OVERVIEW

Catalyst

This profile analyzes the political, economic, social, technological, legal and environmental structure in Spain. Each of the PESTLE factors is explored on four parameters: current strengths, current challenges, future prospects and future risks.

Summary

Key findings

Without majority support, the government has struggled to introduce reforms

The Socialist Party (PSOE; Partido Socialista Obrero Español) was voted in for a second term in the 2008 elections, despite perceived support for the People’s Party (PP; Partido Popular). However, the winning party fell short of an absolute majority by seven seats, which made the government depend on support from Catalan or Basque regional parties (who are also fighting for independence) to pass important legislations. This has prevented the government from carrying out significant reform.

In addition, the continuing growth of regionalism will pose a challenge in preserving the federal structure of the country. Some regions, such as the Basque area and Catalonia have been fighting for independence, which has led to divisive internal politics. The federal government failed in its peace talks with the Basque separatist organization, Euskadi Ta Askatasuna (ETA). At the same time, Catalonia is also backing proposals for independence. The government gave a new charter to autonomous Catalonia, which has been threatening the existence of the federal structure. Such internal divisions will not only strengthen separatist forces, it will also impede the implementation of national policies.

The current economic downside began in 2007 following a housing market crash, and has worsened in 2009

The country’s economic growth lost its momentum and began to decline in the second half of 2007. The Spanish economy’s excessive dependence on real estate was exacerbated by the impact of global financial turbulence and the US sub-prime crisis, as the speculative price rises in the real estate market and the property boom came to an end.
The economic crisis deepened following weak domestic demand and rising inflation. Spain’s economic growth came down to reach 1.1% in 2008 and it contracted by 3.7% in 2009. Although the government recorded a budget surplus in 2007, the economic downturn has pushed it into a deficit during 2008 and 2009. The government has announced numerous packages with the intention of increasing liquidity in the system. In addition, the global financial crisis has made access to credit tighter, which is expected to slowdown the process of economic recovery. However, unless these packages are implemented well it is feared that the recessionary affect will continue in 2010.

An aging population and unemployment pose a challenge to Spain’s social security system

Despite making good progress in social security measures, the country is faced with the challenges of an increase in both the aging population and unemployment, which are common problems for many European nations. The country’s “Agreement for improvement and development of the social security system” pact laid the foundation for security reforms, particularly in terms of overhauling the pension system and encouraging people to work beyond the age of 65. The Toledo Pact, which was signed by the government and trade unions in 1994, has worked toward consolidation and rationalization of the public social security system. However, Spanish society is facing the challenge of an increase in the number of aged people, which has not been balanced by a proportionate increase in birth rate. Indeed, the birth rate has been declining continuously and there are fewer people entering the work force. Moreover, the sluggish economic growth will force the government to undertake a reduction in social expenditure.

Overdependence on the government for R&D initiatives has hindered innovation

R&D activities in Spain have been spearheaded by the public sector, with lesser involvement of the private sector. The total expenditure on R&D in 2007 was 1.2% of GDP, which is much less than other developed nations. In comparison, throughout 2007 France’s expenditure was 2.13% of the GDP, while the US spent 2.68%, Japan spent 3.18%, and Canada spent 1.8%. This lack of innovation and entrepreneurship has emerged because of a low percentage of small and medium enterprises (SMEs) becoming involved in innovation, and the low participation of the private sector and venture capitalists.

The low number of patents registered in Spain reflects the low level of innovation. Nevertheless, the country’s performance has improved somewhat, as reflected in the 2008 European Innovation Scoreboard (EIS). The country is forecast to reach an R&D expenditure level of 2% of GDP and raise private sector expenditure on R&D to 55% by 2010. A positive environment could be created by enhancing incentives and simplifying the venture capitalist funding procedure.

Despite regulatory reforms, the economy is yet to be fully independent of government intervention

The Spanish government has been undertaking regulatory reforms to improve the legal climate of the country. Tax rates have been reduced, investment regulations have been eased out, and hitherto restricted sectors are being opened up to encourage private investment. However, the country’s business sector has not been able to completely free itself from government intervention. The government continues to play an important role in wage fixation, and the prevalence of collective bargaining in both public and private sector has restricted the implementation of reform measures, as wages are not directly related to labor productivity. Such wage rigidities are directly affecting the nation’s competitiveness and this situation will worsen as Spain faces increasing competition from other low wage nations. Moreover, a number of sectors are still restricted for private investment. The government has allowed little competition in the utilities and retail sector. Further market operations, such as procurement and other professional services, are also suffering from market distortions because of government intervention.
Environmental indicators show little improvement, as the implementation of policies remains weak

Spain is party to a large number of environmental agreements that have been ratified by the EU. Despite passing legislation for a wide range of environmental policies, its success in implementation remains weak. It faces important challenges concerning marine life, climate change and regional air pollution. Its greenhouse gas (GHG) emissions increased by 49% during 1990–2004, one of the highest rates among the signatories of the Kyoto Protocol. In 2009, the country released around 359 million metric tons of CO2 emissions and its marine environment performance also remained unsatisfactory. The government of Spain has made little use of environmental taxes or other instruments that may have resulted in better implementation of environmental laws. Many municipal governments do not charge for services such as water and sewerage. Many industrialized nations meet their financial needs by using the ‘polluter pays’ principle. The principle has been introduced in the new climate change strategy, but the desired results are yet to be achieved.

PESTLE highlights

Political landscape

- In March 2010, the prime minister has launched a cross-party “anti-crisis” commission aimed at arriving on a consensus to address the severe and ongoing recession.
- The government aims to improve the efficiency of the public administration system across ministries.

Economic landscape

- In March 2010, the government set out its proposals to grant more loans to small businesses amongst other measures on which it hopes to obtain cross-party support to revive its stumbling economy. The Economy Ministry listed a total of 55 measures, which also included a committee to analyze Spain’s energy strategy for the next 25 years.
- The government has approved a fiscal stimulus package to increase investment activities, particularly in construction, and has resorted to the public-private participation (PPP) model to provide new investment avenues for private participation.

Social landscape

- The healthcare needs of its population are also being adequately met by the public sector, although recent initiatives have been undertaken to increase the involvement of the private sector.
- The labor market of Spain is moving from a system of temporary contracts to permanent contracts. It will provide long-term predictability to employers with respect to available employees.

Technological landscape

- The country fares poorly in terms of the number of patents received. The country had only 418 patents in 2008 compared to France and German which had around 3813 and 10,086 patents, respectively, in the same year.
Overview

- The Spanish biotechnology market has posted healthy growth rates during 2005–08. This is set to remain healthy in 2008 and over the course of the forecast period (2008–13). The Spanish biotechnology market generated total revenues of $7.6 billion in 2008, representing a compound annual growth rate (CAGR) of 6.1% for the period spanning 2004–08.

Legal landscape

- Spanish law permits foreign investment of up to 100% of equity, and capital movements are completely liberalized.
- The authority of the Spanish competition commission has been widened to make enforcement more effective.

Environmental landscape

- The country’s environmental policies have been developed along EU guidelines. The strategy on sustainable development and on climate change has been approved to reduce GHG emissions by developing a technical construction code and a bonus system to encourage people to buy energy efficient vehicles.
- To reduce the country’s energy dependence, the government wants renewable energy to account for 12.1% of primary energy in 2010 and 30.3% of electricity.

Key fundamentals

<table>
<thead>
<tr>
<th>Table 1: Spain – Key fundamentals</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP, constant 2000 prices ($ billion)</td>
<td>742.1</td>
<td>714.7</td>
<td>709.0</td>
<td>715.4</td>
<td>726.0</td>
<td>738.6</td>
<td>754.8</td>
</tr>
<tr>
<td>GDP growth rate (%)</td>
<td>1.1</td>
<td>-3.7</td>
<td>-0.8</td>
<td>0.9</td>
<td>1.5</td>
<td>1.7</td>
<td>2.2</td>
</tr>
<tr>
<td>GDP, constant 2000 prices, per capita ($)</td>
<td>16,607</td>
<td>15,843</td>
<td>15,581</td>
<td>15,594</td>
<td>15,702</td>
<td>15,850</td>
<td>16,078</td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>4.5</td>
<td>-0.3</td>
<td>0.8</td>
<td>1.1</td>
<td>1.1</td>
<td>1.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Exports, total as % of GDP</td>
<td>25.6</td>
<td>22.5</td>
<td>21.6</td>
<td>22.0</td>
<td>22.5</td>
<td>23.1</td>
<td>23.5</td>
</tr>
<tr>
<td>Imports, total as % of GDP</td>
<td>31.5</td>
<td>26.2</td>
<td>25.4</td>
<td>24.9</td>
<td>25.0</td>
<td>25.2</td>
<td>25.8</td>
</tr>
<tr>
<td>Mid-year population, total (million)</td>
<td>44.7</td>
<td>45.1</td>
<td>45.5</td>
<td>45.9</td>
<td>46.2</td>
<td>46.6</td>
<td>46.9</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
<td>11.3</td>
<td>18.0</td>
<td>19.3</td>
<td>18.9</td>
<td>18.0</td>
<td>17.2</td>
<td>16.2</td>
</tr>
<tr>
<td>Doctors per 1,000 people</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
<td>5.1</td>
<td>5.1</td>
<td>5.1</td>
<td>5.2</td>
</tr>
<tr>
<td>Mobile penetration (per 100 people)</td>
<td>121.4</td>
<td>124.8</td>
<td>127.8</td>
<td>130.5</td>
<td>133.0</td>
<td>135.2</td>
<td>137.1</td>
</tr>
</tbody>
</table>

Source: Datamonitor
# Table of Contents

## TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overview</td>
<td>1</td>
</tr>
<tr>
<td>Catalyst</td>
<td>1</td>
</tr>
<tr>
<td>Summary</td>
<td>1</td>
</tr>
<tr>
<td>Key facts and geographic location</td>
<td>9</td>
</tr>
<tr>
<td>Key facts</td>
<td>9</td>
</tr>
<tr>
<td>Geographical location</td>
<td>10</td>
</tr>
<tr>
<td>PESTLE analysis</td>
<td>11</td>
</tr>
<tr>
<td>Summary</td>
<td>11</td>
</tr>
<tr>
<td>Political analysis</td>
<td>12</td>
</tr>
<tr>
<td>Economic analysis</td>
<td>15</td>
</tr>
<tr>
<td>Social analysis</td>
<td>19</td>
</tr>
<tr>
<td>Technological analysis</td>
<td>22</td>
</tr>
<tr>
<td>Legal analysis</td>
<td>25</td>
</tr>
<tr>
<td>Environmental analysis</td>
<td>28</td>
</tr>
<tr>
<td>Political landscape</td>
<td>31</td>
</tr>
<tr>
<td>Summary</td>
<td>31</td>
</tr>
<tr>
<td>Evolution</td>
<td>31</td>
</tr>
<tr>
<td>Structure and policies</td>
<td>33</td>
</tr>
<tr>
<td>Performance</td>
<td>39</td>
</tr>
<tr>
<td>Outlook</td>
<td>40</td>
</tr>
<tr>
<td>Economic landscape</td>
<td>41</td>
</tr>
<tr>
<td>Summary</td>
<td>41</td>
</tr>
<tr>
<td>Evolution</td>
<td>41</td>
</tr>
<tr>
<td>Structure and policies</td>
<td>43</td>
</tr>
<tr>
<td>Performance</td>
<td>46</td>
</tr>
<tr>
<td>Outlook</td>
<td>57</td>
</tr>
<tr>
<td>Social landscape</td>
<td>59</td>
</tr>
<tr>
<td>Summary</td>
<td>59</td>
</tr>
<tr>
<td>Evolution</td>
<td>59</td>
</tr>
<tr>
<td>Structure and policies</td>
<td>59</td>
</tr>
<tr>
<td>Performance</td>
<td>62</td>
</tr>
</tbody>
</table>
# Table of Contents

- **Outlook**
  - Spain: Country Analysis Report – In-depth PESTLE Analysis Published 04/2010
  - © Datamonitor. This brief is a licensed product and is not to be photocopied

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outlook</strong></td>
<td>64</td>
</tr>
<tr>
<td><strong>Technological landscape</strong></td>
<td>66</td>
</tr>
<tr>
<td><strong>Summary</strong></td>
<td>66</td>
</tr>
<tr>
<td><strong>Evolution</strong></td>
<td>66</td>
</tr>
<tr>
<td><strong>Structure and policies</strong></td>
<td>66</td>
</tr>
<tr>
<td><strong>Performance</strong></td>
<td>68</td>
</tr>
<tr>
<td><strong>Outlook</strong></td>
<td>72</td>
</tr>
<tr>
<td><strong>Legal landscape</strong></td>
<td>73</td>
</tr>
<tr>
<td><strong>Summary</strong></td>
<td>73</td>
</tr>
<tr>
<td><strong>Evolution</strong></td>
<td>73</td>
</tr>
<tr>
<td><strong>Structure and policies</strong></td>
<td>73</td>
</tr>
<tr>
<td><strong>Performance</strong></td>
<td>76</td>
</tr>
<tr>
<td><strong>Outlook</strong></td>
<td>77</td>
</tr>
<tr>
<td><strong>Environmental landscape</strong></td>
<td>78</td>
</tr>
<tr>
<td><strong>Summary</strong></td>
<td>78</td>
</tr>
<tr>
<td><strong>Evolution</strong></td>
<td>78</td>
</tr>
<tr>
<td><strong>Structure and policies</strong></td>
<td>78</td>
</tr>
<tr>
<td><strong>Performance</strong></td>
<td>79</td>
</tr>
<tr>
<td><strong>Outlook</strong></td>
<td>81</td>
</tr>
<tr>
<td><strong>APPENDIX</strong></td>
<td>83</td>
</tr>
<tr>
<td><strong>Ask the analyst</strong></td>
<td>83</td>
</tr>
<tr>
<td><strong>Datamonitor consulting</strong></td>
<td>83</td>
</tr>
<tr>
<td><strong>Disclaimer</strong></td>
<td>83</td>
</tr>
</tbody>
</table>
### TABLE OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1</td>
<td>Map of Spain</td>
<td>10</td>
</tr>
<tr>
<td>Figure 2</td>
<td>Spain – key political events since 1935</td>
<td>32</td>
</tr>
<tr>
<td>Figure 3</td>
<td>Spain – key political figures</td>
<td>34</td>
</tr>
<tr>
<td>Figure 4</td>
<td>Structure of the government of Spain</td>
<td>35</td>
</tr>
<tr>
<td>Figure 5</td>
<td>Composition of the Spanish Congress of Deputies (lower house)</td>
<td>37</td>
</tr>
<tr>
<td>Figure 6</td>
<td>Spain – historical GDP growth (1971–2009)</td>
<td>42</td>
</tr>
<tr>
<td>Figure 7</td>
<td>Spain – Market capitalization of the BME, 2001–08</td>
<td>45</td>
</tr>
<tr>
<td>Figure 8</td>
<td>GDP and GDP growth rate in Spain, 2003–13 (real GDP at constant 2000 prices)</td>
<td>47</td>
</tr>
<tr>
<td>Figure 9</td>
<td>GDP composition by sectors, 2009</td>
<td>48</td>
</tr>
<tr>
<td>Figure 10</td>
<td>Agricultural output of Spain, 2001–09</td>
<td>49</td>
</tr>
<tr>
<td>Figure 11</td>
<td>Industrial output of Spain, 2001–09</td>
<td>50</td>
</tr>
<tr>
<td>Figure 12</td>
<td>Services output of Spain, 2001–09</td>
<td>51</td>
</tr>
<tr>
<td>Figure 13</td>
<td>Current account balance of Spain, 2001–08</td>
<td>52</td>
</tr>
<tr>
<td>Figure 14</td>
<td>External trade of Spain, 2004–09</td>
<td>53</td>
</tr>
<tr>
<td>Figure 15</td>
<td>Total foreign investment in Spain, 2001–08</td>
<td>54</td>
</tr>
<tr>
<td>Figure 16</td>
<td>Consumer price index and CPI-based inflation in Spain, 2002–13</td>
<td>55</td>
</tr>
<tr>
<td>Figure 17</td>
<td>Employment and growth rate in Spain, 2001–13</td>
<td>57</td>
</tr>
<tr>
<td>Figure 18</td>
<td>Expenditure on healthcare in Spain, 2003–13</td>
<td>63</td>
</tr>
<tr>
<td>Figure 19</td>
<td>Government expenditure on education in Spain, 2003–08</td>
<td>64</td>
</tr>
<tr>
<td>Figure 20</td>
<td>Growth rate of mobile and fixed line subscribers in Spain, 2002–13</td>
<td>69</td>
</tr>
<tr>
<td>Figure 21</td>
<td>Internet users and growth rate in Spain, 2002–13</td>
<td>70</td>
</tr>
<tr>
<td>Figure 22</td>
<td>Spain – judicial structure</td>
<td>74</td>
</tr>
<tr>
<td>Figure 23</td>
<td>Carbon dioxide emissions in Spain, 2002–13</td>
<td>81</td>
</tr>
</tbody>
</table>
Table of Contents

TABLES

Table 1: Spain – Key fundamentals ............................................ 4
Table 2: Spain - key facts ....................................................... 9
Table 3: Analysis of Spain’s political landscape ......................... 12
Table 4: Analysis of Spain’s economy ...................................... 15
Table 5: Analysis of Spain’s social system ................................. 19
Table 6: Analysis of Spain’s technology landscape .................... 22
Table 7: Comparative performance – Patents ............................ 24
Table 8: Analysis of Spain’s legal landscape ............................. 25
Table 9: Analysis of Spain’s environmental landscape ............... 28
Table 10: Mid-year population by age, 2009 (millions) .............. 60
### KEY FACTS AND GEOGRAPHIC LOCATION

#### Key facts

**Table 2: Spain - key facts**

<table>
<thead>
<tr>
<th>Country and capital</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Full name</strong></td>
<td>Kingdom of Spain</td>
</tr>
<tr>
<td><strong>Capital city</strong></td>
<td>Madrid</td>
</tr>
</tbody>
</table>

**Government**

<table>
<thead>
<tr>
<th><strong>Government type</strong></th>
<th>Parliamentary monarchy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Head of state</strong></td>
<td>King Juan Carlos I</td>
</tr>
<tr>
<td><strong>Head of government</strong></td>
<td>Prime Minister Jose Luis Rodriguez Zapatero</td>
</tr>
</tbody>
</table>

**Population**

- 40.5 million

**Currency**

- Euro

**GDP per capita (PPP)**

- $33,700

**Internet domain**

- .es

**Demographic details**

<table>
<thead>
<tr>
<th><strong>Life expectancy</strong></th>
<th>80.05 years (total population); 76.74 years (men) and 83.57 years (women)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ethnic composition</strong></td>
<td>Mediterranean and Nordics</td>
</tr>
<tr>
<td><strong>Major religions</strong></td>
<td>Roman Catholic (94%) and Others (6%)</td>
</tr>
</tbody>
</table>

**Country area**

- 499,542 sq km

**Language**

- Castilian Spanish (official) 74%, Catalan (17%), Galician (7%) and Basque (2%)

**Exports**

- Machinery, motor vehicles, foodstuffs, pharmaceuticals, medicines, and other consumer goods

**Imports**

- Machinery and equipment, fuels, chemicals, semi-finished goods, foodstuffs, consumer goods, measuring and medical control instruments

**Source:** CIA
Geographical location

Spain is located in southwestern Europe, bordering the Bay of Biscay, Mediterranean Sea, North Atlantic Ocean, and Pyrenees Mountains. It shares its boundaries with Portugal and France.
PESTLE ANALYSIS

Summary

The PSOE came to power for a second term in the March 2008 elections. The current term in office may prove to be a difficult one for Prime Minister Jose Zapatero, who has assumed the office in the midst of a declining economy. On one hand, the government has to reverse economic downturn, on the other it has to deal with regional forces. The federal structure of the country has come under threat as regionalism has gathered momentum in recent years. The autonomous communities (ACs), such as the Basque and Catalonia, are striving for independence from the Spanish mainland, often fuelling social unrest through acts of terrorism.

