

The economic crisis and its management in Spain

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Abstract

The long pre-crisis period of growth and employment creation in Spain was based mainly on the construction sector. This, facilitated by cheap bank loans created jobs for the millions of immigrants arriving in the country. The crisis made the Spanish economy sink into a deep recession in 2008. The aim of this article is to describe the Spanish crisis-management in the past years. The extremely high unemployment rate and the indebtedness made policy-makers to adopt austerity measures and realise the necessity of profound reforms. The biggest transformation processes began among the savings banks and on the labour market. The article concludes that these reforms should continue while it is necessary to find a new model for long-term growth. Endowments like the excellent infrastructure and successful companies, stronger export activity, international presence and innovation can provide the bases for such a durable growth.

Key words: Spain, economic crisis, unemployment, labour market, fiscal policy, competitiveness

JEL Classification: E24, E32, O11

1. Introduction

Spain was hit hard by the international financial and economic crisis. The period from 2008-2011 is characterised by recession, high unemployment rate and stagnation. Meanwhile the sovereign debt crisis of other periphery Eurozone member states erupted and deepened. As a consequence, the confidence of international financial market investors in the Spanish economy has been shaken. From one side, the Spanish government has been kept under pressure to implement measures aiming to restore credibility. From the other side, it has had to respond to internal pressure against the reform steps. The situation is difficult and does not promise a rapid exit from the crisis.

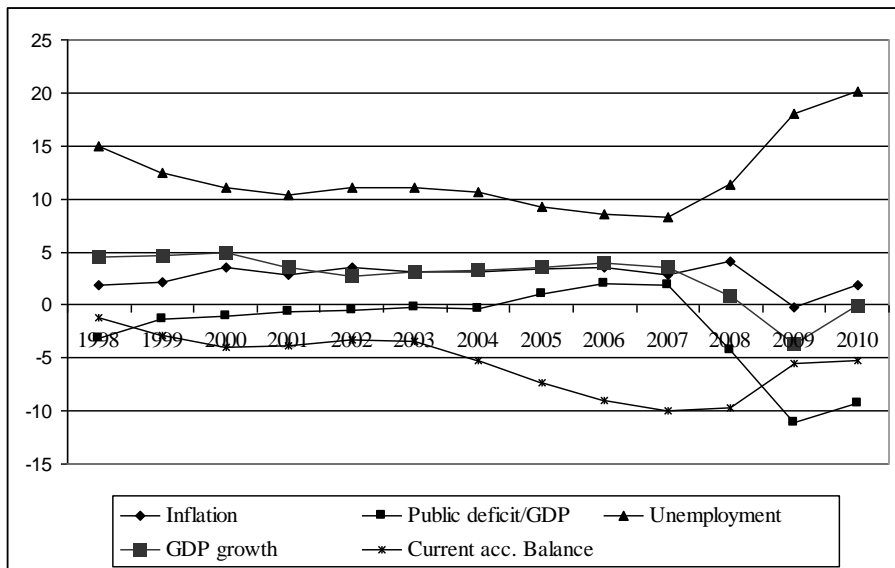
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The paper is organised as follows. The first section describes the long period of economic boom and the effects of the international crisis that followed upon it. The second section shows the measures taken by the government to mitigate the effects of crisis and the efforts to implement reforms. The third section analyses the possibilities for recovery and the potential for finding new bases of growth.

2. The road to the crisis

From the second half of the nineties until 2007, Spain experienced a spectacular period of economic growth. By the end of the period, Spain's GDP per capita had reached 90% of the EU-15 average. The recession in the beginning of the nineties caused high public deficits, but afterwards they decreased and a surplus was even achieved between 2005 and 2007. Figure 1 illustrates some of the main macroeconomic indicators of the Spanish economy from 1998 to 2010.

