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Crisis country case study

Spain

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The International Social Security Association (ISSA) is the world's leading international organization bringing together national social security administrations and agencies. The ISSA provides information, research, expert advice and platforms for members to build and promote dynamic social security systems and policy worldwide.

The Crisis Country Case Studies are an integral part of the ISSA project to monitor and analyse the impact of the global financial and economic crisis on social security. These studies are based on data and research carried out between June 2009 and the first part of 2010. While every effort has been taken to ensure that the case studies are accurate, the situation in each country is constantly evolving.

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ISSA crisis case study: Spain

Summary

Spain is among the countries that suffered the most from the crisis. It managed to control the impact on financial institutions but its economy and finance were severely affected. This was evidenced by the sharp increase in unemployment and its associated impacts. To counteract these effects, Spain introduced a comprehensive recovery plan called Plan Español para el Estímulo de la Economía y el Empleo in 2009. The plan focused on five priority areas: families, enterprises, employment, finance and budget, and modernization of the economy.

Overall, the fiscal effort in Spain amounted to more than US-dollars (USD)63.6 billion.[1] However, the adverse environment forced Spain to adopt a fiscal adjustment plan in May 2010. The plan is intended to reduce the fiscal deficit by USD19 billion during 2010 and 2011

Social security institutions covered

Ministry of Work and Social Affairs *(Ministerio de Trabajo y Asuntos Sociales (MTAS));* National Social Security Institute *(Instituto Nacional de la Seguridad Social (INSS))*; General Treasury of the Social Security *(Tesorería General de la Seguridad Social (TGSS)).*

Overview of the social security system

The social security system in Spain is comprehensive and complex at the same time. Its regulations involve medical care and dependency, employment injury, family, invalidity, maternity, old-age, sickness, survivorship, and unemployment benefits. Social services and social assistance benefits are also important components of the overall social protection system of Spain.

More recently, Spain has reinforced its commitment to advancing social security by adopting the National Strategy Report on Social Protection and Social Inclusion 2008-10 and the National Action Plan on Social Inclusion 2008-10. Social dialogue stands high on the social protection reform processes, which has been institutionalized in 1994 through the Toledo Pact, a guidance document signed by the government and workers and employer representatives.

Impact of the crisis

Labour market

Spain can be classified among the countries that suffered the most from the financial/economic crisis. Although it has managed to minimize its impact on the financial

[1] The currency conversion was calculated in July 2010.

sector, the real economy has been severely affected, notably the unemployment rate. It rocketed to 18.8 per cent in the fourth quarter of 2009, representing 4,326,500 unemployed persons; an increase of 119 per cent in two years (8.6 per cent Q4 2007). This is mainly explained by a slowdown in industrial production during 2009 of 15.8 per cent and 7.1 per cent in 2008, which led to a contraction of the Gross Domestic Product (GDP) by 4 per cent in 2009.

This situation has generated a reduction in the number of affiliated members by 4.5 per cent in 2009 (4.3 per cent in 2008), which in total represented 1,569,000 persons. Unemployment benefits grew from 1,773,663 in July 2008 to 3,034,712 in December 2009. Enterprises registered with the social security system reduced by 127,700 in the period August 2009 – January 2010. The Wages Guarantee Fund (FOGASA)[2] granted benefits to 78,606 workers of 30,465 enterprises in the period January-November 2008 for about USD492.2 million and to 156,044 workers of 63,544 enterprises in the period January-November 2009 for about USD942 million.

Social security financing and administrative capacity

The social security budget has been affected because although social security benefits have been administered as expected, except unemployment benefits (see above), revenue from social security contributions have diminished considerably as a result of the economic aspect of the crisis. Consequently, the social security budget ended 2009 with a surplus of USD10.8 billion (0.81 per cent of GDP), which is 41 per cent lower than the previous year.

