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ON THE SOCIOECONOMIC AND EMPLOYMENT SITUATION IN SPAIN

SUMMARISED EDITION

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ANNUAL REPORT ON THE SOCIOECONOMIC AND EMPLOYMENT SITUATION IN SPAIN, 2007

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SUMMARISED EDITION

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PRESENTATION

After fifteen editions, I am sure the ESC's Annual Report on the socio-economic and employment position in Spain has by now a large number of loyal readers who do not require an explanation as to what the ESC is, or what this Annual Report signifies as part of its activities. Nevertheless, in order to place the content of this 2007 edition within its context, it seems essential to begin this presentation by underlining that this diagnosis of Spain's social and economic position is the result of the work of an institution such as the ESC, since this factor determines the very identity and shape of the report.

This year the ESC is celebrating its fifteenth anniversary since it was founded. Its work aims to meet its constitutional mandate to boost the involvement of the general public in the social and economic life of the country through its most representative organisations. The ESC thus came into being as the Spanish government's high-level consultative body on socioeconomic affairs. In my view, the ESC constitutes a genuine and representative sample of our productive society: trade unions, business associations and the third sector or organised civil society.

It is the key players in today's society whose task it is to pronounce judgement on the Bills drafted by Government that affect their represented interests (social, economic and labour). One of the most significant tasks is to draft a socioeconomic and employment report on Spain and approve it within the first five months of the year, as occurred in the plenary session on 28th May this year, when the 2007 Annual Report was approved with only one vote against.

A number of clarifications should be made at this juncture. The ESC is not a research unit, nor is it an academic leader of any kind. It is the ESC members themselves, with the invaluable assistance of our experts, who draft this report, and this is its main virtue or hallmark. It is precisely the key agents in society who make *a diagnosis of their society, and this diagnosis should logically be shared, as this is an essential condition for proposals to be agreed on.*

This objective requires a sophisticated drafting process, indeed both sophisticated and complex. For this purpose we have a Committee in the ESC, chaired on this occasion by ESC Member and University Professor Jesús Cruz Villalón. Around the month of November the Annual Report's table of contents is drafted and approved by the Standing Committee, and later by the plenary session. From then on the actual drafting begins, on the basis of texts and documentation provided by the Study and Analysis Area. A presenter is designated for each of the chapters of the Annual Report (economic, employment and social) and meetings are then held until the Annual Report is approved, in the case of this year at the end of May after a total of 31 meetings. Merely citing these activities makes it necessary for the ESC President to thank all the key players involved in the Annual Report for their commitment and hard work to achieve this.

We believe that this is the only publication in this country which contains a diagnosis of the three fundamental areas: economic, labour and social – the natural scope to be covered – and this has been accomplished with no major difficulties. So, what is the state of our economy? As a result, what type of employment do we have? And due to the nature of this employment, what sort of quality of life do we have?

Normally each year there is a key issue which directly affects the drafting of the Annual Report. Two years ago it was immigration. Last year it was inequality. This year it is "transversality", since we understand that in our world there cannot be separate elements of a whole. The Annual Report not only diagnoses all the aspects of our socioeconomic situation today, it also seeks links between these different facets; the relationships between employment and economic growth; the production model and human capital; economic development and the sustainability of this model; the evolution of the population and employment; and also the systems of social protection, employment and equality. This search for mutual relationships is not only an element which favours analysis but also an essential measure in order to shape the actions of social partners and public policies, and seek consistency and cooperation in all public and private activities.

In the ESC we have looked at 2007 in an international context in which the new players and instruments of the investment world have become increasingly opaque and subject to little regulation. This leads us to an intial conclusion, which would be that of insufficient surveillance of risks, the consequences of which we are all aware. In the European arena, we would draw attention firstly to the difficulties in achieving efficient functioning of the decision-making process and a single voice and, secondly, *the desire for greater flexibility in the European Central Bank and greater attention to growth.*

Two characteristics in 2007 define our economy: firstly, it has grown 0.9% above the European Union average and maintained a balance of payments surplus for the third year running. From the summer onwards, for reasons known to us all, a process of deceleration began. This, however, does not prevent us in the ESC from maintaining our traditional statement regarding the need to develop stable structural policies, at the same time as boosting productivity and competitiveness through the improvement of physical, human and technological capital.

We would also underline the solidity of our financial system, in line with restrictions on domestic and company loans, and the increase in external financing, which amounts to 9.7% of GDP, one of the highest rates in the developed countries.

This deceleration contests the relatively optimistic budget forecasts, a fact which could lead us later to a significant deviation. In any case, with regard to the future the ESC underlines the fact that increased public expenditure (compromised in some key sectors: education, R+D+i, infrastructure, dependency, etc.) must be compatible with the tax burden.

In the sphere of the self-governing regions (termed "Autonomous Communities" in Spain), the ESC maintains that it would be desirable for the financing system to reach a multilateral agreement which would be maintained over time and which would balance the principles of autonomy with social cohesion. This does not seem impossible if we remember that the process of regional convergence has continued during 2007, both between the different self-governing regions and also between these and the European regions.

As regards the labour market, job policies and labour relations, one should underline, in the first place, uncertainty inflamed by a deceleration in the rate of growth, with forecasts for this falling below 1% over the next two years. These are effects which have already been felt in 2007 and which herald worrying consequences for 2008.

In these circumstances the ESC favours the modernisation of public employment agencies, intensifying both internal and external collaboration between the different public employment services, whose defects in this respect are significant. External collaboration must also be approached, fully capitalising on the presence and experience of the different private companies that are active in this market: temporary employment agencies, job replacement agencies, training companies etc.

As the problems commented on are real, the fact is that the hallmark during this last year has been a major increase in permanent jobs and a drop in temporary employment (for the first time since 1993 in the private sector). Along with this there are some positive figures on female employment, greater growth in steady jobs and a sustained increase in the number of these during periods of slower economic growth.

This has taken place against a background of stronger social dialogue. The ESC recalls three major agreements during this government's term of office, which concluded in 2007, relating to the improvement in job growth, measures in the area of Social Security, and protective action in the area of dependency. This dialogue can be related to a new fall in accident rates, historically low figures for industrial strife and also moderate inflation, while the purchasing power of salaries was maintained.

The ESC also underlines that, with a view to the future, we must not act only in the regulatory sphere but also on the instruments which enforce legislation and those which control the functioning of the labour market and the effectiveness of active policies. A considerable part of this effectiveness has to do, on the one hand, with cooperation and coordination between the different government departments and, on the other hand, between these departments and the different agents in the labour market.

When analysing the situation of social protection, the ESC bases itself on the fact that Spain, like all developed societies, must face up to new challenges: an ageing population, immigration, new family structures, etc. These are new challenges which, we should acknowledge, we are resolving reasonably. We have recently undergone a process of social mutation: 10% of our population is now made up of foreigners, and more than 2 million Spaniards today are over 80 years of age. Even so, we occupy 13th position on the UN's Human Development Index, a better position than most of the EU member states.

Healthcare is perhaps the area most affected by these new challenges. The increase in public healthcare expenditure is notable, practically doubling in the last eight years. Specifically, the stumbling blocks are, as we are all aware, the waiting lists, and we continue to witness problems of collaboration between the different healthcare systems.

For some time now, the ESC has considered education to be the cornerstone of the system, and we have also been concerned for some time over problems which we hope will not be permanent, and not simply as a result of the points mentioned in the

PISA report. Last year we were warned that we had one of the highest school dropout rates (30%). Participation of young Spaniards in vocational training remains low and there are few students in degree courses in the experimental and technical sciences, giving rise to what has been identified as the "hourglass syndrome".

Albeit briefly, we would like to underline —as is done in the Annual Report— that in housing, in spite of the deceleration in prices, the possibility of buying one's own house continues to wane.

As is well known, consumption is our main aggregate, and since 2004 total household debt has been above the level of available gross income (133.2% in 2006). Consumer-based debt increased considerably during 2007, and the rise in this credit over recent years should have been accompanied by a series of measures concerning financial information, advice and education.

With reference to Social Security, we should highlight its healthy financial position, with a surplus of 1.3% of GDP. This is the fundamental aspect, but one should not forget that the rate of growth in affiliation slackened off in comparison with the previous year. With regard to other aspects, I would highlight the fact that early retirement figures showed a slight drop in 2007 for the first time in several years (2.3%).

The ESC attributes special importance to the Dependents' Care System. It is early days yet to be able to accurately assess the effect of the Law's first steps, given the still scanty information available, the quality of which should no doubt improve. Without any doubt, collaboration between the different regions must also improve.

This chapter concludes by discussing social cohesion and inclusion. It must be regretted that this improvement does not significantly reduce social imbalances. 19.9% of the population is now at risk of relative poverty, and this affects significantly more women than men, and more people of 65 years old and over, as well as those under 16 years of age i.e. women, the elderly and children.

To conclude, our assessment of 2007 cannot be dissociated from the period during in which this Annual Report was drafted: the first quarter of 2008. It is not easy to isolate oneself from the opinions that people interested in these issues has had over these first months of the year, characterised by less economic and job growth.

In the last lines of the introduction to the 2006 Annual Report we talked of a positive diagnosis, however we were not complacent as regards the socioeconomic *situation in Spain because circumstances have arisen which must be corrected or improved. At the time our growth pattern did not entirely satisfy us, and we urged an increasingly greater commitment to education/training and research, development and innovation.*

If the view of 2006 was positive but not complacent, that of 2007 continues to be positive, but worrying. We have talked enough of the causes for concern. On the positive side, I would like to underline that the key players in economic and social life have, in harmony with each other, succeeded in identifying weak points and lines of action in the Annual Report, and that this ability to share diagnoses has also been projected towards the practice of social dialogue. We therefore have the ability to reasonably manage situations such as those arising at this time of the ESC report's approval, and this approach should undoubtedly include actions to improve the productive model discussed in the previous Annual Report.

In any case, this Annual Report is a snapshot of our current social, economic and employment position, and it should be taken as such. These pages capture the mood and behaviour of our society. May they serve, then, as an analysis of this so recent past, one on which our immediate future must be built.

MARCOS PEÑA

President of the Economic and Social Council

CHAPTER I. ECONOMIC OVERVIEW

1. International context

International economy

The uncertainty resulting from the turbulence in the financial markets in the second half of 2007, which led to a fall in growth forecasts for the following year, did not prevent strong economic growth taking place in 2007. This enabled the longest period of expansion since the mid-1960s to continue. This time, the deceleration of the US economy was offset by the dynamism of emerging markets and growth in the European Union which, although moderate, was the second strongest of the past seven years.

However, from the summer onwards this turbulence in the global financial markets, which brought with it a worsening of credit terms and a lack of liquidity as well as a sharp fall in US property shares, led to a downward revision of growth expectations for 2008. The damage to growth expectations was also affected by the increase in the prices of raw materials, oil in particular, and of some basic products (especially cereals) as well as by the adjustment in exchange rates due to the weakening of the dollar.

World trade

The deceleration of the US economy and rises in the prices of oil, raw materials and some agricultural products generated lower growth in global trade in 2007, an intensification of trade protection pressures and very little progress towards the conclusion of the Doha Development Round of the World Trade Organisation (WTO).

2. European Union

Economic situation

Results for the European economy in 2007 were relatively favourable in terms of growth. The EU's macroeconomic variables reflected solid foundations with the exception of inflation from September onwards, an issue that will have to be addressed in the approaching period of economic deceleration. In their forecasts for 2008 the main international agencies and the European Commission are predicting slower growth in the European Union and the Eurozone, plus an increase in inflation. This is the main cause of concern in the short term, beyond the uncertainty about the end to the financial tension and its impact on the real economy. On the other hand, the generally sound position of European public finances may have a stabilising effect in the face of a potential deterioration in the world economic situation. Added to that, the financial situation of national companies and the economy has improved in recent years and trade with areas less exposed to financial turmoil plays a greater role in the foreign trade of European Union countries. One can therefore be confident that the European economy can satisfactorily withstand the deceleration that is likely to occur in the next two years.

In the European Union, although average annual price rises were being kept at moderate levels, from the end of summer the upward hike in prices added to the deceleration in business activity and the prevailing uncertainty in the financial markets. This increase in prices since September can mainly be explained by the impact of oil and other basic raw material costs, chiefly cereals, and their knock-on effect on transport and foodstuffs respectively.

Monetary policy

After a number of years of historically low interest rates, the European Central Bank (ECB) maintained its monetary policy restraint that began in 2006 with increases in base interest rates to 4% in June 2007, the highest level since 2001. Its intention was to tackle the risks to medium term price stability posed by the potential upward movement in oil prices and by the strong economic growth and high liquidity in the Eurozone that was present at the time.

Nevertheless, the turbulence in the financial markets that occurred in the summer, mainly caused by the mortgage crisis in the United States, and the uncertainty with regard to economic deceleration, created a lack of confidence. In the context of monetary policy this meant that the ECB put a brake on its policy of continued interest rate increases, while in the United States the Federal Reserve began a monetary policy based on expansion by successive decreases in interest rates, eventually down to 2%.

The financial crisis, which began with the performance of the North American property market, spread out on a global scale due to the presence of new worldwide investment agencies and entities that were increasingly less transparent and not subject to prudential regulation. In short, not enough attention was paid to the financial risks, which brought about the need to implement specific rules for international financial supervision to make the financial sector more transparent; to increase caution and vigilance on the part of the regulators with regard to the development of new financial instruments; to improve information on investors' positions (especially those with highly geared operations); to establish greater control of speculative offshore investment institutions, and to achieve greater coordination between the economic policies of the European Union and the United States in order to avoid major differences in the costs of financing between the two regions, as is currently the case.

The difference in levels of response by the European and North American monetary authorities in the face of the recent situation has once again opened the debate on the role of the ECB in relation to monetary policy decision-making and its emphasis on controlling inflation, as well as the position that should be adopted by the European Union (both as a whole and by the member states) to minimise the disproportionate impact of monetary policy decisions on the continent's economies. This debate is in the public domain and even creates opposing positions among member states, which largely consider that the ECB should be more flexible in its decision-making process and should also pay special attention to economic growth.

Whatever the case, greater coordination is required between the institutions responsible for monetary policy, in addition to co-ordinated involvement on liquidity (especially between the Federal Reserve and the ECB), because although they have different priorities and objectives they have to confront the same problems: deceleration of the economy, uncertainty over the consequences of the financial crisis, and inflation.

Uncertainty over the situation in the financial markets —and the possible liquidity restrictions that could occur— will create some upward pressure on the movement of interest rates and, in any case, a significant increase in volatility. The main benchmark interest rate in the markets, the Euribor, recorded continuous increases in 2007; these are being continued into 2008, being above 4.9% at the end of April this year. Against this background of uncertainty savers chose to take positions of less risk, mainly turning to government bonds. These bonds have become a safe haven and demand for them increased significantly at the end of the year.

With regard to the stock market, after the positive results achieved in 2006 the instability of the financial markets translated into increased volatility. This characterised the movement of the market, mainly throughout the second half of 2007, and resulted in significant falls in share prices. The evolution of European stock markets was influenced by the North American market and by a number of monetary policy decisions.

As regards the foreign currency markets, the differential in interest rates and the different sets of macroeconomic building blocks on which the economies of the Eurozone and the United States are based explain the strong performance recorded by the euro against the dollar throughout 2007. From summer onwards, these factors were augmented by the crisis in the US mortgage markets, which reduced confidence in the North American economy and, as a consequence, caused the dollar to fall on the currency markets. In contrast, the euro became a safe currency, compared to the traditional influence of the dollar. The strength of the euro against the dollar is due more to the fact that the dollar has weakened in the present climate than to the fact that the euro is strong and therefore overvalued. The positive and negative effects of this should be assessed bearing in mind the significant value of intra-community trade within total foreign trade in the EU, as compared to trade with countries in the dollar area.

Progress on the Lisbon trategy

Regarding the renewed Lisbon Strategy, throughout the year the different member states, among them Spain, continued with the application of their respective National Reform Programmes and prepared progress reports, which were presented to the Commission for approval in autumn 2007. The European Commission, for its part, made a favourable assessment of the progress of the Lisbon Strategy at the end of its second phase (2005-2007), with generally good progress having been made towards the achievement of its objectives.

However, it made clear the need to step up efforts. The Commission also presented its proposals for the launch of the following phase in 2008-2010, in which greater commitment would be required by EU institutions to set community actions in motion. The “Integrated Guidelines for Growth and Employment in 2008-2010” were also presented, aimed at steering the economic policies of the member states in a more coordinated manner in order to align their efforts and enable European Union issues to be addressed more efficiently.

Nevertheless, the initial stage in this phase has been changed by the new European economic situation, in which the scenario is not as favourable as when the plan was formulated. For this reason, new procedures need to be laid out to quantify the objectives that are appropriate to the new situation, as well as to drive measures that will enable these objectives to be achieved.

Institutional domain

In the institutional domain, the year was highlighted by a further enlargement with the incorporation of Bulgaria and Romania on 1 January, and by the signing of the Treaty of Lisbon on 13 December. This allowed the lifting of the institutional block experienced by the European Union following the rejection of the draft constitution in mid-2005.

Although the new treaty, which will come into force on 1 January 2009 if all member states have ratified it by then, sets out more modest aspirations than the failed draft constitution, it does endow the European Union with greater decision-making capacity, greater cohesion, and its own legal personality in the international arena. Whatever the case, a slowing down was observed in progress towards full European Union, also due to the difficulties in achieving a more efficient decision-making process and in consolidating European diversity into a single voice. This was accentuated by greater complexity following the recent incorporation of new member states and, above all, their effect in terms of the adoption of common policies.

3. Spanish Economy

Economic situation and outlook

The Spanish economy remained among the most dynamic in our area in 2007, recording GDP growth of 3.8%, 0.9% higher than the European average. Nevertheless, this margin was slightly lower than the previous year, with a gradual deceleration in economic activity in quarterly terms. This was due to a loss of impetus in the main areas that had sustained economic growth in the last cycle of expansion: household consumer expenditure and the construction sector, basically in the area of residential construction. Thus the contribution of internal demand to GDP growth was held back in 2007, while the negative effect of the foreign trade balance slightly reduced.

At first, the forecasts pointed to more moderate growth in economic activity, although possibly more sustainable in the medium and long-term. This was fundamentally attributable to the adjustment in the residential construction sector and to weaker performance of household expenditure, while it was also hoped that a European economic recovery would drive Spanish exports and contribute, together with the deceleration in imports, to reducing the negative effect of foreign trade on the economy.

However, the outlook changed significantly with the onset of the mortgage crisis in the United States in summer 2007 and its knock-on effect on the international financial markets. In practice, the main effects of the financial turbulence turned out to be a hardening of terms for obtaining credit, reduced confidence of economic agents and the negative effect on wealth as a result of falls in stock market and property prices.

All of this, combined with other risk factors related to the continued appreciation of the euro against the dollar and higher inflation as a result of increases in the cost of raw materials and foodstuffs on the international markets, led the main international agencies and the Government to revise their growth forecasts for the Spanish economy downwards more than once.

Furthermore, prior to the intensification of the economic slowdown at the beginning of 2008, Royal Decree/Law 2/2008 of 21 April was approved. Its intention was to drive economic activity with the ultimate objective of stimulating household expenditure and business activity, halting the slowdown in the property market and alleviating the negative effects on employment. This would be achieved through a series of fiscal and financial measures, authorising the government to approve an extraordinary plan of measures on career guidance, vocational training and work experience aimed at people who are either unemployed or at risk of exclusion from the labour market.

In the current economic climate, the government surplus offers room for manoeuvre in carrying out fiscal policy measures to counteract the effects of a greater than expected slowdown. It is seen as the main instrument of economic demand policy at the present time, in that decisions on monetary policy are in line with the European Central Bank. Given the present inflationary pressures, it does not appear feasible that there could be a cut in interest rates in the short term, which in the case of Spain would nonetheless represent a stimulus for household expenditure and business investment.

On the supply side, to achieve balanced and sustainable economic growth requires the development of ongoing, stable policy structures that enable productivity and competition, through the improvement of physical resources (transport, technology and communications infrastructures), human resources (education and training) and technological resources (R&D+i - Research, Development and innovation), through dedicated commitment to innovation and product quality. To that end, there was continued progress during 2007 in implementing the actions envisaged in the National Reform Plan, with special attention to the main challenges for the Spanish economy identified in the European Spring Council of 2007, such as better competition in the energy markets, the reduction in segmentation of the employment market and the need for further improvements in education and training.

Production sectors

After detailed analysis, the growth path of the various production sectors during 2007 shows the varying effects (on the results of each sector) of the changes in the international situation, the turbulence in the financial markets and increased raw material costs, as well as a slowing down of internal demand and the progress of the construction sector.