Figure 1. Macroeconomic indicators of Spain, 1998-2010 (per cent)



Source: Eurostat and Ministry of Economy for 2010

The traditionally high unemployment rate decreased continuously to below ten percent during the period of the “Golden Decade” (EEAG, 2011). This decrease is even more remarkable if we take into consideration that, during the last decade, Spain has experienced a massive inflow of foreigners. The number of immigrants has increased five times: 5.7 million foreigners were

living in Spain in 2010, approximately 12.2 percent of the population¹. The labour market was easily able to absorb these people. The weight of immigrants in employment increased from 1 to 14.8% between 2000 and 2008 (Éltető, 2011). Foreigners took on approximately half of the vacant jobs created during this period. They found jobs in services, tourism, agriculture, households and first of all in the construction industry.

The data provided above illustrate that Spanish growth was labour intensive and has relied mostly on services and the construction sector. The weight of the latter in the economy has increased significantly. Several “mega-investment projects” were undertaken and houses were built in huge numbers. (Two thirds of the housing units built in Europe between 1999 and 2007 were built in Spain)². In 2003 the government liberalised the use of constructible land and the value of land increased drastically afterwards (Garriga, 2010). As a consequence, housing prices tripled in nominal terms and doubled in real terms between 1995-2008³. The well-known “construction bubble” developed. A large number of hotels and apartment houses were built along the coastline sometimes on green areas or by corrupting local politicians⁴. The construction boom was aided by bank loans. By the end of 2008, the stock of loans to real estate developers and builders reached the equivalent to 50% of Spain’s GDP (Cuñat and Garicano, 2010). Loans to buy own houses became cheap, because after Spain joined the EMU and introduced the euro interest rates declined significantly.⁵ Thus indebtedness of the population increased.

Despite extensive growth, productivity did not rise in Spain. Based on the evolution of unit labour costs the country lost competitiveness with respect to the EU and OECD countries (see Figure 2). This phenomenon became most pronounced in 2003. (As a consequence of the crisis unit labour costs increased only slightly in 2009.)

Another important feature of the pre-crisis decade in Spain is the drastic deterioration of the current account balance. The deficit was 3.3 percent of GDP in 2002. But in 2007 it reached 10 percent, a level never before seen in Spain (see Figure 1). This deterioration was caused by three groups of factors (Alonso, 2010). First, as Table 1 shows, the trade deficit tripled during the examined growth period because internal demand increased significantly for imports, and exports could not compensate for these at all. Second, those factors that used to compensate the trade deficit likewise deteriorated.

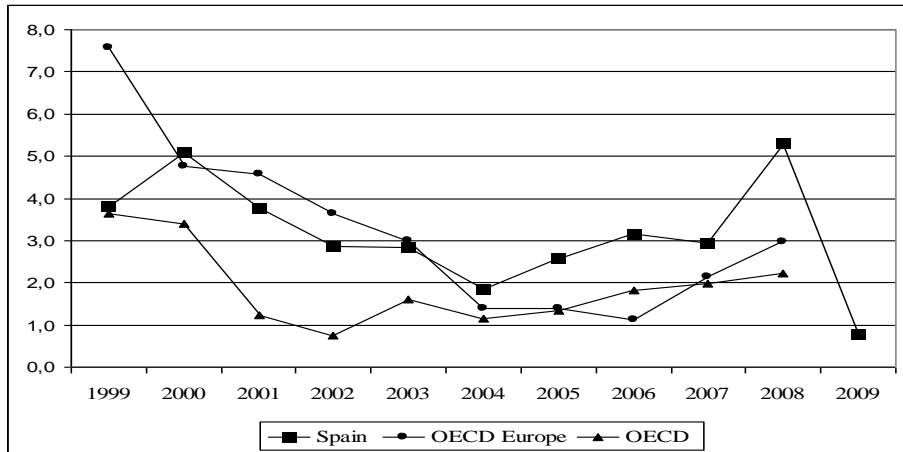
¹ Data of the National Statistical Office: <http://www.ine.es/prensa/np595.pdf>.