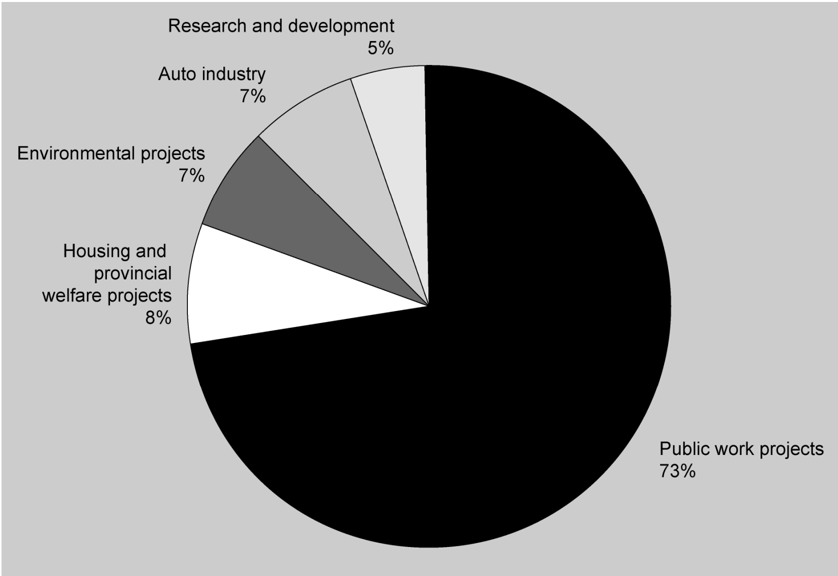
Spain has accumulated significant social security reserves that amounted to USD76.2 billion in 2009, representing 5.7 per cent of GDP (USD72.7 billion in 2008, representing 5.45 per cent of GDP) and would receive USD2.54 billion from the 2009 surplus of the social security budget. Reserves have resisted the effects of the financial crisis because they are fully invested in public debt (at least 45 per cent in national debt). Investment return in 2008 was 4.71 per cent and 3.67 per cent in 2009.

Responses to the crisis

In 2009, Spain introduced a comprehensive recovery plan called Plan *Español para el Estímulo de la Economía y el Empleo*. The plan is focused on five priority areas: families, enterprises, employment, finance and budget, and modernization of the economy. The Spanish government plans to create 300,000 jobs with this stimulus spending. The stimulus package amounted to USD14 billion (about 1.1 per cent of 2008 GDP).

[2] This fund is modelled after similar European institutions. It was created in Spain in 1976 in order to guarantee the payment of salaries and severance pay in cases of contract termination due to bankruptcy or financial difficulties. Although its primary function is to guarantee accumulated rights (which has at times been understood as a form of wage insurance), it has also played an important role in the reorganization of enterprises and staff adjustment measures, since it has sometimes been used to cover the cost of layoffs. The name refers to the fund created for this reason with employers' contributions and the autonomous agency under the Ministry of Employment which is responsible for its administration. Essentially, it is in line with Directive CEE No. 987/1980 (*www.eurofound.europa.eu/emire/SPAIN/WAGESGUARANTEEFUNDFOGASA-ES.htm).*

Figure 1. ***Composition of Spain's fiscal stimulus as a percentage of total package (USD14 billion)***



Source: Khatiwada, 2009.

Some stimulus measures had been adopted before the Plan and others were adopted thereafter. All measures together account for more than USD60 billion.

Supporting families

The plan aims at increasing the disposable income of families through tax measures, which provide direct support, and mortgage waivers to those families whose breadwinners become unemployed. Other measures include: approximately USD500 yearly reduction in the income tax, expansion of mortgage loan periods without further charges for two years, increase of minimum pensions, increase of the scholarships to guarantee access to education, and enhancement of the long-term care and dependency protection systems. The implications of this for the budget are around USD17.8 billion in 2008-09.

Supporting companies

Mainly focused on small and medium-sized enterprises (SMEs), measures are oriented to create a fiscal alleviation for enterprises of about USD21.6 billion and to facilitate their access to credit, creating credit lines of USD36.9 billion.

Increasing employment rates

The objective of creating 300,000 new jobs is the intended outcome of the creation of two funds: the Fund for Local Entities and the Special Fund for Employment and Economic Reactivation.

Other initiatives in this area are: orientation and professional training and labour market insertion measures, allowances of USD1,900 to hire unemployed workers with family responsibilities, unemployment support increases to enhance self-employment, reorganization and adaptation of active employment policies, enhancement of public employment services, promotion of public works, and the housing and refurbishment plan 2009-12. These measures aimed at creating and maintaining jobs represent USD14 billion.

Financial and budget measures

In coordination with other European Union (EU) countries, liquidity has been injected into the financial system to improve the financial soundness of financial institutions and to stimulate credit for families and enterprises. This has been done through monetary policy so as avoid an additional burden for taxpayers. The deposit guarantee fund was raised to approximately USD127,200 per client and per bank to regain trust in the financial system.