The increased cost of raw materials had a direct repercussion on the primary sector and the energy sector. The evolution of agricultural income was due to higher cereal costs, such that crop production showed an increase compared to nominal income, whilst livestock production suffered directly from the increased costs of animal feed.

The sectors most sensitive to the considerable rise in the price of a barrel of crude oil in 2007 benefitted from the strength of the euro against the dollar, softening its nominal impact. However, the energy and transport sectors, by being directly affected, as well as other production businesses vulnerable to fluctuations in energy costs, will have to absorb the effect of actual supply internally. Indeed, Spanish strategies for energy saving and efficiency point to the need to reduce the country's dependency on oil as a source of energy.

The slowdown in the construction sector worsened through 2007. It had started on a small scale in 2006 as a result of lower investment growth in property against a background of higher interest rates. There were two reasons for the slowdown in growth. On one hand, the financial turbulence at the end of 2007 that caused a reduction in credit, considerably affecting a sector that requires high gearing for its operation. On the other hand, and to a lesser degree, the evaporation of the positive impact that the approval of the new Technical Building Code had made on the construction business.

The difficulties that the international financial markets faced (which limited access to credit), combined with the effects of the gradual increases in interest rates that were already happening, introduced a less expansive mood into domestic demand. The reduced impetus of the industrial sector at the end of the year was due to decreases in end user demand, with the automotive sector being the most notable example. This deterioration also took place in the construction business, which meant reduced demand for industrial products used in the different stages of the building process. Even so, industry benefitted from a growth in investment in capital goods and from the relatively good performance of exports throughout 2007.

Together with the construction and industrial sectors, the commercial distribution sector showed some sensitivity to this reduction in internal demand, specifically to the restraint in household expenditure. Unaffected by this situation, tourism and communications grew more in 2007 than in the previous fiscal year.

In respect of financial services and the results of Spanish savings institutions (the subject of special interest since the second half of 2007 due to developments in the international financial markets), they closed the fiscal year with an increase in net profits, confirming limited direct exposure to the risks connected to the financial turbulence. These results will enable Spanish institutions to confront the challenges resulting from the second, more significant stage of this crisis —the squeezing of international liquidity— as well as the change in cycle of the construction sector.

Additional demand factors

In 2007 domestic demand continued to be the main business driver, although its rate of growth slackened during the year. This situation, combined with the less negative effect of foreign trade, enabled more cautious progress to be made towards a more balanced pattern of growth.

The domestic demand curve for 2007 was explained by a deceleration in consumer demand and the end of the growth cycle in the construction sector, a sector which had been a key driver of gross fixed capital formation in recent years.

The slowdown in private consumption during 2007 was fundamentally a response to the change of direction, deterioration and/or uncertainty with regard to the factors that had been sustaining growth in household consumer demand in Spain in the previous years, i.e. an increase in disposable income, the growth of the labour market and a reduction in unemployment, the continuing availability of credit facilities and the ‘wealth effect’ resulting from the revaluation of stock market, financial and property assets. These had combined to create increases in current income and had enabled promising forecasts to be made about future household income, with the consequent positive effect on private consumer demand.

However, the outlook changed significantly during 2007, especially in the final months of the year. The cost of money continued the upward trend that began at the end of 2005. These higher interest rates meant that families had to reserve a larger part of their disposable income to service their debts, which, against a background of higher household debt, contributed to the slowdown in household expenditure within the domestic economy. Similarly, the rise in inflation towards the end of the year created a reduction in real disposable income, which directly affected household spending power. Moreover, a significant deterioration in consumer confidence was also apparent, above all in the last quarter of 2007. This was related to growing uncertainty about the future outlook for disposable income in the face of potentially damaging effects on employment and household wealth, given the poor performance of the stock markets and doubts about the future of property prices, a key component of family wealth.

In terms of the external financing of consumer demand, it appears that one of the consequences of the financial turbulence has been a change in direction of credit policy by Spanish institutions. This has meant greater restrictions on the extension of credit which, although mainly affecting business loans, has also hardened in terms of household credit activities, both for consumption and investment.

Total investment, measured by gross fixed capital formation, recorded a slowdown in its rate of growth (explained by the deceleration of investment in capital goods) but above all, by the reduced growth in property investment. Although its profile was one of deceleration throughout 2007, investment in capital goods was once again the most dynamic element of domestic demand, as a result of improvement in company profits and the strong performance of exports.

The progress of property investment, on the other hand, resulted from the presence of multiple factors, which can be summarised as signalling the end of a cycle of high activity that has characterised this sector in recent years. Investment in property within the domestic economy has slowed down as a result of increasingly less property being available and greater credit restrictions. Moreover, the rate of growth in business investment, which in this respect usually adjusts to changes in demand and which had already been echoing the market slowdown, worsened sharply due to the hardening of credit terms against a background of company debt in the sector.

In summary, the gradual business slowdown seemed to be affecting company investment plans which, given the context of higher interest rates and greater credit restrictions, should be regarded as being sufficiently viable to withstand the higher cost of external financing. The underlying low interest rates of recent years enabled access to external financing for many companies in the production sector, even those with low return on investment (ROI) rates. Thus the total debt of companies in the production sector grew significantly between 2004 and 2006 and the composition of this total debt changed in its bias towards service companies and, more specifically, the property market. This situation could still have been attractive for other investments in businesses that act as catalysts to growth and create positive effects, as would be the case for investment in R&D+i (Research + Development + innovation), which typically offers limited short-term returns but is essential for business sustainability in the medium and long term.

In recent years, the credit requirements of Spanish companies, together with credit for household expenditure, could not be covered by internal savings, thus creating a growing need to resort to external financing.

Specifically, the requirement of the Spanish economy for external financing increased once again, although less than in the previous four years. This new increase in the need for financing placed the Spanish economy (compared to the rest of the world) at 9.7% of GDP, the highest figure in the developed world after Greece.

Nevertheless, the contribution to overall growth from net external demand in 2007 was more favourable than in the previous year, with growth reducing by 0.7 percentage points compared with 1.2 points in 2006. This was the result of acceleration in the rate of export growth for goods and services combined with more moderate growth in imports. There was an even lower negative effect (0.4 percentage points) in Q4 2007, with the official forecast for 2008 also indicating a negative effect of 0.4%.

The reduction in the current balance was, on this occasion, due more to the increase in the income balance deficit than to the traditional increase in the negative trade balance. As in previous years, other items did not show improvement in their effect on the trade deficit either.

Income distribution

With regard to the operational distribution of income in 2007, the effect on the economy of the reduction in employee earnings that began in 2000 was halted, remaining unchanged compared to the previous year as a result of a slight increase in the level of employment, which compensated for a slight fall in unit costs of labour. The contribution of net taxes to production and importation was consequently reduced, partly as a result of the slowing down in the property market, whereas gross operating surplus and mixed income increased again. Analysing separately how the latter have evolved, it is worth pointing out how the increase in their contribution to GDP over recent years relates mainly to the mixed income element whilst, in the specific case of gross operating surplus, the element corresponding to the use of fixed capital or depreciation partly explains the increase in this type of income.

Average employee remuneration improved in 2007 compared to the previous year, in nominal as well as in real terms. In real terms, applying the GDP deflator, average employee remuneration was positive after the significant reduction recorded in the previous five years. This, combined with new productivity improvements, enabled the unit cost of labour (although still negative) to record a less pronounced decline in 2007.

Company profits again increased significantly in 2007, although more moderately than in the previous year, in line with the deceleration in productive activity.

Inflation and financial markets

During the first part of 2007 inflation, measured by the Consumer Price Index (CPI), continued the downward trend that began the previous year, although it is true that prices began to rise from September onwards. This meant that the general increase in prices at the end of 2007 and the beginning of 2008 was above 4%, taking inflation to its highest level since the introduction of the euro. The increase in prices was due, among other factors, to higher prices on the international oil markets as well as for other raw materials, especially cereals. For its part, underlying inflation, which excludes the more volatile elements from the general calculation index (e.g. energy prices and unprocessed foodstuffs) showed an upward trend beginning in September with some moderate ups and downs throughout the year. This can be explained by the increases in price of processed foodstuffs.

In the face of this inflation, the differential in prices with the Eurozone, measured in terms of the Harmonised Index of Consumer Prices (HICP), widened to 1.2% in December, with a consequent deterioration in the price competitiveness of the Spanish economy. The inflationary pressure from oil and other raw material costs was also reflected in inflation within the Eurozone. Aside from the effect of the energy sector, there are certain factors that continue to play a part in the price differential, especially in relation to goods, particularly food and services.

As for the stock markets, the performance of the Spanish markets continued to be positive, in line with recent years, standing out from other European markets through the volume of transactions and profitability. This was in spite of the present uncertainty at the global level in respect of the effects of the financial crisis and the increase in market volatility.

The systems and mechanisms used to fix prices and benchmarks in the markets have been put to the test and have been seen as a fundamental component when reliable and prompt information on share prices is needed. The stock markets have therefore been able to respond positively and confidently in the face of volatility and crisis.

Public sector

For the third consecutive year, the Public Administration accounts closed the year with a surplus, equivalent on this occasion to 2.2% of GDP, 33.2% higher than in the previous fiscal year. As in previous years, the surplus was the result of a significant increase in non-financial income, especially direct taxation very closely linked to growth in business and employment, combined with a slowing down of the increase in public expenditure (which grew only slightly above GDP). It is worth noting that direct investment will continue be to be quite dynamic, with a growth rate of 7.1% and an effect on GDP of 3.8%. For a further year this was above the EU-27 average (2.6%), and reflects the great efforts being made by the Spanish economy in terms of capital accumulation, to be in line with the levels of per capita income of the most developed European countries.

With regard to the future, it will be necessary to consider how far the increase in public expenditure —resulting from the desire to strengthen certain policies, such as education, R&D+i and infrastructure and to develop new ones, such as care services for dependent people— is compatible with the reduction in financial pressure associated with the approved and announced reductions in direct taxation, without jeopardising budgetary stability. Furthermore, against the background of economic deceleration that is taking shape, active fiscal policies of an expansive nature will play a leading role beyond that of automatic budgetary stabilisation.

Given the relatively optimistic nature of the economic outlook that was used as the basis for preparing the 2008 General State Budget, actual expenditure figures for this period, particularly those associated with unemployment and income and consumer tax revenue (which will grow significantly less), could depart significantly from the forecasts contained in the Budget, with the consequent effect on the Public Administration budgetary balance. The effectiveness of the automatic stabilising factors of the budget will partly alleviate the deceleration of overall demand, as well as helping to sustain family income, in particular the income of people affected by unemployment.

Although tax reforms were not a major feature of 2007, certain notable measures were approved such as the introduction in personal income taxation of an allowance of €2,500 for birth or adoption and an allowance for renting one's normal place of residence, through which tenants could benefit from lower rent. Personal income tax rates, as well as the minimum figures for the individual and the family, were also deflated, in line with Economic Social Council recommendations, and discounted by the reduction in tax for profit on work and the business activities of the self-employed. In the sphere of company taxation, the definition of the tax basis was also amended, in accordance with the criteria incorporated within the new General Accounting Plan. In 2007 there was also a reformulation of the special tax on certain methods of transport in order to scale the tax rates imposed on vehicle CO_2 emissions, which should be seen as a tentative step by the central administration in the use of tax instruments to encourage energy-saving and reduce emissions, a *green tax reform* that has already been widely applied in some European Union countries. Lastly, in early 2008 a series of tax measures have been approved to stimulate business activity, including the following: an allowance of €400 on the personal income tax rate; the postponement of the physical impact of the amendments to company taxation as a result of accounting reforms; the elimination of the restriction from exemption that existed for returns of public debt when these had been obtained from countries and regions considered as tax havens; the elimination of wealth tax; the broadening of the scheme of building restoration for VAT purposes; and the non-subjection to ITPAJD (the tax on capital transfers and documented legal acts) for official documents lengthening the term of mortgage loans.

Lastly, a reform of the statutes of six regions in 2006 and 2007. This has significant implications for the system of regional financing, leading to speculation that the debate on this issue will be reopened during the current parliamentary term. It would be desirable for a multilateral agreement to be reached that provides the system with generality, stability and coherence, through the balance needed between the principles of autonomy and social cohesion, aiding efficiency by means of greater financial decentralisation without harming the distribution of wealth. In other words, combining fiscal decentralisation with transfers from national level that provide sufficient financing for all regions in order to ensure comparable levels of public service for all citizens across the whole country.

In any case, the debate on the reform of the financing system should not be obscured by the announced publication of regional fiscal balances. This is because, beyond the methodological difficulties involved in the territorial allocation of income and expenditure by the State Administration (and there are many), the results in terms of deficit or surplus according to the level of income of each region are a natural reflection of the system of income redistribution between citizens, those involved in the central budget for income and expenditure, in particular those related to Social Security.

Technology research, development and innovation

The Spanish system for innovation continued to lag significantly behind other countries in our area. Despite the fact that the growth trend has clearly been upward in recent years, the investment made by Spain in R&D amounted to 1.2% of GDP in 2006, still well below the 2% objective set for 2010 in the National Reform Programme. This is also below the OECD average of 2.25% and the EU-27 average, which is set at a modest 1.84% when compared with the 3% threshold fixed as an objective for 2010 in the Lisbon Agenda. Furthermore, the level of participation by Spanish companies in R&D funding activities does not indicate an upward growth trend and continues to be significantly lower than the 55% recorded as the EU-27 average (which is also the objective of the National Reform Programme for 2010). The gap with the OECD average of 62.7% is even greater, a figure that reflects the leading position occupied by Japanese and US companies in innovation programmes.

As a driver for productivity and a change to the economic model in the context of an increasingly globalised economy, scientific and technological progress represents one of the main priorities for Spanish economic policy. On this basis, and with the aim of giving coherence and strategic direction to public policies in this area, three key planning tools were approved, for the long, medium and short term: 1) the National Strategy for Science and Technology, with a timescale until 2015, 2) the National R&D Plan for 2008-2011 and 3) the Work Programme for 2008. This wide-ranging decision aims to integrate basic elements of consensus on the main principles and direction that will govern research and innovation policies and programmes, including their national and regional dimensions, to ensure their continuity beyond economic and political cycles as well as a sustained political and budgetary effort over a long period of time. Similarly, a set of indicators of resources and results for the R&D+i system is identified for 2011 and 2015 and the annual increase in public resources necessary to achieve such objectives is set at 16% for the next four years, both for the central administration and for regional autonomous administrations.

Regional economy

The Spanish regions again displayed great vigour in 2007, continuing the process of regional convergence (as much between the regions and between these and European regions). Structural aid received by Spain within the framework of Community regional policy contributed significantly to this effort. Nevertheless, changes in regional development policy for 2007-2013, resulting from its enlargement by twelve new countries, represents a reduction in the resources received by Spain. This could be reflected in the economic results of the Spanish regions, as well as in the convergence process. Looking to the near future, the potential impact of the present economic situation on regional growth —which to a large degree will be determined by different production specialisations in the regions— must also be added to the equation.

The increase in inflation in 2007 was felt generally across all the Spanish regions, albeit with different levels of intensity, as witnessed by the increase in the level of dispersion of up to 1.7 percentage points. This was largely due to the different behaviour observed at regional level in the most inflationary elements of the Consumer Price Index for 2007: energy and food.

INTERNATIONAL SOCIOECONOMIC INDICATORS 1999-2008

(Rates of year-on-year variation)

Indicators	1990-99	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008(p)
GDP Growth											
World	2.9	3.7	4.7	2.2	2.8	3.6	4.9	4.4	5.0	4.9	3.7
Developed countries *	2.7	3.5	3.9	1.2	1.6	1.9	3.2	2.6	3.0	2.7	1.3
United States	3.1	4.4	3.7	0.8	1.6	2.5	3.6	3.1	2.9	2.2	0.5
Japan	1.5	–0.1	2.9	0.2	0.3	1.4	2.7	1.9	2.4	2.1	1.4
Canada	2.4	5.5	5.2	1.8	2.9	1.9	3.1	3.1	2.8	2.7	1.3
European Union	2.0	3.0	3.9	2.1	1.4	1.5	2.7	2.1	3.3	3.1	1.8
Germany	2.3	1.9	3.1	1.2	–	–0.3	1.1	0.8	2.9	2.5	1.4
France	1.9	3.0	3.9	1.9	1.0	1.1	2.5	1.7	2.0	1.9	1.4
Italy	1.4	1.9	3.6	1.8	0.5	–	1.5	0.6	1.8	1.5	0.3
United Kingdom	2.1	3.0	3.8	2.4	2.1	2.8	3.3	1.8	2.9	3.1	1.6
Spain	2.8	4.7	5.1	3.6	2.7	3.1	3.3	3.6	3.9	3.8	1.8
Eurozone	–	3.0	3.8	1.9	0.9	0.8	2.1	1.6	2.8	2.6	1.4
Developing Countries	3.2	4.1	5.9	3.8	4.7	6.2	7.5	7.1	7.8	7.9	6.7
Africa	2.3	2.7	3.5	4.9	6.1	5.3	6.5	5.7	5.9	6.2	6.3
Asia	7.2	6.4	6.9	5.8	6.9	8.1	8.6	9.0	9.6	9.7	8.2
China	9.9	7.6	8.4	8.3	9.1	10.0	10.1	10.4	11.1	11.4	9.3
Latin America	2.9	0.3	4.1	0.7	0.4	2.1	6.2	4.6	5.5	5.6	4.4
Central and Eastern Europe	1.2	0.5	4.9	0.4	4.2	4.8	6.9	6.1	6.6	5.8	4.4
Russia	–	6.4	10.0	5.1	4.7	7.3	7.2	6.4	7.4	8.1	6.8
Inflation (CPI)											
Developed countries	3.0	1.4	2.2	2.1	1.5	1.8	2.0	2.3	2.4	2.2	2.6
United States	3.0	2.2	3.4	2.8	1.6	2.3	2.7	3.4	3.2	2.9	3.0
Japan	1.2	–0.3	–0.7	–0.7	–0.9	–0.3	–	–0.3	0.3	–	0.6
Canada	2.2	1.7	2.7	2.5	2.3	2.7	1.8	2.2	2.0	2.1	1.6
European Union	10.0	2.2	3.1	3.0	2.5	2.2	2.3	2.3	2.3	2.4	3.1
Germany	2.4	0.6	1.4	1.9	1.4	1.0	1.8	1.9	1.8	2.3	2.5
France	1.9	0.6	1.8	1.8	1.9	2.2	2.3	1.9	1.9	1.6	2.5
Italy	4.1	1.7	2.6	2.3	2.6	2.8	2.3	2.2	2.2	2.0	2.5
United kingdom	3.3	1.3	0.9	1.2	1.3	1.4	1.3	2.0	2.3	2.3	2.5
Spain	4.3	2.2	3.5	2.8	3.6	3.1	3.1	3.4	3.6	2.8	4.0
Eurozone	–	1.1	2.2	2.4	2.3	2.1	2.1	2.2	2.2	2.1	2.8
Developing Countries	51.4	10.3	8.5	7.6	6.7	6.6	5.9	5.7	5.4	6.4	7.4
Africa	24.9	11.8	11.7	11.0	9.1	8.6	6.3	7.1	6.4	6.3	7.5
Asia	8.6	2.5	1.9	2.7	2.0	2.5	4.1	3.8	4.1	5.3	5.9
China	7.5	–1.4	0.4	0.7	–0.8	1.2	3.9	1.8	1.5	4.8	5.9
Latin America	98.4	8.3	8.3	6.5	8.7	10.5	6.6	6.3	5.3	5.4	6.6
Central and Eastern Europe	60.1	23.7	24.9	21.5	16.4	10.1	6.3	5.1	5.4	5.6	6.4
Russia	–	85.7	20.8	21.5	15.8	13.7	10.9	12.7	9.7	9.0	11.4
Unemployment (rate)											
Developed countries	6.8	6.3	5.7	5.8	6.3	6.5	6.3	6.1	5.7	5.4	5.6
United States	5.8	4.2	4.0	4.7	5.8	6.0	5.5	5.1	4.6	4.6	5.4
Japan	3.0	4.7	4.7	5.0	5.4	5.3	4.7	4.4	4.1	3.9	3.9
Canada	9.6	7.6	6.8	7.2	7.6	7.6	7.2	6.8	6.3	6.0	6.1
European Union*			8.6	8.4	8.8	9.0	9.0	8.7	7.9	7.2	
Germany	7.1	7.5	6.9	6.9	7.7	8.8	9.2	10.6	9.8	8.4	7.9
France	10.7	10.5	9.1	8.4	8.6	9.0	9.3	9.3	9.2	8.3	7.8
Italy	10.3	10.9	10.1	9.1	8.6	8.4	8.0	7.7	6.8	6.0	5.9
United kingdom	8.2	6.0	5.5	5.1	5.2	5.0	4.8	4.8	5.4	5.4	5.5
Spain	19.7	15.6	13.9	10.6	11.5	11.5	11.0	9.2	8.5	8.3	9.5
Eurozone	–	9.0	8.1	7.8	8.2	8.7	8.8	8.6	8.2	7.4	7.3

(p) Forecast. Note: The International Monetary Fund figures do not always agree with the official figures from each country.
* Data from the European Commission's Economic Forecasts, Spring 2008.
Source: IMF, World Economic Outlook, April 2008.

