions: a difficult future

If the 17 weeks of wrangling to form a new government are anything to go by, the renewed Socialist-led minority coalition faces a bumpy ride. This does not bode well for tackling the many problems and structural challenges, resolving which requires broad consensus across the political divide if laws and structural reforms are to be effective and not be overturned when a different party takes office. Yet politics has become so fractured and polarised, unlike society as a whole, that sadly this looks impossible. As the Spanish saying goes, *La esperanza es lo último que se pierde* ('The last thing to be lost is hope').

Appendix

Appendix a. Basic socioeconomic statistics, 2019 and 2023

	2019	2023 (1)
GDP per capita (constant 2017 US\$ PPP)	40,782	39,834
Government deficit & debt		
Fiscal balance (% GDP)	-2.9	-4.8
Public debt (Maastricht definition, % GDP)	95.5	111.2
Taxes		
Total tax revenue (% GDP)	34.8	38.3
Trade		
Imports of goods and services (% GDP)	32.0	39.7
Exports of goods and services (% GDP)	34.9	40.9
Current account balance (% GDP)	+2.1	+0.6
Foreign direct investment		
Outward FDI stock (US\$ bn)	575.8	550.8
Inward FDI stock (US\$ bn)	713.6	787.3
Educational attainment (25-34 year-olds, highest level attained, %)		
Below upper secondary	30	28
Upper secondary or post-secondary non tertiary	23	24
Tertiary attainment	47	49
Early school-leaving rate (% of population 18-24)	17.2	13.9
Unemployment		
Jobless rate (%)	13.8	11.6
Youth unemployment (% of workforce under 25)	32.6	28.4
Research & Development		
Expenditure (% of GDP)	1.2	1.4
Population		
Total (million)	46.9	48.2
Foreign-born population (% of total population)	14.7	17.6
Fertility rate	1.24	1.19
Under 15 (% of total population)	14.6	13.8
Over 65 (% of total population)	19.6	20.2
Health		
Life expectancy at birth (years)	83.6	83.9
Society		
International tourists (million)	83.5	71.6
Social Progress Index (score out of 100)	90.6	85.3

(1) Latest available data.

Source: World Bank, OECD, INE, Eurostat, WTO, UNCTAD, Social Progress Imperative.

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