As a result of the recession and additional public expenditure generated by the recovery plan, the government retrenched in several areas, such as research and development, levels of wages, and expenditure of local and autonomous governments.

Economic modernization

Economic reforms were also an important part of the plan. Specific measures were introduced to enhance productivity in basic industries such as transportation, energy, telecommunications, services, and civil service with the objective of consolidating long-lasting growth. Overall, the fiscal effort in Spain to counteract the effects of the crisis amounted to more than USD63.6 billion. If other social policies adopted to mitigate the effects of the crisis are added to this figure, the total fiscal effort represents about 4.9 per cent of GDP.

Lessons learned

Although Spain has and continues to face a very severe economic situation, the Plan *Español para el Estímulo de la Economía y el Empleo* is providing Spanish enterprises and the rest of the population with some relief. As of 30 November 2009, the projects implemented by the Local Investment Fund (about 30,500 projects representing USD6.7 billion) generated 424,118 jobs, of which 180,688 are new jobs. The recovery plan strengthened social policies and avoided cuts in social benefits and subsidies.

The plan actually enhanced the protective and preventative action of the social security system of Spain. However, there have been recent moves to cut social spending through austerity packages in an effort to rebalance budgets. In May 2010, the government reinforced the anti-crisis measures by adopting a fiscal adjustment plan. The plan is aimed at reducing the fiscal deficit through a reduction in public expenditure for 2010 and 2011 by USD19 billion. The most important measures include:

- reduction in public investment and development (USD8.4 billion);
- reduction in wages of civil servants of an average of 5 per cent (USD3.1 billion);
- suspension of pension adjustment in 2011, with the exception of minimum and non-contributory pensions. This measure will affect some six million of beneficiaries (USD1.9 billion);
- rationalization in health-related expenditure (USD1.7 billion);
- elimination of the birth allowance of USD3,200 (USD1.4 billion).

Workers and enterprises have been allowed to defer tax obligations and the payment of social security contributions. In 2009, the Ministry of Finance received 1.1 million requests of tax deferment representing USD17.8 billion; 91,683 deferments of social security contribution payments were granted during 2009 (94.5 per cent of them up to approximately USD38,100).

Credit lines of USD24.2 billion (mostly for SMEs) were granted in the framework of the recovery plan to 360,800 beneficiaries.

In January 2010, the government approached the parliament and made a reform proposal of the social security system. The objective of the reform is to build a system that creates wealth and employment and improves social protection, while relying on equity and transparency. The main aspects of the proposal are: retirement age increase from age 65 to age 67 from 2013, an increase of the minimum retirement age (currently standing at 52), an increase in the years of contribution considered for the benefit calculation from 15 to 25 years, an increase in the years of contributions required for benefit entitlement (currently 15 years), modification of the duration of widow(er) benefits, integration of different social security programmes, and integration of different social security institutions.

Conclusion

The financial and economic crisis has dealt a severe blow to economic activity in Spain and the latest developments do not indicate that an early economic recovery is likely. However, Spain has risen to the challenge through the implementation of a comprehensive public recovery plan in 2009, Plan *Español para el Estímulo de la Economía y el Empleo*, and the reinforcement of measures adopted in 2007 and 2008. This represented a fiscal effort of 4.9 per cent of GDP during 2009, which amounted to more than USD63.5 billon. Public policies have been focused on five priority areas: families, enterprises, employment, finance and budget, and modernization of the economy.

The persistent and adverse external context in conjunction with the recent downgrading of the Spanish public debt has triggered a series of measures oriented to restoring a sound fiscal situation. These measures aim to reduce the fiscal deficit through cuts in public expenditure for 2010 and 2011 of some USD19.1 billion. The Social Security Reserve Fund was increased to USD76.2 billion in 2009. Its portfolio composition, fully invested in domestic and foreign public debt, shielded its assets from the adverse conditions in financial markets. The investment return of the fund during 2009 was 3.67 per cent and it is expected to receive a capital inflow of USD2.5 billion in 2010, which comes from the surplus of the social security budget for 2009 of USD10.8 billion.

Although the economic situation has not improved, arguably owing to the larger macroeconomic situation, the government's plan has delivered some positive results, notably in employment creation (424,118 jobs) and the credit that has been made available to people. It has also sent to the parliament a social security reform proposal, which is aimed at building a social security system that creates wealth and employment and improves social protection, while relying on equity and transparency.

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