The economy, after continuing to grow for 13 years at an average rate of around 4%, began to decline in 2007. The economy’s weak foundation of growth was revealed when the real estate market, which was the major driver of the economy, crashed in 2007. It is feared that the recessionary conditions may continue in 2010, despite a number of government measures to stimulate it. Although the government undertook measures to revamp the regulatory system in order to further industrial activities and increase competition, it has failed to achieve the desired results and the state continues to intervene in economic matters. The deceleration will continue due to weak domestic demand. The Spanish economy may be even more damaged going forward as its social sector is dominated by the issue of an aging population and a shrinking labor force. The high levels of unemployment also continue to worry the government.

EU membership has given the country an opportunity to undertake measures to meet the environmental and technological standards of its EU peers. The country’s performance on environmental indicators, despite lagging behind other EU nations, has shown improvement.
Political analysis

Overview

Spain presents a successful example of transition from monarchy to dictatorship, and finally to democracy. The initial years of democracy were dominated by two distinct parties, the center right PP and the center left PSOE. The PSOE received popular support in the early years of democracy but the PP emerged as the largest single grouping in the 1996 elections, and came to power again in 2000. The PP government initiated a number of policies for economic reforms along with the process of fiscal discipline. Despite the economic successes that it enjoyed, the domestic popularity of the PP’s two-term Prime Minister Jose Maria Aznar declined, due of his support of the US’s Iraq policy. He was subsequently voted out of power. The PSOE won the elections in 2004 and 2008 under the leadership of Mr. Zapatero.

The country has witnessed both conservative and liberal regimes, and the policies framed by such regimes have maintained continuity in economic and social reforms. However, there have been differences in foreign, defense and immigration policies. The reformist policies have slowed down to some extent since the PSOE came to power in 2004. In the 2008 elections, the party was not able to garner enough support for an absolute majority, falling short by seven seats. Therefore, it has to depend on other regional parties, or smaller parties, to pass through important legislations.

Table 3: Analysis of Spain’s political landscape

<table>
<thead>
<tr>
<th>Current strengths</th>
<th>Current challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>■ Effective democratic system of governance</td>
<td>■ Thin majority of the incumbent government</td>
</tr>
<tr>
<td>■ Improved relations with EU partners</td>
<td>■ Presence of terrorist groups</td>
</tr>
<tr>
<td>Future prospects</td>
<td>Future risks</td>
</tr>
<tr>
<td>■ Cross party anti crisis commission</td>
<td>■ EU presidency</td>
</tr>
<tr>
<td>■ EU presidency</td>
<td>■ Slowdown of the legislative reform process</td>
</tr>
</tbody>
</table>

Source: Datamonitor

Current strengths

**Effective democratic system of governance**

Spain has been successful in making a transition from dictatorship to a democratic form of government. Since 1978, when the new constitution came into effect, democratic principles have taken firm root. Although the initial years of democracy were dominated by the PSOE, it later lost power and was replaced by the PP in 1996. Despite changes in the ruling regime, successive governments have maintained a continuity regarding economic policies. The targets set under the Maastricht Treaty bind the government and do not allow it much room to diverge from EU practices. Therefore, a continuation of the economic policies aimed at fiscal consolidation will continue. On the World Governance Indicators 2009, Spain has a strong percentile rank of 86.5 on voice and accountability in 2009, which measures the extent to which a
country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. This indicates the effectiveness of the republican constitution.

**Improved relations with EU partners**

EU membership has provided an opportunity for the Spanish government to integrate itself closely with other EU members. The nation has prospered due to the large amount of inflow of economic aid from the EU nations. The incumbent government formed by the center-left PSOE has become closer to European countries in political terms, mainly France and Germany, and is moving away from the US in regards to extending support in the international sphere. This strategy is expected to work well for the government as the EU nations become a partner in the development of Spain. As is already evident, Spain has been able to achieve remarkable progress under the influence of EU regional and agricultural subsidies.

**Current challenges**

**Thin majority of the incumbent government**

The PSOE came to power for a second term in the 2008 elections, despite perceived support for the PP. However, the PSOE fell short of an absolute majority in the parliament by seven seats. Thus the government is dependent on the support of Catalan or Basque regional parties to pass important legislations. This restricts the government's ability to carry out the significant reforms that will be essential to negate the process of economic recession. There is also an element of uncertainty with respect to the legislations to be carried out as the prime minister will need support from other smaller parties. The final form of policies will depend on the political party the prime minister seeks support from.

**Presence of terrorist groups**

Spain has been subjected to terrorist violence in the past and there is a continued presence of suspected terrorist groups in the country. ETA, considered a violent terrorist group by the US and the EU has been held responsible for large scale killing over four decades in its fight for an independent Basque homeland. Islamic extremist groups are also suspected to be involved in terrorist activities in the country. ETA resumed its campaign of attacks after breaking its last ceasefire in June 2007, and has been responsible for a number of killings. In 2008 anti-terrorism judge Baltasar Garzon indicted 24 people on charges of extortion on behalf of ETA. Furthermore, in March 2010, a policeman was killed in a shootout in a Paris suburb in France. France and Spain have blamed ETA and subsequently the Spanish government raised its terrorism alert level in the country. ETA continues to be a potent threat to the country.

**Future prospects**

**Cross party anti crisis commission**

In March 2010, the prime minister launched a cross-party “anti-crisis” commission aimed at securing a broad political settlement on measures to address the severe and ongoing recession. Some key issues have been excluded from the talks and dividing lines have already emerged during February–March 2010, suggesting that any far-reaching consensus is unlikely. However, some concrete measures are expected to emerge from the negotiations in the areas of competitiveness, industrial policy, fiscal consolidation and improving firms’ access to finance. With public opinion strongly in favor of cross-party co-operation, King Juan Carlos called for a national pact to agree on future policy plans in March 2010, in which all
the main parties participated in the negotiations. The commission is expected to bring in measures to fight the ailing economy.

Future risks

**EU presidency**

The country assumed the EU presidency in January 2010 and got off to an inauspicious start. In early January 2010, Prime Minister Zapatero launched a proposal that the EU should consider imposing "corrective measures" on countries that fail to meet commonly agreed economic objectives. This met with a dismissive response from a number of EU member countries and widespread skepticism from international media, which have questioned whether it is appropriate that Zapatero should be leading plans for an economic recovery program for Europe, given the poor state of the Spanish economy.

**Slowdown of the legislative reform process**

The Spanish government is caught in the midst of recession, which leads one to believe that the process of reform will be slowed down. In the early part of the nineties, Spain was one of the top economies in the European region, which gave the government enough scope to maneuver with economic and social policies. However, since the beginning of 2009 the government has faced economic recession, rising inflation and unemployment, and its surplus budget is expected to turn into a widened deficit in the future. Besides, the government is dependent on the support of other parties as it does not have a majority. These conditions may prompt the government to refrain from taking any harsh measures for fear of political instability.
Economic analysis

Overview

The Spanish economy has been on a downturn since the later part of 2007, which follows a period of continued growth lasting 13 years. The economy, which was underdeveloped until the 1980s, was liberalized after Spain became a member of the EU in 1986. Subsequently, the government undertook a number of economic reform programs and initiated measures to improve fiscal discipline in order to meet the objectives set under the Maastricht Treaty. Spain’s economy showed steady progress during the 1990s, driven primarily by mass tourism and European subsidies. In fact, since the mid-1990s, Spain outperformed the rest of the Eurozone, particularly the larger countries. The average economic growth between 1997 and 2000 was above 4%, but declined to 2.7%–3% during 2002–03. Although, the average economic growth increased to 3.54% during 2004–06, it came down to 0.4% during 2007–09.

The economic growth lost its momentum and a decline began in the second half of 2007. In 2008, the country's economic growth declined to 1.1%. The speculative price rise in the real estate market and the property boom came to an end. The Spanish economy’s excessive dependence on the real estate sector has been exacerbated by the impact of global financial turbulence and the US sub-prime crisis. The economic crisis deepened following weak domestic demand and rising inflation. However, since the second half of 2008 with declining prices, the country went into deflation (-3% in 2009). The government’s budget also ran into a deficit in 2008 and 2009. Exports have also come under pressure because of deteriorating economic conditions in major markets.

<table>
<thead>
<tr>
<th>Current strengths</th>
<th>Current challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU membership</td>
<td>Economic recession</td>
</tr>
<tr>
<td>Strong FDI flows</td>
<td>High unemployment</td>
</tr>
<tr>
<td></td>
<td>Decrease in spending</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Future prospects</th>
<th>Future risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austerity plan</td>
<td>Labor market rigidities and unrealistic wage hikes</td>
</tr>
<tr>
<td>Liberalization of government dominated service sectors</td>
<td>Prolonged recovery period following global financial crisis</td>
</tr>
</tbody>
</table>

Source: Datamonitor

Current strengths

EU membership

The economy of Spain has become closely integrated with the EU. As a result, the government is committed to maintain fiscal and monetary stability, as required by the Maastricht Treaty. The government is on track with respect to product market liberalization. A limited degree of competition has been introduced with respect to energy, electricity, and telecommunications markets. The country also enjoys geographic advantages as it provides an easy gateway to both
PESTLE analysis

European and Latin American markets. These factors work in favor of improving the trade and investment climate in Spain. Furthermore, with Spain taking over the EU presidency has much higher influence over the economic prospects of the region.

**Strong FDI flows**

Despite the economic slowdown in the EU region, Spain continued to absorb foreign direct inflows into the country. The country’s FDI increased from a level of $28 billion in 2001 to more than $65 billion in 2008. The Netherlands was responsible for 20% of FDI inflow into Spain in 2007–08. The UK and the US were responsible for 6.65% and 4.95% of investment, respectively, during the same year. Telecoms, real estate, hotels, manufacturing, and the agro-foods industry witnessed a large amount of FDI inflow. According to UNCTAD, Spain is the 7th most attractive country in the world for investment. Despite current recession in the country, it is expected that the country would still get considerable amount of FDIs.

**Current challenges**

**Economic recession**

The Spanish economy recorded steady growth for 13 years until 2006, but the rate of growth has declined since the second half of 2007. The decline started with the bursting of the housing bubble and the conditions worsened with the deteriorating US sub-prime crisis. The housing sector was one of the significant drivers of the Spanish economy, accounting for more than 9% of the country’s GDP in 2007. During 2001–06 property prices doubled, with 60% of the increase coming during 2005–06 alone. However, since 2007 property prices have fallen and it is estimated that prices declined by a further 8% during 2008–09.

The slump in the housing sector has spread to both manufacturing and services sectors, with business confidence survey results indicating a negative trend. Spain suffered the greatest drop in annual economic growth of all developed nations, with growth falling to 1.1% in 2008 and -3.7% in 2009. Furthermore, the GDP is expected to shrink by 0.8% in 2010. There are little chances of an early revival, as consumption and investment expenditure will remain poor and exports will also be undermined by the slump in international markets.

**High unemployment**

The Spanish government faces the major economic challenges of high unemployment and falling inflation since the end of 2008. An economic slowdown has led to a downturn in industrial activities and the level of unemployment has continued to rise. From a high of 20% in 1990, the unemployment level had fallen to 9% in 2006, but increased again to 18% in 2009–10. By the end of 2009, nearly 4 million people were unemployed, resulting in a year-on-year increase in unemployment reaching 66.4%. The employment situation may further deteriorate, as estimates suggest that unemployment is expected to reach 19.3% by the end of 2010. Unless structural measures are undertaken to improve the labor market, there is a possibility of an increase in unemployment.

**Decrease in spending**

Due to economic recession and loss of jobs, the consumer spending has come down in the country. Furthermore, consumers are unable to maintain previous levels of spending, given that they can no longer finance as many purchases
PESTLE analysis

through loans. Lending to households fell by 0.7% year on year in the final quarter of 2009, the third consecutive quarter of decline, which was much lower than 3.8% growth seen in 2008. There has also been an increase in instances of domestic indebtedness and reduced spending, further aggravating the economic slump.

Future prospects

Austerity plan

The Spanish government announced an austerity plan for 2011–13 and a revised Stability Programme to the European Commission for 2009–13, which projects a significant decline in the general government budget deficit and includes a "sustainable economy" program—first announced in November 2009—that aims to improve Spain's competitiveness over the next ten years. The stability plan acknowledges the rapid and unsustainable deterioration in the government’s fiscal position over the past two years, and sets out details of an exit strategy, beginning this year. The plan lays out a framework to reduce the deficit by an average of 2.1 percentage points of GDP per year between 2010 and 2013—an effort that will be particularly challenging this year, when the risk of undermining a tentative and fragile economic recovery will be substantial. Moreover, the government's GDP forecasts look plainly optimistic given existing economic imbalances and the anticipated hit to domestic demand from higher taxes and lower spending.

Liberalization of government dominated service sectors

In line with the EU directives, sectors which have been government dominated are now being opened for private investment. The government has introduced measures to liberalize services sectors such as energy, telecommunications and transport. Despite privatization, private entities are finding it tough to compete with publicly owned organizations because of government policies. It is expected that with the introduction of competition policies, the services sectors will throw up more opportunities for investors.

Future risks

Labor market rigidities and unrealistic wage hikes

The government’s regulations have led to much rigidity in the labor market. Inflexible employment regulations have hindered overall productivity growth and employment opportunities. Moreover, the existing rigidities in hiring and firing a worker have made employers cautious in providing employment. According to Doing Business 2010 indicators of the World Bank, the country is ranked 157th out of 183 countries under the Employing Workers criteria, signifying a very strict labor regime. There have also been unrealistic wage hikes, which are unmatched by labor productivity. The decision to link wages to price index has imparted inflexibility to the labor market, as it is not related to improvements in productivity. It is likely to further deteriorate in the absence of significant measures to revamp the labor market.

Prolonged recovery period following global financial crisis

The Spanish economy has become closely integrated with the global economy. As a result, the turbulence in the global financial market has adversely affected the Spanish economy. The crisis has made access to credit tighter, which is a serious concern for an economy with excessive dependence on loans. Like many other European banks, large Spanish banks have found themselves embroiled in a crisis, which necessitated the central bank’s intervention. In March 2009, the Bank of Spain took control of regional savings bank Caja Castilla La Mancha (CCM), replacing its directors with its own
nominees and providing up to €9.0 billion in liquidity. Spanish banks have not been nationalized like banks in other European countries as strict regulations protected them from US high risk or “sub-prime” assets. Nevertheless, the number of non-performing loans has been increasing in Spain following a rapid rise in unemployment and the collapse of the property boom. In such a scenario, there will be a slowdown in lending, which will prolong the recovery process.
Social analysis

Overview

The economic growth achieved by Spain during 1995–2006 has also positively impacted some of the aspects in the social landscape of the nation. The social issues in Spain are similar to those in many European nations, as it is facing the key challenges of an aging population and unemployment. The birth rate has been continuously declining and there are fewer people entering the work force. The Spanish education system has undergone significant reform processes, which has led to its above average performance in terms of tertiary education. The healthcare needs of its population are also being adequately met by the public sector; recent initiatives have been undertaken to increase the involvement of private sector players.

The government is currently grappling with the problem of economic recession, which may not turn around in the short-term. Social security expenditure is expected to be cut as the government struggles to maintain a surplus budget. Proposed education reform measures aim at the decentralization of decision making and to reduce universities’ dependence on grants and loans. In the near-term, universities may be asked to raise their fees, which will add to the funds for the development of tertiary education.

Table 5: Analysis of Spain’s social system

<table>
<thead>
<tr>
<th>Current strengths</th>
<th>Current challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>■ Prudent social welfare measures</td>
<td>■ Aging population</td>
</tr>
<tr>
<td>■ Well developed tertiary education system</td>
<td>■ Growing income inequality</td>
</tr>
<tr>
<td>Future prospects</td>
<td></td>
</tr>
<tr>
<td>■ Stimulus package for better employment opportunities</td>
<td>■ Social tension caused by the growing number of immigrants</td>
</tr>
<tr>
<td>■ Labor market to move towards permanent contracts</td>
<td>■ Imbalanced rural and urban development</td>
</tr>
</tbody>
</table>

Source: Datamonitor

Current strengths

Prudent social welfare measures

Spain has made good progress in developing social welfare measures, despite being a late starter. The country’s social security framework is comparable to other EU nations. The “Agreement for improvement and development of the social security system” laid the foundation for security reforms, especially to overhaul the pension system and encourage people to work beyond the age of 65. The Toledo Pact, which was signed by the government and trade unions in 1994, has worked towards the rationalization of public social security system. These measures have continued to deliver positive results for the welfare of the Spanish society.
Well developed tertiary education system

Spain has performed well in terms of imparting tertiary education compared to some other EU nations. During 1995–2003, Spain made major investments in tertiary education, leading to an increase in expenditure per student. Spending on education institutions in tertiary education has risen by 62%. During the same period, expenditure per student on tertiary education institutions rose by 67%. This is well above the Organization for Economic Co-operation and Development (OECD) average of a 9% increase during the same period. A well developed tertiary education system is the prerequisite for a qualified labor force and for easy absorption into industrial activities.