² Cuñat, Garicano (2010).

³ Data on house prices by Ministerio de Fomento, www.fomento.es.

⁴ See more in Haubrich (2010) and Transparency International Global Corruption Report, 2006, http://www.transparency.org/publications/gcr/gcr_2006#download.

⁵ The average mortgage rates declined from 10% in 1996 to 3.5% in 2005. (Garriga, 2010).

Figure 2. Annual growth of Unit Labour Costs, %

Source: OECD (aggregate data for 2009 not yet available)

The balance of current transfers turned to a deficit (immigrant remittances played an important role here) and the deficit of the income balance increased significantly. Third, the price competitiveness of the economy deteriorated as a consequence of the inflation difference compared to its trading partners (the OECD countries). This compelled several exporting companies to decrease export prices or export activity which had an effect on the trade balance.

Table 1. Development of the current account balance in Spain (billion Euros)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Trade balance	28,5	35,6	-36,4	-37,4	-39,8	-53,7	-68,6	-80,1	-91,2	-86,7
Services	21,5	24,2	27,1	26,1	23,3	21,8	22,2	22,1	23,1	26,1
Tourism	25,2	27,7	29,9	28,5	27,0	26,6	26,4	27,4	27,7	28,1
Other services	-3,7	-3,5	-2,8	-2,4	-3,7	-4,9	-4,2	-5,3	-4,6	-1,9
Income	-8,9	-9,1	-10,8	-10,4	-11,6	-12,1	-17,1	-21,0	-30,1	-36,0
of work	0	-0,06	-0,02	0,007	0,1	-0,1	-0,2	-0,3	-0,3	-0,1
of investment	-8,9	-8,9	-10,8	-10,4	-11,7	-12,0	-16,9	-20,7	-29,9	-36,0
Current transfers	2,8	1,5	1,8	2,4	0,2	-0,1	-3,4	-5,8	-7,1	-9,4
Current account balance	-13,1	-18,9	-18,3	-16,6	-27,9	-44,2	-66,9	-84,7	-105,4	-106,0

Source: Banco de España

The international financial crisis put an end to the “Golden Decade” in Spain. Between 2008 and 2010, macroeconomic indicators worsened considerably (see Figure 1). Previously positive tendencies were reversed. The “bubble” burst and the construction sector had to be restructured. Credit conditions hardened. Unemployment again jumped to extremely high levels (to 20%). Lots of young people lost their jobs (youth unemployment rate was 41.6% in 2010, by far the highest in Europe⁶) among them lots of immigrants. The data published in April 2011 were even worse, with a general unemployment rate of 21.3% and 45% among young people under 25 years of age.

The effects of the crisis on the Spanish commercial banking system were less drastic than in other countries⁷. Subprime credits were not popular and the reserve rates demanded by the Bank of Spain were high. The stability of the large Spanish banks was demonstrated in July 2010 when (based on a Spanish initiative) European bank stress tests were published. The situation was worse in the case of the savings banks (*cajas*), which are regionally based institutions with more branches and employees than commercial banks. *Cajas* are in most cases controlled by regional politicians and had financed local real-estate businesses in the past. They were exposed to the effects of the crisis to different extents, their share of non-performing loans varied between 1 and 7% (Cuñat and Garicano, 2010). *Caja Castilla-La Mancha* had the largest liquidity problem and its direction was finally taken over by the Bank of Spain in March 2009.

Public debt in Spain increased between 2008 and 2010 from 39.8% of the GDP to 60.1%. This is not too high compared to some other EU countries but, according to forecasts, it will rise further. The sovereign debt crisis of the Eurozone also affected the Spanish economy, thus financing this debt on the international market became increasingly difficult.

