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SPAIN'S RESPONSE TO THE CRISIS

Coping with a steep increase in unemployment

Before the global financial crisis affected Spain severely in the second half of 2008, the country was experiencing sustained and strong economic expansion. Growth slowed sharply in 2008, when gross domestic product (GDP) expanded by 0.9 per cent compared with a range of 3 to 4 per cent in the previous four years. Export growth slowed to 0.7 per cent in 2008 from 5 per cent in 2007, while domestic demand contributed only 0.1 percentage point to GDP growth in 2008.

In 2009, GDP is estimated to have contracted by about 3.6 per cent, but this trend started abating from the third quarter of 2009, when there was a fall of 0.3 per cent compared to declines of 1.6 per cent and 1.1 per cent for the first two quarters, respectively. Failing domestic demand contributed significantly to the drop in 2009 GDP. There were contractions in investment, especially housing, and private consumption, as well as falls in exports and imports.

Significant dependence on the global economy and heavy restructuring of its housing market have had a particularly strong impact on the labour market. The number of unemployed rose by 1.3 million in 2008 and 1.2 million in 2009 as the loss of jobs that began in the construction sector spread to other parts of the economy. The jobless rate increased to 18.8 per cent of the active population in 2009, or 4.3 million people, and Spain accounts for 45 per cent of those in the European Union who are newly unemployed.

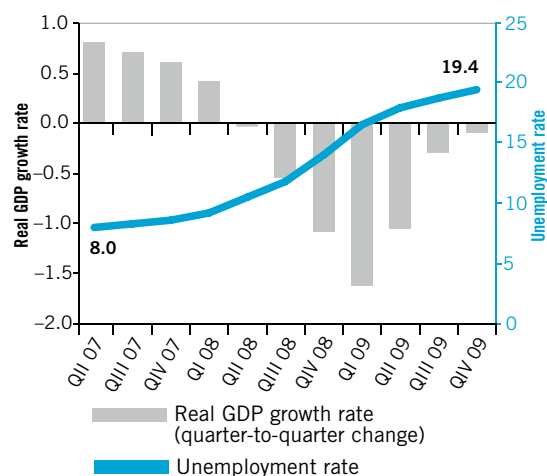
Another structural challenge faced by the Spanish labour market is an expanding working age population, fuelled by significant immigration. The number of people of working age is growing faster in Spain than in the euro area as a whole, with an increase of 1.7 per cent in 2007 compared with 0.5 per cent for the euro area.

Data on non-standard forms of work show that the adjustment process has occurred “at the margin”,

resulting in an increase of labour market duality in Spain: temporary employment accounted for the vast majority of all job losses in the twelve months to June 2009 according to the OECD, and fell from 32 per cent of total employment in the first quarter of 2007 to 25.1 per cent in December 2009. Specific groups most likely to have these types of contracts, such as youth and the low- and medium-skilled, have borne much of the brunt of the recession, and the unemployment rate for young people reached 44.5 per cent in December 2009. Similarly, foreign workers have been hit very hard, with a near tripling of the number of unemployed from 383,000 in early 2007 to 1 million in mid-2009.

Working hours in real estate activities declined by more than 6 per cent between the second quarters of 2008 and 2009, compared to an average decline of 1.6 per cent economy-wide, with most sectors seeing working hours fall by less than 2 per cent and very little change in many service sectors. These figures indicate that adjustment has taken place through job destruction more than through reduced working hours.

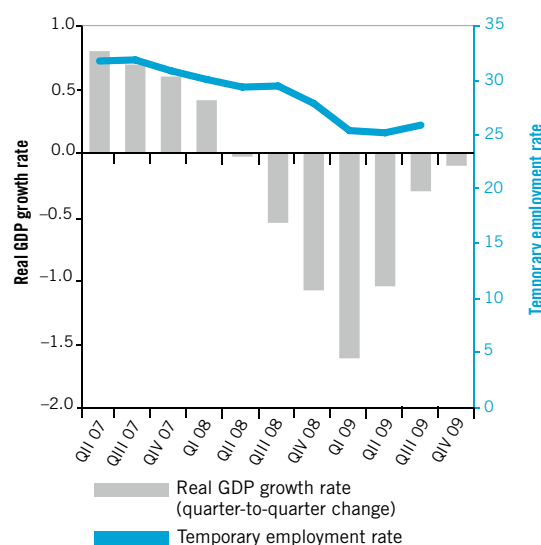
Figure 1. Unemployment rate and real GDP growth rate, by quarter, April 2007–Dec, 2009 (percentage)



Source: ILO, based on official country information (EUROSTAT).

Unemployment is a key driver of poverty in Spain; according to the OECD, in 2009 about 50 per cent of jobless households were relatively poor, compared with the OECD average of 37 per cent.