Current challenges

Aging population

Spanish society is facing the challenge of an increase in the number of aged people, which hasn’t been balanced by a proportionate increase in birth rates. Furthermore, the birth rate has been continuously declining and there are fewer people entering the work force. The country has the lowest fertility rate in Europe at 1.31. Besides the problem of a lower number of people contributing payments for social welfare measures, the pressure on government finances will increase manifold to meet the social security and healthcare needs of an aging population. The OECD estimate suggests that by 2050, the government will have to spend as much as 7% of GDP on pension funds and 4% on health. Meeting these social security needs will exert additional pressure on government finances.

Growing income inequality

The economy of Spain grew rapidly after it became a member of the EU. Although, the per capita income of the nation increased, the distribution of income was unequal. Class divisions have become starker, making Spanish society an unequal one. Despite economic liberalization, the percentage of the population in different income groups has not changed. During 2000–09, the percentage of the population in the top income group increased from 8% to 8.3%, whereas in the lowest income group it has decreased from 40.7% to 40.6%. These figures imply that economic growth has done little to change the pattern of income distribution.

Future prospects

Stimulus package for better employment opportunities

The Spanish government has announced an E11 billion economic stimulus package, which is expected to create 300,000 jobs in 2009–10. This fund will be used to invest in public works and infrastructure. Furthermore, the government has proposed new measures to increase employment. Some of these measures are:

- subsidies for companies that hire unemployed people;
- lower social security contributions for companies introducing flexible working hours instead of firing workers;
- fiscal incentives for companies to hire on a part-time basis;
- allowing workers made temporarily redundant to access jobless benefits.
These measures are expected to make a significant reverse the trend of growing unemployment. Furthermore, the government announced in February 2010, that the country is on its way to overcome the current economic crisis and will do so without cuts to the social-welfare system. The government will approve an extension for another six months (starting April 2010) of an €420-a-month extraordinary payment to the unemployed without any other coverage.

**Labor market to move toward permanent contracts**

The Spanish government has initiated a number of reforms to reduce rigidities in the labor market. The move towards reducing the number of temporary contract workers will have far reaching consequences on the labor market as it will provide long term predictability to employers with respect to available employees. The scope of Spanish firms to adopt new technology was also restricted because of the large number of temporary workers on payrolls. Larger proportion of permanent workers will enable Spanish firms to undertake more investment in technological advancement. This, in turn, will lead to the creation of quality jobs.

**Future risks**

**Social tension caused by the growing number of immigrants**

The contribution of immigrants to the economic development of Spain cannot be undermined. Given the economic recession, along with rising unemployment, a social backlash against the immigrant population has become almost inevitable. The issue was also became an important matter of debate in the 2008 elections. In the past decade Spain was second only to the US in the number of immigrants it attracted; almost five million migrants arrived in Spain. Between 2000 and 2009, the share of the foreign-born population has increased from 4% to 12%. However, as the economy faces recession and rising unemployment, anti-immigration sentiments have gathered momentum. The government has also proposed changes in the immigration laws to limit an influx of foreigners. The said legislation, once approved by the parliament, would allow police to hold illegal immigrants for up to 60 days pending deportation and make it harder for foreigners to bring relatives over to live in Spain. Furthermore, the proposed reforms would impose higher fines for employers recruiting foreigners without proper legal papers. These legislations are evident of growing social tensions caused by the growing immigration.

**Imbalanced rural and urban development**

As with individual income, income distributions between regions have been unequal, which has also emerged as a catalyst of social tension. There are accusations about the government favoring the 'rich north and east’ at the cost of other regions. The northern and eastern regions are substantially industrialized and urbanized; whereas, in the southern and western regions agriculture continues to dominate. The ACs of Catalonia, Basque and Madrid account for half of Spain’s GDP, indicating the widespread disparity among regions.
Technological analysis

Overview

Spain has been slow to adopt technological advancements compared to the other EU countries, although policy measures have been undertaken in this regard. Spain ranks 16th on the European innovation index in a list of 27 nations. Total expenditure on R&D as a percentage of GDP stood at around 1.2% in 2007–08. Although it performs well in terms of knowledge creation, the innovation climate in Spain has not been very forthcoming. The situation has arisen because of the larger role of the public sector with respect to R&D development. The private sector has limited participation in enhancing R&D levels in the country.

There is a need for unified R&D policy across regions as the autonomy of regional governments with respect to the R&D policy has led to the slackening of innovative practices. The increase in the number of authorities and the diversity of funding programs has increased the complexity of the innovative system. The level of coordination among different levels must improve if the desired results are to be achieved.

The country has set a target to reach the R&D expenditure level of 2% of GDP by 2010, which is well below the 3% target fixed by Lisbon agreement for the EU nations. It is expected that recent initiatives of the government under the program INGENIO 2010 will help in raising the private sector expenditure on R&D to 55% of total investment by 2010, as well as improving the overall innovation climate of the nation. The government has initiated measures to address the shortfall in innovation by revamping the educational system and introducing new technologies. The lack of innovation and entrepreneurship has emerged because of a low percentage of SMEs getting involved in innovation and co-operation, along with the low participation of the private sector and venture capitalists. A positive environment could be created by enhancing incentives and making the venture capitalist funding procedure simpler.

Table 6: Analysis of Spain’s technology landscape

<table>
<thead>
<tr>
<th>Current strengths</th>
<th>Current challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>■ Well developed ICT sector</td>
<td>■ Gross expenditure on R&amp;D remains low</td>
</tr>
<tr>
<td>■ Well developed infrastructure</td>
<td>■ Involvement of the private sector</td>
</tr>
<tr>
<td>Future prospects</td>
<td>Future risks</td>
</tr>
<tr>
<td>■ Government policies promoting R&amp;D</td>
<td>■ Lack of innovation and low number of patents</td>
</tr>
<tr>
<td>■ Significant opportunities in energy and ICT sectors</td>
<td>D A T A M O N I T O R</td>
</tr>
</tbody>
</table>

Source: Datamonitor

Current strengths

Well developed ICT sector

The country has a strong communications equipment market. The Spanish communications equipment market generated total revenues of $521.2 billion in 2008, representing a compound annual growth rate (CAGR) of 9.7% for the period spanning 2004–08. In 2013, the Spanish communications equipment market is forecast to have a value of $577 million, an increase of 10.7% since 2008. Electricals and electronics retailers proved the most lucrative distributors for the Spanish
communications equipment market in 2008, generating total revenues of $249.8 million, equivalent to 47.9% of the market's overall value. The country's strong communication equipment market is expected to post healthy growth rates in the medium term.

**Well developed infrastructure**

Spain has a well developed infrastructure to facilitate development of technology-intensive industries. The railways system is considered to be one of the best in Western Europe. In 2008, the Spanish railway system covered a length of 15,288 km, 8,847 km of which were electrified. Air and water transport are equally well developed with around 55 state-owned general interest ports and 58 commercial airports. These factors are important determinants for the development of other technology-intensive sectors.

**Current challenges**

**Gross expenditure on R&D remains low**

The total expenditure on R&D, as a percentage of GDP, stood at 1.2% in 2007, which is much less than that of other developed nations. In comparison, France’s expenditure was 2.13% of the GDP, 2.68% for the US, 3.18% in Japan and 1.8% for Canada during the same year. The low expenditure on R&D has restricted related activities in the country. With an increase in the Spanish innovation budget and access to the European technology fund, which aims at meeting the financing needs of research, development and innovation of enterprises, there will be an improvement in the funding of R&D activities.

**Involvement of the private sector**

R&D activities in Spain have been spearheaded by the public sector with little involvement from the private sector. The lack of innovation and entrepreneurship has emerged because of a low percentage of SMEs getting involved in innovation, co-operation, and the low participation of the private sector and venture capitalists. The government focused more on the technological expansion of existing large firms rather than early stage investments for startups. This has also retarded the innovation climate of the country.

**Future prospects**

**Government policies promoting R&D**

The Spanish government has taken several initiatives, including the adoption of liberal policies to promote R&D activity in the country, and has drawn up a new legislative framework for R&D. It has been taking measures to expand the R&D infrastructure and to improve the operations of all agencies involved in the system. The government has set a target to increase the R&D expenditure as a percentage of GDP to 2% by the end of 2010, from 1.2% in 2007. The private sector contribution to R&D expenditure is expected to be 55% of total expenditure by 2010.

**Significant opportunities in energy and ICT sector**

Spain presents significant opportunities in the emerging sectors of energy and ICT. The process of liberalization of the energy market was started in 1998 and by 2003 it brought major changes to the electricity sector and consumers were
allowed to purchase power freely in the open market. The government shifted its focus to renewable energy under the Promotion of Renewable Energy plan (2005–10). The government also approved the Action Plan for the Spanish Strategy of Energy Efficiency to increase investment in renewable energy technology. Spain achieved its 29.4% target for renewable energy in 2009, although the target was set for 2010 by the EU. The government’s energy plans include greater reliance on wind energy and hydroelectricity.

In the telecoms segment, a number of IT sub sectors have been opened to private players. Mobile telephony, broadband services and broadcast equipments (such as Wi-Fi) are the growing segments, as the sector is being gradually opened up for competition.

Future risks

Lack of innovation and low number of patents

The low level of innovation in Spain is reflected by the low number of patents registered. Although the number of patents is on the rise, it is still far behind the levels seen in other EU nations, and it compares poorly to some EU and developed countries, as illustrated in the table below. A continuation of the trend is likely to hamper the scientific prospects of the country.

Spain was ranked 16th according to the European Innovation Scoreboard (EIS) 2008 among the list of 27 EU countries. The private sector R&D expenditure lags behind the EU average by 45% and the rate of patenting is below the EU average by 20%.

<table>
<thead>
<tr>
<th>Year</th>
<th>Canada</th>
<th>France</th>
<th>Germany</th>
<th>Japan</th>
<th>US</th>
<th>Spain</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>4,063</td>
<td>4,456</td>
<td>11,894</td>
<td>34,890</td>
<td>98,655</td>
<td>340</td>
</tr>
<tr>
<td>2002</td>
<td>3,857</td>
<td>4,421</td>
<td>11,957</td>
<td>36,339</td>
<td>97,125</td>
<td>358</td>
</tr>
<tr>
<td>2003</td>
<td>3,894</td>
<td>4,126</td>
<td>12,140</td>
<td>37,248</td>
<td>98,590</td>
<td>358</td>
</tr>
<tr>
<td>2004</td>
<td>3,781</td>
<td>3,686</td>
<td>11,367</td>
<td>37,032</td>
<td>94,129</td>
<td>312</td>
</tr>
<tr>
<td>2005</td>
<td>3,177</td>
<td>3,106</td>
<td>9,575</td>
<td>31,834</td>
<td>82,586</td>
<td>318</td>
</tr>
<tr>
<td>2006</td>
<td>4,094</td>
<td>3,856</td>
<td>10,889</td>
<td>39,411</td>
<td>102,267</td>
<td>381</td>
</tr>
<tr>
<td>2007</td>
<td>3,970</td>
<td>3,720</td>
<td>10,112</td>
<td>35,942</td>
<td>93,691</td>
<td>363</td>
</tr>
<tr>
<td>2008</td>
<td>4,125</td>
<td>3,813</td>
<td>10,086</td>
<td>36,679</td>
<td>92,000</td>
<td>418</td>
</tr>
</tbody>
</table>

Source: Datamonitor
Legal analysis

Overview

Spain’s economic reform programs were coupled with regulatory changes to meet the challenges in the new economic landscape. The Spanish government initiated legal reforms to ensure integration with the EU and has taken a number of steps to ensure this integration. Tax rates have been reduced, investment regulations have been eased, and hitherto restricted sectors are being opened up to encourage private investment. However, the country has not been able to completely free itself from government intervention. The government continues to play a critical role in the economy by interfering in the labor market and restricting access in some sectors.

The Spanish legal system is federal in nature; however, for jurisdictional purposes, Spanish territory is divided into municipalities, judicial districts, provinces and autonomous communities (ACs). The ACs has wide ranging legislative and executive powers.

<table>
<thead>
<tr>
<th>Current strengths</th>
<th>Current challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>■ Legal framework comparable to other EU nations</td>
<td>■ Labor market regulations</td>
</tr>
<tr>
<td>■ Openness to foreign investment</td>
<td>■ Government intervention in the market</td>
</tr>
</tbody>
</table>

Future prospects

<table>
<thead>
<tr>
<th>Future risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>■ Competition policy to reduce market rigidities</td>
</tr>
<tr>
<td>■ Government measures to reduce corrupt practices and tax evasion</td>
</tr>
<tr>
<td>■ Plethora of national and regional regulations</td>
</tr>
</tbody>
</table>

Source: Datamonitor

Current strengths

Legal framework comparable to other EU nations

Legal and regulatory aspects are crucial to create a successful business environment in any country. They reflect the policy framework and the governmental structure of that country. The regulatory regime in Spain has comprehensive and transparent laws for establishing companies and carrying out operations in Spanish territory. These laws are in line with most of the other EU nations, making business operations smooth.

Openness to foreign investment

Spain, as a member of the EU, provides a reasonably hospitable climate for foreign investment. According to the “World investment prospects”, Spain is projected to be the ninth foreign direct investment (FDI) destination in the world by 2011. Portfolio investment has been a major source of FDI inflow in the country and total foreign investment in Spain has grown at a CAGR of around 23% during 2000–08. Spanish law permits foreign investment of up to 100% of equity, and capital
movements are completely liberalized. Foreign investment has been recorded in various sectors, such as telecoms, real estate, hotels, manufacturing, and agro-based products.

Current challenges

Labor market regulations

The labor market regulations in Spain are rigid compared to other EU nations. The Spanish government has been trying to implement measures aimed at reducing the number of temporary contract workers. Although, the number of such workers has reduced, one-third of all employed workers are still classified as temporary hires. The prevalence of collective bargaining in both the public and private sector has restricted implementation of reform measures, as wages are not directly related to labor productivity. Such wage rigidities are directly affecting the nation’s competitiveness, which will worsen as Spain is faced with increasing competition from other low wage nations.

Government intervention in the market

Spain began liberalization of its market in 1996. However, there are still sectors that are dominated by the government, and competition is restricted. For instance, in the retail segment, regional regulations restrict the operation of private players. Similarly, tariffs in the energy sector are government regulated, which has led to distortion in prices. The entry of international players is restricted and the sector is dominated by domestic firms. Regulatory restriction in the telecoms segment restricts competition in mobile telephony and broadband internet services, which still suffer from comparatively high prices. Other market operations, such as procurement services and other professional services, are suffering from market distortion because of government intervention, which restricts competition in goods and services market.

Future prospects

Competition policy to reduce market rigidities

The Spanish government has initiated a process to strengthen product market competition by mootng a competition policy in February 2009. As well as promoting competition, the adoption of a leniency program will be effective in promoting competitive forces. The government has partially opened up sectors such as telecoms, energy and transport by selling off government stakes in government-owned enterprises. The new competition commission is expected to be more independent with regard to the political authorities, particularly in the case of mergers. Since the commission will be more accountable, the links between investigations and enforcement will be stronger. To increase competition in various sectors, there is a proposal to set up sectoral regulatory bodies. All these steps will go a long way toward reducing market rigidities.

Government measures to reduce corrupt practices and tax evasion

Spanish society is free from corrupt practices to a large extent; with government measures to combat corruption, the investment climate will further improve. Spain ranks 28th out of 180 countries in Transparency International’s Corruption Perceptions Index for 2008. A tough law to combat tax evasion was passed, which has made it difficult to avoid paying taxes in Spain, and penalties have become stiffer. The government also issued regulations to fight money laundering to reduce cases of malpractices in the banking and financial sector.
Future risks

Plethora of national and regional regulations

The recent trend in Spain has been that of regionalism, as ACs are given more authority with regards to legislation and implementation of regulations. Varied regulations make working in the country cumbersome for investors and act as major deterents. There are occasions, when regional regulation runs parallel to national law, which results in patchy implementation.
Environmental analysis

Overview

Spain has been a late starter with respect to tackling environmental issues. The subject received the government’s attention after Spain became a member of the EU. Following the setting up of the Ministry of Environment in 1996, the legislative process gained momentum. Spain has participated in important environmental agreements and is committed to meeting its obligations. However, Spain’s performance on environmental parameters has been found to be lagging behind other EU countries. While the country focused on economic growth, it made some compromises with regard to the implementation of environmental regulations.

Nevertheless, the government’s commitment to international agreements and the EU directives is reflected in the improvement in environmental indicators. The continued effort of government units coupled with participation from the private sector has allowed the country to meet with partial success in improving its environmental conditions. A new strategy for sustainable development has now been drawn up. It aims at speeding up the process of meeting the country’s targets for the Kyoto Protocol, which requires limiting its emissions by a maximum of 15% during 2008–12, compared to the 1990 levels. There are reservations that in the absence of stringent measures and the current level of high emissions, the government may fail to achieve the target.

Table 9: Analysis of Spain’s environmental landscape

<table>
<thead>
<tr>
<th>Current strengths</th>
<th>Current challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>■ Environmental policy based on the EU guidelines</td>
<td>■ Poor performance on environmental indicators</td>
</tr>
<tr>
<td>■ Commitment of national and regional governments</td>
<td>■ Lack of financial measures to improve the environment</td>
</tr>
<tr>
<td>Future prospects</td>
<td>Future risks</td>
</tr>
<tr>
<td>■ Moving towards sustainable tourism</td>
<td>■ Curtailing environmental expenditure</td>
</tr>
<tr>
<td>■ Meeting energy needs through renewable energy</td>
<td>■ Increasing desertification</td>
</tr>
</tbody>
</table>

Source: Datamonitor
PESTLE analysis

levels by 2008–12. It will then achieve the balance by buying carbon credits from clean energy projects in other countries. Furthermore, the government is planning to use carbon sinks, such as reforestation projects.

Commitment of national and regional governments

Both the national and regional governments are responsible for the implementation of environmental regulations. Spain’s strong environmental policy framework has delivered results in the past as environmental authorities at both levels are functioning as per the EU directives. These authorities are focusing on environmental infrastructure investment and financing. These authorities have also successfully managed to increase enforcement activities.