3. The crisis management of the government

The first reaction of the Spanish government to the financial crisis was similar to that in other countries: mitigation of the damaging effects. At the beginning of the crisis, Spanish public finances were remarkably sound. Therefore, resources were available with which to apply fiscal stimulating measures. The problem was the great extent of this stimulus, which rose to as much as 9% of GDP during 2008-9 (the highest share in the EU). This resulted from a 6% rise in public expenditure and from a 3% decline in tax revenue relative to GDP (Serrano, 2010). As a consequence, the budget deficit increased dramatically to 4.2% of GDP in 2008 and to 11% in 2009.

⁶ Data of Eurostat.

⁷ Éltető, 2011b.

Table 2. Main stimulating and restrictive measures of the Spanish government

Stimulating measures 2008-2009		Restrictive and revenue increasing measures 2010	
Families	Tax reductions and allowances, increase of minimum pension, etc. Total 14 billion Euros	VAT	General rate increase from 16 to 18 and preferential rate from 7 to 8 since July 2010
Companies	Allowances and new credit possibilities for SMEs, 31 billion Euros	Tax	From January 2011 no „baby-cheque” (2500 Euros at birth).
Employment	Special funds to create local jobs, 11 billion Euros	Infrastructure	State infrastructure expenditures decreased by 6 billion Euros until 2012
Financial system	Raising capital of Deposit Guarantee Fund, establishing Financial Assets Acquisition Fund ⁸ to support bank lending of non financial companies and individuals.	Wages	5% decrease in wages for public employees in 2010 and freeze for 2011. Wage cut for government members is 15%
Automotive industry	Integrated plan for the Car Industry for demand stimulation and investment, 4 billion Euros	Pension	Indexation of pensions abolished for 2011. Raise of retirement age from 65 to 67
Economic modernisation	Reform of energy, telecom, transport and service sector	Privatisation	Speeding up partial privatisation of Aena (airport managing company) and state lottery system

The accumulation of a huge budget deficit forced the government to change its fiscal policy in 2010. The effects of the Greek crisis contributed to this. International financial markets lost confidence in Spain, as well as in other countries on the periphery. Since then, the main aim of the Spanish government has been to defend the credibility of its stability plan and reduce its budget deficit gradually but firmly to 6% of GDP in 2011 and to 3% by 2013. In order to achieve this goal, austerity packages were announced and implemented. Table 2 shows the major measures concerning wages, pension, tax changes. These

⁸The Fund operated until the beginning of 2009 and purchased Euro 19 billion of assets from domestic credit institutions to provide liquidity for their activities and fostering credit to private sector (FSB, 2011).

restrictions and the labour market reform led to a general strike in September 2010, in spite of which the Spanish government firmly continued its policy.

As mentioned, the situation of Spanish savings banks became difficult in the crisis. For the restructuring of the cajas and banks, the government established the Bank-Restructuring Fund in 2009 (FROB, Fondo de Reestructuración Ordenada Bancaria) with a capital of 9 billion Euros. FROB manages the mergers of the cajas (from 45 cajas, 17 remained in 2010) and has the capacity to enhance the equity of credit institutions⁹.

2010 was the year of merger agreements between savings banks, in the most extensive banking concentration process ever undertaken in Spain. Mergers and Institutional Protection Schemes (IPS) are two alternatives available to savings banks to concentrate their business and restructure. IPS is not a full merger, the individual cajas will remain distinct. It is a risk pooling measure to provide greater security to banks.¹⁰ (The corporate government form of IPSs are often criticised to be complicated, not professional and not transparent, see Cuñat and Garicano, 2010.)

The Royal Decree 2/2011 increases the core capital requirements of savings banks by September 2011, otherwise FROB will seize control. Core capital should be raised generally to 8% of risk-weighted assets but to 10% for those who depend on wholesale capital markets for more than a fifth of their funding or if less than a fifth of their shares are in private hands.

Another important area where urgent and deep reforms were necessary is the labour market. It is a peculiar feature of the Spanish economy that, in times of crisis, unemployment jumps to extraordinary high levels. This happened again, since 2009 unemployment rate remains around 20%, being the highest in the EU. This is explained partly by the collapse of the previously job-creating construction sector but also by the special characteristics of the Spanish labour market.