STRUCTURAL INDICATORS MONITORING THE RENEWED LISBON STRATEGY, 2000-2007

	Structural indicators	EU-25		EU-15		EMU (13)		Spain	
		2000	2007	2000	2007	2000	2007	2000	2007
Economic Scene	Per capita GDP in PPP	100.0	100.0	115.2	111.5	113.9	109.5	97.7	104.7
	Labour productivity (per employee)	100.0	100.0	113.1	109.9	113.7	109.5	103.9	102.8
Employment[1]	Employment rate	62.2	64.5	63.4	66.2	61.5	64.8	56.3	64.8
	Employment rate over 55's	36.9	43.5	37.8	45.3	34.3	41.8	37.0	44.1
R+D[1]	Expenditure on R&D (% GDP)	1.86	1.84	1.92	1.91	1.84	1.85	0.91	1.20
	Educational level of young people[2]	76.6	77.9	73.7	75.0	73.1	74.0	66.0	61.6
Economic Reforms[1]	Comparative price level[3]	100.0	100.0	104.9	104.9	100.5	102.5	85.0	93.3
	Company investment[4]	18.4	18.2	18.3	18.1	18.9	18.7	22.7	26.6
Social Cohesion[1]	Poverty Risk rate after transfers	16.0	16.0	15.0	16.0	15.0	16.0	18.0	20.0
	Regional spread of employment rate	130.0	11.4	13.4	10.9	13.0	10.7	10.7	7.8
	Long term unemployment rate	4.0	3.7	3.4	3.2	4.0	3.7	4.6	1.8
Environment	Greenhouse gas emissions[5]	90.7	92.1	96.6	98.0	99.2	102.2	132.8	152.3
	Energy intensity of economy[5]	213.1	208.1	190.5	184.9	184.2	183.4	227.0	219.2
	Volume of transport freight/GDP[1]	99.1	106.7	101.9	105.0	104.2	110.5	116.4	150.9

[1] 2006 data
[2] Percentage of young people (20-24 years) who have completed at least secondary education.
[3] Comparative prices for final consumer household expenditure, including indirect taxes (EU-25=100). 2006 figures.
[4] Gross fixed capital produced in the private sector in GDP percentage terms. 2005 figures.
[5] Latest available figures from 2005.
Source: Eurostat.

MACROECONOMIC TABLE, 2003-2007

(Year-on-year variation)

Items	2003	2004	2005	2006	2007
GDP and aggregates of demand					
Gross Domestic Product	3.0	3.2	3.6	3.9	3.8
Final consumption	3.3	4.7	4.5	4.0	3.6
– Households	2.8	4.2	4.2	3.7	3.1
– Public administrations	4.8	6.3	5.5	4.8	5.1
Gross fixed capital formation	5.9	5.0	6.9	6.8	5.9
– Equipment	4.2	4.4	9.2	10.4	11.6
– Construction	6.2	5.5	6.1	6.0	4.0
Exported goods and services	3.7	4.1	2.6	5.1	5.3
Imported goods and services	6.2	9.6	7.7	8.3	6.6
Domestic demand (1)	3.8	4.9	5.2	5.1	4.6
Foreign demand (1)	–0.8	–1.7	–1.7	–1.2	–0.7
Prices and costs					
GDP deflator	4.1	4.0	4.2	4.0	3.1
CPI (annual average)	3.0	3.0	3.4	3.5	2.8
CPI (December)	2.6	3.2	3.7	2.7	4.2
Unit labour costs	3.0	2.5	2.2	2.3	2.7
Labour Market					
Variation in employment (2)	2.4	2.7	3.2	3.2	3.0
Unemployment rate	11.5	11.0	9.2	8.5	8.3
Variation in productivity (3)	0.7	0.6	0.4	0.7	0.8
Foreign trade (as % of GDP)					
Need for financing the economy	–2.1	–3.8	–5.1	–6.2	–6.4
Need for financing public admin.	–2.5	–4.2	–6.5	–8.3	–9.7
Need for financing public admin. (as % of GDP)	0.0	-0.2	1.1	1.8	2.2
Pro Annual Report					
Nominal GDP (mn euros)	782.531	840.106	908.450	980.954	1.049.848

(1) Contribution to GDP growth.
(2) Employment equivalent to full time in CNTR (Quarterly National Accounting data).
(3) GDP per employed worker (corrected series and employment equivalent to full-time).
Source: INE (National Institute of Employment) and Ministry of Finance.

EVOLUTION OF ECONOMIC ACTIVITY BY SECTORS 2006-2007

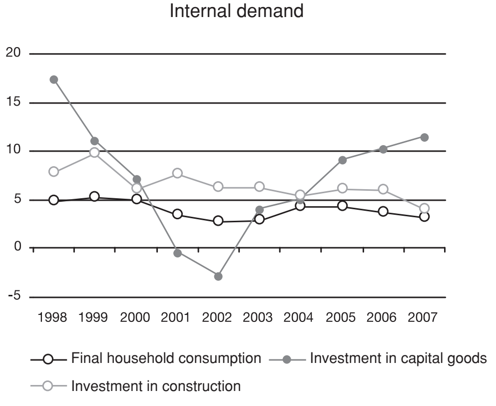
(Year-on-year variation)

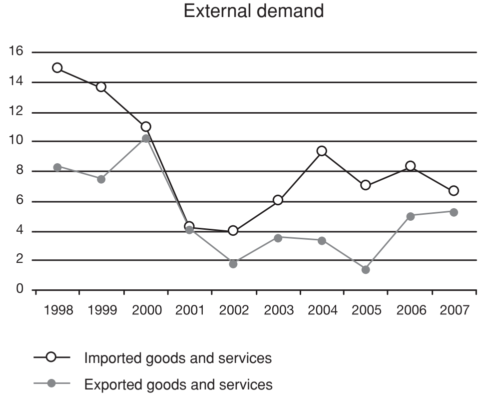
Years	Quarters	Agriculture and Fisheries	Energy	Industry	Construction	Services		
						Total	Market	Non- market
2006	Q1	–0.1	3.7	1.4	5.8	4.0	4.1	3.6
	Q2	2.3	1.4	2.7	5.3	4.1	4.1	4.5
	Q3	–2.4	4.1	3.9	5.1	4.2	4.3	3.8
	Q4	10.1	–3.2	3.5	3.9	4.2	3.9	5.2
	Average	2.4	1.4	2.9	5.0	4.1	4.1	4.3
2007	Q1	6.8	–3.6	5.0	4.5	4.2	4.2	4.3
	Q2.	2.8	3.4	3.6	4.2	4.2	3.9	5.2
	Q3	2.8	0.0	2.4	3.8	4.3	4.0	5.3
	Q4	2.9	4.5	1.4	2.8	4.1	3.9	5.0
	Mean	3.8	1.0	3.1	3.8	4.2	4.0	5.0

Source: INE, *Contabilidad Nacional Trimestral de España* (Spanish National Quarterly Accounts).

DEMAND AGGREGATES, 1998-2007

(Year-on-year variation)

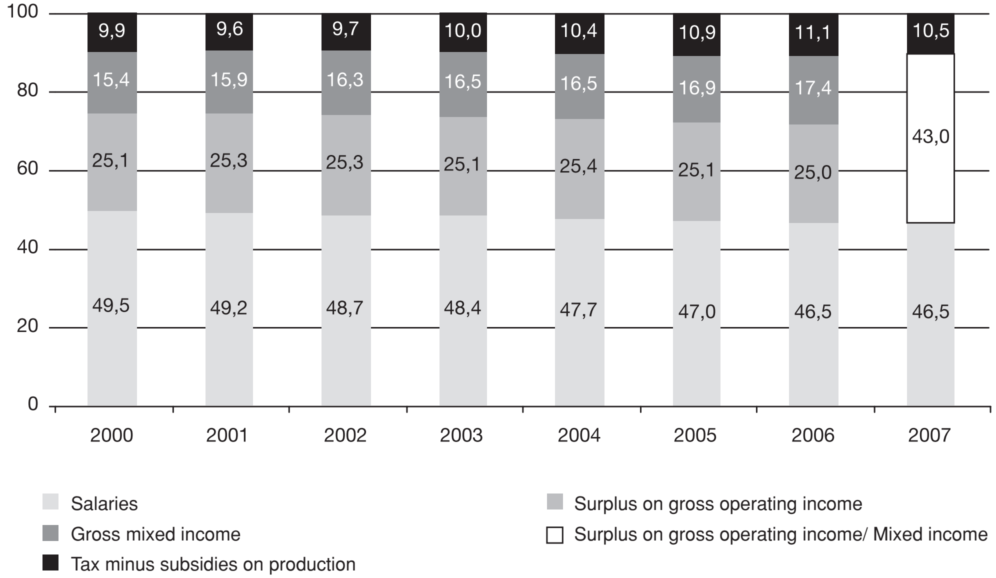




Source: Bank of Spain, *Síntesis de Contabilidad Nacional de España* (Summary of Spanish National Accounting).

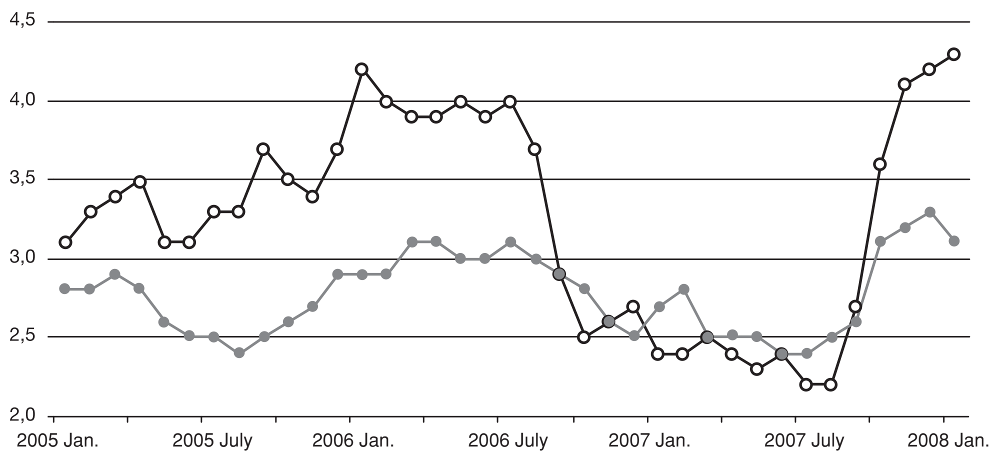
FUNCTIONAL DISTRIBUTION OF INCOME, 2000-2007

(As a percentage of GDP)



Note: for 2007 no broken-down information is available for EBE/Mixed income.
Source: INE, *Contabilidad Nacional de España* (National Accounting for Spain). Integrated financial accounts.

GENERAL AND UNDERLYING INFLATION, 2005-2007 (Year-on-year variation of GDP)

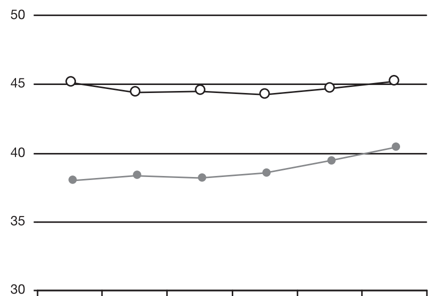


Source: INE.

BASIC INDICATORS FOR THE SPANISH PUBLIC SECTOR AND EU-25, 2001-2006

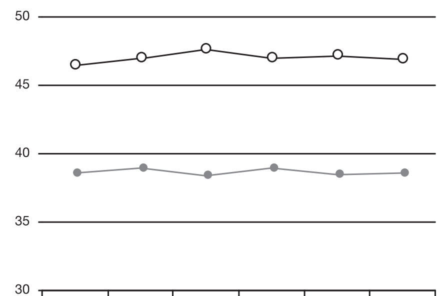
(As a percentage of GDP)

Public Income / GDP



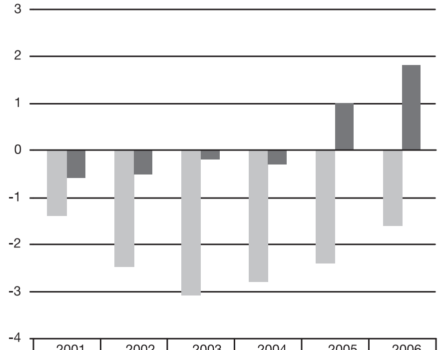
	2001	2002	2003	2004	2005	2006
EU-25	45,1	44,4	44,5	44,2	44,7	45,2
Spain	38,0	38,4	38,2	38,5	39,4	40,4

Public expenditure / GDP



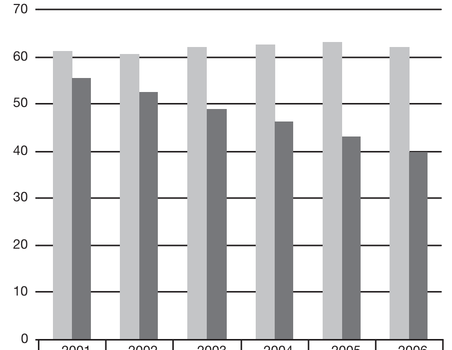
	2001	2002	2003	2004	2005	2006
EU-25	46,4	47,0	47,6	47,0	47,1	46,9
Spain	38,6	38,9	38,4	38,9	38,5	38,6

Capacity (+) need (-) financing / GDP



	2001	2002	2003	2004	2005	2006
EU-25	-1,4	-2,5	-3,1	-2,8	-2,4	-1,6
Spain	-0,6	-0,5	-0,2	-0,3	1,0	1,8

Public debt / GDP

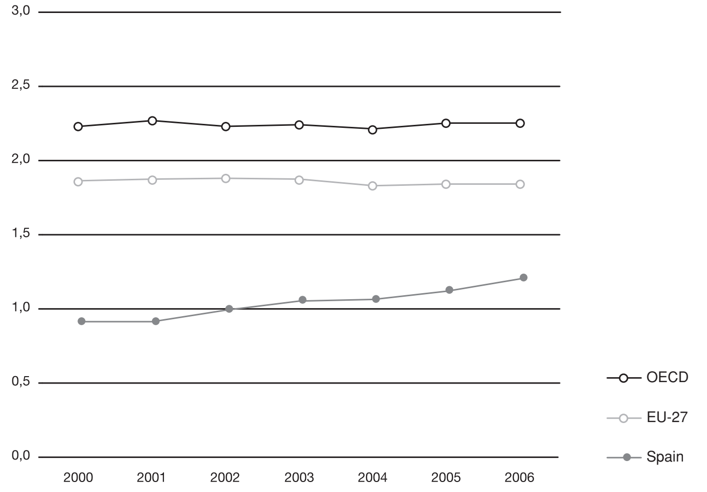


	2001	2002	2003	2004	2005	2006
EU-25	61,1	60,5	62	62,4	63,1	61,9
Spain	55,5	52,5	48,7	46,2	43	39,7

Source: Eurostat.

EXPENDITURE ON R&D, 2000-2006

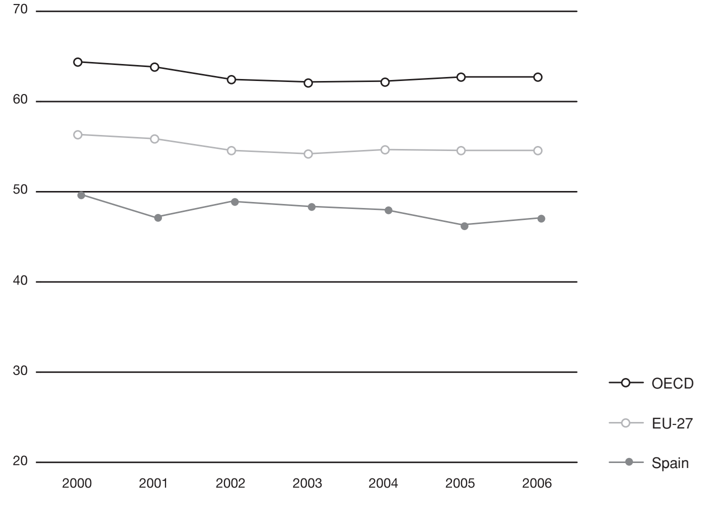
(As a percentage of GDP)



Source: Eurostat and OECD. *Main Science and Technology Indicators.* Volume 2007/2.

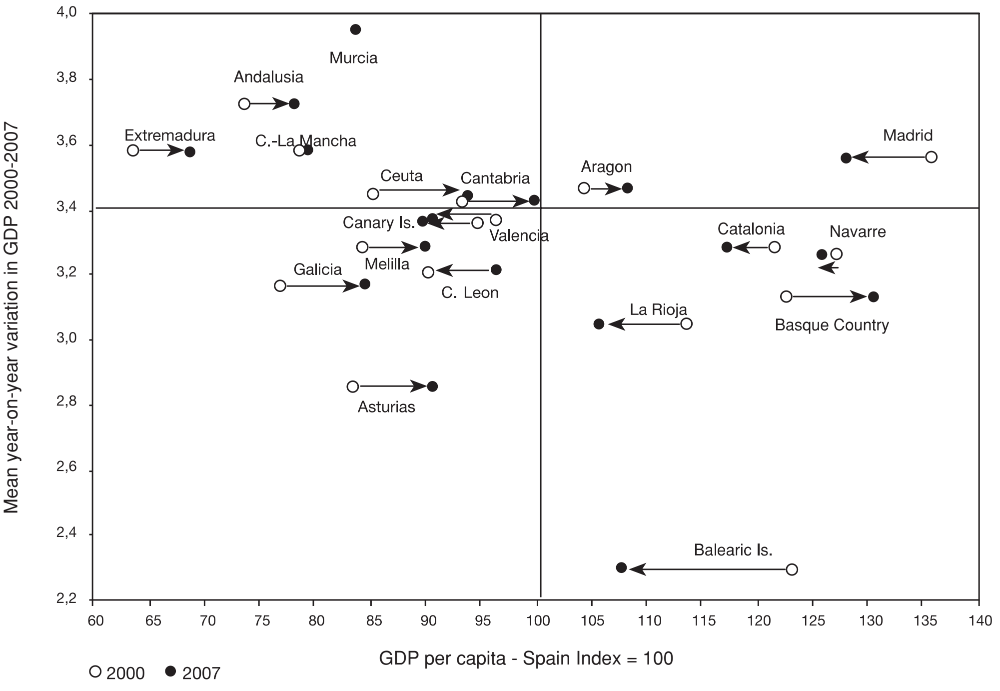
COMPANY-FINANCED EXPENDITURE ON R&D, 2000-2006

(As a percentage of total expenditure on R+D)



Source: Eurostat and OECD. *Main Science and Technology Indicators.* Volume 2007/2.

GDP PER CAPITA AND YEAR-ON-YEAR GDP GROWTH FOR THE SPANISH REGIONS, 2000-2007



Source: INE, *Contabilidad Regional de España* (Regional Accounting for Spain).

CHAPTER II. LABOUR MARKET, EMPLOYMENT AND LABOUR RELATIONS POLICIES

1. The Labour Market and Employment Policies

European outlook: development, objectives and discussions

The pace of economic growth in 2007 helped to bring some stability to the labour markets, with significant job creation and a positive reduction in unemployment in the European Union. However, uncertainty as to the future of the world economy, heightened by the credit crisis in the US sub-prime mortgage market and its repercussions on other markets since the summer of 2007, has manifested itself in the beginning of a phase of deceleration in the world economy, with reduced prospects for growth in 2008 and 2009 and, consequently, negative effects on the economy, in particular on the EU employment market. The Spring Forecasts indicate a deceleration in the rate of growth of employment for the next two years at levels under 1%.

In December, the European Commission presented its proposals in this context for the new round (2008-2010) of the Lisbon Strategy. These proposals emphasise to a greater extent the references to employment in the macroeconomic guidelines, with the role of the social partners (in the context of 'flexisecurity' in the employment market) being set out more explicitly.