Current challenges

Poor performance on environmental indicators

Spain has turned out to be a poor performer on environmental indicators. Despite its progress in international commitments, Spain faces important challenges concerning marine environment, climate change and regional air pollution. The country’s marine environment performance has also remained unsatisfactory. Although over 400 proposed climate change-related measures are under consideration, very little has been achieved at the implementation level. The government has failed in limiting CO\textsubscript{2} emissions. In 2007, the country released 50% more CO\textsubscript{2} emissions than in 1990, far above its 15% limit of 1990 levels. Furthermore in 2009, the country released around 359 million metric tons of CO\textsubscript{2}, which was much higher than 349 million metric tons released in 2002.

Lack of financial measures to improve the environment

The government of Spain has resorted to subsidies and financial assistance to ensure compliance with environmental regulations. The government has made little use of environmental taxes or other instruments, which will result in better implementation. Many municipal governments do not charge for services like water and sewerage. A high proportion of industrialized nations meet their financial needs by using the ‘polluter pays’ principle. The principle was introduced in the new climate change strategy but the desired results are yet to be achieved. Because of lack of implementation, the government has been devoid of funds that may have been used for bringing improvements in the environment.

Future prospects

Moving towards sustainable tourism

Spain occupies the second position in the world for both the number of tourists received, and travel and tourism contributed around 12% of the country’s GDP in 2008. In order to fully utilize the potential of this sector without harming environmental prospects, the government has initiated the sustainable tourism program. The new Tourism Plan 2020 has identified ways to develop tourism using sustainable resources. The sustainable tourism program, ‘Plan Futures’, implemented by national and regional governments, resulted in shifting tourism demand from congested coastal areas to more isolated and inland rural areas.
Meeting energy needs through renewable energy

Spain has developed a strong dependence on sources of renewable energy. Electricity consumption has increased over 65% during 1997–2008. To reduce the country's energy dependence, the government wants renewable energy to account for 12.1% of primary energy in 2010 and 30.3% of electricity. Biofuels should cover 5.83% of transport fuel by that year. According to EU stipulations on the renewable energy targets for 2020 set in 2008, renewable energy has to make up a minimum 20% of the energy mix. Spain has already reached its target for renewable energy by 2010, by producing 29.4% of its energy from renewable sources.

Furthermore, the federal, regional and local governments are also very active in renewable energy development and offer incentives to attract investment. Using renewable energy for their domestic and industrial needs will go a long way toward improving the energy usage condition of the country.

Future risks

Curtailing environmental expenditure

The challenge to balance economic growth and environmental policies is faced by any growing nation. The economic recession will prompt the government to reduce expenditure on the environment as the government strives to meet other economic and social priorities. The government’s expenditure on environmental issues was at 0.6% of GDP in 2005, which was below the average EU level of 0.7%. The country undertook official development assistance on the environment, which is expected to be axed with the slowdown in the economy.

Increasing desertification

Spain has been facing the worst drought in 40 years with reservoirs standing at 46% of their capacity and rainfall below 40% of the average during 2007–08. Living conditions have deteriorated as regional governments try to reduce the consumption of water. In regions such as Catalonia, a fine is being imposed for excessive use of water in gardens or swimming pools. According to the environment ministry report, global warming is likely to speed up desertification by drying up soil moisture quickly, and 30% of Spain's land is already at high risk of desertification. According to a new study, 37 out of every 100 hectares of land in Spain could turn to desert as unsustainable agricultural practices. Furthermore, over-development and climate change take their toll on the country’s forests and grasslands. In October 2009, Spain's most important inland wetlands at Las Tablas de Daimiel national park were burnt, due to deep cracks and fire in the soil. There have been several such incidents in other regions of the country, which are causing further deterioration in the environmental conditions.
POLITICAL LANDSCAPE

Summary

Spain’s transition from monarchy to democratic nation involved numerous political upheavals. After the French and British rule, the nation passed into a dictatorial regime under the leadership of a fascist dictator, General Francisco Franco. After Franco’s death, Spain embarked on the path to democracy, and a modern constitution based on rules of law was promulgated in 1978. The initial years of democracy were dominated by two distinct ideologies; those of the center right PP, and those of the center left PSOE. The PSOE received popular support in the early years of democracy as it was seen as a viable alternative to the PP, whose image was sullied because of its perceived closeness to Franco’s regime.

After failing to win in first four consecutive elections, the PP emerged as the largest single grouping in 1996 elections, allowing it to form a coalition government with some smaller regional parties. In 2000, leveraging strong economic growth, the PP returned to power with an absolute majority. Despite its economic successes, the PP’s two-term Prime Minister Jose Maria Aznar has seen his domestic popularity decline due to his support for the US’s Iraq policy. The PSOE came to power in the 2004 and 2008 elections under the leadership of Jose Zapatero. The new government initiated policies for economic reforms along with the process of fiscal discipline. The economic recession of the country has put tremendous pressure on the survival of the government because of declining public support. The ruling party’s relation with its coalition partners has been under strain too. In order to tackle the deteriorating scenario as a result of credit crisis, Prime Minister Zapatero took direct control of the economic policies, which is likely to continue for some time.

Evolution

Pre-1940

The ancient history of Spain was dominated by the monarchical rules of different dynasties. The country went through periods of varying strength and influence as the rulers changed. It was considered to be a glorious nation in the 16th century, but lost that reputation in the 17th and 18th centuries as it came under the rule of French royal family, the Bourbons. Spain fought along with France against Britain in the 18th century. However, the former allies became enemies in 1789 when Napoleon Bonaparte conquered Spain. In 1813, with British help, Spain was successful in driving France out of its territory. In 1812, during the formation of the country’s first republic, a national assembly in Cadiz had drafted a liberal constitution; however, it was not promulgated because of the existing differences between different factions over rules of governance. A second Spanish republic with a modern, democratic and secular constitution came into existence in 1931, but did not last long.

Spain remained neutral during the World Wars. However, the country witnessed severe fighting during 1936–39 as differences between right and left over religion, land and social reforms resulted in a civil war. The war was won by the right, which was under the leadership of a Fascist dictator, General Francisco Franco. He annulled most republican reforms and suppressed regionalism. He also established the supremacy of the Catholic Church. After Franco’s death, the Spaniards came out of almost four decades of dictatorship in 1975. The new king, Juan Carlos I, ushered in a gradual transition to democracy.
**1976–2000**

Spain adopted a new constitution in 1978, which established the country as a constitutional monarchy and granted limited autonomy to different regions. Association with Franco’s dictatorship sullied the reputation of the center right PP, guaranteeing political success for the center left PSOE in the early days of restored democracy. The PSOE came to power in 1982 and won four consecutive general elections under the leadership of Felipe Gonzalez Marquez. The party followed a centrist policy, with some liberalism evident in its economic and social policies. The party’s uninterrupted rule led to complacency in its ranks and its reputation was damaged by a series of corruption scandals, leading to the population voting it out of power in 1996. In the elections that year, the PP emerged as the single largest party, allowing it to form a coalition government with some smaller regional parties. In 2000, leveraging strong economic growth, the PP returned to power with an absolute majority under the leadership of Jose Maria Aznar Lopez.

**2001–2010**

Prime Minister Aznar’s steady economic growth record won him admirers at home and abroad. However, his domestic popularity was affected following his decision to back the US-led attack on Iraq in 2003. Although the party was set to occupy office for a third term, the March 2004 terrorist attack on Madrid confused the situation. The PP’s apparent attempts to shift suspicion surrounding the attack from Islamists to ETA, in order to deflect criticism of the authorities’ decision to participate in the Iraq war, backfired. As a result, the PP was defeated by a 5% margin.

---

**Figure 2: Spain – key political events since 1935**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Spanish civil war between 1936–39 led to huge losses of life and property.</td>
<td>• West African colony of Spanish Guinea was granted independence as Equatorial Guinea in 1968.</td>
<td>• Socialist government came to power in 1982.</td>
<td>• Aznar’s People’s Party (PP) won the 2000 elections with an absolute majority.</td>
<td>• Zapatero became the prime minister and ordered withdrawal of Spanish troops from Iraq.</td>
</tr>
<tr>
<td>• General Franco led Nationalists to victory in 1939 and established dictatorship.</td>
<td>• Franco died in 1975. King Juan Carlos succeeded as head of the state.</td>
<td>• Spain joined NATO; joined the European Economic Community (EEC) in 1986.</td>
<td>• Spanish currency Peseta was replaced by the euro in January 2002.</td>
<td>• Spain approved the EU constitution in a referendum held in 2005.</td>
</tr>
<tr>
<td>• Many countries had cut off diplomatic relations with Spain to oppose Franco’s regime.</td>
<td>• King Juan Carlos facilitated Spain’s transition to democracy.</td>
<td>• Jose Maria Aznar of the People’s Party and became the prime minister in 1996 after winning elections.</td>
<td>• ETA declared a ceasefire in March 2006.</td>
<td>• ETA declared a ceasefire in March 2006.</td>
</tr>
<tr>
<td>• ETA was founded in 1959 with the aim of creating an independent homeland in Spain’s Basque region.</td>
<td>• First democratic elections were held in 1977 after a gap of four decades.</td>
<td>• The party failed to get an outright majority, and took support from regional parties.</td>
<td>• The ruling Socialist Workers’ Party won 2008 elections with an increased margin.</td>
<td>• The ruling Socialist Workers’ Party won 2008 elections with an increased margin.</td>
</tr>
<tr>
<td>• ETA’s demand for the independence of the Basque region gained strength, which increased terrorist activities.</td>
<td>• New constitution was promulgated in 1978, which confirmed Spain as a parliamentary monarchy.</td>
<td>• ETA’s demand for the independence of the Basque region gained strength, which increased terrorist activities.</td>
<td>• Zapatero became the prime minister and ordered withdrawal of Spanish troops from Iraq.</td>
<td>• The Socialist party, under the leadership of Zapatero won the 2004 election, defying earlier opinion polls.</td>
</tr>
</tbody>
</table>

Source: Datamonitor
The newly elected socialist Prime Minister, Jose Luis Rodriguez Zapatero, quickly withdrew Spain’s 1,300 troops from Iraq. Overall, the country’s foreign policy orientation changed by coming closer to European powers, France and Germany. There were no major shifts in economic policies as economic growth continued during this period. Zapatero’s PSOE returned to power for a second term following the March 2008 elections. The party fell short of an absolute majority by seven seats and is dependent on at least one smaller regional party’s support to form the government. In January 2010, the country assumed EU presidency.

Structure and policies

Key political figures

Key political figures in Spain are:

- King Juan Carlos I;
- President Jose Luis Rodriguez Zapatero, head of the government;
- Mariano Rajoy, leader of the largest opposition party.
Political landscape

Figure 3: Spain – key political figures

King Juan Carlos I, as head of the monarchy, is the head of state. He was designated king in 1975 after Franco’s death. He is widely approved of by Spaniards because he ensured a successful transition of Spain from dictatorial rule to a parliamentary democracy. He was instrumental in scuttling an attempted coup in 1981.

Jose Luis Rodriguez Zapatero, the prime minister of Spain, has been in office since 2004, after defeating the PP. He has also won the 2008 elections. Zapatero defeated the incumbent conservative government following terrorist activities in Madrid just before the elections. He vowed to fight against terrorism. Fulfilling his election promise after coming to power, he pulled Spain’s 1,300 troops out of Iraq. He also supported the process by which Catalonia won greater autonomy at a referendum in June 2006. The prime minister, during his second term, is expected to face the challenge of economic slowdown and increasing unemployment, which were absent during the first term.

Mariano Rajoy is the leader of the opposition in Spanish parliament and also heads the Conservative People’s Party. He was elected as the leader of the party after Aznar stepped down before the parliamentary elections in 2004. He served as the minister of public administration, minister of education and culture, and interior minister in the Aznar administration. As the prime minister, he restored the health of the public finances and introduced important legislative reforms.

Source: Datamonitor

Structure of government

Spain is a parliamentary monarchy, with a hereditary monarch and a bicameral parliament, known as the Cortes Generales (General Courts). The executive branch comprises of a council of ministers, which is presided over by the president, proposed by the monarch, and elected by parliament following legislative elections.
Political landscape

Structure of legislature

Figure 4: Structure of the government of Spain

President

- Senate (Upper House)
  - 259 members
  - 208 members are directly elected
  - 51 members appointed by regional legislatures
  - 4 year term (one-third elected every three years)

- Congress of Deputies (Lower House)
  - 350 members
  - Directly elected by proportional representation system
  - 4 year term

Source: Datamonitor

Key political parties

Three main political parties dominate politics in Spain: the center-left PSOE; the center-right PP; and the much smaller Communist-led coalition, United Left (IU). Some important regional parties are the left-wing Catalan Republican Left (ERC); the center-right Catalan grouping, Convergence and Union (CIU); and the center-right Basque Nationalist Party (PNV).

Spanish Socialist Workers’ Party

The Spanish Socialist Workers’ Party (PSOE; Partido Socialista Obrero Español) is the oldest party in Spain, founded in 1879. After the onset of democracy in Spain, the party came to power in 1982, under the leadership of Felipe Gonzalez, and remained in power for most of the 1980s and 1990s. The party’s uninterrupted rule made the ranks complacent and it lost popular support. A number of office bearers were accused for their role in corruption scandals, leading to party losing the election in 1996. In 2000 the party suffered a further humiliating defeat and Jose Luis Rodriguez Zapatero was elected as the new leader of the party. The PSOE then won the 2004 elections. However, the victory is attributed to a wave of anti-PP feeling, following extreme terrorist attacks in Madrid. Mr. Zapatero made the issue of corruption the PSOE’s prime agenda, and received enormous support from the Spanish people. The PSOE won the March 2008 elections, again with...
Mr. Zapatero as its leader, taking a second term as prime minister. The party has increased its share of seats in the Congress of Deputies from 164 to 169, but fell short of absolute majority by seven seats.

The party’s economic measures are mostly liberal, although a few interventionist elements find support within the party. In its foreign policies, the party has moved closer to other European nations and there are strong supporters of anti-Americanism within the party. There are also elements of anti-clericalism, which have surfaced in clashes with the Roman Catholic Church.

The People’s Party

The People’s Party (PP; Partido Popular) is the center-right political party of Spain. Currently, it is the largest opposition party. The party evolved from the Popular Alliance, which was founded by Manuel Fraga, a minister during Franco’s regime. The party’s closeness to Franco’s regime was the main reason for its loss of popular support during the first two decades of democracy. Furthermore, there were numerous internal divisions within the party.

The party adopted its new and current name in the 1989 elections, when it also chose a new leader, Jose Maria Aznar. Mr. Aznar was successful in transforming the PP into a cohesive party, which gathered strength in subsequent years and came to power in 1996 as a viable alternative to the PSOE. Aznar worked towards decentralization of power to the regions and initiated the economic reform programs of liberalization and privatization. During his term, Spain fully integrated into European institutions, qualifying for the European Monetary Union.

The PP was voted to power again in the 2000 elections with absolute majorities in both houses of parliament. During this period, Spain, along with the US and other NATO allies, participated in military operations in Iraq, Afghanistan and former Yugoslavia. Spain’s participation in the military operations did not receive public support, particularly the deployment of Spanish armed forces in Iraq. Mr. Aznar stepped down before the parliamentary elections in 2004, making way for his successor, Mariano Rajoy, as the leader of the party. In the 2004 elections, which came three days after a devastating bomb explosion in Madrid, the PP was ousted. The party was held responsible for growing Islamic militancy in the country, although the government held ETA responsible for the attack. The party lost the 2008 elections as well, with Mr. Rajoy struggling to reposition his party without giving into the demands of party hardliners.

Composition of government

In the 2008 elections, the PSOE increased its share of the vote to 43.6% (up from 42.6% in 2004), giving it 169 deputies, five more than in the last parliament. The PP’s share of votes increased to 40.1% from 37.7%. However, most regional parties saw a decline in their share of votes.
Key policies

The prime minister has launched a cross-party anti-crisis commission in early 2010, aimed at securing a broad political consensus on measures to address the severe and ongoing recession in the country.

Economic and social

The PP administration made considerable progress in placing Spain’s public finances in a strong position. The economic growth in the first six years of the nineties provided ample scope to the government to maneuver with policies intended to meet the needs of an expanding economy. However, the downturn of the economy has necessitated the implementation of urgent measures to encourage industrial activities, which has been the chief guiding factor of the incumbent government.

The government has undertaken economic initiatives to increase credit flows through public spending, which is expected to boost demand. Moreover, in October 2008, a bank stabilization program, at a cost of €150 billion, was created. In addition, the government announced measures to reduce pressure on the housing market. It included a two year moratorium on 50% of mortgage payments for the newly unemployed, and an extended tax exemption period for reinvested capital gains.
on house sales. The stabilization program along with other fiscal efforts has enabled the country to maintain a public debt-to-GDP ratio of 55% in 2009, which is below the EU average.

Among the key social issues, aging population and high unemployment rank foremost. The government intends to overhaul the social payment system by lengthening the contribution period of employees. In recent years, Spain had encouraged immigration, as economic migrants were important contributors to the government’s social payments fund. However, rising unemployment in Spain has forced the government to re-examine its policy. The government has brought in tough anti-immigration laws. In January 2009, the Zapatero government offered non-EU immigrants to cash in their unemployment benefits. In return, they were asked to leave the country and agree not to return for at least three years. However, there have been few takers for this offer as the immigrants are finding it increasingly difficult to pay off their debts and return to their home countries.

**Foreign**

Spain has established strong relationships within the EU, and has traditionally benefited from significant flows of regional and agricultural aid from Brussels. Spain held the rotating presidency of the EU for the first six months of 2002. In 2005, it became the first country to allow its voters to decide on the EU constitution that was signed in October 2004. The country has assumed the EU presidency in January 2010.

The PP administration tended to favor the more pro-US governments in Europe, notably those of Britain, Italy, the Netherlands and a number of Eastern European countries. Spain’s experience with the Basque terror group ETA prompted it to strongly back the US “war on terror”, and it actively engaged in the US-led invasion of Iraq. However, the PSOE was critical of the US’s international role and invasion of Iraq. Prime Minister Zapatero attacked the US and British leaders for their Iraq policy. Spanish troops withdrew from Iraq, in accordance with the government’s policy, within months of Zapatero’s election. As a member of NATO, Spain’s relation with the US was damaged following the decision to withdraw troops from Iraq. Overall, the socialists have positioned Spain much closer to France and Germany in key EU debates.