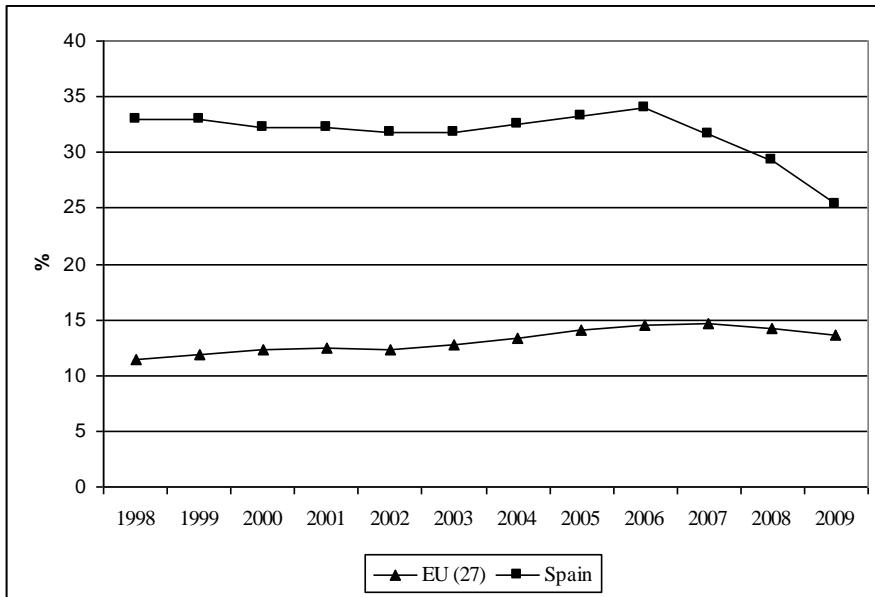
One main important feature of the labour market is duality. This means that there are two “levels” of working force: temporary and permanent workers. The use of temporary, fixed-term contracts was liberalised in the labour reform of 1984 and quickly became very popular. Since the end of the eighties until 2008 more than 30% of the labour force worked with temporary contracts (see Figure 3). This is a very high level, double of the EU-average. As a consequence of the crisis, the share of workers with fixed-term contracts decreased, because

⁹ Nota sobre el proceso de reestructuración y saneamiento de las cajas de ahorros. Situación en marzo de 2011. Banco de España, 23. Marzo 2011 <http://www.bde.es>.

¹⁰An IPS group has a legally-binding cross-guarantee mechanism for solvency and liquidity support ensuring that the consolidated equity and liquidity of the entire group is available to protect the creditors of each and every member of the group sharing the scheme.

they were the easiest to send off (severance payments are 8 days per year of service).

Figure 3. Employees with temporary contract, % of total number of employees



Source: Eurostat

Workers with permanent contracts are difficult to lay off, their dismissal is very costly because of high severance payments. These severance payments depend on whether the dismissal is considered fair or unfair, but because in Spain the interpretation of fair dismissal is very restrictive, firms rather prefer to pay the higher severance payments than going through a trial (Jaumotte, 2011, Banco de España, 2009). Severance payments for unfair dismissal vary between 33 and 45 days per year of service (the EU-average is 21 days). Permanent workers, usually older people, who are not interested in giving up their privileges are well protected, while temporary workers are primarily young people and women. The conflict between “insiders and outsiders” has not decreased in spite of the several attempts to reform the labour market (Dolado et al., 2010, Conde Ruiz, et al., 2010). This time, however, the serious recession made the Spanish government to prepare a bolder labour reform plan.