During the course of the year, other major employment issues addressed by the Commission were: a proposal for a Labour Mobility Action Plan for 2007-2010, the need to encourage the full participation of young people in education, employment and society, and the need for a new commitment to develop a common immigration policy. The discussion and consultation process also continued with regard to the Green Paper on the modernisation of employment legislation. According to the Commission, the most significant result of this process is that there is now strong awareness of the challenges faced by the new European labour market and the need to adapt employment legislation to the new reality, to resolve the challenges of the 21st century. In the same way, it is worth mentioning some developments in the area of gender equality in the context of 2007 as the ‘European Year of Equal Opportunities for All’, although they certainly go further than this: the European Parliament resolution, in March, related to the 2006-2010 employment roadmap for equality between women and men and, on the part of the Commission, first to study and then to prepare proposals for the elimination of non-measurable gender salary differentials.

On the other hand, the European debate on employment during 2007, focused on improving the productivity of the European economy and making it more competitive in the face of the challenges of the global economy while maintaining the core objective of creating more and better quality employment. One of the most discussed mechanisms in this debate is flexisecurity, on which the Commission issued a communication in June 2007 following intense debate throughout the previous year. In this communication it set out the need for a more flexible employment market, together with levels of security that would allow the new needs of employers and employees to be addressed at the same time. For its part, in December 2007 the European Council approved the common principles that should guide the design of integrated strategies on flexisecurity in the member states, in agreement with the social partners. This is to be included in the respective National Reform Programmes.

The European social partners, starting from the position that there is no single approach to flexisecurity, have prepared a set of common recommendations on the issue in a recent document on the situation of the labour and employment market in the EU. This takes a broad view and also includes a set of recommendations to address the main challenges of the future, reinforcing the employment/productivity tandem proposed in the renewal of the Lisbon Strategy.

Assessment of the European employment strategy

Only three years after the achievement of the objectives set out in the renewed Lisbon Strategy, an improvement in the employment indicators across the whole of the EU can be confirmed, reflecting progress made over the previous year and the favourable situation of the employment market. Progress has been slow, and is reflected with a different level of intensity depending on the indicator applied. This different intensity gives means that the objective of 60% female employment by 2010 is likely to be achieved, but there are greater difficulties in achieving the objective for general employment (70%) and especially for those over 55 years of age (50%). In Spain, the growth in employment in 2007 has been positive set against this European background, since the reductions in employment differentials and unemployment compared with the EU-27 have been maintained, and progress towards the achievement of European Economic Area objectives has continued.

As a result, especially in the case of Spain, recent forecasts confirm a deceleration in 2008 and 2009 with significant consequences for the employment markets. This may put a brake on the successes achieved to date and hinder progress towards the employment objectives. Therefore, it would be necessary to study the situation and adopt employment policy measures required to minimise this impact.

Insofar as the Spanish National Reform Programme is concerned, the government presented the second progress report in October 2007. It summarises the progress achieved in relation to the two main objectives (income convergence with the EU-25 and employment rate) as well as all the economic policy measures implemented this past year. In general, the Commission made a positive assessment of the level of progress achieved. The Commission considers that the Programme has responded appropriately to the commitments made in relation to the priority areas and that, in general, it has addressed the recommendations made, despite the fact that those relating to employment have only been partially addressed. It notes the progress made in terms of female employment as one of the strong points of the Programme, highlighting the integration of training systems to respond better to the demands of the employment market, and the modernisation of employment protection. Nevertheless, it also points out areas that are lacking and insufficient, among them the efforts made to reduce the school dropout rate and the need for greater coordination at regional level.

Furthermore, it is worth highlighting the contrast between the many successes achieved under the umbrella of social dialogue and the low level of participation by the social partners in the National Reform Programme. This limited participation has been the case both when it was initially set up in 2005 and at the time of the first progress report a year later. At the end of 2006, a protocol for review, participation and monitoring was agreed to that end with the objective of improving the situation. However, although this instrument may prove useful for improving the level of participation and has, in any case, improved the way of developing this participation in the initial definition of the National Reform Programme and the first progress report, the social partners have still not been sufficiently involved in the process of development, monitoring and implementation. The government is urged to make a stronger commitment to take the evaluations and observations of the social partners into account in this process.

General outlook for employment in Spain in 2007

The average figures for 2007 in the Spanish Labour Force Survey (EPA) yield an employment figure of just under 20.4 million people. This represents 608,400 more than in the previous year, with unemployment above 1.8 million people, just 3,000 fewer. This means that 2007, together with 2002, showed the least growth in employment in the past decade. The data for Social Security and unemployment registration under the SISPE (*Sistema de Información de los Servicios Públicos de Empleo* - Information System for Employment Public Services) also points to a deceleration in job creation and a rapid increase in unemployment. It is too early to assess the extent of these trends but the initial figures for 2008 not only confirm them but give even more cause for concern.

Even when the lower rate of job creation affected women as well, there followed a long period in which female employment not only performed more dynamically in times of expansion but also sustained its rate of increase during times of low economic growth. In comparison, and for whatever reasons, it can be seen that the deceleration created an unequal effect between Spaniards and foreigners in the labour market in 2007. The employment situation has deteriorated more and more quickly for foreigners, affecting both genders and almost all age groups. Unemployment registration for foreigners also shows a very negative trend for almost the whole of 2007, whereas the worsening trend for Spaniards was limited to the second half of the year and was less pronounced.

In the outlook for 2007, an uneven employment growth path per economic sector is apparent, with average growth in services, even above average in construction, and a slight decrease in industry; this is not very different from the pattern seen in previous years. The quarterly trend was clearly down in construction and industry but was much more moderate, although still noticeable, in services.

In the case of services, the outlook by business sector revealed various critical factors in 2007 which differentiate these results from the results of previous years and may qualify the present uncertain outlook, although one will have to wait to see what happens in the coming periods. This is because the reduced growth only visibly affected hotel and catering, whereas the dynamism of ‘other business activities’ continued, retail trade turned round and ‘health and social services’ maintained their good pace. In turn, in medium-sized business sectors the deceleration mainly affected ‘households employing domestic staff’ and in the smallest companies there were two points to highlight: one was negative (a braking effect on property businesses) but the other positive (high and sustained growth in the IT sector).

With the exception of metallurgy and metal products, major industrial employers performed well in 2007, in some cases better than in 2006. However, the sum of all the increases was not enough to compensate for the losses experienced in the majority of small and medium-sized companies. This was especially the case in some of the medium-sized companies, which experienced even sharper falls than in previous years: the wood and cork, clothing, textiles and paper sectors lost 51,300 employees in total, more than half the total losses of industrial sectors. In relative terms, there were other smaller sectors with even more unfavourable results: office machinery and computer equipment manufacturing, the tobacco industry, mining and energy.

Trends in temporary working: effects of the reform

The greatest increase in employment in 2007 again related to salaried employment in the private sector, with 521,000 more people employed (3.9%); growth was also notable, in relative terms, in the category of ‘employers without employees or self-employed workers’ (4%).

There was also a sharp increase in open-ended contract employment, which was one of the more significant points to note in the labour market in 2007. It is worth remembering that the initial effect of the reform introduced by the AMCE (*Acuerdo para la Mejora del Crecimiento y del Empleo* - Agreement for Improvement of Growth and Employment) that was later embodied in Law 43/2006 resulted in more than 520,000 conversions (temporary to open-ended contracts) in the exceptional plan established for this purpose, as well as more than 170,000 new open-ended contracts incorporated into the Employment Creation Act. In 2007, however, even with lower job creation in the year and a direct effect of the reform being previously limited to 2006, open-ended employment grew by no less than 7.2%, compared to the figures recorded between 2004 and 2006, which had always been under 4%. For the first time, this increase coincided with a decrease in temporary employment. As a result, temporary working fell by 2.4% (2.8% in the private sector), the greatest annual reduction between 1997 and 2007. Despite this, it should be remembered that seasonal working in Spain needs uninterrupted data over a prolonged period in order to show a substantial reduction.

Furthermore, growth in permanent employment was higher for female workers, both in relative terms and in the number of people, and more so for young and middle-aged people. The disadvantage for women in terms of temporary working was therefore reduced, although for those aged between 40 to 49 years old it is still 5% above the figure for males.

On the basis of data related to contracts registered, the rate of open-ended contracting was maintained throughout 2007. In fact, ordinary open-ended contracting received a significant impetus coinciding with the reform, whereas open-ended job creation contracts do not appear to have been any more stimulated by the new improvements compared to previous ones.

Structural Adjustment Support instruments: 2007 situation

Despite the fact that there has been progress in the implementation of legislation for specific action in job creation and management, mainly aimed at enabling specific groups to be incorporated into the employment market, there are still outstanding issues. Among them is the modernisation of the SPEE (*Servicios Públicos de Empleo Españoles* – Spanish Public Employment Services), which should have been the basis for the design and development of a Global Modernisation Plan aimed at improving the quality of services. Likewise, an overall reform of active employment policies should have been undertaken in order to improve their efficiency, with special reference to women, young people and people with disabilities, as well as the immigrant population; in the latter case, this should outline measures to enable their integration into the labour market. The need also arose to regulate the role of agents working in the employment market and their scope of activity: public employment services, co-operatives and employment and relocation agencies. This task, the result of a commitment in the framework of social dialogue, is still pending in order to achieve a more efficient employment market, especially in a situation such as the present, in which the deceleration is already affecting the employment of specific groups.

Despite the time that has elapsed since the approval of the Employment Law in December 2003, the results of the implementation of the National Employment Scheme and the instruments for its coordination are very positive. Its objectives are to reinforce the operation of the scheme through the regulation of the organisations and instruments involved in employment policy co-operation and coordination between the various administrations; it is expected to enable better and more transparent operation of the whole scheme.

In 2007 there was significant progress in the creation of legislation to implement the new employment training scheme agreed between the social partners, including RD (Royal Decree) 395/2007 on the regulation of a vocational training subsystem for employment that eliminates the division between occupational and continuous training.

The employment training subsystem principles are defined in the RD and various training initiatives that make up the new model have been formulated; its specific regulations have been subsequently prepared: Demand Training, which comprises company training activities and individual leave for training (financed in part or in full by public funds) for the specific needs of companies and their employees; Supply Training, which includes training plans intended for those in work and training activities aimed at the unemployed, to enable both groups of people to gain trade skill qualifications and to enter employment; on-the-job Work Related Training, based on training activities within training contracts and public employment training programmes, which are very important base activities of craft school workshops and work training centres. Priority for participation in all of these will be given to those groups that have the greatest difficulty entering the employment market —in the case of the unemployed— and remaining in the employment market, in the case of those at work.

Lastly, it includes assistance and support activities for conducting general and sectoral surveys, research studies and the dissemination of the Scheme, as well as the development of an integrated system of information and vocational guidance to advise on training and employment opportunities.

The ultimate objective of all the above is to improve the efficiency of the subsystem. This will be achievable with a clear and consistent commitment on the part of the administrations involved to the improvement of the quality of vocational training in terms of content, duration, teaching staff and facilities, as well as with regards to its results. In particular, these include access to stable employment, adaptation to the needs of the productive framework and efficiency of the resources and means employed.

The number of vocationally trained jobseekers rose to 278,917 in 2006, with a sociodemographic pupil profile similar to that of previous years: women, young people and those with a low level of education. Out of the total number of pupils trained in 2006 almost 72% found employment during 2007 (with males 5% higher), with a lower rate for those over 30 years of age.

Continuous vocational training activities increased again in 2007, bringing the total number of people trained to more than 1,560,000. The type of training continues to be mainly general and at middle or higher level, with two-thirds of it taking place on-site, although on-line learning is increasing slightly. Distance learning or mixed format learning has reduced slightly compared to the previous year. The sociodemographic profile of trainees has not varied either: 26 to 45 years old, male, with secondary education and 41% being skilled workers. The majority still come from companies with more than 1,000 employees, although the level is reducing, with a trend towards small and medium-sized companies.

Policies for a new scenario

This depends on the achievement of one of the objectives set out in the AMCE in relation to the overall reform of active employment policies to increase their efficiency. This in turn forms part of the need to continue with the implementation of the Employment Law in its overall integration of these policies, without forgetting its regional structure. Once the constituent bodies and instruments of the National Employment Scheme are in place it will be necessary to drive their implementation, without further delay, so that there is greater cooperation and coordination of activities, in particular those of national and regional public employment services.

It should be remembered that forecasts now point at low economic growth for at least the next two years, a situation that puts all economic policies (including employment policies) into a different light. It is appropriate to continue, insofar as is necessary, with some of the actions in hand that prioritise specific sector groups as beneficiaries of active employment policies, the objective of which goes beyond purely stimulating employment but also attempts to contribute to enhancing the productive fabric of the country and to respond to particular issues related to the competitiveness of the Spanish economy.

Furthermore, data for the first months of 2008 has led to the approval of Royal Decree/Law 2/2008, dated 21st April, with measures designed to drive economic activity, the ultimate objective of which is to stimulate household spending and business activity, put a brake on the slump in the property market and alleviate the negative effects on employment. With regard to this last point, the government has been authorised to approve a special plan of measures for career guidance, vocational training and integration into the labour market.

In order to tackle the turnaround in unemployment in recent months, there is a set of actions of an exceptional nature aimed at increasing work engagement and reinforcing workplace stability, both for the unemployed and people who run the risk of exclusion. The plan provides for measures of guidance, training and integration, to be added to those already in place, as well as grants for the job-seeking process and to facilitate geographical mobility. The first measures are aimed at unemployed people who meet defined criteria. One of these criteria is to participate in guidance sessions overseen by professionals, which include competing for job offers. The grants are aimed at helping unemployed people to obtain stable employment when this involves working away from home and relocation within the region where they live.

Aside from all of this, it is essential to reorientate and reinforce employment policies from a global perspective and under the auspices of social dialogue. Moreover, in accordance with the common position taken by the European social partners, it means having appropriate resources and services, taking decisions as close as possible to citizens and being able to call on the support of viable private and public investment. In the present situation it is even more important to merge current policies with well thought out schemes for unemployment protection, combining unemployment rights with greater opportunities for workplace integration. It is, of course, also important to ensure equality of opportunity for all if social cohesion is to be strengthened and to put in motion all the opportunities that the employment market has to offer.

Regional dimension: employment policies in the regions

With the odd notable exception, deceleration in the job market was felt in all the Spanish regions in 2007. In all cases this decline was more pronounced in the second half of the year. Nevertheless, all the regions continued to get closer to the objectives of the European Economic Area and the National Reform Programme, albeit more slowly. Furthermore, certain indicators allow some hope for convergence in employment for 2001-2007, although the gaps that remain indicate even more pronounced regional imbalances. Convergence has been even greater for unemployment, with a general reduction in unemployment levels narrowing the gap between regions in this index.

In 2007, ten regions exceeded the objective set in the National Reform Programme for 2010, for an unemployment level of 66%;

another was only 0.1% below. Furthermore, in 2007, five of the above exceeded the 70% objective set for the European Economic Area, also for 2010: Catalonia, Navarre, Madrid, the Balearic Islands and Aragon. However, even in these better examples the gap between the levels of male and female employment emphasises the need to continue driving higher growth in employment for women and to reduce the higher level of female unemployment. Attention also needs to be paid to the levels of employment in people below 25 years of age, which are much lower than for middle-aged people; here the narrower gap between activity and unemployment would indicate that increasing workplace integration for the youngest group should be a priority for all the regions.

Autonomous community employment plans

The series of job creation actions carried out by the regions is broad and diverse, with the aim of addressing the needs of each region, and is based to a large degree on the plans agreed between the regional governments and the social partners working in the same field. Although the management and execution of these activities is largely the responsibility of the regions, in collaboration with local organisations, the different sources of financing (European, national and even private) require continuous efforts of coordination and cooperation between all parties concerned. In this respect, Law 56/2003 established the concept of an integrated employment policy, which, for the regions, includes decisions taken by both the regions and the state to improve the quality of employment, balance supply and demand in the employment market, and reduce unemployment.

In December 2007, RD 1722/2007 was approved for this purpose. Through this decree, the National Employment Scheme is formally set up in terms of its instruments and constituent parts, the main innovation being the creation of a ‘General Council of the National Employment Scheme’ as an advisory body for employment policy, comprised of representatives from the central administration, each autonomous region and city, and from management and union organisations. Among other functions, this council is charged with proposing procedures to ensure coordination and cooperation between the SPEE and the regional SPEs in their respective fields of competence with regard to employment, training and labour migration policies. Special attention needs to be paid to active employment policies, for which it is also necessary to get to know their work programmes as well as the studies and diagnostic analysis of the employment market conducted in each region.

Budget: operational expenses and source of funds

The total expenditure of the regions for job creation represented 2.8% of the total budget. Over half of this is the state's contribution for the management of active employment policies. In 2007, this amounted to 2,667.7 million euros, 4.7% higher than the budget figure for the previous year and 35.4% of the total state budget set aside for active employment policies. The allocation of these funds per programme reflects the fact that they are mainly intended for job creation programmes and for craft school workshops, work training centres and employment workshops (54.2%) and for occupational and continuous vocational training (41.5%).

The support of the European Social Fund (ESF) carries a relatively heavy weight when compared to regional expenditure on job creation policies, of which it represents around one quarter. Moreover, given the deficiencies and difficulties involved in evaluating the range of activities conducted in the field of employment, the availability of detailed information on activities jointly financed by the ESF (design, results achieved and contribution to the success of the objectives previously set, as well as the presence of defined systems of evaluation) facilitates an understanding of the effectiveness of the policies carried out and enables them to be redirected (if necessary) towards new employment market needs.

In this respect, the assessment of activities carried out in the 2000-2006 timeframe is very positive, highlighting both the suitability of the activities defined to address the deficiencies and weaknesses of each employment market as well as the progress made towards the achievement of the initial objectives that were set. Nonetheless, the assessments also demonstrated that there are challenges still outstanding and that there is a need to go more deeply into certain areas of activity. Among these the following stand out: help with gaps in qualification, support for groups with particular integration difficulties, adaptation of training to the requirements of the productive fabric and promotion of the business framework. These are all aspects which have already been noted as requiring greater efforts, and they represent key areas of activity for employment policies at all regional levels.

2. Social Dialogue and Labour Relations

Social dialogue in the EU

In 2007, European trade union and management organisations have engaged in more intensive autonomous, bipartite dialogue that contributed, through various policy instruments, to the objectives of employment, competition, social cohesion and sustainability in the EU.

The first point to be highlighted is the signature of a new bipartite agreement, the European Framework Agreement on Harassment and Violence at Work, with the aim of raising the level of awareness and understanding around this issue on the part of employers, employees and their representatives, and to set them in a framework focused on action to prevent, identify and deal with these problems.

Secondly, the organisations involved prepared and approved the document titled “The major challenges for European employment markets: a joint analysis by the European social partners”. In this document they made a diagnosis of the situation in European employment markets, identified the main challenges and prepared a series of action plans. Faced with the next cycle in European strategy for growth and employment, management and workers’ organisations at the European level are using this shared analysis in order to adopt joint recommendations aimed at European and national institutions to define priorities to be included within the scope of employment activities and to negotiate an autonomous framework agreement, whether on the integration of disadvantaged groups into the labour market or on lifelong learning.

Furthermore, the European social partners expressed their views within the consultation process in relation to policies such as the reconciliation of work and family life. They also set out their positions in relation to the debate on the Green Paper presented by the Commission in 2006 on the modernisation of employment legislation.

Social dialogue in Spain

The social dialogue process that was applied during the legislative period that ended in 2007 comprised a phase that was marked by a new system, through prior agreement on the material scope of this dialogue within an agenda or programme. This dialogue extended to several economic, social and employment areas, grouped into three blocks or thematic areas relating to a strategic objective, and based upon a shared diagnosis between the government and the social partners.

The most immediate result of this dialogue phase was the signing of a wide range of agreements of varying levels of importance. These agreements have mainly been embodied in new regulatory instruments, laws and regulations, so the dialogue in this phase has had a profound effect on current social parliamentary legislation and the exercise of regulatory authority by the government.

One of the main axes of this social dialogue has been an improvement in the way the job market operates, seeking to maintain and improve job creation, enable open-ended employment contracts and reduce temporary working, so as to improve integration of women and young people into the workplace, as well as groups having difficulty finding work.

In the above context, an important objective has been to improve the regulatory instruments concerning migratory labour flows, strengthening the connection between the employment market and immigrant workplace integration. Although an improvement in the drafting and application of legal procedures for regulating immigrant employment has been accomplished, it will still be necessary to strengthen the connection between the latter and the raft of immigration policy instruments with the objectives and priorities of general employment policy and the characteristics of the productive system.

In terms of the employment market, one of the objectives has been to improve the efficiency of active employment policies and public services. The need to continue making a greater effort for their efficient application and better operation should be highlighted, in the context of appropriate coordination of the various public administration departments involved, given that there are still outstanding issues in the AMCE regulations which this embodies.