As well as disagreements over Iraq, relations with the UK continue to be hampered by the territorial dispute over the status of Gibraltar, the tiny UK colony on the southern tip of the Iberian Peninsula. This territory was conquered by Britain in 1704, having previously been owned by Spain. Apart from a nuclear submarine base, the disputed territory has little strategic significance for the UK. Spain has failed to claim the territory in both military attempts as well as political negotiations. The inhabitants vociferously claim their British identity, and it is difficult for the UK to release the control of the region.

Spain has strong cultural and linguistic ties with Latin America, a result of the 15th and 16th century Spanish dominance of the Atlantic economy. Spain’s close geographical proximity to Africa has also meant that it is one of the first ports for legal and illegal migrants from the troubled continent to Europe. It is especially working on closer relations with Morocco and its former colony, Equatorial Guinea.

During Zapatero’s tenure, foreign policies have come second to domestic policies. However, in 2008, he decided to work toward improving Spain’s image in the international stage. His government has begun to rebuild relations with Washington and for the first time, Zapatero cited Asia as well as Africa as the key focus of Spain’s foreign policy. He announced three visits to each continent before 2012, with the aim of improving Spain’s image abroad.
**Political landscape**

**Defense**

Internal security issues in Spain center on dealing with the Basque separatist group, ETA. In his first term, Prime Minister Zapatero failed in his peace negotiations with this group. Spain has also committed itself to international peace keeping operations; along with modernization of the armed forces, this justifies its increase in defense spending. In view of the Madrid bombings, the government increased the security services budget by 17% in order to boost counter terrorism operations. The government has also begun restructuring and consolidation in the defense industry by loosening its hold on the sector. This has allowed Spanish firms to increasingly integrate into the pan-European and transatlantic markets.

**Performance**

**Governance indicators**

The World Bank report on governance uses voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption as indicators for 212 countries and territories over the period 1996–2008. The study was carried out by Massimo Mastruzzi and Daniel Kaufmann, of the World Bank Institute, and Aart Kraay of the World Bank Development Economics Research Group. For any country, a percentile rank of 0 corresponds to the lowest rank and 100 to the highest rank.

Spain has a percentile rank of 86.5 in terms ‘voice and accountability’ in 2008, which measures the extent to which a country’s citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. The given percentile rank is lower than its 2004 rank, when it stood at 89.9. Democratic principles in Spain have taken deep root since the adoption of the republican constitution in 1978. The elections are considered to be transparent and there is respect for freedom of expression and the media. Most of the EU nations rank high on this indicator, given the firmness of the democratic setup in the region. Since the EU countries have an active media and strong support for public opinion, other nations such as Italy and Greece have shown slightly lower performances, with rankings of 76.4 and 73.6, respectively.

Spain has a poor percentile rank of 42.6 in terms of ‘political stability and absence of violence’ in 2008, which is again lower than its ranking in 2004 (57.7). Political stability and absence of violence measures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including domestic violence and terrorism. Spain has witnessed violent terrorist acts committed by ETA, which brings instability in the region. At times, relations between the central government and the country’s 17 autonomous regions spark disputes over a range of issues. Spain’s peer nations, such as Greece and Italy, have a higher percentile ranking at 56.9 and 60.3, respectively.

On ‘government effectiveness’, Spain achieved a percentile rank of 80.1 in 2008, which is lower than its 2004 percentile rank of 89.6. Government effectiveness measures the quality of public services, the quality of civil services and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies. During the PP administration, the legislative reform process had gathered momentum, but this seems to have slowed down during the PSOE’s rule. This ranking is, however, higher compared to Greece’s 70.6 and Italy’s 66.4. Spain has a well developed set of rules and regulations. The country has also undertaken a large number of legislative reforms to meet the objectives set by the EU; successive governments have been committed to fiscal discipline and pursued similar economic policies, which will ultimately lead to stability in policy formulation and implementation.
Spain has a percentile rank of 88.4 on ‘regulatory quality’ in 2008. Regulatory quality measures the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. The Spanish government has initiated measures to liberalize its economy and make adequate structural changes to modernize it. Italy and Greece have rankings of 78.7 and 74.9 percentile, respectively.

Spain ranks in the 85.2 percentile on ‘the rule of law’ in 2008. Rule of law measures the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence. Spain is yet to completely move away from the restricted and bureaucratic regime which existed in its dictatorial past. Many other EU nations have transparency in governance, which is lacking in Spain. In terms of rule of law, Spain ranks higher than Greece and Italy which are at a percentile rank of 73.2, and 62.2.

Spain ranks in the 84.5 percentile on ‘control of corruption’ in 2008, which has declined from 90.3 in 2004. Control of corruption measures the extent to which elites and private interests exercise public power for private gain, including both petty and grand forms of corruption, as well as ‘capture’ of the state. Although Spanish society is not completely free from corruption, it has proved to be one of the countries least affected by bribery out of the 60 surveyed, according to anti-corruption organization Transparency International. Greece has a comparatively lower ranking of 60.9 and Italy is also behind Spain with a 62.3 percentile rank.

**Outlook**

Spain has been successful in overcoming its dictatorial past and now has well established democratic principles in place. The country’s EU membership has bound the government to reform its economic and social policies. The country assumed the EU presidency in January 2010 and got off to an inauspicious start. In early January 2010, Prime Minister Zapatero launched a proposal that the EU should consider imposing “corrective measures” on countries that fail to meet commonly agreed economic objectives. This met with a dismissive response from a number of EU member countries and widespread skepticism from international media, which have questioned whether it is appropriate that Zapatero should be leading plans for an economic recovery program for Europe, given the poor state of the Spanish economy.

However on a national front, in March 2010, the prime minister has launched a cross-party “anti-crisis” commission aimed at securing a broad political consensus on measures to address the severe and ongoing recession. Some key issues have been excluded from the talks and dividing lines have already emerged during February–March 2010, suggesting that any far-reaching accord is unlikely to be agreed. However, some concrete measures are expected to emerge from the negotiations in the areas of competitiveness, industrial policy, fiscal consolidation and improving firms’ access to finance. With public opinion strongly in favor of cross-party co-operation, King Juan Carlos called for a national pact to agree on future policy plans in March 2010, in which all the main parties participated in the negotiations. One of the principal demands of both the main opposition Popular Party (PP) and the moderate Catalan nationalist party Convergencia and Union (CiU) has been that the government should revoke its planned decision to hike VAT rates in July 2010. The government has, however, categorically refused to do this, thus reducing the scope for a major accord.
ECONOMIC LANDSCAPE

Summary

Spain’s economy, which was underdeveloped until the 1980s, began a period of growth when the country became a member of the EU in 1986. Subsequently, the government initiated a number of economic reform programs and initiated fiscal discipline measures to meet the objectives set under the Maastricht Treaty. Spain’s economy has shown steady progress since the 1990s, driven primarily by mass tourism and European subsidies. In fact, since the mid-1990s Spain outperformed the rest of the Eurozone, particularly the larger countries. Economic growth between 1997 and 2000 was above 4%, but declined to 3.5% in each of the years during 2001–03, before recovering again. Despite the growth the country has not been able to create enough employment opportunities and the level of unemployment remains one of the highest in the Eurozone.

The economy lost its momentum and began to decline in 2008. Its dependence on real estate aggravated the impact of global financial turbulence, which started with the US sub-prime crisis. The speculative price rises in the real estate market and the property boom came to an end in 2007. The economic crisis deepened in 2009–10 following weak domestic demand and rising inflation. The government has taken a number of initiatives, including increased public sector spending to revive the sliding economy. However, there is a need for large scale structural reforms or else the government will be in deficit once again.

Evolution

1940–75

During the late thirties, when Spain was under the dictatorial regime of Franco, the economy was declining. After the civil war, the country was faced with formidable economic challenges. It did not retain any gold or foreign exchange reserves, which would have enabled it to meet demand through imports, and the production capacity of both agriculture and industry, had bottomed out. Because of the country’s global isolation, its autocratic regime resorted to economic self sufficiency. During World War II, the expenditure on foreign armaments also shot up, building pressure on the economy of the country. The 1940s was a decade of negative growth and by the early 1950s, per capita GDP was around 40% of the average West European nations. After years of economic stagnation, coupled with the tripling of prices amidst growth of a black market during 1940–50, gradual improvement began to take place in the mid-1950s. The dictum of self sufficiency was slowly given up, and agricultural and industrial production picked up.

The economy received a boost in 1953 after the Pact of Madrid was signed between Spain and the US. The Franco government permitted the establishment of US military bases on Spanish soil; in return, the US government provided substantial economic aid to Spain. More than $1 billion of economic aid was provided to the country during 1953–58, which resulted in GDP growth of around 5% during this period.

In the following years, economic growth continued and piecemeal reform measures were also initiated. However, inefficient bureaucracy restricted the implementation of these reform measures. The economy faced a crisis in the late 1950s as domestic demand outstripped supply, leading to a rising inflationary pressure, and declining exports and foreign exchange reserves.
In 1959, Spain launched its economic stabilization plan. The plan's objectives were to take the necessary fiscal and monetary measures to restrict demand and contain inflation. It also aimed at liberalizing foreign trade and encouraging foreign investment. The 1960s and 70s saw buoyancy in the economy as a large amount of foreign investment flowed in.

The figure below shows the evolution of the Spanish economy since 1971.

**Figure 6:** Spain – historical GDP growth (1971–2009)

In the initial years of democracy, the focus of policy makers was on achieving a smooth transition from dictatorship to democracy, and economic policies took a back seat. As a result, the economy failed to adjust to the changed economic environment which came into existence after the oil price shocks. The level of wages increased during 1974–76, and there was an increase in unemployment while the government budget deficit swelled. An economic recession began in 1975 and the Spanish economy was found to be more vulnerable than most other modern economies to the oil crisis of the 1970s, due to structural deficiencies.
When the socialist government took office in late 1982, inflation was running as high as 16%, the external current account had a deficit of $4 billion, and public spending was out of control. The government initiated severe austerity measures in order to rejuvenate the economy. There was marginal improvement in the early 1980s but the growth process gathered momentum after the mid-1980s. There was an increase in demand, accompanied by a growing industrial output.

Spain’s accession to the EU in 1986 required the country to further liberalize its economy and undertake economic reform measures in order to conform to the EU guidelines. Following the peak growth years in the late 1980s, the global economic slowdown triggered economic recession in 1992. The economy partially recovered during the first Aznar administration (1996–2000), driven by a return of consumer confidence and increased private consumption. The economy has continued to grow since then, albeit at a slower rate. In 2008, owing to the global meltdown, the Spanish economic growth rate subsided and registered a lower rate of 2.1%. The country was in recession in 2009, when it contracted by 3.7%.

**Structure and policies**

**Financial system**

**Overview**

Spain is a member of the EU and has relinquished control of its monetary policy authority to the European Commercial Bank (ECB). The Bank of Spain is the country's central bank and is responsible for the implementation of monetary policies. Spain began the deregulation of its financial system in the 1990s after assuming the membership of the EU. The central bank is responsible for ensuring the smooth operation and stability of the Spanish financial system.

**Financial authorities/regulators**

**Central Bank of Spain (Banco de Espana)**

The Central Bank of Spain is responsible for the implementation of monetary policy and follows the directives of the ECB. It is also the main supervisory agency for the quality of commercial bank portfolios, and the protection of the monetary system against bank failures. To comply with the requirements of the 1992 Maastricht Treaty, the Bank of Spain was required to become independent from the government, and has consequently enforced strict limits on government use of the money supply as a source of loans.

The Bank of Spain is responsible for defining and implementing the Eurosystem’s monetary policy, with the principal aim of maintaining price stability across the euro area. The bank is also responsible for conducting currency exchange restrictions and promoting the sound working of payment systems in the euro area.

**Stock market regulator - Comision Nacional del Mercado de Valores (CNMV)**

The CNMV is the agency in charge of supervising and inspecting the Spanish stock markets and the activities of all the participants in those markets. It was created by the Securities Market Law, which initiated stock market reforms. The scope of the commission’s function includes all companies which issue securities. The commission also supervises entities such as brokers and dealers, who are engaged in the purchase and sale of securities. The portfolio management companies focusing primarily on managing individuals assets are also subject to supervision of the commission.
Insurance regulator – Dirección General de Seguros y Fondos de Pensiones (DGSFP)

The DGSFP, which is under the Ministry of Economy and Finance, is the insurance sector regulator in Spain. The division is responsible for monitoring the function of private insurance and reinsurance companies. It regulates activities such as control of mergers, assignment of portfolio changes, splits and other transactions between insurers, to prevent any unhealthy practices in the sector.

Spanish stock market

Bolsas y Mercados Españoles (BME) is the official stock exchange of Spain. It is made up of the Barcelona, Bilbao, Madrid and Valencia stock exchanges. The market capitalization of BME stood at $1.8 trillion by the end of 2007, indicating a growth of nearly 34% over the previous year. However, IBEX 35, the benchmark index of the Madrid stock market, fell by nearly 40% in 2008. The market capitalization at the end of the year stood at a comparatively lower level of $1.1 trillion.

The BME is the umbrella organization that co-ordinates the Spanish equity, fixed income and derivatives market, and its clearing and settlement systems. The Madrid stock exchange is the largest with a share of around 92% in total market capitalization of all exchanges in Spain. It comprises stocks of 106 companies from diverse sectors such as construction, financial services, communications, consumer, capital/intermediate goods, energy, and market services.

In addition, there is Sociedad de Bolsas, which is owned by the four Spanish stock markets and is responsible for technical management of the Spanish Stock Market Interconnection System. The trading in options and derivatives is managed by Mercado Español de Futuros Financieros (MEFF).
Insurance

The Spanish insurance industry is comparatively under-developed and is dominated by the life insurance segment, with a contribution of around 6% to the GDP. The Spanish insurance market has been growing since 2004. The gross premium income looks set to decline between 2008 and 2009. However, forecasting predicts that it will grow steadily again from 2010 through to 2013. The Spanish market generated a gross premium income of $85.5 billion in 2008, representing a compound annual growth rate (CAGR) of 6.6% for the period spanning 2004–08. In comparison, the French and German markets grew with CAGRs of 3.5% and 2.1% respectively, over the same period, to reach respective values of $266.6 billion and $244.6 billion in 2008.

Non-life insurance sales proved the most lucrative for the Spanish insurance market in 2008, generating a gross premium income of $47.2 billion, equivalent to 55.2% of the market's overall value. In comparison, sales of life insurance generated a gross premium income of $38.3 billion in 2008, equating to 44.8% of the market's aggregate income.

The performance of the market is forecast to decelerate, with an anticipated CAGR of 1.4% for the five-year period 2008–13, which is expected to drive the market to a value of $91.6 billion by the end of 2013. Comparatively, the French and
Economic landscape

German markets will grow with CAGRs of 0.1% and 0.3% respectively, over the same period, to reach respective values of $267.9 billion and $248.4 billion in 2013.

In Spain, banks and savings banks generate the single highest proportion of life and pension premium income. Moreover, the top five life insurers control 37% of the market by premium income. Major life insurance companies in Spain are MAPFRE Vida Insurance, Vida Caixa Insurance and BBVA Seguros Insurance. Major non-life insurance companies in Spain are Santander Seguros, AXA Aurora Iberica Insurance and Zurich Espana Insurance.

Asset management

The total net asset value of the Spanish mutual funds, at the end of December 2008 was close to €180 million, compared to the high of €80 billion achieved in 2007. The equity funds have seen the sharpest decline during the year, following the global financial meltdown. The International Monetary Fund's (IMF) 2008 Financial Stability report noted that the increased competitive pressure from deposit institutions also affects investment funds, which, together with the difficulties in international financial markets leading to lower returns, helps to explain the decline in investment funds’ net assets.

Key policies

Prime Minister Zapatero has been closely involved in the economic affairs of the country since the downturn started. The government increased public spending to revive credit flows to the economy and boost demand in the country. Furthermore, it created a bank stabilization program in October 2008, which cost €150 billion. To boost the housing market and to ease off debt repayment, the government put in a two-year moratorium on 50% of mortgage payments for those who lost their jobs and has extended the tax exemption period for reinvested capital gains on house sales. In addition, a new credit facility of €10 billion is being used to meet the short-term financial needs of SMEs. In March 2010, the government set out its proposals to grant more loans to small businesses amongst other measures on which it hopes to obtain cross-party support to revive its stumbling economy. The Economy Ministry initiated a total of 55 measures, which included a committee to analyze Spain’s energy strategy for the next 25 years.

Performance

GDP and growth rate

Since the mid-1990s, Spanish economic growth has outperformed the rest of the Eurozone, primarily driven by mass tourism and European subsidies. The economy grew at an average rate of 4% during 1997–2000. The country’s growth slowed somewhat during 2001–03 and it did not exceed 3.5% in any year. The economy registered a CAGR of 3.6% during 2000–06. After attaining a steady growth during 2000–06, the Spanish economy continued to decline in the second half of 2007 and 2008. It attained a growth rate of 1.1% in 2008 compared to 3.7% in 2007. The deceleration in 2008 came about as a result of the sharp slowdown in national demand. National domestic demand posted an average rate of increase of 0.4% in 2008, compared with 4.2% in 2007. This was due to weak consumption and investment expenditure. The downward trend continued in 2009 and the economy shrank by 3.7%. The economy is expected to be in recession even in 2010.
GDP composition by sector

The services sector is the major contributor to the economy. Its share of GDP was around 70.7% in 2009. This is also the fastest growing segment, followed by manufacturing and agriculture. During the same year, the industrial sector contributed around 26.8% of GDP and agriculture contributed the remainder.
Agriculture

Agriculture was a dominant sector of the Spanish economy until 1945. Its significance gradually declined in the aftermath of industrialization. During the 1950s, there was large scale migration to cities as food prices increased rapidly and the surplus labor pool began to shrink. With increasing industrialization, the share of agriculture declined. Agriculture accounted for 23% of GDP in 1960, 15% in 1970 and for 5% by 1990. In 2009, its share stood at 2.5%.