The first phase was implemented in 2010. Among other measures, the use of the contract with 33 days severance payment per year for unfair dismissal was generalized, the criteria for fair dismissal were eased, the termination costs for temporary contracts are to be raised gradually. Part (8 days) of severance

payments can be financed by a Wage Guarantee Fund paid by firms. In the second phase of the reform, from January 2012 this Fund will turn into an individual capitalisation fund for each employee. Workers will be able to draw money from this fund in case of dismissal, geographical mobility, training or retirement. Although this labour reform is an important step, analysts point out that it is incomplete, further reforms and clarifications are necessary and the effectiveness of the measures depend on the practice (Jaumotte, 2011, EEAG, 2011, Mora-Sanguinetti and Wölfl, 2011, Conde Ruiz et al, 2011).

Another main feature of the Spanish labour market is the institutional setting of collective bargaining at an intermediate level. The coordination of wage bargaining is regulated in the Workers' Statute Law of 1980. It takes place primarily at the regional or industry level and sometimes at the company level. Wage agreements are automatically extended to all firms of the province or sector even if they did not participate in the bargaining. Until 2010 it was very difficult for firms to opt out from collective agreements, but the new reform eased this by simplifying the conditions. Wages are indexed and corrected on inflation (always upwards). All this led to the strange phenomenon that despite the severe contraction of the economy, decreasing inflation and the high unemployment rate, negotiated wages increased in 2008 and in 2009, both in nominal and in real terms (Banco de España, 2008). Thus the collective bargaining system is heavily criticised for hindering the sectoral reallocation of employment, flexibility of wages and internal reorganisation of firms. In this way, it also makes the exit from the crisis and developing competitiveness more difficult (FEDEA, 2011).

It also contributes to the high unemployment rate in Spain that internal mobility of the labour force is traditionally low. There is no, or very slow reallocation of workers from high – to low-unemployment regions; therefore regional differences regarding unemployment are high (Bande et al., 2008, Mora-Sanguinetti and Wölfl, 2011).

Apart from the labour market, Spanish government launched reforms in other areas like the pension system, public administration. All these reforms mean the beginning of a hard road to take that leads to a profound restructuring of the economy.

4. Searching for a new model

The crisis undermined the previous model of economic growth in Spain. A new model of sustainable growth is needed together with an increase in productivity. In order to achieve this, profound structural reforms are necessary in several areas. As we have seen, the reform of the labour market, pension system and banking sector has already begun. A lot should be done however to remodel the education system. This is essential for developing a qualified workforce and raising productivity.

The problems of the Spanish education system are many. One principal and sad feature is early school-leaving. Spain ranks among the leaders in this respect in the EU: 33% of 18-24 year-olds left school with few or no qualifications and were no longer in education in 2009. The EU-average was 14, 4%. The early school-leaving rate is similar to the Spanish one (above 30%) in Portugal and Malta too, but a significant decrease has been observed there since the year 2000. During the same period, the share of early school-leavers even increased by 7% in Spain (European Commission, 2011). The construction boom led many young people to leave education for work in this sector. Now that the real estate bubble has burst, they find themselves without work and dependent on welfare benefits.

The large number of early school leavers keeps the cost of education high for the state. Educational expenditure was 4.3% of GDP in 2007, similar to the German figure (4.5%)¹¹. University education is popular in Spain, costs are not high for students. A shortage of skilled-labour, however, has developed over the past decade. Spain generally does not rank high regarding indicators of education. The country traditionally lags in PISA tests, and, in 2009, was again significantly below the OECD average in all respects.¹² The youth educational attainment level (the share of those who have at least secondary level education) was 59.9% in 2009 among 20-24 year olds, much lower than the EU-average.¹³ No Spanish university can be found among the first 200 universities of world-ranking lists.

Innovation could be another basis for long-term growth, but Spain stays behind in several measures of innovative activities too. Expenditures on R&D are constantly growing (from 0.94% to 1.35% of GDP between 2000 and 2008¹⁴), but the aim was to reach 2%. In 2008 the government established a Ministry of Science and Innovation, separating the field from the Ministry of Education. Apart from this, promotion measures have been introduced, such as an increase in the corporate tax allowance for R&D activities. Although small and medium sized enterprises account for more than 80% of private employment in Spain, their research and development efforts are weak (Ahedo, 2010). Corporate R&D activities are concentrated in a group of large enterprises.