The recent regulatory implementation of the Employment Law through Royal Decree 1722/2007 of 21st December, which deals with organs of the National Employment Scheme and implements, among other things, the coordination functions of employment policies, as well as driving collaboration and co-operation between the public employment services of the state and the regions. It is to be hoped that this leads to increased transparency in the operation of the employment market and the free movement of workers for reasons of employment and training.

Together with the objective of modernising active employment policies, this phase of the social dialogue has also had an effect on improving unemployment protection for certain groups of workers.

The more general objectives for improving the way the employment market operates have led to an emphasis on the reassessment and reinforcement of employment institutions. Essentially, these are the ITSS (*Inspección de Trabajo y Seguridad Social* - Labour and Social Security Inspectorate), the National Consultative Committee for Collective Bargaining and the National Committee for Health and Safety at Work. With regard to the ITSS, it is necessary to continue strengthening it and improving the allocation of funds, in line with the objectives and commitments made.

Looking to the future, there is agreement on the need to act —and not only at the regulatory level— and to put the emphasis on strengthening instruments for the regulatory implementation and operational control of the employment market and the efficiency of active employment policies, the role of public employment services, actions under the ITSS or the functioning of the regulatory procedures for employment immigration, all this in relation to the objectives and priorities in terms of employment and the employment market.

The prevention of occupational hazards, improvement in the instruments and policies in this area, the raising of health and safety levels in the workplace and the battle to reduce job-related accident rates have all been the subject of continued social dialogue structured under the auspices of the social dialogue steering committee, and particularly for the prevention of occupational hazards. It is to be hoped that the incorporation of new instruments to improve prevention, combined with the application of measures and action plans in various areas and at different levels, will lead to a general improvement in risk prevention in companies and positive effects on health and safety in the workplace.

Another key axis of the social dialogue has been the strengthening of systems for social protection. On one hand, to improve the suitability and sustainability of the pensions system through the introduction of a series of amendments to the regulation of the main provisions at the contributory level, and on the other the revaluation of minimum pensions above the average. It is necessary to put the emphasis on evaluating the implementation of this system through effective monitoring and control of the services and provisions.

Considerable bipartite dialogue has also taken place between the most representative managerial and union organisations to strengthen the role of joint negotiation and enhance the content of collective bargaining, as well as its adaptation to the new reality and changing regulations. In recent years, the interconfederal agreements for collective bargaining have contributed to maintaining economic and employment growth and to moderate growth in the number of people working, together with the renewal of negotiation content. However, the legal framework for collective bargaining has not been formally addressed. With regard to the rationalisation of its structure, since 2005 Collective Bargaining Agreements have included a recommendation to the joint negotiators that in their areas —and respecting the autonomy of the parties— they should study the collective bargaining structure of the particular sector as well as structure issues across sectors to enable better application and efficiency in what has been agreed.

In industry, progress has been made in the creation and implementation of sector monitoring, which has enabled an outline diagnosis and formulation of proposals to bring solutions to the specific challenges of each sector and the whole productive fabric. It is considered that its work provides a suitable basis for drawing up a strategy geared to strengthening the productive and employment fabric. Nevertheless, there has not been any progress in relation to the broader and more horizontal objectives of general industrial, environmental and technological policy development. These policies are closely connected with the ultimate objective of refocusing the productive model.

This general outlook concludes with the dialogue in the area of Public Administration between the government and the most representative Civil Service union organisations. The most immediate results are a number of agreements on issues related to the modernisation of the Administration and improvements to public services, culminating in the signature of the agreement on the basic statute draft for public service employees.

Lastly, the most recent result of the final phase of the social dialogue took place on the subject of Corporate Social Responsibility (CSR) with the signature of a tripartite agreement on this subject in December 2007, the first agreement of its type in the country.

The results of this whole process require a significant effort for the implementation and effective application of what has been agreed, whilst the original strategic objectives need to place emphasis in the future on the implementation of the actions committed to by the various parties, social partners and public administration departments. These objectives also need to steer discussion and debate towards the elements that make up the productive model and the range of national economic and fiscal policies, with a more across-the-board focus.

In any event, the overall results of this phase have consolidated social dialogue as a tool of strategic value with which to address economic and social challenges. It will continue to be a key factor in contributing to economic growth and to improving the operation of the labour market and the social welfare system, especially in a new context characterised by deceleration in its growth.

Collective bargaining

In February, the CCOO and UGT union organisations and the CEOE and CEPYME employers’ federations signed the ANC 2007 (*Acuerdo Interconfederal para la Negociación Colectiva*-Interconfederal Agreement for Collective Bargaining), later extended for negotiation in 2008, which maintained a line of continuity with previous agreements. However, it incorporated a series of key innovations in the area of employment, training, flexibility and security, as well as the right to information and consultation and in its attention to employment of the disabled and the treatment of health and safety at work. Essentially, these innovations were a result of agreements reached by the social partners and the government in the context of social dialogue.

In recent years, collective bargaining has followed a path of moderate salary increases in terms of negotiation on salary and working hours. This is largely based on the recommendations set out in successive ANCs as well as a constant reduction in the agreed number of working hours; 2007 was no exception.

Agreed working hours were reduced by 2.9 hours in 2007, in line with previous years, in which there was an almost continuous reduction in all areas of negotiation, ending up at 1,747.4 hours per annum, equivalent to 38.2 working hours per week.

As for remuneration, the 2007 agreements initially indicated an average wage/salary increase of 3%, which was raised to 4.1% through the application of salary review clauses. There were safeguard clauses in half of the agreements, affecting 68.8% of workers covered by collective bargaining, which were effectively applied by a majority percentage. However, the analysis of salary increases reviewed (per band) shows that almost 40% of workers covered by agreements received salary increases of less than 4% and, therefore, less than the CPI increase recorded in December. Nevertheless, taking the CPI annual average increase of 2.8% as a benchmark, the reduction in spending power would have affected only 22% of workers covered.

The highest salary increases agreed by sector, reviewed in 2007, were in construction, which experienced a very significant acceleration, followed by agriculture, industry and services. Of the production sectors with the highest numbers of employees, above average salary increases were only awarded in the industrial sectors and in wholesale commerce and ground transportation, whereas other service sectors recorded lower than average increases.

In 2007, opt-out clauses were included in half of the agreements at higher levels of companies, affecting two-thirds of workers covered by collective bargaining, although no information is available on the number of companies that in fact applied this opt-out mechanism. As in previous years, regulations concerning these clauses focused on causal and procedural guarantees for handling salary differentials in companies with financial difficulties. In many instances, time limits were set for such exceptions, underlying their provisional nature through the reinstatement of pay increase awards, agreed for the sector as a whole, once the company's financial difficulties were overcome.

Salary agreements, purchasing power and employment

The salary agreement framework that has been applied from 2002 until 2007 for moderate salary increases based on the application of review clauses, in the context of a joint, long-term strategy with the social partners, has helped to create jobs as well as reduce inflation. However, this has been done without diminishing employees' purchasing power while average salary increase agreements have been above inflation practically every year, measured against the variation in the CPI.

Nevertheless, the growth path in wages/salaries negotiated since 2002 seems to have become separated to some degree from the trajectory of average wages/salaries, which have been affected by significant changes in the make-up of employment linked to the Spanish economic growth model. Since 2002, the annual salary shift or drift[1] has been negative every year, which also implies a less favourable trend in average effective wages/salaries in terms of purchasing power.

For the entire period 2002-2006, average remuneration by employee in the economy has increased by 13.1% in nominal terms, which, discounting the CPI increase (13.5%) means a reduction of 4%.

The data broken down by sector indicates that the "sector composition effect of employment" has negatively and very markedly affected the performance of average pay levels in the economy. It has, therefore, also affected the aggregate drift in wages/salaries, since two-thirds of the 1.9 million net jobs created in these four years have been concentrated in business sectors that show a lower than average pay level per employee: construction, domestic service, shops and repairs, hotel and catering, other social activities and community services, transport and communications and agriculture. Moreover, excluding construction and commerce, the 'salary effect' of these sectors has also been negative, because average pay per

[1] Difference between the increase in effective wage/salary, estimated by the average per employee remuneration supplied by National Accounts, and the agreed salary increase including review clauses.

employee has either reduced, quite significantly at that, as in domestic service and hotel and catering, or has grown by less than the average, as in other social activities and community services, transport and communications and agriculture.

The concentration of new jobs in businesses and occupations with relatively low salary levels and qualification requirements, and with a high proportion of temporary employment, where the presence of women, young people and immigrants has been significant, explains to a large degree the downward drift over recent years. This countercurrent trend in drift gives cause to envisage a change in its direction in the coming years, if the forecast deceleration in economic activity is translated into an adjustment in employment concentrated in groups of temporary workers and/or those with fewer qualifications, less experience and time in employment, i.e. those who receive lower pay.

Recent developments in other negotiation content

The content of collective bargaining has been steadily broadened and enhanced in recent years. In 2007, collective bargaining developed in a context characterised by the recent regulatory changes emanating from the social dialogue, innovations that widen calls for collective bargaining on subjects such as equal treatment and opportunity and the use of temporary labour. Other areas such as health and safety at work and complementary social security are also being presented in a sample of collective agreements for 2007.

Equal treatment and opportunity between women and men, an issue that has been part of the dialogue between the social partners in recent years, has gained particular significance in collective bargaining in 2007, with Organic Law 3/2007 of 22nd March coming into force. From an analysis of 2007 agreements, one can gather that in general terms there has been continuity in the handling of different aspects. However, steady improvement is observed in the content of agreements signed in the final months of the year and, above all, some agreements that more closely mirror the provisions of the Law with regard to negotiation on strategies of equality, among other issues.

Furthermore, promotion of stable employment through collective bargaining has been a consistent factor in successive ANCs since 2002. The number of clauses of collective agreements aimed at promoting stability in the workplace and regulating the use of temporary and limited duration employment has remained at a similar level to that of recent years, with the trend being slightly upward. In 2007, although based on provisional data, there has been a slight increase in the instance of this type of clause, more accentuated in clauses that provide for conversion from temporary to open-ended employment. At the national level, some agreements contain detailed regulations on temporary and limited duration employment, aimed at promoting stable employment conditions. Some also include the use of temporary contracting procedures that take its causal nature into account, extending these assumptions to the whole of the national sector on the basis of an interpretation of collective bargaining based on the national agreement reserved for such matters. Likewise, the new provisions of article 15.5 of the Statute of Workers' Rights relating to the chaining of temporary contracts that emanated from the AMCE and were introduced by Law 43/2006 (improvement in growth and employment) have been initially reflected in collective bargaining in 2007.

In respect of health and safety at work, the most representative union and management organisations have set out the criteria for collective bargaining on this subject in successive ANCs, with significant innovations in the 2007 ANC and, particularly, in its extension clauses. There is an increasing tendency to include clauses on health and safety at work in collective agreements. However, a large number of the agreements that were studied continued to reproduce the content of the LRPL (*Ley de Prevención de Riesgos Laborales* - Law on Prevention of Accidents in the Workplace) and mere references to it, or invoke general principles without spelling out ways of implementing such principles.

Some of the collective agreements analysed contain detailed references to plans for risk assessment and prevention, although relatively few of them devote specific attention to aspects such as protection and training.

Similarly, collective bargaining has increasingly come to include a broader treatment of complementary social security clauses, more accentuated in negotiation at corporate level, from successive ANCs. The provisional data for 2006 and 2007 reflects, in general terms, the consolidation of these clauses into collective bargaining. The setting up of pension plans in collective agreements has gradually increased in recent years, above all in company agreements, and this helps an increasingly greater number of workers. Nevertheless, it is accepted that the conventional development of pension plans is still at a relatively low level, and that there is a long way to go before these complementary social security measures become widespread.

Industrial conflict

Industrial conflict in the form of strikes has continued a significant and progressive downward trend in recent decades. This is measured in terms of conflicts, the number of people taking part and working days lost, with appreciably fewer than 800 strikes per year since 1997. The model in 2007 was similar, although a rise in the impact on the number of working days lost was recorded, albeit based on provisional data. In 2007, 690 workers took part in strikes and 1,636 working days were lost through disputes, with 2.4 days lost by each person taking part. In the major industrial sectors, judging by their economic impact in terms of days not worked, the majority of strikes affected the service sector, at 34%. However, the number of strikes in the construction sector stands out, representing almost one-third of all days lost. This was the case for the second year running and very much above the number recorded in 2006.

In 2007 there was a decrease, for the second year running, in the number of disputes processed by the SIMA (*Servicio Interconfederal de Mediación y Arbitraje* - Interconfederal Service for Mediation and Arbitration), although not in the number of workers affected by them, which was over 1.2 million. These figures were basically due to a reduction in the types of disputes it mainly deals with, i.e. those to do with the interpretation or application of a national standard or collective agreement. For this reason, in its ten years of operation the number of disputes processed by this organisation has grown from about a hundred to more than two hundred per year, with a growing number of companies and workers affected. This makes it an organisation that in nearly all cases is the channel for the extrajudicial resolution of collective labour disputes within its sphere of activity.

For its part, industrial conflicts processed through extrajudicial resolution organisations set up in the regions have also shown a growth trend over these years. The workload of these organisations has quadrupled in ten years. Last year they handled more than 4,000 industrial disputes affecting almost 2.9 million workers and over 229,000 companies.

In contrast, conciliation and mediation through administrative channels continued to decrease quite markedly, for a further year. Collective conciliation reduced by 20%, whilst mediation also recorded its lowest figure in ten years.

Lastly, matters resolved by jurisdictional organisations of a social nature showed hardly any significant variation compared to previous years, within the total number of issues resolved. This was apart from industrial legal actions, which again recorded a very significant increase in 2007, of more than 25%, compounding the growing trend in this area over recent years.

New standards in employment and labour relations

One of the main legislative innovations in this area was achieved by the approval of the EBEP (*Estatuto Básico del Empleado Público*-Basic Statute for Public Employees) through Law 7/2007, of 12th April, in whose application social dialogue in the area of Public Administration played a significant part. This standard has given full coverage to the bases of the statutory system for civil servants, revising and systemising the previous standard, for the regulation of the provision of services to all public employees. This is one of the fundamental tools in helping to modernise the Administration and position it better to fulfil its constitutional function of serving general interests objectively and ensuring quality public services for citizens.

Law 20/2007 of 11th July, through which the Statute for Self-Employment comes into effect, is also another significant innovation, since it represents, for the first time, a single legal statute for self-employment, fully detailing the main elements that make up this important form of employment and provision of services. It covers everything from the definition of self-employment to the tools for promoting and encouraging self-employment, including a list of the individual and collective rights and duties of self-employed workers, representation and institutional consultation for self-employed associations, the setting up and application of social security cover for this group of people and providing an impetus for health and safety at work.

Other significant new regulations for the year in the area of industrial relations and employment were modifications introduced in the Workers' Statute regarding information and consultation rights (through Law 38/2007 of 16th November) and regulations on employment integration for companies (through Law 44/2007 of 13th December). Reference should also be made to the reforms of the Statutes of Autonomy for Valencia, Catalonia, the Balearics, Andalusia, Aragon and Castile and Leon in 2006 and 2007. These include innovations in a number of areas, among them social and occupational. Some of these new statutes (Catalonia, Andalusia and Aragon) grant the regional administration executive powers for the functioning of the public inspectorate for employment and labour relations within their region. Another prominent innovation is in the area of immigration, with some statutes (Catalonia and Andalusia) assuming executive powers for the first time in granting initial work permits to foreigners who work in their territories.

Occupational risk prevention

In 2007, the Spanish Strategy for Health and Safety at Work was approved, developed under the auspices of the social dialogue with the consensus of the most representative managerial and trade union organisations. The strategy sets out the general framework of occupational risk prevention policies for the 2007-2012 timescale. It flags, as strategic objectives, a 25% reduction in the accident rate over the next five years, with the intention that Spain should move closer to the average EU figures, as well as continuous and progressive improvement in the levels of health and safety in the workplace.

Other instruments and initiatives that saw the light of day in 2007 were in the area of sanctions, with the approval of Royal Decree 597/2007 of 4th May, which published the penalties for very serious violations in occupational risk prevention. It also strengthened interdepartmental co-operation on investigations into offences against the lives, health and physical integrity of employees, as well as specific Social Security measures related to health and safety at work, introduced by Law 40/2007, among others.

In November 2007, the sixth National Survey of Working Conditions was published, conducted by the National Institute for Health and Safety at Work. Its aim is to reflect employment conditions and elements of the working environment that affect the health and safety of workers, the potential risks and the level of exposure to them, as well as to assess the preventative activities of companies. The sixth survey includes specific changes to the system that enable details of workplace safety conditions to be gathered from more groups of workers but, at the same time, make it difficult to compare the data with that of previous surveys. The results of the survey reflect the steady improvement in specific issues related to preventative activity on the part of companies, although they point out other areas where there is room for improvement.

Among the positive data reflected by the survey is the steady increase in the implementation of internal prevention systems in recent years, 15.8% in 2007 compared with 5.3% in 1999; this percentage increases according to the size of the company. The survey also indicates improvements in the implementation of risk assessment and in preventative training. On the negative side, the results of the survey indicate that almost 30% of employees interviewed are unaware of the preventative measures available in their companies and that 13% say that such measures do not exist in their place of work.

Data from the survey seems to reveal greater compliance with the regulations on occupational risk prevention on the part of companies, as well as a reduction in the frequency with which workers are exposed to accident risks. The decrease in accident rates would also seem to confirm this. However, there are still certain areas, such as small and medium-sized companies and those in the construction industry in particular, where it is necessary to increase prevention efforts. The situation of workers with temporary contracts also deserves special attention, in view of the study's findings.

In 2007, there was a further decrease in the workplace accident rate index, despite high numbers of accidents still occurring. The number of accidents incurring leave of absence remained practically the same as the previous year, with a total of 934,351 accidents. Furthermore, accidents not incurring sick leave increased by more than 69,000 whilst occupational illnesses decreased by about 4,700.

The index of the total number of workplace accidents recorded a 3.5% decrease. This new decrease, which was recorded across all sectors in 2007 with the exception of farming, continues a trend of gradual but continuous reduction. The reduction by 15.7% in the incidence of fatal accidents at work is striking, continuing the downward trend that began in 1998, with the sole exception of the upturn recorded in 2002. The rate of reduction in serious accidents, although following a similar decreasing trend, cannot be considered satisfactory in view of the data for 2007, which showed stagnation following the downward trend that started in 1999 and which appeared to have been consolidated.

The pattern of recent years was continued and no death from occupational illness was recorded. Furthermore, the number of occupational illnesses continued to go down, for the second successive year, specifically by 21.6% compared to 2006.

EMPLOYMENT INDICATORS IN SPAIN AND THE EU-27, 2006-2007

(Percentages)

Indicators[1]	Spain		EU-27		EU-27 average 3 best		Difference Spain EU-27		Difference Spain– average 3 best		Objectives 2010[2]		Difference in 2007 against 2010 objectives	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	Spain	UE	Spain	UE
Employment														
Employment rate	64.8	65.6	64.5	65.4	73.0	75.8	0.3	0.2	–8.2	–10.2	66.0	70.0	–0.4	–4.6
Female employment rate	53.2	54.7	57.3	58.3	68.6	71.5	–4.1	–3.6	–15.4	–16.8	57.0	60.0	–2.3	–1.7
Employment rate for over 55s	44.1	44.6	43.5	44.7	58.9	62.9	0.6	–0.1	–14.8	–18.3	–	50.0	–	–5.3
Unemployment														
Unemployment rate (% of work force)	8.5	8.3	8.2	7.1	4.1	3.6	0.3	1.2	4.4	4.7	–	–	–	–
Female unemployment rate (% of female workforce)	11.6	10.9	8.9	7.8	4.3	3.9	2.7	3.1	7.3	7.0	–	–	–	–
Youth unemployment rate (% of work force 15– 24 years)	17.9	18.2	17.3	15.5	7.6	7.3	0.6	2.7	10.3	10.9	18.6	–	–0.4	–
Youth unemployment rate (% of population 15–24 years)	8.6	8.7	7.6	6.8	3.7	3.2	1.0	1.9	4.9	5.5	–	–	–	–
Long-term unemployment (% of total unemployed)	21.7	20.4	46.0	42.8	20.6	16.2	–24.3	–22.4	1.1	4.2	–	–	–	–
Real growth in GDP	3.9	3.5	3.1	2.9	10.6	9.8	0.8	0.6	–6.7	–6.3	3.0	3.0	0.5	–0.1

1) The objectives for Spain in 2010 are those of the National Reform Programme 2005, and for EU-25 the objectives set at the Lisbon Summit in 2004.
Source: In-house data plus Eurostat: *Labour Force Survey,* and annual data on real growth in GDP at constant prices (2000).