Around 55% of the land in Spain is devoted to agriculture with around 1.2 million farms. The fruits and vegetables segment is significant, creating more than 25% of the agricultural sector's revenue. In the north-west, cereal, potato, oil-producing plants and sugar beet are important products. Spain is the fourth largest producer of olive oil, and tomatoes and citrus fruits are other important agricultural products. Agricultural production in Spain has been on a declining trend and one of the concerns has been the abandonment of farms by farmers. There was a sharp decline in the growth rate of output during 2006–09 as the growth in agricultural output fell to -4.7% in 2009 from 4.8% in 2006.
Industry

The industrial sector accounted for around 26.5% of GDP in 2009. After a decline in 2001–02, the industrial growth picked up during 2003–06. Industrial activities slid in 2007. Initially, the focus was on the production of goods for domestic consumption, and on intermediate products linked to the infrastructure and construction services, but gradually the sector became broad-based, with the inclusion of goods for export and capital goods. Since the last quarter of 2007, there has been a reduction in capacity utilization in the manufacturing sector, which is an indication of a slowdown in investment. Industrial output grew at a rate of 3.15% in 2008 compared to a peak of 10% in 2006. In 2009, the industrial sector was hit due to recession and the industrial output contracted by 2.75%.
Services

The services segment is the most significant sector of the Spanish economy, contributing around 70% of the GDP. In the services sector, retailing, tourism, banking and telecommunications are the most important contributors. The tourism sector is the largest foreign exchange revenue earner for the Spanish economy. The services sector growth trend was similar to manufacturing, as it consistently grew during 2001–05, with the exception of 2003, when the growth rate declined. Services sector growth during the decade reached its peak in 2005, at a growth rate of 8.4%. However, with the global slowdown conditions deteriorated and the services sector began to slow in 2008, recording a growth of only 4.5%. The services sector contracted by 4.3% in 2009.
Fiscal situation

The Spanish government has been consolidating its fiscal condition by pursuing a tight monetary policy since 2000. This fiscal condition resulted in the improvement of government finances and in 2005, for the first time, the budget showed a surplus of 1.1% of GDP. In 2006, the surplus was 1.8% of GDP, which put Spain among the group of European countries with the best fiscal results. In 2007, budget surplus as a percentage of GDP stood at 2%.

According to Finance Ministry, the economy posted a budget deficit of 11.2% of GDP for the year 2009–10. According to Central Bank, Spain’s budget deficit will be equal to 10.2% of GDP in 2010 and equal to 8.9% of GDP in 2011. Spain posted a budget deficit of nearly E99.79 billion ($135.2 billion) in 2009. The deficit was nearly triple that in 2008, when it reached E30.57 billion (about $41.42 billion). Tax revenues, meanwhile, plunged 17% in 2009 due to the recession. Government spending rose to E205.71 billion ($278.82 billion) in 2009, while revenues came in at E105.92 billion ($143.58 billion).

Current account

The balance of payments in the Spanish economy deteriorated when net borrowing (that is, the overall deficit on current and capital account) reached E84.713 million in the first ten months of 2008, representing a year-on-year increase of 5%, a
significantly lower rate than in 2007. There was a 4.3% increase in the current account deficit, which was the outcome of the rise in the energy deficit and, to a lesser extent, of the respective deficits on the income and current transfers, according to the quarterly economic bulletin (December 2008) of the central bank of Spain. The improved surplus on the services balance and the correction of the deficit on non-energy goods were unable to offset the deficit.

According to customs data, the gap between exports and imports in real terms was even wider, albeit partially cushioned by the deterioration in terms of trade brought about by oil prices. The energy bill, which increased appreciably between January and October 2008, was the determining factor behind the rise in the nominal trade deficit. Spain’s current account deficit stood at €6.526 billion ($8.788 billion) in January 2010, up 5.9% year-on-year, according to the central bank. The surplus from services went up by 1.3% to €1.503 billion. There was a 0.9% decline in the surplus from the tourism sector to €1.615 billion and a 23.8% reduction in the deficit from other services to €35.2 million. The income account deficit went down by 30.2% to €2.196 billion and the deficit from unilateral transfers stood at €1.701 billion. The capital account, mostly made up of transfers from the European Union (EU), showed an €1.295 billion surplus, compared with the €347 million a year earlier. Added to the current account, it produced a financing need of €5.231 billion, down 10%.

![Figure 13: Current account balance of Spain, 2001–08](image-url)
Exports and imports

The Spanish economy was largely dependent on exports, which was an important growth driver. However, owing to the global economic slowdown, export growth slowed down in 2008. According to the quarterly economic bulletin of the central bank of Spain, the contribution of exports to GDP growth was around 1.7%. Imports declined faster than exports because of lower falling consumption demand and investment in equipment. Furthermore, the loss of exports is concentrated in developed economies and in particular some of main European partners. In the last quarter of 2008, the depreciation of the euro allowed a more favorable performance in terms of price-competitiveness. In 2009, total trade was valued at around $751 billion, in which exports constituted around $346.3 billion. The composition of exports has remained concentrated in matured industries. The Spanish economy depends heavily on the automobile industry for exports to Asian economies. The country’s imports in 2009 reached around $404 billion.

External debt

The Spanish economy’s external debt stood at $2.41 trillion as of June 2009. The country’s economic growth was largely dependent on foreign inflows. As a result, there has been more than a four-fold increase in external debt during 2000–07. Furthermore, the net borrowing of the economy deteriorated because of the increase in the current account deficit, and a decline in the surplus on capital transactions.
International investment position

Foreign direct and portfolio investments

The country’s FDI increased from a level of $28 billion in 2001 to more than $65 billion in 2008. The Netherlands was responsible for 20% of FDI inflow into Spain in 2007–08. The UK and the US were responsible for 6.65% and 4.95% of investment, respectively, during the same year. Telecoms, real estate, hotels, manufacturing, and the agro-foods industry witnessed a large amount of FDI inflow. According to the ‘World Investment Prospects to 2011’ report, Spain is projected to be the ninth FDI destination in the world in the next three years, as well as the fifth in Europe.

Figure 15: Total foreign investment in Spain, 2001–08

Credit rating

Standard & Poor’s has given “AA+” long term rating for Spain and rates the country’s outlook as stable. However, the deteriorating economic conditions may lead to a lower rating for the country and the firms operating there.
Monetary situation

**Key monetary indicators**

As a member of the EU, Spain’s fiscal policy is controlled by the ECB. The Bank of Spain is the central bank and is responsible for the implementation of monetary policies. One of the main objectives of the monetary policy is maintaining price stability.

**Inflation**

Inflation shot up in 2008 to reach 4.5% after attaining a lower level of 2.7% in 2007. After maintaining an upward trend prices began to decline in the later part of 2008. The downward movement came about because of lower energy prices and the reversal of the impact exerted by the sharp rise in milk and other processed food prices. Besides the lower energy prices, the fall in prices of processed food items also had a moderating impact on inflation. As a result of the slow down, the economy faced a deflationary trend in 2009, positing a deflation of 0.3%. It is expected that in 2010, inflation is expected to be around 0.8%.

![Figure 16: Consumer price index and CPI-based inflation in Spain, 2002–13](image)

**Money supply and interest rate**
Economic landscape

As with most central banks within the Eurozone, the Bank of Spain has been taking measures to increase liquidity in the system to boost credit demand. As of July 2008, the benchmark interest rate of the ECB was 4.25% but it has been cut on a number of occasions since October 2008. In its last move, the European Commercial Bank (ECB) reduced the rates by 25 basis points to 1.25% in April 2009. With this rate cut, the total reduction in the interest rate on the main refinancing operations of the Eurosystem since 8 October 2008 has been close to 300 basis points. In May 2009, the ECB further reduced the refinancing interest rate to 1%.

Banking sector

Spain has a well-developed banking network system in Europe, which is considered to be one of the sturdiest in the region. There are 78 domestic and 58 foreign banks registered with the Central Bank of Spain. Besides these banks, there are 47 saving banks, which are provincial or regional in nature. The banking sector is dominated by Santander Central Hispano (SCH) and Banco Bilbao Vizcaya Argentaria (BBVA), accounting for nearly 40% of the banking sector assets. These groups are followed by the savings banks La Caixa and Caja Madrid.

Traditionally, the regional savings banks (cajas de ahorros) in Spain have always played an important role in their respective regions, and enjoy a high profile in local communities. Unlike other banks in Spain, Spanish savings banks are not owned by anybody and do not have share-holders. They are "semi-public" and their legal status is similar to that of a foundation and is defined by the Confederación Española de Cajas de Ahorros (Confederation of Spanish Savings Banks), which decides how the banks should be run. In recent years, Spain's biggest savings banks have become more ambitious in exploring markets beyond their respective regions, setting up branches throughout Spain and even abroad, and have become much more competitive in the Spanish banking sector as a whole.

Like many other European banks, large Spanish banks have found themselves embroiled in a crisis, which necessitated the central bank’s intervention. In March 2009, the Bank of Spain took control of regional savings bank Caja Castilla La Mancha (CCM), replacing its directors with its own nominees and providing up to €9.0 billion in liquidity. Spanish banks have not been nationalized like banks in other European countries as strict regulations protected them from US high risk or "sub-prime" assets. Nevertheless, the number of non-performing loans has been increasing in Spain following a rapid rise in unemployment and the collapse of the property boom.

Employment

The Spanish economy has seen high unemployment levels in the past and these have persisted. Although the unemployment rate has shown a downward trend in recent years, falling from more than 17% in 1997 to 11.3% in 2008, it was still higher than the European average of 7% (2007). The unemployment rate was at its all time low of 8.3% in 2007 but increased to 18% in 2009 as industrial activities slowed down and the construction sector slumped. Furthermore, the economic slump led to growing unemployment in 2008 and 2009. By the end of 2009, nearly 4 million people were unemployed.

The employment growth rate was at its highest in 2004 (5.2%) as the economy was buoyant with European funds. However, the momentum was soon lost and the growth rate of employment declined. Employment growth slumped to - 2.1% in 2008, mainly because of the slowdown in the construction industry, while job losses in industry and non-market services were moderate. Although the employment growth rate in 2008 was negative, labor costs did not show any signs of
wage pressures. Employment generation continued to dwindle in 2009 with the tightening of credit and falling industrial growth. It is expected that in 2011, the employment growth will again be around 1%.

**Figure 17:** Employment and growth rate in Spain, 2001–13

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment (millions)</th>
<th>Employment growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>15.00</td>
<td>-8.00</td>
</tr>
<tr>
<td>2002</td>
<td>15.00</td>
<td>-6.00</td>
</tr>
<tr>
<td>2003</td>
<td>15.00</td>
<td>-4.00</td>
</tr>
<tr>
<td>2004</td>
<td>15.00</td>
<td>-2.00</td>
</tr>
<tr>
<td>2005</td>
<td>15.00</td>
<td>0.00</td>
</tr>
<tr>
<td>2006</td>
<td>15.00</td>
<td>2.00</td>
</tr>
<tr>
<td>2007</td>
<td>15.00</td>
<td>4.00</td>
</tr>
<tr>
<td>2008</td>
<td>15.00</td>
<td>6.00</td>
</tr>
<tr>
<td>2009</td>
<td>15.00</td>
<td>8.00</td>
</tr>
<tr>
<td>2010</td>
<td>15.00</td>
<td>6.00</td>
</tr>
<tr>
<td>2011</td>
<td>15.00</td>
<td>4.00</td>
</tr>
<tr>
<td>2012</td>
<td>15.00</td>
<td>2.00</td>
</tr>
<tr>
<td>2013</td>
<td>15.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Source: Datamonitor

**Outlook**

The Spanish economy was on a consistent growth path for the 13 years up to 2007. Since 2007, the Spanish economy has been on a declining trend, which continued during 2008. The declining trend continued in 2009, with the economy contracting by 3.7% compared to a growth of 1.1% in 2008. This recession is the result of reduced domestic and external demand. A slowdown in the international environment, along with the current financial turbulence, may delay the process of economic recovery. The stock markets have also come under pressure after showing some resilience in 2008. Furthermore, the real estate sector, which was one of the significant drivers of the Spanish economy, has finally burst, which could delay economic recovery. The unemployment levels in the country reached around 18% in 2009 from a level of 8.3% in 2007. As unemployment creeps up for yet another month, Spanish consumers are facing increasing pressure on their domestic finances. Consumers are unable to maintain previous levels of spending, given that they can no longer finance as many purchases through loans. Lending to households fell by 0.7% year on year in the final quarter of 2009, the third consecutive quarter of decline, which was much lower than 3.8% growth seen in 2008.
Furthermore, the poor state of the public finances has meant that the government has been forced to include tax rises in its 2010 budget despite the challenging environment that Spain's consumers are already facing, with consumers set to face further austerity measures in 2011. In May 2010, the government will unveil a public spending restructuring plan, with the aim to reduce the government deficit from 11.4% in 2009 (which is more than double the 4.1% deficit of 2008) by around 2.1 percentage points a year during 2010–13.
SOCIAL LANDSCAPE

Summary

The social issues in Spain are similar to many European nations as it is facing the key challenges of an aging population and unemployment. The birth rate has been continuously declining and there are fewer people entering the work force. The Spanish education system has undergone significant reform processes, which has led to its above average performance in terms of tertiary education. Furthermore, the economic recession of the country will lead to deterioration of its social security expenditures as the government finds its finances coming under pressure.

Evolution

The social landscape of Spain underwent changes after the abolition of dictatorship and the setting up of a democratic government. Spain’s post civil war economic miracle transformed a conservative society into an advanced industrial society. By the 1980s, Spain had acquired most of the characteristics of European society, such as declining birth rates, the migration of rural workers to urban areas, and the participation of women in labor force. The government became more proactive in providing social security to its population and social welfare measures increased during the late 1980s and 1990s.

Spain's population is drawn from diverse ethnic and linguistic groups. As this diversity gave rise to conflicts, the 1978 constitution provided for the establishment of regional autonomous governments with the powers and resources to protect their ethnicity and regional languages. The influence of the Roman Catholic Church, which was a dominant power in Spanish life, has gradually diminished over the years as the society has become more secular in nature.

Structure and policies

Demographic composition

Age and gender-wise composition

The age structure shows that 67.4% of the population belongs to the broad 15–64 age group, 14.5% of the population is in the 0–14 age group and 18.1% of the population is aged above 65 years. With this age structure, Spain reflects a similar demographic trend to that seen across the rest of the Europe. There is an increase in the number of the elderly population and fewer people are entering the work force. The gender ratio at birth is 1.07 males per female. Life expectancy for the total population is 80.05 years. For the male population it is 76.74 years and for the female population it is 83.57 years.

The birth rate in Spain has declined from 13 per thousand population in 1985 to 9.7 in 2009. The country has the lowest fertility rate in Europe at 1.31. Over the last 30 years, the average family size in Spain has dropped from 3.8 members to 2.9 members. The births taking place in immigrant Latin American and North African families are the only significant source of population increase. The female population comprises 51.1% and males account for 48.9% of the total population.
### Urban/rural composition and migration

About 78% of the population lives in urban areas, with much of the urban population concentrated around the capital city Madrid. Other densely populated cities are Barcelona, Valencia and Seville. Large scale urbanization took place during 1965–85. The pace of urbanization was fastest in the 1960s and 1970s, when cities grew at the rate of 2.4% annually. The rate slowed to 1.6% during the 1980s. During this period of urbanization there was a large-scale exodus from rural to urban areas. In the early years of urbanization, most of the population migrated to areas around Madrid and Barcelona. However, the trend changed during the 1980s, and there was net immigration from very large cities and small towns to other provinces like Seville, or Las Palmas.

Spain has become a preferred destination for international immigration. During 1998–2008, Spain experienced a very large immigration wave. The foreign-born population has increased from 1.17 million to 5.22 million, according to the Population Registry data. During this period, the percentage of foreign-born workers among the working age population has increased from below 2% to almost 15%. Spain is behind the US in terms of the percentage of the number of workers who are foreign-born.

Most of these immigrants came from North Africa and Latin America. With the economy in trouble and unemployment rising, a backlash against immigration is likely. The immigrant population has contributed immensely to Spain’s economic growth, particularly in the construction sector. However, with the economic recession, there is likely to be lesser social tolerance for immigrants as the country faces large scale unemployment.
Social landscape

Religious composition

Roman Catholic is the dominant religion of Spain, with 94% of the population following this religion. The Protestant and Muslim population have a small presence in the country.

Education

The current educational system in Spain is based on the 1990 education law Ley Organica de Ordenacion General del Sistema Educativa (LOGSE), which translates as the Organic Law on the General Organization of the Educational System. This law restructured primary and secondary education, providing for free and compulsory education from the ages 6–16 years. School curriculums were also protracted to incorporate newer technical subjects and foreign languages.

The break up of the stages of education for Spanish children includes preparatory education (3–5 years), primary education (6–11 years), secondary education (12–16 years) and baccalaureate (17–18 years).

Although basic education of children begins as early as three years of age, the first three years of education are not compulsory. They are, however, considered an integral part of the system and are available in almost all primary schools. Universities in Spain date back to the medieval ages and are based on the 19th century liberal and centralized French model but have been gradually moving towards a self-governed and decentralized model. Education in universities is not free but university grants and scholarships are available for both residents and foreign students, and one in every seven students receives a grant. Fees are lower for Spaniards and EU nationals, as is the cost of accommodation. US universities also operate in Spain with the same standard of teaching and learning.

Schools are maintained by three types of managements: public, private and a combination of both called concertado. A concertado school is maintained by a public administrative body but is subsidized by the government. The concertados usually combine both primary and secondary education.

Healthcare

Healthcare services

The current healthcare system came into existence during the transition to democracy. The central government is responsible for promoting co-ordination and co-operation among health units. The 1986 General Healthcare Act outlines the main principles for the NHS. From 1986, healthcare financing was reformed to transform the former insurance-oriented system into one financed by taxes, with almost universal coverage under NHS. The decentralization reform was completed in 2002, which resulted in governance of the system being decentralized to all 17 autonomous provinces. At the provinces, the two main sources for finance are taxes and allocations from central government. Private healthcare finance consists of out of pocket payments to the private sector and voluntary health insurance (VHI).

In December 2009, Spain managed to gather the support of other EU countries to stop a directive that would have allowed European citizens to choose the country in which they wanted to receive medical treatment without prior authorization from their country of origin or official residence. The proposed directive would have been particularly costly for Spain, a country where many pensioners from other EU countries reside. The minister estimated that if all of the foreigners living in the country decided to head elsewhere for treatment, the cost to the Spanish state would be as much as E2 billion a year.
Social welfare

Social welfare policies

The social welfare scenario in Spain has changed from being a series of social security schemes to a whole range of social welfare bodies, industrial foundations, insurance societies, friendly societies, pension schemes and funds. Social welfare policies started later in Spain than in most European countries. Until the late 1930s, the Catholic Church had a great deal of influence in welfare policies and often designed them in a way that favored the ruling autocratic family. When Franco came into power after the civil war of 1936, he repealed the existing system of welfare reforms and introduced new laws that were more people-oriented.