Figure 2. Temporary employment rate and real GDP growth rate, by quarter, April 2007–Dec. 2009 (percentage)



Source: ILO, based on official country information (EUROSTAT).

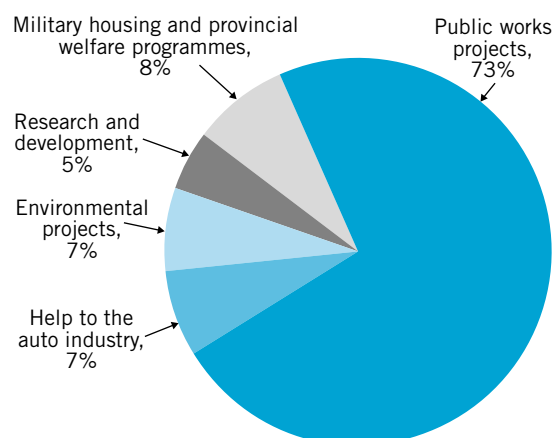
Stimulus package to boost employment

Due to the extensive and intense impact the global crisis had on employment in Spain, the government in November 2008 adopted a series of economic, financial and fiscal measures, reflected in the Spanish Economic and Employment Stimulus Plan, otherwise known as “Plan E”. The government has since expanded and improved on these responses, recently adopting measures to guarantee social protection for the unemployed and promote employment creation.

Plan E included a series of measures including tax cuts to provide direct support for low-income households, as well as measures to support companies fiscally and by facilitating access to credit. It also introduced measures to raise employment rates, and included moves to inject liquidity into the financial system with a view to restoring credit flows to families and companies. Plan E also included an ambitious programme designed to modernize the economy and foster sustainable and lasting economic growth in the medium and long term.

Size: The stimulus package amounted to €11 billion (about 1.1 per cent of 2008 GDP). In addition, financial sector support measures were estimated at about 14.3 per cent of GDP.

Figure 3. Composition of the Spanish stimulus programme (percentage of expenditure)



Composition: The breakdown was: €8 billion (73 per cent) for local municipalities to be used in public works projects, which are described below; €500 million (5 per cent) for research and development; €800 million (7 per cent) for environmental projects; and €800 million (7 per cent) to support the strategic automotive sector. The remaining funds, representing 8 per cent of the total, went to military housing and provincial welfare programmes.

State Fund for Local Investment

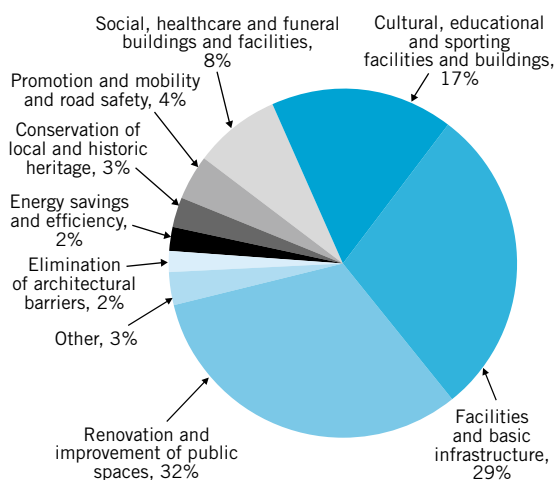
This fund was created in November 2008 under the stimulus package with the aim of maintaining employment and creating jobs, preventing exclusion from the labour market, establishing partnerships between the central government and municipalities and strengthening institutional and administrative capacity in local councils. With spending of €8 billion, the fund doubled the total average annual investment in public works by Spain's local councils. Its target was to create about 280,000 direct jobs and up to 400,000 jobs, taking into account indirect employment. The fund is managed by the Ministry of Public Administration and is under control of the General Comptroller of the State Administration (IGAE).

The money was designated for new public works undertaken swiftly by local authorities, with the proviso that projects had to start between 11 January and 13 April 2009 and be completed within the first quarter of 2010. There was a maximum of €5 million per project, and areas covered included renovation or improvement of public spaces, industrial promotion, equipment and infrastructure for roads and railways, upgrading the environment and conservation of local and historic heritage, among others.

Impact

By mid-September 2009, 30,772 projects had been approved involving 8,108 municipalities for total spending of nearly €8 billion. A year after its launch, results had exceeded initial forecasts, with €5.2 billion spent on 30,176 of the approved projects in 7,944 municipalities. This helped to maintain or increase the economic activity of more than 14,000 companies and created 421,732 jobs. Of the initiatives, 31.8 per cent were projects for rehabilitation and improvement of public spaces, 28.9 per cent for equipment and infrastructure and 17.5 per cent for cultural, educational and sports equipment and buildings.