EMPLOYMENT RATES BY GENDER, NATIONALITY AND AGE, 2005-2007

(Percentages of currently employed within total population in each case, annual averages. Annual variation in percentage points)

Nationality	Gender and age											
	Male						Women					
	Total	16-24	25-34	35-44	45-54	55+	Total	16-24	25-34	35-44	45-54	55+
Total												
2005	53.5	47.7	85.2	89.5	86.1	27.0	34.7	35.8	67.8	62.0	52.9	10.7
2006	54.3	48.6	86.1	89.8	86.9	27.5	36.1	37.7	69.5	64.5	55.4	11.2
2007	54.3	48.5	86.5	89.8	86.3	27.4	37.1	37.0	71.3	66.2	58.0	11.8
var 05-06	*0.7*	*0.9*	*0.9*	*0.3*	*0.8*	*0.6*	*1.4*	*1.9*	*1.7*	*2.5*	*2.5*	*0.6*
var 06-07	*0.1*	*0.0*	*0.4*	*0.0*	*–0.6*	*–0.1*	*1.0*	*–0.7*	*1.8*	*1.7*	*2.6*	*0.5*
Spanish												
2005	52.1	45.9	84.9	89.8	86.5	26.8	33.2	34.8	68.5	61.3	51.7	10.4
2006	52.6	46.8	85.7	90.2	87.2	27.3	34.3	36.0	70.7	63.7	54.5	10.9
2007	52.7	47.3	86.6	90.5	86.9	27.1	35.3	35.9	72.9	66.0	57.4	11.5
var 05-06	*0.5*	*0.9*	*0.8*	*0.4*	*0.7*	*0.5*	*1.1*	*1.2*	*2.2*	*2.4*	*2.7*	*0.5*
var 06-07	*0.1*	*0.5*	*0.9*	*0.2*	*–0.3*	*–0.2*	*1.0*	*–0.1*	*2.2*	*2.2*	*2.9*	*0.5*
Foreign												
2005	69.9	61.5	86.9	87.2	80.9	30.2	51.9	43.1	63.9	67.0	67.1	18.4
2006	70.4	61.3	87.6	86.9	83.4	33.1	52.7	47.7	63.9	69.4	64.7	20.8
2007	68.6	57.1	86.0	86.0	80.0	33.2	51.6	42.2	65.4	67.3	63.8	20.4
var. 05-06	*0.5*	*–0.2*	*0.7*	*–0.3*	*2.5*	*2.9*	*0.8*	*4.6*	*0.0*	*2.4*	*–2.3*	*2.4*
var. 06-07	*–1.8*	*–4.2*	*–1.5*	*–0.9*	*–3.4*	*0.1*	*–1.1*	*–5.5*	*1.5*	*–2.1*	*–0.9*	*–0.4*

Source: INE, *Encuesta de Población Activa (Labour Force Survey)* [http://www.ine.es/inebmenu/mnu_mercalab.htm].

UNEMPLOYMENT RATES BY GENDER, NATIONALITY AND AGE, 2005-2007

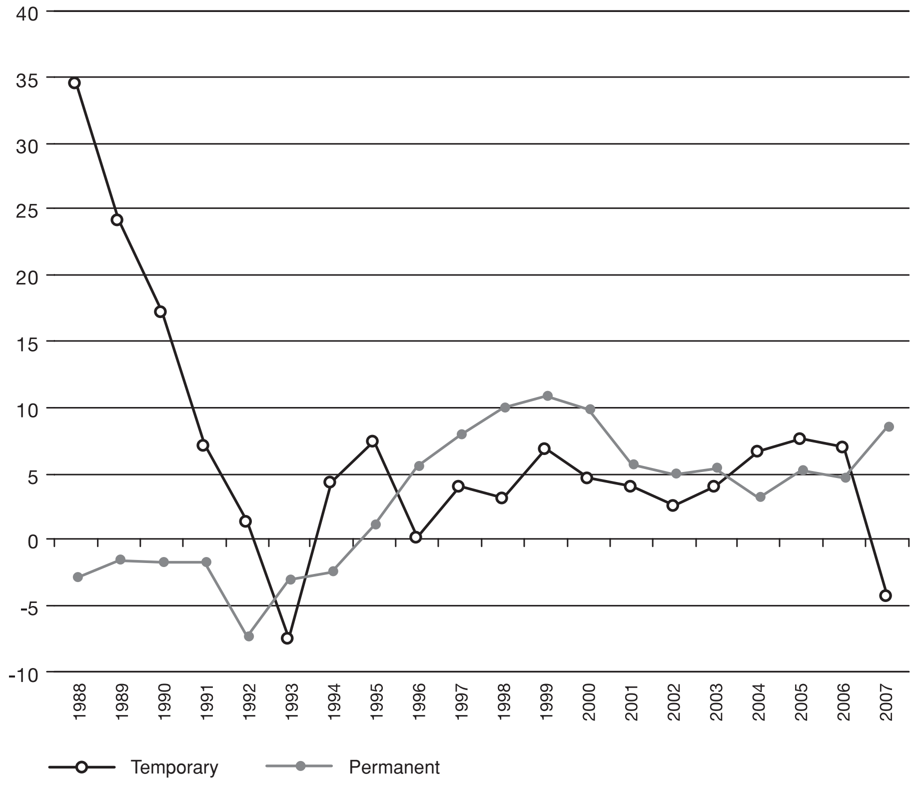
(Percentages of unemployed within total labour force in each case. Annual averages and variation in percentage points)

Nationality	Gender and age											
	Male						Women					
	Total	16-24	25-34	35-44	45-54	55+	Total	16-24	25-34	35-44	45-54	55+
Total												
2005	7.0	16.7	7.6	5.1	4.6	5.2	12.2	23.5	12.2	10.6	8.9	7.2
2006	6.3	15.0	6.9	4.8	4.0	4.6	11.6	21.6	11.9	10.1	8.8	7.1
2007	6.4	15.2	6.6	4.8	4.6	4.6	10.9	21.9	10.5	9.5	8.6	7.4
var 05-06	*–0.7*	*–1.7*	*–0.7*	*–0.3*	*–0.6*	*–0.6*	*–0.6*	*–1.8*	*–0.3*	*–0.6*	*–0.1*	*–0.2*
var 06-07	*0.1*	*0.3*	*–0.3*	*0.0*	*0.7*	*0.0*	*–0.7*	*0.3*	*–1.4*	*–0.6*	*–0.2*	*0.3*
Spanish												
2005	6.8	16.7	7.5	4.7	4.3	5.1	11.9	23.5	12.0	10.4	8.8	7.0
2006	5.9	15.1	6.6	4.2	3.6	4.3	11.0	21.8	11.1	9.7	8.5	6.8
2007	5.7	14.7	6.0	4.0	4.0	4.2	10.2	21.4	9.8	8.8	8.3	7.0
var 05-06	*–0.9*	*–1.7*	*–0.9*	*–0.5*	*–0.7*	*–0.8*	*–0.9*	*–1.7*	*–0.9*	*–0.7*	*–0.3*	*–0.2*
var 06-07	*–0.2*	*–0.3*	*–0.6*	*–0.2*	*0.4*	*–0.1*	*–0.8*	*–0.3*	*–1.2*	*–0.9*	*–0.2*	*0.2*
Foreign												
2005	9.5	16.8	8.2	7.8	8.2	9.9	14.0	23.5	13.8	11.9	9.5	11.2
2006	9.3	14.6	8.5	8.3	8.0	11.9	14.9	20.8	15.8	12.2	11.7	11.2
2007	10.4	17.7	8.8	9.0	11.0	13.8	14.4	24.2	13.0	13.0	10.9	13.3
var. 05-06	*–0.2*	*–2.2*	*0.2*	*0.4*	*–0.2*	*2.0*	*0.9*	*–2.7*	*2.1*	*0.4*	*2.2*	*0.0*
var. 06-07	*1.1*	*3.2*	*0.3*	*0.8*	*3.0*	*1.9*	*–0.5*	*3.4*	*–2.9*	*0.7*	*–0.8*	*2.1*

Source: INE, *Encuesta de Población Activa (Labour Force Survey)* [http://www.ine.es/inebmenu/mnu_mercalab.htm].

EVOLUTION OF SALARIED EMPLOYMENT IN THE PRIVATE SECTOR BY TYPE OF CONTRACT, 1988-2007

(Percentages of variation on previous year, annual averages)



Source: INE, *Encuesta de Población Activa (Labour Force Survey).* [http://www.ine.es/inebmenu/mnu_mercalab.htm].

CONTRACTS BY TYPE IN 2007

Contract type	2007		Variations					
			Monthly (Nov.)		Year-on-year (Dec. 06)		Annual	
Permanent	Dec.	Accumulated	Absolute	Relative	Absolute	Relative	Absolute	Relative
Standard contracts	59,798	989,589	–29,758	–33.2	12,029	25.2	334,389	51.0
Job-creation contracts	17,703	315,489	–9,131	–34.0	–11,122	–38.6	–35,274	–10.1
Conversion	56,291	902,210	–16,237	–22.4	–101,346	–64.3	–247,275	–21.5
Temporary	1,127,835	16,419,516	–275,576	–19.6	–24,440	–2.1	43,238	0.3
Total	**1,261,627**	**18,626,804**	**–330,702**	**–20.8**	**–124,879**	**–9.0**	**95,078**	**0.5**

Source : SPEE.

EXPENDITURE ON EMPLOYMENT POLICIES BY TYPE OF ACTION IN SPAIN AND THE EU, 2006

Expenditure categories	Spain		EU-15		EU-27	
	Mn euros	Percentage of total	Mn euros	Percentage of total	Mn euros	Percentage of total
1. Labour market services	931.7	4.4	24,382.9	11.2	25,066,1	11.2
2. Training	1,424.3	6.7	23,958.7	11.0	24,390.6	10.9
3. Job turnover and distribution	71.5	0.3	401.7	0.2	401.7	0.2
4. Job incentives	3,097.4	14.6	14,039.9	6.4	14,384.0	6.4
5. Integration of disabled persons	208.0	1.0	6,737.4	3.1	7,238.8	3.2
6. Direct job creation	601.3	2.8	8,123.5	3.7	8,406.5	3.8
7. Company start-up incentives	770.7	3.6	4,451.6	2.0	4,589.1	2.1
Total effective measures (1-7)	*7,104.7*	*33.6*	*82,095.7*	*37.7*	*84,476.8*	*37.8*
8. Maintenance of income and support excluding labour market	13,683.5	64.7	127,161.3	58.4	129,023.6	57.8
9. Early retirement	376.4	1.8	8,497.5	3.9	9,829.5	4.4
Total effective measures (8-9)	*14,060.0*	*66.4*	*135,658.8*	*62.3*	*138,853.1*	*62.2*
Total	**21,164.6**	**100.0**	**217,754.5**	**100.0**	**223,329.9**	**100.0**

Source: Eurostat, *Labour Market Policy. Expenditure and Participants. Figures for 2006, 2008.*

RELATIVE EMPLOYMENT POSITION OF THE AUTONOMOUS COMMUNITIES, 2007

Employment rate 16 – 64 years Men and women		Total growth 2001-2007 ESP = 7.9 p		
		Below ESP (< 7.5 p)	**Around ESP (7.5 – 8.5 p)**	**Above ESP (> 8.5 p)**
Rate in 2007 ESP = 66.6%	**>70**	Balearic Is. Catalonia Navarre		Aragon Madrid
	65-70	Comunidad Valenciana	Murcia La Rioja Galicia Castilla La Mancha Basque Country	Cantabria Castilla y León
	60-65	Canary Is.		Asturias
	<60		Extremadura	Andalusia

Employment rate 16 – 64 years Women		Total growth 2001-2007 ESP = 11.6 p		
		Below ESP (< 11.0 p)	**Around ESP (11.0 – 12.0 pp)**	**Above ESP (> 12.0 pp)**
Rate in 2007 ESP = 55.5%	**>60**	Balearic Is. Navarre Catalonia		Aragon Madrid
	55-60	Comunidad Valenciana Galicia	Basque Country La Rioja	Cantabria
	50-55	Canary Is.		Asturias Castilla and León Murcia
	<50			Andalusia Castilla La Mancha

Employment rate < 25 years Men and women		Total growth 2001-2007 ESP = 6.1 p		
		Below ESP (< 5.5 p)	**Around ESP (5.5 – 6.5 p)**	**Above ESP (> 6.5 p)**
Rate in 2007 ESP = 42.9%	**>45**	Balearic Is. Catalonia Comunidad Valenciana Murcia		Castilla La Mancha
	40-45	Aragon Navarre La Rioja		Andalusia Madrid
	35-40	Canary Is. Basque Country		Cantabria Castilla and León Galicia
	<35	Extremadura		Asturias

RELATIVE EMPLOYMENT POSITION OF THE AUTONOMOUS COMMUNITIES, 2007

Employment rate 55 – 64 years Men and women		Total growth 2001-2007 ESP = 5.4 p		
		Below ESP (< 5.0 p)	**Around ESP (5.0 – 6.0 p)**	**Above ESP (> 6.0 p)**
Rate in 2007 ESP = 44,6%	**>50**		Balearic Is.	Catalonia
	45-50	Madrid La Rioja		Aragon Navarre
	40-45	Canary Is. Castilla and León Galicia Murcia	Cantabria Castilla La Mancha Comunidad Valenciana	Basque Country
	<40	Asturias	Andalusia	Extremadura

Source: INE, Encuesta de Población Activa *(Labour Force Survey)* [http://www.ine.es/inebmenu/mnu_mercalab.htm].

BALANCE OF SOCIAL DIALOGUE 2004-2007

Declaration for Social Dialogue 2004	Agreements and key consulting processes	Resulting legislation
Labour Market To come to a consensus over legal and other changes, seeking commitments which would harmonise job security for workers with flexibility for companies.	Agreement for Improving Growth and Employment (government, CC.OO, UGT, CEOE and CEPYME, May 2006). Consultation over the Self-Employed Workers' Statute Bill.	Law 43/2006, of 29th Dec., on improving growth and employment. Law 20/2007, of 11th July, of the Self-Employment Statute.
Employment for groups with difficulties To actively promote actions directed at stimulating employment for young people, older workers, those with disability, and other groups with greater difficulties for entry to the labour market. To seek, on a joint basis, solutions which will promote job integration for women and improve their working conditions, as well as reconciling family and working life, always in line with the principle of equality and non-discrimination.	Agreement to Improve Growth and Employment (Government, CC.OO., UGT, CEOE and CEPYME, May 2006). Consultation over the Bill on Insertion companies. Labour and Social Security aspects of the Bill for the Constitutional Law on equality between women and men (Government, CC.OO. and UGT, March 2006).	Law 43/2006, of 29 Dec., to improve growth and employment. Law 44/2007, of 13 Dec., to regulate start-up firms. Constitutional law 3/2007, of 22 March, for effective equality between women and men.
Job Immigration Specific dialogue for setting up the "Ley de Extranjería" (sic.) (Immigration Law).	Development and enforcement of labour-related aspects of the Constitutional Law on rights and freedoms of foreigners in Spain (Government, CC.OO, UGT, CEOE and CEPYME, 2004).	Royal Decree 2393/2004, of 30 Dec.
On-going training To analyse jointly the necessary adaptations of the current model of worker training with the aim of encouraging on-going training throughout working life.	Agreement on Vocational Training for Employment (Government, CC.OO., UGT, CEOE and CEPYME, Feb 2006). 4th National Training Agreement (CC.OO., UGT, CEOE and CEPYME, February 2006).	Royal decree 395/2007 of 23 March, which regulates the vocational training subsystem for employment.
Effective policies and role of public employment agencies To analyse what the design of effective policies should be and the role of public employment centres, in order to ensure effective functioning, as well as adequate protection against the job shortage: benefits and effective policies. To ensure adequate cooperation and coordination between government offices and public and private organisations concerned.	Agreement for Growth and Employment (Government, CC.OO., UGT, CEOE and CEPYME, May 2006).	Law 43/2006 of 29 Dec. for improvement and growth in employment.
Revaluation of job-related institutions To improve the functioning and involvement of social partners; to tackle competences, the role and functioning of the National Consultative Committee on Collective Agreements, the National Committee on Health and Safety at Work, and the Labour and Social Security Inspectorate respectively.	Objectives and Needs Programme of the National Consultative Committee on the Collective Agreement for Improving Growth and Employment (Labour Inspection) (Government, CC.OO., UGT, CEOE and CEPYME, May 2006).	Law 43/2006 of 29 Dec. for improvement and growth in employment.

BALANCE OF SOCIAL DIALOGUE 2004-2007 *(cont.)*

Declaration for Social Dialogue 2004	Agreements and key consulting processes	Resulting legislation
Industrial and Environmental Policy		
To design industrial and environmental policies which favour higher-level technological investments, including measures which contribute to avoiding unjustified relocations or restructuring. To foster the involvement of social partners in cross-sectional policies and boost the analysis of industrial sectors through specific observatories To tackle commitments and consequences of the Kyoto Protocol for production and employment.	Not covered. Framework collaboration agreement to spur development and modernisation of industrial sectors (sector-based observatories) (Government, CC.OO., UGT, CEOE and CEPYME, April 2005). Institutionalisation of social dialogue on the effects on production and employment of compliance with the Kyoto Protocol (Government, CC.OO, UGT, CEOE and CEPYME, 2004).	Royal decree 202/2006 of 17 Feb. which regulates the composition and functioning of sector-based panels.
Minimum Wage		
To tackle the process of its future review over the coming years, the criteria for review of the IPREM, and the changes in substantive regulation of the minimum wage.	Increase in the amount of the minimum wage and rationalisation of its regulation (IPREM) (Government, CC.OO, UGT, CEOE and CEPYME, 2004).	Royal decree Law 3/2004 of 25 June, and Royal Decrees which lay down the minimum wage annually.
Rights to information, consultation and/or participation of workers' representatives.		
To analyse jointly the transposition of the Directive, which accompanies the European Limited Companies Statute. To jointly analyse the current legal handling of collective rights in the new business and social context, and the transposition of the Directive, through which a general framework is laid down regarding information and consultation of Workers in the European Union.	Consultation over the plan to transpose Directive 2001/1986, which completes the European Statute on Limited Companies as regards worker involvement. Consultation over the plan to transpose Directive 2002/14, which lays down a general framework regarding information and consultation for workers in the EU.	Law 31/2006, of 18 Oct., on involving workers in European limited companies and cooperatives. Law 38/2007 of 16 Nov., modifying the Workers Statute on information and consultation of workers and protection for salaried workers in cases of employer insolvency.
Prevention of occupational hazards	Foundation for the prevention of occupational hazards	
Drafting and application of effective policies directed at eliminating accidents at work and the enforcement of effective policies directed at eliminating accidents at work and promoting a culture of prevention amongst companies and workers. Rigorous compliance with regulations in force and pending enforcement. Involvement of social partners in the design, execution and monitoring of measures, within their spheres of responsibility.	Entitlement of regional expert civil servants. Monitoring compliance with health and safety at work regulations. High impact plan in regions (Autonomous Communities). Modification of Regulation on prevention services. Agreement on structure and functions of INSHT. New list of work-related diseases. New rates for accidents at work and occupational diseases. Spanish Strategy on Health and Safety at Work (2007-2012).	Royal Decree 604/2006 of 19 May, which modifies Royal Decree 39/1997 of 17 Jan., approving the Regulation on Prevention Services and Royal Decree 1627/1997 of 24 Oct., which lays down minimum provisions for health and safety on construction sites. Royal Decree 1299/2006 of 10 Nov., which approves the table of occupational diseases in the Social Security system and lays down criteria for notification and registration. Law 51/2007 of 26 Dec. on General State Budgets for 2008 (New rate for accidents at work and occupational illnesses).