The social security system improved after the country formed its democratic government. The PSOE came into power in the first democratic elections held in 1982. It brought in dramatic changes in the existing welfare system and planted the roots of reforms. The new system of people welfare was socially more comprehensive than the previous one in the sense that it included healthcare, housing and education, which were overlooked by the previous government. The Felipe Gonzalez-led administration was especially mindful of the working class and introduced earnings-related contributory benefits for the employees. These benefits were, in particular, designed to address issues like post-retirement benefits, disability benefits, sickness benefits and widowhood benefits. The government adopted the pay-as-you-go pension system as a conduit to make these policies effective for the economically active population. The PSOE established the healthcare reforms in 1986 in order to guarantee access and the right to healthcare for all Spaniards and foreigners in Spain, by making healthcare insurance available to everyone.

Housing has been of major concern for the Spanish government since the 'Spanish Miracle' of 1960 when real estate prices touched dizzying heights. Under the Franco regime, prices had dropped only marginally making it difficult for the lower class to be able to afford a house. The Gonzalez government made home ownership more affordable through mortgage subsidies.

After the financial crisis that hit Spain in the early 1990s, unemployment emerged as a tough problem for the Spanish economy. As the number of people losing their jobs increased, those claiming unemployment benefits also increased causing a strain on the government's finances. The funds available were inadequate to cover the insurance benefits of all the claimants. Spain has a tenacious insurance system in place and the benefits accrued by these insurance plans are more remunerative than those in other EU nations.

Performance

Healthcare

Spain spent around 7.37% of GDP on healthcare in 2008, which is below the 9% average level within the EU. In 2009, it increased to 7.99%. The country's expenditure on healthcare in absolute terms and as a percentage of GDP has been increasing. Healthcare is being financed mainly through the public and private sectors; however, the public sector is still the dominant player, with nearly 70% of the total contribution. Private healthcare represents 30% of the health sector in Spain with a total of 445 hospitals in the country. However, while maintaining a moderate rate of growth through 2009, the sector has started to show cuts in the workforce. For instance, by the end of 2009 there were a total of 339,500 employees working for the sector. This represents 13,000 fewer workers than in the third quarter of 2008 and more than 60,000 fewer than two years earlier in 2007. In third quarter of 2008, 92,600 workers are doctors, 25,500 are nurses and 25,100 dentists.
Social landscape

It is expected that by 2013, the country’s healthcare expenditure would be around 8.45% of GDP.

<table>
<thead>
<tr>
<th>Year</th>
<th>Healthcare expenditure</th>
<th>Healthcare as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>5.5 billion</td>
<td>5.5%</td>
</tr>
<tr>
<td>2003</td>
<td>6.0 billion</td>
<td>6.0%</td>
</tr>
<tr>
<td>2004</td>
<td>6.5 billion</td>
<td>6.5%</td>
</tr>
<tr>
<td>2005</td>
<td>7.0 billion</td>
<td>7.0%</td>
</tr>
<tr>
<td>2006</td>
<td>7.5 billion</td>
<td>7.5%</td>
</tr>
<tr>
<td>2007</td>
<td>8.0 billion</td>
<td>8.0%</td>
</tr>
<tr>
<td>2008</td>
<td>8.5 billion</td>
<td>8.5%</td>
</tr>
<tr>
<td>2009</td>
<td>9.0 billion</td>
<td>9.0%</td>
</tr>
<tr>
<td>2010</td>
<td>9.5 billion</td>
<td>9.5%</td>
</tr>
<tr>
<td>2011</td>
<td>10.0 billion</td>
<td>10.0%</td>
</tr>
<tr>
<td>2012</td>
<td>10.5 billion</td>
<td>10.5%</td>
</tr>
<tr>
<td>2013</td>
<td>11.0 billion</td>
<td>11.0%</td>
</tr>
</tbody>
</table>

Source: Datamonitor

Income distribution

The economic growth of Spain gathered momentum after the country became a member of the EU. However, the economic growth was not equally widespread and made the division between classes more apparent. On the Gini index, the country has made little progress during 1997–2007. In 1997, the Gini index stood at 0.34 and by 2007, and it has only marginally improved to 0.33 (Gini index is measured on a scale of zero to one; zero indicates perfect equality and one is the level of perfect inequality). The percentage of the population in different income groups has not changed dramatically in the post liberalization period. During 2000–07, the percentage of the population in the top income group has increased from 8% to 8.3%, whereas in the lowest income group it decreased from 40.7% to 40.6%.

North and east Spain are known as ‘bourgeois Spain’, as these areas are substantially modernized, industrialized, and urbanized. The south and west is known as ‘traditional Spain’, where agriculture continues to dominate. The ACs of Catalonia, the Basque Country and Madrid account for half of Spain’s GNP. There is a wide disparity in the standard of living of people in rich provinces compared to those in other provinces, which indicates that some groups have not benefited from the ‘economic miracle’ of Spain.
Education

Spain has a literacy rate of 97.9% for the total population. While the male literacy rate is at 98.7%, the female literacy rate is slightly lower at 97.2%. Although the structure of the education system is being reformed, the expenditure on education as a percentage of GDP has remained around 4% during 2002–08, which is less than the average of OECD nations at 5.3%. This level of education expenditure is less than that in 1995, when it stood at 5.3% of the GDP. The public sector contributed 87% of the total expenditure, whereas the rest came from households.

Outlook

The economic growth achieved by Spain during 1995–2006 has also positively impacted some of the aspects in the social landscape of the nation. However, during 2009, the economy has contracted and public finances too have been severely hit. Prime Minister Jose Luis Rodriguez Zapatero announced in February 2010, that the country is on its way to overcome the current economic crisis will do so without cuts to the social-welfare system. The government will approve an extension for another six months (starting April 2010) of an E420-a-month extraordinary payment to the unemployed without any other coverage. The system of education and health has seen substantial improvement during 2006–09 as a result of large scale reform measures initiated by the government. However, the country is faced with the challenge of an elderly population and a declining birth rate. According to current estimates, Spain will have the highest average age for its
population by 2050 and the government will have to spend around 7% of GDP on pension funds. Government finances will come under tremendous pressure to meet the nation's social security needs. The problem is being aggravated by the declining birth rate, which will lead to a reduction in the number of people joining the labor force and will subsequently lower contribution to the social security funds. The social security outgoings have also increased because of rising unemployment.
Technological landscape

TECHNOLOGICAL LANDSCAPE

Summary

Spain has been slow to adopt technological advancements compared to the other EU countries, although policy measures have been undertaken in this regard. Spain ranks 16th on the European innovation index in a list of 27 nations. Although it performs well in terms of knowledge creation, the innovation climate is not particularly productive. The situation has arisen because of the larger role of the public sector with respect to R&D. The private sector has limited participation in enhancing R&D levels.

The total expenditure on R&D as a percentage of GDP in 2008 stood at around 1.2%. In comparison, France’s expenditure was 2.13% of GDP, the US spent 2.68%, Japan spent 3.18% and Canada spent 1.8%. Spain aims to reach a level of 2% by 2010, which is well below the 3% target fixed by the Lisbon agreement for the EU nations. It is expected that the government’s initiative under the INGENIO 2010 program will help in raising private sector expenditure on R&D to 55% of the total investment by 2010, as well as improving the overall innovation climate of the nation.

Evolution

Spain’s sudden boost in performance in the 1960s, characterized by the ‘Economic Miracle’, had more to do with the economy and political factors than the R&D and technology development of the country. In the early years of industrialization, Spain depended on foreign technology. However, the country’s policy makers soon realized the drain on country’s resources because of this dependence and worked towards self sufficiency. Particularly after the period of self-sufficiency under Franco, enterprising endeavors were undertaken by the government to modernize its industries. The University Reform Law was enacted in 1983, followed by other Science Laws and Procedures in 1986, such as the Patent Law. Since then, a lot of effort has gone to stimulate scientific and technological development. These efforts gathered momentum with its accession to the European Community. The Spanish companies and the scientific communities have been participating in the European programs such as the Framework Program, EUREKA and European Space Agency.

In the late 80s and early 90s, the focus of the government policy was on ‘science-technology-industry system’, and funding research was prioritized according to the needs of the economy and society. However, there was a lack of co-ordination and consistency in implementation of policies. A shift in technology policy occurred in 1996 when the conservative government assumed office. The policy became pro-business and the government moved to a more innovation-centered approach. In 2000, a new Ministry of Science and Technology was created, which was made responsible for the development of science and technology, as well as its application in industry.

Structure and policies

The Spanish regulatory framework is decentralized; like other legislations it allows regional governments to develop their own R&D innovation and entrepreneurship policy. Each AC has created its own ‘regional development agency, the main activities of which include the establishment of science and technology parks, and technology transfer organizations, as well as the initiation of university enterprise interfaces.

The INGENIO 2010 program, funded by the government, is the main program aiming to increase the interface of R&D measures with industry. The program includes a number of measures, such as increased funding of government research,
the stimulation of technology transfers by encouraging public-private partnerships, and enhancement of the incentives for private sector research and the diffusion of new technologies.

The main agencies involved in the development and implementation of strategy and technology (S&T), and innovation policies are the Ministry of Education and Science, and the Ministry of Industry. The Inter-ministerial Commission on Science and Technology co-ordinates the R&D activities of different ministries and plays a key role in the Spanish National R&D and Innovation plan. The Spanish National Plan for Scientific Research, Development and Technological Innovation (NPRDI Plan) covers a broad range of scientific areas, and develops policies for innovative practices by supporting technological innovation and R&D excellence. The national R&D plan is the embodiment of various technological development plans, which includes strategic R&D programs, and the general funding mechanisms for non-oriented and non-prioritized research activities.

Intellectual property

Spain has well developed intellectual property rights (IPR) legislation, which is similar to the system followed in the other EU nations. Spain has ratified the 1973 Munich European Patent Convention, which made the country a designated nation for European patent application. The IPR law provides for both product and process patents. A non-renewable 20 year period for working patents is granted. Spain is also a signatory to the Universal Copyright Convention which protects all literary, artistic and scientific creations, including computer software. The Spanish office of patents and trademarks is responsible for the protection of trademarks, which, once registered, receive protection for 10 years and can be renewed.

Spain compares unfavorably with the other EU nations in regards to the number of patents received by it, which is less than 20% of the EU average. This figure is far less than that of other developed nations. Spanish companies’ applications to the European Patents Office (EPO) are also less frequent than the EU average.

Research and development

The national R&D and innovation plan is the cornerstone of the R&D policy. Since 2008, a program named INGENIO 2010 has been included in the National Reform Plan (NRP). This program reflects the changing priorities of the Spanish government to meet the Lisbon agenda objectives. Under INGENIO 2010, a number of new measures were introduced to complement the national R&D and innovation plan. The plan proposes to increase public funding for R&D and innovation activities, which are expected to reach 2% of GDP by 2010. There are also other programs, such as the Human Capital Program, that are being implemented to increase the quality of higher education. The entrepreneurship program aims to help the growth of entrepreneurship by improving the legal and administrative environment.

The organizational structure has also been made more systematic by putting different national evaluation bodies and agencies into place, which are specific to the sector they evaluate. This includes CDTI for industrial R&D and technical projects, ANEP for academic R&D, CNEAI for individual research activity, and ISCII for biomedical and health system research. At a regional level, all the ACs have created their own agencies for the evaluation of research and the quality of education in universities.
Technology agreements/pacts

Spain is signatory to most of the international technology agreements. Being a member of the EU, the country has access to the technology fund and the targets set under the Lisbon agreement are applicable for the country. It has entered into scientific and technological cooperation agreement with the US as well as Asian and African nations.

Performance

Telecommunications

The information and communication segment witnessed fast growth during 2002–06, fuelled by the demand for mobile subscriptions. The country boasts a technologically advanced infrastructure with high mobile subscription. The telecom regulator has taken steps to foster competition in the market and increased competition has not only reduced the cost of services, it has also made prepaid services popular. Telefonica Moviles is the market leader, followed by Vodafone and Amena. Mobile subscription peaked in 2002, registering a year-on-year growth of 33.3%. However, the growth rate subsequently declined but an average rate of 8.2% was maintained during 2002–09.

Fixed line demand was comparatively low, which is characteristic of a mature market, with a negative growth in 2008. The number of internet subscribers increased at a fast rate in the beginning of the decade, recording an average growth of 15.2% during 2002–09. Although broadband subscription has been increasing, it has remained low compared to the EU average. It is expected that broadband infrastructure will be the key to competition in the next wave of modernization.
Figure 20: Growth rate of mobile and fixed line subscribers in Spain, 2002–13

Source: Datamonitor
Opportunity sectors

Biotechnology, renewable energy, IT and environmental technology have been identified as important sectors for investment by the Spanish government.

Biotechnology

The Spanish biotechnology market has posted healthy growth rates over the past three years. This is set to remain healthy in 2008 and over the course of the forecast period. The Spanish biotechnology market generated total revenues of $7.6 billion in 2008, representing a compound annual growth rate (CAGR) of 6.1% for the period spanning 2004–08. In comparison, the French and German markets grew with CAGRs of 8.2% and 7%, respectively, over the same period, to reach respective values of $4.3 billion and $5.3 billion in 2008.

The medical/healthcare segment proved the most lucrative for the Spanish biotechnology market in 2008, generating total revenues of $6 billion, equivalent to 78.1% of the market's overall value. In comparison, the food and agriculture segment generated revenues of $686.3 million in 2008, equating to 9% of the market's aggregate revenues.

The performance of the market is forecast to decelerate, with an anticipated CAGR of 5% for the five-year period 2008–13, which is expected to drive the market to a value of $9.8 billion by the end of 2013. Comparatively, the French and German
markets will grow with CAGRs of 8% and 6.6%, respectively, over the same period, to reach respective values of $6.4 billion and $7.3 billion in 2013.

**Information, communication and technology (ICT)**

- The usage of IT communications has been picking up in Spain. The Spanish communications equipment market generated total revenues of $521.2 billion in 2008, representing a compound annual growth rate (CAGR) of 9.7% for the period spanning 2004–08. In 2013, the Spanish communications equipment market is forecast to have a value of $577 million, an increase of 10.7% since 2008.

- Electricals and electronics retailers proved the most lucrative distributors for the Spanish communications equipment market in 2008, generating total revenues of $249.8 million, equivalent to 47.9% of the market's overall value.

- The Spanish software market generated total revenues of $4.8 billion in 2009, representing a compound annual growth rate (CAGR) of 7.8% for the period spanning 2005-2009.

- Cross-industry and vertical application sales proved the most lucrative for the Spanish software market in 2009, generating total revenues of $1.3 billion, equivalent to 27.8% of the market's overall value.

- The performance of the market is forecast to decelerate, with an anticipated CAGR of 3.2% for the five-year period 2009–14, which is expected to drive the market to a value of $5.6 billion by the end of 2014.

- The Spanish government has implemented a series of initiatives to promote the development of information society, such as the implementation of the electronic identity card, closure of analogical broadcasts on national television channels, as well as grants to expand services and applications.

- There are three carriers that operate their own network. Along with mobile telephony operators, these firms are vying to offer customers a wide range of services at competitive prices.

**Renewable energy**

- Spain is second in the world after Germany in terms of total installed wind capacity and is fourth in Europe in terms of the use of solar energy, having a 6% market share on the continent. With respect to bioenergy, Spain is first in bioethanol production, fourth in biogas production and fifth in terms of biofuel consumption in Europe.

- The government shifted its focus to renewable energy under the Promotion of Renewable Energy plan (2005–10). The government also approved the Action Plan for the Spanish Strategy of Energy Efficiency to increase investment in renewable energy technology. The government was working towards achieving the target whereby renewable energy will account for 29% of total power generated by 2010. It succeeded in achieving its target by 2009.
Technological landscape

Research and development

R&D expenditure

The R&D expenditure in Spain was 1.26% of GDP in 2007 and the government aims to reach 2% by 2010. The INGENIO 2010 program also encourages the private sector to increase its contribution to R&D expenditure to 55% of total investment by 2010. The level of expenditure on ICT as a percentage of GDP is targeted to reach 7% by end of 2010. In October 2009, the Ministry of Science and Technology allocated €50 million ($73 million) for bio-medicine R&D projects within six different campuses in Madrid, Cataluna, Andalucia, Comunidad Valenciana and Galicia. The main objective is to improve Spain's position as an R&D leader within the EU. Projects are expected to emphasize synergies between the sectors of education, investigation, innovation and production. According to the EIS 2008, Spain was ranked 16th within the EU in terms of innovation.

Outlook

Spain was a late starter with respect to R&D and innovation, but the country has done well in recent years to come up to the standard of the other EU nations. Although, it is far from matching the performance of the developed EU nations, it compares favorably within its peer group. The government has initiated measures to address the shortfall in the innovation system by revamping the education system and introducing new technologies.

The lack of innovation and entrepreneurship in the system has emerged because of a low percentage of SMEs becoming involved in innovation, and the low participation of private sector and venture capitalists. A positive environment could be created by enhancing incentives and making the venture capitalist funding procedure simpler. The government’s decision to promote early stage investments, rather than focusing on expansion, is a step in this direction, and will show positive results in the long-term. Furthermore, the new policy on tax incentives for R&D enterprises will also boost efforts in this direction.

The economic crisis has affected science and innovation policy, especially since the last quarter of 2008. However, in the beginning of 2009, a budget of €22 million was provided for new projects. During the year, three new measures have been contemplated – the Interempresas program, the InnoCash program and the Avanza2 plan. Out of these three measures, Avanza2 plan has been formulated to contribute to the economic recovery of Spain through the intensive and general use of ICT technologies, with special emphasis on projects of sustainability and energy saving. These three measures are expected to bring in greater development in scientific and IT arena of the country.
LEGAL LANDSCAPE

Summary

The Spanish legal system owes its origin to the constitution of 1978. The country has an independent judiciary, which is free from other branches of government. There are four categories of courts: civil, criminal, court and social. The federal system of governance is also reflected in the judiciary structure. For jurisdictional purposes, Spanish territory is divided into municipalities, judicial districts, provinces and ACs. The ACs have wide-ranging legislative and executive powers.

After assuming EU membership, the Spanish government initiated legal reforms to ensure integration with the union. Rates of taxes have been reduced, investment regulations have been eased out and hitherto restricted sectors are being opened up to encourage private investment. Nevertheless, the government interference in economic matters continues to exist, which makes economic decision making rigid.