The problem is that it takes considerable time and financial support for the reform process in these fields (education, innovation, the labour market) to take hold and thereby support a new durable growth model. In the short run, however, state expenditures have been reduced because Spain is still obliged to

¹¹Source: Eurostat.

¹²PISA 2009 Rankings: <http://www.oecd.org/dataoecd/54/12/46643496.pdf>.

¹³EU-27 average was 78,6%, the data for the Czech Republic was 91,9%, for Hungary 84%, for France 83,6% according to Eurostat.

¹⁴Indicadores del Sistema Español de Ciencia y Tecnología 2008. Publicación 2010. Fundación Española para la Ciencia y la Tecnología. <http://www.micinn.es>

manage the effects of the crisis; above all, to finance its debt and reduce its budget deficit. Domestic demand and growth prospects are weak and therefore, state revenues are not likely to increase. Thus, further expenditure cuts and austerity measures may be necessary in order to achieve financial stability goals. This will further hinder growth. The question is whether there is an immediate way out of this vicious circle.

Table 3. Geographical composition of Spanish exports, selected areas, %

	2000	2007	2010	2010/2000
EU	73,37	70,73	67,69	1,38
Eurozone	60,45	57,07	55,61	1,38
France	19,43	18,80	18,28	1,41
Germany	12,34	10,75	10,47	1,27
Italy	8,74	8,90	8,77	1,50
Portugal	9,55	8,65	8,92	1,40
Rest of Europe	4,82	6,42	6,89	2,14
Switzerland	0,97	1,31	1,84	2,84
Turkey	1,70	1,59	2,02	1,77
Russia	0,47	1,13	1,07	3,45
North America	5,34	4,43	4,00	1,12
USA	4,87	4,02	3,51	1,08
Latin-America	5,66	4,85	5,38	1,42
Mexico	1,22	1,72	1,51	1,86
Brazil	1,01	0,70	1,15	1,70
Asia	5,83	6,12	7,51	1,93
China	0,45	1,15	1,43	4,78
Africa	3,32	4,35	5,61	2,53
Morocco	1,10	1,66	1,86	2,52
Algeria	0,44	0,73	1,10	3,72
Total export	100	100	100	1,50

Source: calculations from the data of Ministry of Industry, Tourism and Commerce

A possible solution might be to increase exports significantly. In this respect, it is important to observe the product and geographical composition of exports. The main exported products of Spain are cars (usually around 20% of total exports), chemicals, pharmaceuticals, food, textile and clothing. The technological content of Spanish exports is low in international comparison (the share of high-tech products in manufacturing was 5% in 2008, while in Italy it was 7%, in France 20%, etc.)¹⁵. The bulk of the export is given by multinational companies, mainly in the automotive, steel, chemical and pharmaceutical sectors. The product structure is vulnerable to international conjunctural

¹⁵ World Development Indicators, 2010, World Bank.

changes, this could be seen during the recent crisis, too exports declined between 2008 and 2009 and recuperated afterwards. However, Spain did not lose market shares in the world during the last five years despite the high unit labour costs (Figure 2) and loss of price-competitiveness.

The majority of the Spanish exports are directed towards the EU, the main receiving countries are France, Germany, Italy and Portugal (see Table 3.). The share of the non-EU direction is relatively low (it was 32.3% in 2010) but increased in the past years (it was 26.6% in 2000). It can be seen from the table that there are areas to where the exports increased much more vigorously in the past decade than the average Spanish export increase. These are all non-EU regions: the tendency is the most spectacular in the case of China, Russia and Algeria. It seems thus, that there are possibilities for Spanish exporters that should be even more utilised outside the EU.