BALANCE OF SOCIAL DIALOGUE 2004-2007 *(cont.)*

Declaration for Social Dialogue 2004	Agreements and key consulting processes	Resulting legislation
Collective bargaining		
Actions of social partners in developing a regulating capacity for collective bargaining and its coverage in the work setting, with public financial support on site for rationalising the collective bargaining structure or enriching the content of negotiation. Bipartite social dialogue to foster the ability of collective bargaining to adapt to company and production sector needs, and improve productivity in order to define mechanisms for structuring collective bargaining within its different spheres, in line with the principles of efficiency and transparency, and to affirm its central role not only in laying down working conditions but also in determining employment policies. To continue giving an impulse to out-of-court conflict resolution.	Restoration of power of agreements to lay down obligatory retirement clauses for consistent employment objectives (Government, CC.OO, UGT, CEOE and CEPYME, 2004). Agreement on new Regulation to extend collective agreements (Government, CC.OO, UGT, CEOE and CEPYME, 2004). 3rd Agreement on Out-of-Court conflict resolution (ASEC III) (CC.OO, UGT, CEOE and CEPYME, Dec. 2004). Tripartite Agreement for Out-of-Court conflict resolution (Government, CC.OO, UGT, CEOE and CEPYME, March 2005). Interconfederation Agreement for Collective Bargaining 2005 (ANC 2005) (CC.OO, UGT, CEOE and CEPYME, March 2005). Extension for 2006 of ANC 2005 (CC.OO, UGT, CEOE and CEPYME, Jan. 2006). Interconfederation Agreement for Collective Bargaining 2007 (ANC 2007) (CC.OO. UGT, CEOE and CEPYME, Feb. 2007). Extension for 2008 of ANC 2007 (CC.OO. UGT, CEOE and CEPYME, Dec. 2007).	Law 14/2005 of 1 July, on the clauses of the collective agreements referring to compliance with the regular retirement age. Royal decree 718/2005 of 20 June, approving the procedure for extending collective agreements.
Institutional involvement of the social partners		
To review the instruments of institutional involvement of trade unions and employers' organisations within the framework of their recognition as bodies with constitutional relevance.	Not covered.	
Social Security and social protection		
To tackle the reforms and improvement needed by the system, within the framework of development of the Toledo Pact, to prepare it for the socio-demographic challenges. To achieve a fairer, more solidarity-based and efficient social protection system which would continue to assist in the creation of employment, wealth and welfare.	'Revaluation of minimum pensions (Government, CC.OO., UGT, CEOE and CEPYME, 2004). Agreement on Protective Action in the area of situations of dependency (Government, CC.OO., UGT, CEOE and CEPYME, Dec. 2005). Agreement on Social Security measures (Government, CC.OO., UGT, CEOE and CEPYME, July 2006).	Law 39/2006 of 14 Dec., promoting personal autonomy and care for people in situations of dependence. Law 40/2007 of 4 Dec. on Social Security measures.

BALANCE OF SOCIAL DIALOGUE 2004-2007 *(cont.)*

Declaration for Social Dialogue 2004	Agreements and key consulting processes	Resulting legislation
Social Security and social protection To strengthen the systems of supplementary social provision, analyse the problems which hinder the development of systems specifically arising from collective bargaining, and provide incentive to these major instruments for saving and forecasting.	Extension of the deadline for adapting the pension plan monitoring committees and also for specific commitments to pensions linked to retirement, as well as the conditions for future out-sourcing.	Royal Decree 16/2005 of 30 Dec., modifying the transitional system for adaptation of the monitoring committees on contributory pension plans (...). EHA Order 3433/2006 of 2 Nov. on special technical conditions applicable to insurance policies and pension plans which cover specific commitments on retirement-linked pensions.
Monitoring and Assessment Committee Creation of a Monitoring and Assessment Committee in order to set priorities, a calendar and a working method to tackle the different affairs. Assessment of the measures adopted as a result of the dialogue.	Agreement which develops the bases for the functioning of concerted agreement and social dialogue (Monitoring Committee on Social Dialogue, March 2005) Declaration on Companies' social liability (Social Dialogue Monitoring Committee, March 2005)	
Cross-sectional issues	Agreement on Companies' Social Liability (Government, CC.OO., UGT, CEOE and CEPYME, Jan. 2008)	

Source: In house.

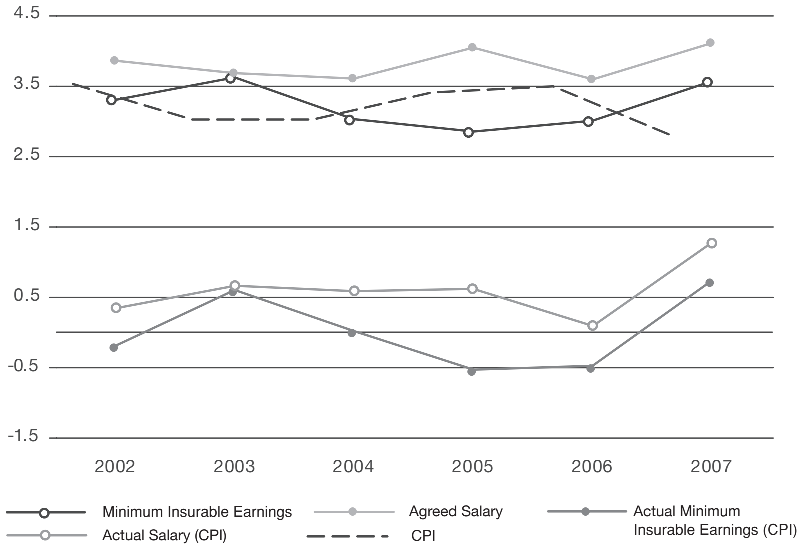
EVOLUTION OF SALARY INCREASES BY SECTORS, 2003-2007

	Total	Agriculture	Industry	Construction	Services
Initial	3.5	3.7	3.2	4.7	3.3
2003	3.0	3.7	2.9	3.4	2.9
2004	3.2	3.7	3.0	2.9	3.2
2005	3.3	3.9	3.3	3.0	3.3
2006*	3.3	3.9	3.3	3.0	3.3
2007*	3.0	3.4	3.0	3.6	2.9
Revised					
2003	3.7	3.8	3.5	4.8	3.5
2004	3.6	4.0	3.6	4.4	3.4
2005	4.0	4.2	4.1	4.5	3.9
2006*	3.6	4.1	3.7	3.6	3.5
2007*	4.1	4.3	4.2	5.6	3.8

*Data at March 2008.
Source: MTAS, *Estadística de Acuerdos Colectivos (Statistics for Collective Agreements).*

AGREED SALARY, REMUNERATION PER SALARIED EMPLOYEE AND CPI, 2002-2007

(Annual Variation Rates)



* Provisional data (registered agreements up to March 2008).
Source: MTAS, *Estadística de Acuerdos Colectivos (Statistics for Collective Agreements)* and INE, *Contabilidad Nacional de España (Spanish National Accounting)* and CPI.

CHANGES IN AGREED WORKING DAY BY SECTORS, 2001-2007

Production Sectors	2001	2007*	Difference 07-01
Total	**1,758.7**	**1,747.4**	**–11.3**
Agriculture	1,776.6	1,755.2	–21.4
Industry	1,764.3	1,752.2	–12.1
Construction	1,757.5	1,745.0	–12.6
Services	1,753.0	1,744.8	–8.1

*Data at March 2008.
Source: MTAS, *Estadística de Acuerdos Colectivos* (Statistics for Collective Agreements).

STRIKES, 1998-2007

(Key characteristics)

Years	Strikes	Participants	Working Days lost	Work centres called out		Work centres called out	
				Number	Staff	Number	Staff
1998	618	671,878	1,263,536	118,642	1,906,995	56,695	1,493,668
1999	739	1,125,056	1,477,504	91,388	2,463,242	70,333	2,005,513
2000	727	2,061,349	3,577,301	722,129	6,096,555	578,672	5,380,646
2001	729	1,242,458	1,916,987	574,648	5,885,927	293,354	3,288,188
2002	684	4,528,210	4,938,535	2,063,113	17,390,775	1,603,767	15,361,933
2003	674	728,481	789,043	587,485	4,702,704	276,187	2,548,416
2004	707	555,832	4,472,191	74,615	1,607,051	67,435	1,346,916
2005	669	331,334	758,854	42,055	1,454,336	21,975	967,740
2006	779	499,240	927,402	130,298	1,504,155	108,232	1,201,288
2007	626	431,827	1,024,244	39,629	1,229,704	36,830	1,093,130

Source: MTAS, *Boletín de Estadísticas Laborales (Bulletin on Employment Statistics),* March 2008.

ACCIDENTS AT WORK BY SECTOR AND SERIOUSNESS, 2007

(Nº. of accidents with absence from work and annual variation in incident rate as a percentage)

	Total		Slight		Serious		Fatal		Affiliated Population
	No. accidents	Variation Incidence Rate	No. Accidents	Variation on Incidence Rate	No. Accidents	Variation Incidence Rate	No. of Accidents	Variation Incidence Rate	
Agriculture	34,991	3.6	34,316	3.7	595	–5.7	80	28.6	1,109,668
Industry	239,566	–3.9	237,292	–3.9	2,118	–2.1	156	–24.9	2,451,940
Construction	253,222	–3.3	249,910	–3.3	3,030	–0.4	282	–7.9	1,986,614
Services	406,572	–3.3	403,256	–3.3	2,990	–6.6	326	–22.4	10,509,711
Total	**934,351**	**–3.5**	**924,774**	**–3.5**	**8,733**	**–3.9**	**844**	**–15.7**	**16,057,933**

Source: MTAS, E*stadística de Accidentes de Trabajo*. (Statistics on Accidents at Work) INSHT, *Avance de siniestralidad laboral (Summary of Accidents at Work).*

CHAPTER III. QUALITY OF LIFE AND SOCIAL WELFARE

1. Quality of Life and Social Development

In terms of well-being and quality of life, the social situation of the country remains closely linked to the economic and employment variables that have been studied in previous chapters. Economic, employment and social policies are also increasingly interconnected and mutually supportive. As with all the developed countries, Spain must face up to the challenges presented by the growth and diversity of the population. These challenges are tied to immigration, the ageing process and longevity, the decreasing birth rate, the changes in family structures and forms of cohabitation and new ways of accessing information and knowledge. In this context, the redistributive capacity of social policies is being put to the test, more than ever. This chapter looks at social policies and analyses principles such as universality, accessibility, suitability, quality and sustainability of a wide range of resources and services.

Before addressing the events, trends and initiatives that took place in 2007 in social policies at the national level, this chapter begins by considering Spain's position in the international context with regard to various parameters normally used for comparing the social situation in different countries. It is very much borne in mind that the meaning of concepts such as quality of life and social welfare —to use two key references that have been used in this chapter of the report for the past 15 years— varies to an extraordinary degree in relation to the time, indicators and geographical background against which they are set.

This preliminary section outlines the main sociodemographic changes that have occurred in recent years, which, through their influence on all aspects of economic, employment and social activity, serve to set out the most recent trends and initiatives in the framework of social policies and social welfare.

Comparative view of quality of life and well-being

Considering that the basic threshold in social well-being is quite close to the parameters used to measure 'human development' in terms of the Human Development Index prepared by the United Nations, Spain would occupy a better position (13) than the majority of EU member states, being placed above countries that have very much higher per capita incomes and social welfare systems that have been developed more fully and over a longer period. Spain's relatively favourable position is largely due to its high life expectancy at birth. If one considers the so-called 'gender empowerment index'[2] (an assessment of the national situation in terms of effective equality between women and men), Spain would even improve on that position, reaching twelfth place, which was the case in the first year that Organic Law 3/2007 was in force. However, effective equality between women and men remains an incentive for making efforts in that direction and evaluating its results in every possible area.

Nevertheless, in order to come to a more accurate estimation of Spain's social situation, as is done in various sections of the chapter, one must turn to the comparison that is closest, that of the EU. This is done by means of measurements accepted for monitoring the social dimension of the Lisbon Strategy (notably, in terms of education and lifelong learning) as well as for enabling coordination in the achievement of objectives in social welfare and social inclusion (which affects health and long-term care, pensions and social inclusion).

The chapter opens with a consideration of the importance acquired by the objectives of s*ocial sustainability* (included within the Spanish Strategy for Sustainable Development, in keeping with the European Strategy of the same name) as an intrinsic part of the concept of quality of life for present and future generations.

[2] Another of the synthetic indicators addressed in the UNDP report, based on the percentage of women MPs, the percentage of women in management positions, professional and technical occupations, as well as the relationship between the levels of pay for men and women.

Of no less importance is the need to evaluate in *quality* terms how well social needs are met, now that a very advanced level in awareness of rights and social welfare development has been achieved. From this point of view it is necessary to make a deeper study of the systems with regard to education, health, social services and social information services. It is also necessary to study the capacity of the pensions system and the new system of dependent care for handling risks associated with old age and loss of self-sufficiency, and the interaction of all policies when it comes to achieving a more inclusive and cohesive society. In this regard, it is essential that there is an improvement in tools for evaluating the efficiency and effectiveness of public policies. In 2007, there were various noteworthy advances in this area, with the setting up of the State Agency for the Evaluation of Public Policies and Quality of Services and the publication of its first reports.

One of the first reports of Public Service Quality Monitoring confirms the importance placed by much of the population on areas studied in this chapter of the report, such as housing, healthcare and education. However, despite the progress made in statistical information systems in recent years, the analysis of these policies continues to come up against significant deficiencies. These relate, in particular, to the lack of availability and/or consistency in the basic indicators for business and expenditure in different areas, or even to acknowledged delays, sometimes of several years. This represents an obstacle to evaluating the operation of different areas and the effectiveness of policies, especially in a report such as this that relates to the year immediately prior to its publication, as will be highlighted in each of the sections that make up this chapter.

Lastly, among the trends affecting the social situation of the country it is worth highlighting the impetus gained in recent years by initiatives in the area of Corporate Social Responsibility. This leads directly into issues closely connected to social reality, with which this chapter is concerned (the environment, equal opportunities for women and men, disability, etc.). Significant progress was made in these areas in 2007, with the signing of the agreement on corporate social responsibility, which was reached through the social dialogue between the government and the social partners.

Sociodemographic change and social development

The sociodemographic changes experienced in Spain during recent years coincide, albeit with noteworthy differences, with the prevailing trends in the rest of Europe. The ageing of the population is a trend that it is difficult to reverse. Spain stands out in this respect due to the still considerable size of its 'baby boom' generation, which is now middle-aged. This, combined with a higher than average life expectancy, heralds a situation in the not-too-distant future in which the ageing of the population will be more acute than in other EU countries. The increase in life expectancy and the ageing of the population are phenomena that must rank among the major successes of our societies. They create, at the same time, a set of social, economic, political and cultural challenges that require changes in many areas of public policy, especially in the area of social welfare, and these have been addressed in recent years.

On the other hand, the unforeseen, rapid and steep growth in population experienced in recent years as a result of immigration has had an extraordinary effect on the composition of Spanish society; 10% of the population is now made up by foreigners. This remains an indicator of well-being and social development, as all the countries of the former EU-15 have begun to receive immigrants in proportion to their economic progress. What sets Spain apart in this context is, fundamentally, the steep rate of increase in immigration and the fact that in fifteen years it has reached a level of immigrant population similar in percentage terms to countries such as France and Germany, which have been taking in immigrants for half a century and whose immigration policies have gone through very many stages. Spain is in the middle of an intense period of assimilation of the immigrant population. This is increasingly reflected, and not without controversy, not only in the employment market, the consumer market and the economy in general (which have been addressed in previous chapters of this report), but in all spheres of public life and social policies.

Coupled with the above, after more than a decade in which the falling birth rate seemed to have become a structural feature of society, indicating a dangerous decline in the organic growth of the Spanish population, there has been a slight upturn in births since 1999. Although this in no way implies a significant reversal of the prevailing trends, nor offsets the trend in ageing, the concentration of births in some regions and the consequent and unexpected increase in infant population is a subject that needs to be considered in the planning, provision and allocation of public services.

Combined with immigration, the other major factor of sociodemographic change that needs to be considered is the transformation of the role of women in society, in parallel with the spectacular increase in their participation in the employment market, dealt with in the previous chapter. It should be remembered that more than 57% of births are now from working women. To hold down a job and raise a family at the same time are aspirations today shared by men and women, although the cultural and employment difficulties seem to be greater for women. This has led to reconciliation between working and family life occupying, with greater or lesser results, a central position in social concerns and the agenda of public authorities, and it is a key component in the achievement of equal opportunities between men and women.

Finally, certain indicators are reviewed in this introduction that contribute to an understanding of the level of social development in Spain in terms of wealth and the integration of information and knowledge into society, which in turn gives an idea of the strengths and weaknesses in this area. From the data selected it is worth highlighting the following: limited participation on the part of the adult population in formal learning activities but a greater willingness by individuals to acquire knowledge of their own accord (‘informal learning’); the still low and unsatisfactory use of new technologies by the adult population (47.6% of women and 40.7% of men admit to not having used a computer, although 17% of women and 18.8% of men consider themselves advanced users), and a significant level of participation (almost 40%) in social activities.

The framework of social welfare and policies supports sociodemographic changes through reforms that need to be modified continuously: the creation of the system for dependent care or the approval of the integral law for effective equality between men and women are good examples, to mention two of the year’s most important initiatives in these areas. However, it is possible to see both strengths and weaknesses in practically all areas of policies addressed by this chapter and studied in the following sections. The last deals with the situation in terms of social cohesion and inclusion, which is relevant in a year such as 2007, declared European Year of Equal Opportunities for All.

Education

Improving the educational system in Spain is one of the keys to enabling knowledge enhancement, economic development and social cohesion. It is one of the main concerns of Spanish society and, at the same time, one of the areas that need greater effort in order to achieve social consensus on the issue.

Spain is one of the European countries that needs to make the greatest efforts to achieve the Lisbon objectives in terms of education and training, since it has a high proportion of pupils with minimal levels of achievement in the two main subjects, and especially in reading, one of the highest school dropout rates and one of the lowest levels of young people who go on to further education. Furthermore, the Spanish educational system not only needs to draw upon all its resources to improve its figures but it must also face up to an educational reality that needs, at non-university levels, better quality teaching, a more balanced distribution of pupils of foreign extraction, an improvement in educational achievement and, lastly, a reduction in regional differences with regard to pupil progress and performance.

As regards voluntary education, the educational system in Spain suffers from low youth participation in initial vocational training in comparison with the EU-27, and from a reduction in the number of students following careers in experimental sciences and technology, against a background in which this type of knowledge is the most helpful for the growth of the more advanced economies. Spain should redouble its efforts to increase the numbers of people taking part in vocational training, enhancing the quality and flexibility of initial vocational training and improving its image and attractiveness to employers. Similarly, it should try to arrest the decline in the number of university students taking scientific and technological subjects, by increasing their attractiveness and improving achievement levels by Spanish students in science and mathematics during secondary education. Moreover, the increase in competition between universities, caused by the reduction in demand, has clearly demonstrated the need for the university degree bodies in Spain to raise the bar in terms of performance, coordination, quality, flexibility and efficiency.

From the legislative point of view, this has been the first school year after the LOE (*Ley Orgánica de Educación*-Constitutional Law on Education) came into effect. It starts with the first and second years of primary education and the first and third years of statutory secondary education, although baccalaureate-level teaching has also been regulated, as its implementation is planned for the following school year. At the university level, regulatory activity in 2007 has been especially intense; not only was the modification to the 2001 Organic Law on Universities approved but also the new structure for official university teaching and the new system for accreditation in the selection of the teaching profession, replacing the rating system in force until now. 2007 also saw the approval of the creation of a committee to define the Spanish Qualifications Framework in higher education, although to date the projected plans have not been carried out and this committee has not been constituted.

Housing

The availability of suitable living accommodation, whether owned or rented, is a key feature of the social situation of a country in terms of well-being and quality of life. Indeed, according to opinion polls this issue is the main area that should be worked on by the Administration.

The primacy of personally owned property as a central tenet of accommodation in Spain closely links citizens' chances of gaining access to it to the situation of the residential property market. Although the downward trend in property prices was accentuated in 2007, the opportunities for home ownership continued to deteriorate and household debt increased considerably. The increase in the cost of housing was checked thanks to lower demand, as the attractiveness of property as an investment weakened at the same time as its availability was declining due to the increase in interest rates. This situation brought about an adjustment in the supply of new housing, ahead of the first indications of oversupply.

On the other hand, renting has not represented a viable alternative until now for many people who are unable to buy a house, given the scarcity of its supply (both on the free and subsidised markets) and its relative shortage. Neither has the increase in the amount of subsidised housing in recent years been able to meet demand, which clearly exceeds supply at present.

Several legislative changes have been implemented this year against this background of increasing difficulty in access to housing for the economically less solvent sectors of the population and the deceleration in the property and credit sectors. These have included the reform of mortgage law and the introduction within the IRPF (*Impuesto sobre la Renta de las Personas Físicas* —Personal Income Tax) of tax relief for renting, as well as new policy instruments contained in the recent reform of the National Housing Plan, together with other public policies aimed at encouraging supply and demand in rented and owned property and rehabilitation.

The quality of available housing is a major issue from the quality of life standpoint, and it tends not to be taken into account sufficiently. Although the application of the Technical Building Code will undoubtedly contribute to an improvement in the quality of new housing, it should not be forgotten that older and poorly maintained property still represents a major challenge for policies for the rehabilitation and regeneration of dilapidated urban areas. This is very closely linked to the prevention of socio-territorial segregation.