Evolution

The Spanish judiciary system owes its origin to the constitution of Spain, which came into effect in 1978. As per the declaration of the constitution, justice emanates from the people and is administered in the name of the king by independent judges. The constitution has made the judiciary independent of the executive and legislative branches of the government. The judicial system is based on the civil law and is governed by precise codes of law.

As it is a member of the EU, Spain’s constitution allows for the exercise of constitutional powers by international organizations and the restriction of national sovereignty under several conditions. In this way, Spanish law has been greatly influenced by EU legislation. The regulations of the European Council have played an important role in shaping the law of the nation. A number of amendments were passed to ensure harmonization within the law across all of the EU member states.

Structure and policies

Judicial system

Structure of the system

The Supreme Court is the highest body in the judicial pyramid, with authority over all legal issues except constitutional questions. The judicial system is controlled by the General Council of the Judiciary (CGPJ; Consejo General del Poder Judicial). The CGPJ is an independent government body responsible for the power of the judiciary and it has jurisdiction over the whole country. It comprises 20 members and the president, who is also appointed as the president of the Supreme Court. The members are proposed by Congress and the Senate. Twelve of its members are judges and magistrates of all judicial categories, and eight members are lawyers and other jurists of acknowledged competence with more than 15 years of professional practice.

Constitutional questions are resolved by a special constitutional court, outlined in the constitution, and in the “Organic law on the constitutional court” that was made into law in October 1979.
Legal landscape

Given the federal structure of the country, the judiciary system is hierarchical in nature, based on territorial divisions. For jurisdictional purposes, the country is divided into municipalities, judicial districts, provinces and the ACs. There is a system of appeals against the decisions of lower courts to higher courts, and to the Supreme Court. Only the Supreme Court and the National Court have jurisdiction over all the territories of Spain.

According to the subjects for decision, Spanish courts are organized into four categories: civil (for civil or commercial issues), criminal (for violations of the criminal code), social (for social security and employment contracts issues) and administrative (for claims based on acts performed by public administration).

**Figure 22: Spain – judicial structure**

Source: Datamonitor

Legislation affecting business

*Establishing operations as a foreign enterprise*

Doing business in Spain is comparable to any other country in the EU as foreign investment restrictions and exchange controls have been abolished to a great extent, in line with the EU legislation on deregulation. A foreign investor can invest in Spain by opening a branch or representative office, or by forming a Spanish company. Traditionally, corporations were the most common form of corporate entities but limited liability companies are also becoming common. Foreign investors can also enter the country by entering into a joint venture partnership with Spanish firms.
Legal landscape

Private enterprises enjoy the same treatment as public enterprises with respect to access to markets and other business operations. Foreign investments have to go through a screening process only when the investor wants to take advantage of government provided tax and/or investment incentives. The screening process is the same for both domestic and foreign investors.

Tax regulations

Spain has a modern and pro-business tax structure. The tax burden, as a percentage of GDP, is at 38%, which is approximately five points lower than in neighboring countries. In 2007, the Spanish tax authorities implemented an ambitious tax reform program that reduced the rate of taxes imposed on individuals as well as corporate entities. It reduced the corporate income tax rate to 30%, simplified the income tax calculation process and changed the rates applicable for non-resident taxpayers. The main direct taxes applicable in Spain are corporate income tax, personal income tax and non-resident income tax. The main indirect taxes are the value added tax (VAT), and transfer and stamp tax.

Corporate income tax

Corporate income tax applies to entities that are tax resident in Spain. Any company registered in Spain is taxed on its worldwide income. An entity is considered resident in Spain for tax purposes if it has been formed in accordance with the laws of Spain, or if it has its registered office, or its effective place of management in Spain. The corporate income tax rate is 30%, down from the earlier level of 35%. Moreover, there is a reduced rate for small and medium sized companies. The applicable rates are 25% for profits up to €120,202 and 30% for profits above this level. All such companies having a net turnover of €3 million in the previous year are classified as small or medium sized companies.

Income tax

Individual residents in Spain have to pay personal income tax. A taxpayer is considered to reside in Spain if he or she spends more than 183 days in the country during a calendar year, or if employed there. For tax rates, there is both a general scale and a regional scale. The minimum combined rate for income up to €17,707.20 is 24%, while the marginal combined rate for income from €53,407.20 and above is 43%. Spain has entered into double taxation agreements with all European nations.

Capital gains tax

The rate of capital gains tax for individuals is 19%, as of January 1, 2010.

Labor laws

The labor market in Spain is plagued with the rigidities of employment regulations. The collective labor agreements make it possible for employees to negotiate with employers, which give rise to a small number of labor disputes. Collective bargaining is prevalent both in the private and public sectors. Nearly 60% of the working population is covered by collective bargaining agreements. The government has initiated measures to increase the number of full time hires but the impact of such a move has been limited and the Spanish market continues to be dominated by temporary hires. All employees have to enter into an employment contract with their employer, which can be for an indefinite or fixed term.
The government plays an interventionist role in the labor market by fixing the minimum wage every year. In 2008, the minimum wage for over-18s was fixed at €600 per month or €8,400 per year (which includes 12 monthly payments and two special payments). However, the minimum wage for each occupational category is usually negotiated in a collective labor agreement. The maximum working week is fixed at 40 hours, calculated on an annualized basis. However, the duration of the working day is fixed according to collective labor agreements or individual employment contracts.

Trade regulations

Spain applies the EU tariff schedule. Import duty is only imposed on imports from non-EU countries, at 5–7% for most products. However, most raw materials for manufacturing input can be imported from the EU region without duties, or with very minimal duties. Preferential tariffs and EU trade barriers are also applied.

Spain applies a VAT of 16% to the majority of products and services. There is a reduced rate of 7% and 4% for some specified commodities, such as essential food items, books, newspapers and magazines, or certain government-subsidized housing. Again, certain transactions such as financial and insurance transactions, medical services and educational services are exempt from VAT. Within Spain, VAT does not apply in the Canary Islands, Ceuta or Melilla.

Corporate governance

Spain has made considerable progress with respect to developing corporate governance for its companies. The Spanish economy is completely free as there is concentrated ownership of firms, strong state intervention and weak labor participation. Yet a number of companies have been successful in adopting best governance practices from different systems, especially the Anglo-Saxon codes. In 2003, Spanish firms created a code of business practices and ethics, which was later codified by Spanish regulatory agencies in 2004. Spain's listed companies are required to comply with such codes and transparency rules. Although Spanish companies’ adherence to the corporate governance norms has increased, there is limited disclosure with respect to remuneration. The composition of Spanish boards has remained weak because of the low number of independent directors on the board.

Performance

Effectiveness of the legal system

Spain’s economic growth story is replicated in the legal landscape, as it has met with success in bringing its rules and regulations in line with the EU standards. Large number of commercial laws and regulations were modernized in 1986 after the country attained EU membership. The local regulatory framework compares with other EU nations. Government intervention in economic matters has not fully ceased but bureaucratic procedures have been streamlined by eliminating red tape. However, the legislation and implementation of business regulations are not uniform across the regions due to regional autonomy.

Spain is ranked in 36th position on the Index of Economic Freedom 2010 (given by the Heritage Foundation and the Wall Street Journal). Spain's economic freedom score is 69.6 and the country is ranked in the 19th place among the 43 countries in the European region. According to the index, Spain is notably strong in business freedom, trade freedom, investment freedom, financial freedom, property rights, and freedom from corruption but is relatively weak in fiscal freedom, government size, and labor freedom.
According to the World Bank’s “Doing Business” 2010 report, Spain ranks in the 62nd place among 183 nations, which is 11 ranks below its 2009 ranking with respect to ‘ease of doing business’. The financial markets have been liberalized and the country has a well developed capital market system in place, which is an important factor in developing the private sector. State ownership has subsided following the massive privatization program initiated in 1996. The proportion of equity being held by domestic firms has been steadily increasing, which points toward a strengthening of business groups or holdings by former state-owned firms and industrial banks. Furthermore, regulations for foreign investment have been simplified and no differentiation is being made between domestic and foreign investors.

The government has liberalized the energy, electricity and telecommunications sectors to some extent. While this has positively contributed to increased investment, some restrictions are still in place.

**Outlook**

Spain’s regulatory reform measures began in the post liberalization period. The economic reform programs were coupled with legislative changes to meet the challenges arising in the new economic landscape. Spain has been successful in reducing bureaucratic delays, which has improved the regulatory environment with respect to starting, operating and closing a business. Starting a business takes an average of 47 days, compared to the world average of 38 days. The regulatory regime is expected to further improve as the government has initiated other measures to improve the economic system. The foreign investment climate is likely to improve with the effective reduction in income and corporate tax rates.

In the parliamentary sessions during January and February 2010, the government has established cross-party “anti-crisis” commission aimed at securing a broad political settlement on measures to address the severe and ongoing recession. It has been reported that the commission will not address any major reforms of the labor market, the tax system or the financial sector, and also seems unlikely to consider a cross-party agreement on public-sector pay. However, parallel negotiations to agree a reform of rigid labor market regulations are taking place between the trade unions and the main business confederation, and have a government-set deadline of the end of April 2010. The deep-seated problems of the country’s labor market are clear to see. In effect, there are two labor markets in Spain, with approximately one-third of employees on short-term contracts that offer no protection, and two-thirds over-protected. Mass lay-offs of the unprotected have taken place since the downturn took hold, not least as the bloated construction sector has deflated. The commission is thus expected to bring in significant reforms and increase the competitiveness of the labor market.
ENVIRONMENTAL LANDSCAPE

Summary

In the policy-making process, the environment emerged as an important topic after Spain became a member of the EU. The associated legislative process gained momentum after the formation of the ministry of environment in 1996. Spain has participated in important environmental agreements and is committed to meeting its obligations. The country has increased its international commitments to help improve the climatic conditions of underdeveloped countries, particularly in the Latin American region.

Both the national and regional governments are responsible for the legislation and implementation of environmental directives. After the continued efforts of the government coupled with participation from the private sector, the country has met with only partial success in improving its environmental conditions. The new strategy for sustainable development is intended to speed up the process of meeting the country’s Kyoto Protocol targets, which require it to limit its emissions by a maximum of 15% during 2008–12, compared with 1990 levels. In the absence of more stringent measures and the current level of high emissions, the government may fail to achieve the target.

Evolution

The environmental agenda had a delayed entry in the Spanish policy-making process. The topic received domestic attention after Spain became a member of the EU as the government was expected to adhere to a number of EU directives with respect to the environment. More often than not, the Spanish approach has been reactive rather than proactive in terms of environmental policies. Following the creation of the Ministry of Environment in 1996, the concept of sustainability became a part of the government's agenda. Despite a number of attempts, the government has failed to design a national plan for the environment or for sustainability. Since the 90s, the government has been active in meeting its international commitments to safeguard the environment.

Structure and policies

Environmental regulations

Overview

In Spain, the central government is responsible for the co-ordination and promotion of environmental policies, as well as the issuing of basic environmental guidelines with respect to the management of public water resources, transport and energy. The ACs are responsible for the implementation and monitoring of environmental policies, and are authorized to issue additional and more restrictive laws on the exploitation of natural resources within their provinces. They are also responsible for managing and implementing policies in matters that have local impact.

The Spanish Climate Change Office (OECC) is responsible for issues related to the Kyoto Protocol. There are other bodies, such as the General Direction of Nature Conservation (DGCN), the General Subdirection of Woods (de los Montes), which are responsible for the evaluation and control of the forest sector. These bodies are also responsible for co-ordination with the ACs, and various academic and environmental institutions, as well as collecting environmental data and observation of the climate.
Policy

In order to prevent and protect the environment from different pollutants, the Spanish government has passed many laws and decrees. The first ever law to curb the emission of GHGs was passed by the Jose Maria Aznar administration in 2004. Following suit, the current PSOE government is designing a strategy for sustainable development and climate change, to be implemented by every ministry and province. The most pressing environmental issues that need to be addressed by the Spanish government are GHG emissions, water management, biodiversity conservation, climatic change, air pollution, sustainable tourism and management of waste disposal.

The Air Pollution Plan (Plan de Emisiones Contaminantes) is reckoned to be Spain’s first serious attempt at maintaining the air pollution levels under the targets stipulated by the Kyoto Protocol. Under this plan, all industrial and energy-production plants, which are known to emit the maximum amount of CO₂, will be assigned a limit up to which they can emit CO₂ and other greenhouse gases. Any failure to adhere to these specifications will cost the plants a fine of E2 million and a forcible closure for up to two years. The government also assigns a certain amount of funds to regions depending upon their relative financial position, in order to help them to protect the environment. Assistance is provided to low-income regions to fund waste-water treatment and the development of other waste disposal facilities.

Other national laws include: a law on packaging waste (1997); environmental impact assessment (2001); integrated pollution prevention and control (2002); and protection for forests (2003). The ACs have also legislated their legal frameworks. The legislation on biodiversity protection has been modified to meet the requirements of both the EU and the UN.

Both the national and regional governments have been functioning as per EU directives. These bodies are focusing on environmental infrastructure investment and financing. The government has managed to increase enforcement activities at all levels. For instance, it developed product charges on packaging waste and introduced landfill taxes on municipal waste.

Participation in global efforts/agreements/pacts

Spain has integrated the environmental dimension into many government policies, in accordance with EU regulations. As a member of the EU, it is also party to the environmental agreements signed by the union. It has ratified marine agreements such as the Barcelona Convention and the UNEP Mediterranean Sea. It is also party to the Convention on Oil Pollution Preparedness, Response and Co-operation.

Spanish Official Development Assistance (ODA) has been amended by a new law on international development co-operation and a four year master plan, which includes the environment as one of its main priorities. A Spanish co-operation strategy for the environment will determine the objectives of the players and will link their actions with environmental agreements.

Performance

Environmental impact

Spain has failed to perform impressively on environmental indicators; its GHG emissions increased by 49% during 1990–04, which was one of the highest rates among the signatories of the Kyoto Protocol. After increasing for a long period, GHG emissions fell by around 4% in 2006. Spain accounts for 1.1% of global emissions, which implies an average of 7.6 tons of
CO₂ per person. Spain is bound by a target to limit its GHG emissions by a maximum of 15% by 2008–12, compared to 1990 levels. However, in 2007 the country released 50% more CO₂ emissions than in 1990, far above its 15% limit. In 2008 and 2009, the country released over 360 million metric tons of CO₂ emissions.

The strategy on sustainable development and climate change has been approved to reduce GHG emissions by developing a technical construction code and a bonus system to encourage the purchase of energy efficient vehicles. According to the climate strategy of the Spanish government, released in 2007, it plans to achieve this target by restricting its emissions to 37% above the 1990 levels by 2008–12. It will offset another 20 percentage points by buying carbon credits from clean energy projects in other countries and will achieve the remaining 2% of the target by using carbon sinks, such as reforestation projects.

As per the EU directives, eco-labeling of products has also increased, as well as voluntary private sector participation in environmental management. The government’s authority to increase taxes and provide incentives has also been increased to meet environmental needs.

**Copenhagen conference on climate change**

The United Nations Framework Convention on Climate Change (UNFCCC) sets an overall framework for intergovernmental efforts to tackle the challenge posed by climate change. It recognizes that the climate system is a shared resource whose stability can be affected by industrial and other emissions of carbon dioxide and other greenhouse gases. The convention has a universal membership, with 192 countries having ratified the convention. No deal could be clinched in Copenhagen, however, talks on a binding international climate change pact continue in 2010. The EU remains firm in its commitment to cut greenhouse gas emissions by 20% by 2020 and will stick its promise to provide E7.2 billion to aid developing nations in their efforts to fight climate change.
**Outlook**

Spain’s performance on environmental parameters has been found to be lagging behind other EU countries. While the country focused on economic growth, it made some compromises on environmental conditions. However, the government’s commitment to international agreements and the EU directives is reflected in the improvement in environmental indicators. The measures to improve access to information and public participation have started to show results in the form of voluntary compliance. The involvement of the private industrial sector to meet environmental standards will enhance the environmental quality of Spain. The level of compliance is expected to increase as the ‘polluter pays’ principle now has a legal basis.

In a positive move, the Spanish government and the European Bank for Reconstruction and Development (EBRD) have signed an agreement under which Spain is contributing €25 million to the Green Carbon Fund. This fund is a part of the Multilateral Carbon Credit Fund (MCCF) sponsored by the EBRD and the European Investment Bank (EIB). The Project Carbon Fund has commitments of €150 million from six countries and six companies, including a €35 million contribution from Spain. The Green Carbon Fund is dedicated to green investment schemes and, as of today, has commitments from Spain and Ireland of €40 million. This fund will be used for the spread of greener technology.
Moreover, the government has decided to purchase CO₂ emission rights. The environment ministry has already closed a deal to buy allowances worth six million tons of carbon dioxide from Hungary, and the government is in talks with Poland, Ukraine, the Czech Republic, Latvia, Lithuania and Estonia to purchase those countries' excess emission rights.

The country could face a fine on waste water ruling from the EU. According to EU directive, urban areas with more than 10,000 inhabitants must have adequate collection and treatment systems. The European Court ruling states that Spain failed in its obligation to appropriately treat the waste water from the cities of Sueca, Benifaió, Sollana, Almussafes and other coastal towns discharged into a sensitive area, the Frente coastline of the Albufera Nature Park, located close to Motilla Beach. A further step has been taken by the EU in October 2009, on the infringement procedure against Spain which, despite several reminders, has still failed to comply with the EU directive on the treatment of urban waste water. The government was sent a final warning during October 2009 to comply with the EU directive. The government is taking measures to build the adequate infrastructure for the same.
APPENDIX

Ask the analyst

Datamonitor’s Country Analysis Practice consists of a team of economists, analysts and researchers, all with expertise in their given fields. For any questions or comments about this report you can contact the author directly.

countryanalysis@datamonitor.com

Datamonitor consulting

We hope that the data and analysis in this brief will help you make informed and imaginative business decisions. If you have further requirements, Datamonitor’s consulting team may be able to help you. For more information about Datamonitor’s consulting capabilities, please contact us directly at consulting@datamonitor.com.

Disclaimer

All Rights Reserved.

No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the publisher, Datamonitor.

The facts of this report are believed to be correct at the time of publication but cannot be guaranteed. Please note that the findings, conclusions and recommendations that Datamonitor delivers will be based on information gathered in good faith from both primary and secondary sources, whose accuracy we are not always in a position to guarantee. As such Datamonitor can accept no liability whatever for actions taken based on any information that may subsequently prove to be incorrect.