Internationalization of the traditionally small and medium-sized Spanish firms has indeed increased over the past twenty years, but still a lot could be done. Larger Spanish companies became successful multinationals (like Telefónica, Repsol, Banco Santander, Inditex) but the image of Spanish trademarks could still be improved. Among the top global brands only one Spanish company, Zara, can be found¹⁶, but because of the fact that the name sounds Italian, it is not clearly linked to Spain in the public opinion. Many Spanish companies do not use Spanish names and therefore their success is not associated with the country (Chislett, 2010). In spite of that, due to the large companies, Spain could maintain its export shares in the world. A considerable group of Spanish firms have become competitive and they can be one important base of the future economic growth.

Another important basic factor can be the well developed infrastructure. Spain is on the first position in Europe regarding motorway density and for 2010 the country was already ahead of France and Japan regarding high-speed railway lines. Significant modernisation of airports and ports were realised in the past decade (FEDEA-McKinsey, 2010). The state of the infrastructure together with the abundant natural resources can be well utilised in the development and quality improvement of tourism and services.

Growth prospects on the short term are gloomy. In this respect, Spain is similar to those countries that, because of sovereign debt crisis, have asked for the rescue package of the European Union and the IMF. Table 4 shows some macroeconomic indices of the Southern peripheral country group. It can be seen that Spain has the lowest public debt to GDP ratio and the highest level of unemployment.

¹⁶ Zara was on the 48th place among the 100 top brands in 2010. Source: Interbrand, <http://www.interbrand.com>.

Table 4. Selected macroeconomic data and forecasts

	Portugal		Greece		Ireland		Spain	
	2010	2011	2010	2011	2010	2011	2010	2011
Inflation*	1.4	2.4	4.7	2.5	-1.6	0.5	2.0	2.6
Public deficit/GDP,%	-9.1	-5.6	-9.6	-7.4	-32.2	-10.8	-9.3	-6.2
Unemployment	11.0	12	12.6	14.5	13.7	14.0	20.1	20.8
GDP growth	1,0	-2,0	-4.5	-3.0	-1.0	0.5	-0.1	0.8
Public debt/GDP,%	93	98	142.8	150.0	96.2	111.0	60.1	67.3
Current account balance to GDP	-9.9	-8.7	-10.4	-8.2	-0.7	0.2	-4.5	-4.8

*Annual average rate of change in Harmonized Indices of Consumer Prices

Source: Eurostat, IMF and national forecasts

Although the stagnation of Spain is similar to the one in other countries, the economic situation is different in each case. Each country has its own pre-crisis history and distinct structural problems.

5. Conclusions

Spain experienced a long period of prosperity before the financial crisis. The growth and employment creation however, was based on such factors that did not prove to be durable. The main motor of the boom was the construction sector, which created jobs also for the millions of immigrants arriving in the country. This was facilitated by cheap loans mainly from the savings banks. The crisis put an end to this boom in 2008 and the Spanish economy sank into a deep recession.

The consequences of the crisis, first of all, the extremely high unemployment rate and the indebtedness made policy-makers realise the necessity of profound reforms. The biggest transformation processes began among the savings banks and on the labour market. In the latter field, reforms aim to decrease duality, which means the high share of temporary workers beside those with indefinite contracts. Because of wage rigidities stemming from the collective bargaining system, firms react to difficulties by dismissal of temporary workers.

These reforms should continue while a new model for long-term growth should be found. Spain has good endowments to use, like excellent infrastructure and successful companies. Stronger export activity, international presence and innovation can be bases for such a durable growth.

On the short run, the extremely high unemployment rate is a major concern. The massive job-creating role of the construction and real-estate sectors has ended and cannot be soon substituted. In the spring of 2011 there were 1.38

million Spanish families where each member was unemployed. The number of young people without work is huge. There are signs that many unemployed become discouraged and leave the labour market. Thus, in the following years it can be predicted that unemployment will be the most important problem of the Spanish economy.

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