Figure 4. Types of projects



The measure has not yet been evaluated officially, but appears to be perceived as a success by the government. As a consequence, in October 2009 the Council of Ministers adopted legislation to create the new Local Investment Fund, as part of the drive to promote economic and environmental sustainability. This Local Investment Fund was allocated €5 billion to encourage large and medium-sized localities to invest in environmentally and technologically sustainable projects, as well as care services for dependent people and the disabled. Projects funded must contribute to improving the Spanish economy's long-term productivity. The new fund came in force on 1 January 2010. As of 24th February 2010, 13,550 projects had been approved.

The launch of the State Fund for Local Investment responded to the urgent need to tackle the deterioration of the labour market through public works, which have a multiplier effect on the economy and employment. As a job creation measure, the fund seems to have been successful. It has implied an investment per worker of €12,456.23. It is difficult to calculate full-time equivalent jobs created, however, as data currently record all people who are or have been employed on public works, whatever the job duration. In some cases, workers have been hired for only a few hours.

The scheme also has tended to invest in projects with low added value and was not designed to shift the Spanish economy away from its strong reliance on the construction sector. In this context, the announced new Local Investment Fund for 2010, which focuses more on environmental sustainability and saving energy, as well as the Road Map for training with mid- and long-term objectives, described in the next section, should contribute more effectively to promoting a more balanced economy.

Improving the Public Employment Services and training

The Public Employment Services

The State Employment Department is implementing an intensive plan to strengthen the management, administration and delivery of unemployment assistance. This incorporates organizational, management and technological changes that have made it possible to handle the sharp increase in the number of applicants and to provide citizens with efficient responses. Among the most notable moves were: the hiring of 1,415 workers to check on subsidies, or payments, granted by various offices; the simplification of administrative processes and the extension of telematic processing; as well as the improvement of face-to-face services.

Furthermore, the government is seeking to improve employment advisory services. In this vein, it is setting up a system of professional advisors to provide citizens with personalized strategies to connect with job opportunities and promote collaboration between private employment agencies and the Public Employment Services, in a context of social dialogue.

Overall, the changes have made it possible to speed up the granting of payments and to shorten the processing period, which has gone from 16 days in May 2009 to 7 days currently. It has also enabled 95 per cent of applicants to receive payments in the month after they submit applications.

As part of Plan E, the government also increased access to resources that help people make the transition from unemployed to self-employed workers. According to official estimates, 104,000 unemployed workers will benefit from this move. The Plan has other specific measures for the self-employed and small and medium-sized enterprises (SMEs), including the provision of financing through the Official Credit Institute (ICO). In the first two months of 2009, 6,800 self-employed and more than 15,700 SMEs received ICO funding of €155 million and €1.5 billion, respectively.

In addition, the government enacted the Temporary Unemployment Protection and Integration Programme designed to help people who have lost their jobs during

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the crisis and need to improve their job prospects, but no longer have access to benefits. This programme provides payments of €426 per month and helps beneficiaries participate in programmes to improve their capabilities and skills. It is estimated that the programme covers about 320,000 unemployed, and it was recently renewed for six months (16 February to 15 August 2010).

Extending training and education

Plan E includes a number of initiatives to build human capital through education and training. It calls for an expansion in the number of school places and greater efforts to combat school failure to reduce drop-out rates. Other measures, under the University Strategy 2015, aim to modernize Spanish universities, foster academic excellence and improve integration with the international environment, including the Bologna Process. As part of the drive to promote access to education, the Plan calls for an extension of educational grants, with the objective of covering 50 per cent of secondary school students and 30 per cent of those in higher education.

Regarding professional training, the government has adopted a Road Map setting out measures to accelerate reform and increase graduation rates. The aim is

to put in place a system that takes into account the needs of students, workers and enterprises, improve social perceptions of vocational training and bring numbers attending close to those of other European countries. In the first phase, 80,000 workers could benefit, especially in emerging sectors, such as care services, children's education and renewable energy. Meanwhile, an estimated 400,000 unemployed have benefited under the Extraordinary Plan for Professional Training and Labour Integration.

Spain's Sustainable Economy Law, approved in November 2009, includes a chapter on professional training. Its four main objectives are to: gear such training to the needs of the economy; increase the scale of offer; integrate professional and vocational training into the education system, facilitating passage to university; and reinforce cooperation between the public education system and the social partners in the design and execution of training initiatives.

Outlook and challenges

The Spanish economy is expected to remain in recession in 2010, although the contraction of 0.3 per cent forecast by the Ministry of Economy and Finance is much less than the 3.6 per cent drop recorded in 2009. While employment is expected to decline for a third consecutive year, the pace is predicted to slow considerably, with net job losses of about 345,000 compared with nearly 1.3 million in 2009.

The measures taken so far by Spain, including the extensive public works programmes described in this brief, have helped to counter the deterioration in the labour market brought about by the crisis. As seen by the introduction of the new Local Investment Fund and initiatives in employment services, training and education, efforts to meet the ongoing labour market challenges, including an expanding labour force, are due to continue in 2010.