It should be remembered that problems regarding the availability of somewhere reasonable and suitable to live mean that part of the population is living in accommodation of a less than desirable quality or that does not meet their needs, which in turn undermines their quality of life. This is especially the case for specific groups of the population that are particularly vulnerable, such as old people and those with disabilities (especially in terms of accessibility), single person dwellings with people on low incomes (a situation in which many young people find themselves) and single-parent households, often women with dependent children. It is necessary to highlight the importance of creating specific housing policies for these groups, not only in terms of availability but in terms of the quality and suitability of their homes.

Availability of housing for immigrants deserves special attention, with regard to its quality and suitability. The same phenomenon is happening in Spain as in other European countries, in that the increase in immigration during times of economic growth coincides with a lack of housing in the major cities. In many cases, the residential concentration of immigrants coincides with social segregation or with trends towards decline; these already exist in areas where property is more dilapidated or of lower quality. Anticipating these problems, and managing them when they arise, is a challenge that needs to be taken on by housing policies, and this affect all areas of responsibility e.g. social integration policies for immigrants.

Environment and sustainability

Spain is one of the European countries with the greatest biodiversity, a heritage that underlines the need to protect and improve the environmental situation. The situation in Spain is comparatively unfavourable with respect to the majority of sustainability indicators used at the European level for problems with the greatest environmental impact, such as atmospheric pollution, increased waste production, excessive pressure on the coastline, and the effect of the current infrastructure and the transportation model on the country's sustainability.

There are all kinds of environmental pressures nowadays; however, some positive signs of change can be detected. Spain increased its energy production between 2005 in 2006, with reductions in all fossil fuels and growth in nuclear and renewable energy. Demand for energy was less due to the weather as a result of more benign average weather conditions than in the previous year, but also to an improvement in energy efficiency in some production sectors. Moreover, the wealth of Spanish biodiversity as a European benchmark has been maintained, with an increase recorded both in the number of green spaces and in the total area under conservation in recent years.

Spain is among the countries with the greatest difficulties in meeting pollutant emission targets set for 2010 by Directive 2001/81/CE in relation to acidifying and eutrophying pollutants. Furthermore, up until 2006, there was an upward trend in greenhouse gas emissions, reaching 50.6% in that year compared to 1990 (although this latest figure represents a decrease of 2.6% compared to 2005). Another environmental problem is the increased generation of urban solid waste, which reached 1.47 kg per inhabitant per day in 2005. Most of this waste is still sent to landfill sites (47%), whilst incineration for energy recovery or separate collection only represent 7% and 11% respectively.

On the other hand, and consistent with the dynamic expansion of European cities, the growth in artificial surfaces recorded in Spain between 1987 and 2000 was 30%, with the trend being more pronounced after 2000; Eurostat figures put the amount of surface area considered as artificial at 2.5 million hectares, i.e. 5% of Spanish territory. The problem is more acute in coastal areas, which make up 7% of the land and are home to 44% of the population. The coast comes under strong pressure for urban use and occupation, and this pressure is especially high on the Mediterranean coastline. The change in use of land affects the most productive agricultural areas, relegating agriculture to poorer quality soil that requires greater amounts of water and fertilisers. Some 46% of land that is built on in Spain is taken up by housing, services and recreational usage and 37% by the industrial and commercial sectors. In order to optimise urban management it is necessary to consider the urban landscape as a whole, policies need to be coordinated and the economic, social and environmental impacts need to be analysed.

The Spanish Strategy for Sustainable Development (EEDS) is geared towards ensuring economic sustainability, reducing the depletion of natural resources, increasing social cohesion and helping the development of less advantaged countries. Its intention is to implement specific measures to improve the economic, social and environmental sustainability of the country.

Use and protection of consumers and users

Household consumption has been one of the driving forces behind Spain's economic growth in recent years. This has been accompanied by a series of changes in the Spanish pattern of consumption, which has been the subject of special attention by the ESC during 2007, which approved its 1/2008 report on new consumer models. This report highlighted the significant changes in Spanish consumer patterns over recent years, such as lifestyle diversification and the personalisation of consumer habits, closely connected to higher levels of education and information. This is set against a background of increasing availability of ICTs as well as the appearance of new sales outlets and payment methods, including significant growth in the use of credit for financing the purchase of consumer goods.

This latter trend, given its general economic context, is one of the areas of most concern in the new patterns observed in Spanish household expenditure. The peak in consumer credit, which is evidenced by the appearance of new forms and instruments of credit such as quick credit and debt consolidation, together with increasing household debt, should have been accompanied by a series of financial information, training and education measures to familiarise the general public with this subject. This approach would have perhaps helped to avoid situations where households accumulate too much debt.

Progress was made in the area of legislation during 2007.I In the general area of consumer protection, important measures include the approval of an amended text of the General Law for the Protection of Consumers and Users and, in a more specific context, the approval of a law on distance marketing of financial services to consumers and a law regulating contracts on tangible assets. In early 2008 a new Consumer Arbitration System regulation was passed, representing the first amendment to the voluntary system of extrajudicial resolution of disputes between consumers and users since it was created in 1993.

Due to its social impact, one of the most significant events in the year in terms of consumer security was the huge recall, in August 2007, of internationally manufactured toys; given increasing market globalisation, this occurrence underlines the necessity to strengthen coordination between the authorities and relevant organisations to monitor product safety, robustness and traceability.

Health and healthcare system

The Spanish healthcare system, as in all of Europe, is facing up to the need to respond to the sociodemographic changes brought about by ageing and the extraordinary increase in the number of potential beneficiaries due to immigration and the changing role of women. There is also a need, amongst other challenges, to rationalise decisions on new technologies and therapies. In this context, reconciliation of the scope and quality of the service provided is an increasingly major challenge, especially against the background of decentralisation in which healthcare provision is evolving.

Good planning for such a complex system is essential, which is why better information is a pre-requisite for the implementation of any programme of quality improvement. To this end, the 2006 Quality Plan was reviewed in 2007, with an associated budget of €55 million and the objective of matching human resources to service requirements. Progress was also made in the definition of a common measurement system across the whole of the SNS (Sistema Nacional de Salud-National Health System). When it is applied, it will enable a coming together of health and healthcare services in Spain, in the context of improving the SIAP (Sistema de Información en Atención Sanitaria-Healthcare Information System).

In addition to the progress in information at the national level, there were new initiatives during 2007 in the area of public health, the appearance of campaigns related to promoting healthy lifestyles being particularly noteworthy.

Health standards for the Spanish population are those of a developed society, coinciding with one of the highest life expectancies in the EU. There has been a considerable increase in the number of chronic illnesses registered, partly due to improvements in early detection systems —which enable previously infradiagnosed pathologies to flourish— but also due to various factors affecting their increase. Among these factors are those related to the ageing of the population (the incidence of degenerative diseases such as osteoarthritis, dementia and locomotor, visual and aural deficiencies) as well as to living conditions (environmental, nutritional, and those to do with a sedentary lifestyle and the pace of life, among others).

The improvement in information has contributed to the publishing of the first reports on Gender and Health, which are helping to shed light on the differences in health and healthcare requirements between men and women. The publication in 2007 of the Atlas municipal de la mortalidad por cáncer en España (Map of Cancer Mortality in Spain by Area) has also indicated the presence of significant regional differences in the incidence of this disease. These differences appear to be related to environmental and lifestyle factors, although it would be of interest to make a deeper analysis of the incidence of cancer in relation to the activities of different healthcare services.

Resources and system usage

The information on resources and healthcare system usage does not yet enable us to have a clear picture of the overall functioning of the SNS. However, various indicators, such as the increase in emergency cases and longer waiting times, indicate imbalances between the demands of a larger and older population and the capacity of the system to respond with the resources currently available. The quality of healthcare continues to be the subject of a number of activities, because in 2006 the Ministry of Health and Consumer Affairs presented its Quality Plan for the SNS. One of its declared objectives is to ensure equal access to services across the whole of the country. Action plans in 2007 took the form of a Primary Care initiative, with the implementation of the AP 21 project, which will span the 2007-2012 timeframe.

Together with the need to improve primary care, access to quality healthcare provision within a reasonable time, in relation to the patient's condition and the seriousness of the ailment, is a fundamental requirement of the system's operation and is inseparable from the quality of support. In fact, the issue of waiting times in specialised care is evidence of the difficulty in obtaining this level of care and it is one of the aspects of public health that is rated the lowest by the general public. There are problems in standardisation and management of waiting times in the regions, and significant discrepancies continue to be observed in the interpretation and presentation of waiting list figures. The availability of information can clearly be improved, with only generalised information being available on waiting lists for surgical operations; even this has obvious limitations. It is vital to make progress in the dissemination of information with regard to the whole process, from Primary Care to Specialised Care, from diagnosis through to resolution by surgical operation.

In operation waiting lists[3] in June 2007 the average waiting time remained at 70 days, similar to the data for the previous year.

In July 2007 the first waiting list figures were published by specialists of the Inter-Regional Council at a national level, without any details for the regions. At 30 June 2007, 38 people out of 1,000 were waiting for a specialist consultation, with an average waiting time of 53 days, and a higher figure indicating significantly longer times for some specialties: more than 30 out of 100 (31.4%) of specialist consultations had an appointment date lead time of more than sixty days. The guarantees set out in the regional guidelines with regard to waiting times, as well as the information available on their fulfilment levels, are very inconsistent from region to region.

[3] Institute for Health Information on waiting list information systems in the SNS, 2007.

During 2007 the problem of waiting lists was related to the possible shortage of medical specialists in the National Health System, something which was studied by the Ministry of Health and Consumer Affairs in accordance with the discussion that was starting to take place on the need for more doctors in basic areas of specialisation. According to estimates by the OMC (*Organización Medica Colegial* —Medical Association), taking into account the mobility in the medical sector and the migratory flows in the medical profession, the number of doctors in 15 years would only meet half of the demand. The problem would seem to be more acute in areas of specialisation that are more related to the ageing process of the population.

Public health

In terms of public health, there were various notable initiatives in 2007. The results of the measures adopted in previous years were also published, such as the National Drugs Plan, the law on the prevention of tobacco consumption and the plan for the prevention of obesity (NAOS). Other measures announced, such as the law on the prevention of alcohol consumption, have not gone any further forward.

Nevertheless, the abuse of alcohol, especially by adolescents, and the use of drugs (mainly cannabis and cocaine) are problems that should be addressed in greater depth, with specific measures essentially aimed at reducing the number of users, increasing awareness of the risks associated with consumption, and lifting the smoking age.

In contrast, positive progress is being seen with regard to the decrease in tobacco consumption. According to data from the National Health Survey of 2006, the percentage of regular smokers fell from 36.2% to 30% of the population over the age of 18 between 1993 and 2006. This should be related to the law on the prevention of tobacco consumption, which came into force in January 2005, among other factors.

Health expenditure

Total public and private health expenditure in 2004 reached 8.1% of GDP, a lower percentage than the average for OECD countries (8.9%). However, there was a year-on-year increase of 9.9% between 2005 and 2006, an increase that shows the growing trend in health expenditure, which has practically doubled in the last four years. This is closely linked to the process of ageing and the greater longevity of the population. Compared to expenditure in other areas (basically spending on hospitals), growth in pharmaceutical expenditure has been curbed: in the past year, the year-on-year increase in public pharmaceutical expenditure for Spain was 4.86%, basically attributable to an increase of 5.52% in the number of prescriptions, as the average expenditure per prescription was reduced by 0.62%. This positive development is due to successive measures adopted within the framework of the policy covering the reasonable use of medicine. Among these measures is the creation of the Reference Pricing Scheme, amended in March 2007, the implementation of which has developed in parallel with a significant increase in active principle prescription and the use of generic medicines; this has become normal practice in pharmaceutical provision in just a few years.

2. Social Protection

In compliance with the Open Method of Coordination (OMC) on social policies in the European arena, efforts during 2007 concentrated on the study of various specific aspects that are considered as priorities: measures against child poverty, reduction in healthcare inequalities, and long-term care (which includes care in situations of dependency).

Comparative situation and key trends in Spain

As future challenges for Spain, the proposal of the joint report on social protection and social integration for 2008 highlights the healthy financial position of the Social Security system and the improvement in the level of employment for women. It boasts one of the highest effective retirement ages in the EU (62.2 years against the EU average of 60.7), as well as one of the longest life expectancies (66.8 years for men and 70.2 for women). As weaknesses, it points out that there have not been any significant improvements in respect of the number of people at risk of poverty, in spite of the acceleration in economic growth in recent years. Spain continues to be very much below the EU average in terms of social expenditure as a percentage of GDP (20% in comparison with 27.3% for the EU in 2004) and it has one of the highest school dropout rates in the EU, especially among boys.

The efforts made by EU member states in social protection have increased slightly in recent years, although with a tendency towards stagnation. In the case of Spain, although the annual progress in the level of expenditure allocated for social welfare in proportion to GDP has been above the European average, the overall level continues to fall below the average. In 2005, the last year for which information is available, it reached 20.8% of GDP, i.e. 7%s below the average for the EU-15 and 6.6% off the figure for the EU-25.

In all areas of expenditure, with the exception of unemployment, Spain is below the European average, with expenditure on old age accounting for the greatest percentage of GDP (7.9% compared to 10.9% in the EU-25), although there has been a downward trend since 2000. It is also worth highlighting the difference between Spain and the EU family benefits, although it is expected that this will reduce in the coming years as a result of the measures taken by Spain to increase protection for dependent children and the creation of new provisions in the area of Social Security to facilitate the reconciliation of working and family lives and enhance equality between men and women.

Another of the differences between Spain and the European average has to do with the different allocation of resources aimed at financing social welfare, in terms of their sources. Thus, whereas in the European Union public contributions are at very similar levels to those of employers' social contributions, in Spain it is the employers that carry the greatest weight. This corresponds to the preponderance of essentially contributory provisions in social expenditure, especially for old age and unemployment.

Development of the Toledo agreement

In 2007, many amendments of varying degrees of intensity were tackled with regard to the regulatory guidelines for Social Security, within the already integrated and ongoing process of adapting the social welfare system to social changes. The majority of the amendments adopted are consistent with the guidelines of the parliamentary level Toledo Agreement of 1995 (renewed and updated in 2003) as the central thread of the main reforms addressed in recent decades. Another point consistent with what has been happening in recent years is that the bulk of reforms tackled have resulted from the consensus reached in the area of social dialogue. It is therefore worth noting the agreement on measures in Social Security between the government and various representative bodies as the start of one of the main regulatory innovations to see the light of day in 2007: Law 40/2007 of 4 December with regard to social security measures (LMMSS – *Ley de Medidas en Materia de Seguridad Social*). The bodies represented were the CEOE (*Confederación Española de Organizaciones Empresariales* —Spanish confederation of employers' associations), the CEPYME (*Confederación Española de Pequeñas y Medianas Empresas*— Spanish confederation of small and medium-sized companies), CCOO (*Comisiones Obreras*— labour union) and UGT (*Unión General de Trabajadores* —general workers' union).

Of the commitments foreseen by the Toledo Agreement, the LMMSS basically tackles issues affecting the legal framework on temporary incapacity, permanent incapacity, retirement, semi-retirement, death and survivors' provisions. The bulk of measures incorporated into the law during its passage through Parliament, the origins of which can be clearly traced back to the content of the Toledo Agreement, included many provisions of very different types, basically geared towards improving protection for specific groups and particular circumstances, making up a complex regulatory text.

Various measures within this text –in particular with regard to retirement and total disablement– address the strengthening of the *contributive nature* of the system, making progress towards a fairer balance between contributions made and benefits received, at the same time avoiding situations of imbalance in recognition. Moreover, it introduces various improvements in the protection offered by the system, clearly in the guise of the principle of *solidarity and guaranteed sufficiency* of pensions, which was the reason for the twelfth recommendation of the Toledo Agreement. It should also be pointed out that this guideline goes deeper into the existing theme of encouraging the *voluntary extension of working life* beyond the legal retirement age, also consistent with the twelfth recommendation of the Toledo Agreement. No less important is the effort to *modernise* the Social Security system, reflected by the LMMSS in addressing situations created by new family structures related to new sociodemographic and family realities, as noted in the additional recommendations of the Toledo Agreement when it was updated in 2003[4].

[4] ESC report 1/2007 on the Preliminary Draft of the Law on Social Security Measures.

This does not prevent an observation that not all of the objectives mentioned above have been reinforced equally in the legal text finally approved by Parliament, in which there is a predominance of provisions geared towards improving the protection offered by the system and its modernisation with regard to provisions aimed at strengthening its contributive nature. With regard to the measures focused on retirement and the extension of working life, the law brings together provisions of very different types, with the requirements for entitlement to early retirement remaining fundamental. These are becoming more restrictive in the case of the semi-retirement model and clearly improve the incentives mentioned above, as is the case in encouraging people to continue working after the age of 65.

For the purposes of the future monitoring and assessment of the effects of the law, it includes the obligation on the part of the Ministry of Labour and Social Affairs (MTAS) to submit an annual report to Parliament on assessment and a strategy for the pensions system.

Main magnitudes of the social security system

The Social Security system continued to show a healthy financial position in 2007, with budgetary management indicating a surplus of 1.3% of GDP, 0.1% higher than in the previous year. An important factor in this positive result was the increase in social contributions, thanks to the dynamic nature of the economy and employment during the year as a whole, which was faithfully reflected in the numbers of contributors. Nevertheless, the rate of growth in the number of contributors decelerated in comparison with the previous year (basically foreign workers), reflecting the loss of impetus in businesses related to construction and certain other services in 2007.

As for the different schemes, a significant increase in the number of contributors to the special scheme for self-employed workers stands out, corresponding to a large degree to a section of the salaried workforce moving into self-employment (mainly centred on foreign workers in the construction business). The fall in the number of contributors to the scheme on the part of domestic staff (mainly comprised of foreign women) is also evident, in contrast to a new increase in this occupation in terms of the EPA (*Encuesta de Población Activa* – Labour Force Survey).

The number of contributors by business sector was generally in line with the progress of the different sectors of the Spanish economy, resulting in a deceleration for the year as a whole in the rate of job creation in construction as well as in services, compared to greater robustness in industry and a somewhat less noticeable fall in the agricultural sector.

In spite of this slackening in the rate of growth in the number of foreign contributors, their participation in employment overall continued to increase (10.3% in 2007) with 1,981,106 members. Of these, one third came from the European Union, with a significant increase over the previous year as a result of the incorporation of Bulgaria and Romania in 2007.

The positive result for the Social Security system in 2007 enabled an increased allocation to be made to the Reserve Fund, in accordance with the commitments made in the Toledo Agreement (second recommendation) and its revised text, approved by the Council of Deputies at the end of 2003, as well as by agreements in terms of social welfare signed with the social stakeholders. Thus, on 31 December 2007 the fund stood at 45,716 million euros, 27.4% up on the previous year (equivalent to 4.35% of GDP), as well as to a 13% contribution to the overall system and the payment of more than eight months' pensions.

Pensions, ageing and inflation

The area of expenditure that uses the most resources in the Social Security budget is that of contributory benefits. Within these, pensions recorded a 1.3% increase in 2007, reaching a total of 8.3 million. Of these, 85% are old age pensions (58.8% retirement pensions and 26.9% widowhood). Pensions that increased the most in 2007 were those for permanent incapacity (3.4%), followed by widowhood (1.3%) and retirement (1.1% in 2007).

The average value of contributory pensions in 2007 was €673.69 per month, which represents an increase of 5% compared with the previous year, working out at €791.70 at the top end and €611.55 at the bottom. The difference in value between the top and bottom ends is growing over time and is fundamentally explained by the socioeconomic changes in Spanish society related to the productive fabric of the economy, the structure of employment and the educational levels of workers. This has led to the calculation basis for the top end taking into account salary differences higher than the combined variations of the Consumer Price Index and higher pensions that affect the bottom end.

The change in the sum paid for pensions corresponds to an increase in the starting pension for new beneficiaries, an increase in minimum allowances, and maintaining the purchasing power of pensions through their revaluation in line with the Consumer Price Index. It is worth pointing out in this respect that the policies carried out in recent years, i.e. increasing the minimum pension level above that of inflation, has meant an increase in expenditure on supplements to reach the minimum level in that it has led to an increase in the number at the top end which require a minimum guarantee as a proportion of the total. In 2007, 26.8% of active pensions received supplements to reach the minimum level, the cost of which increased by 9%.

Fluctuations from one year to another clearly demonstrate the fact that the revaluation of pensions is what largely affects the growth in pension expenditure and therefore the total expenditure of the Social Security system. Against a background of high increases in the prices of raw materials and foodstuffs in the international markets, the upward trend in inflation since the last quarter of 2007 represents a significant cost for the whole of the system, and greater control of the movement of the Consumer Price Index is required.

Transition to retirement

All the countries in the European Union are committed to the encouraging people to work longer and to active ageing in the context of executing the European employment strategy, complemented by the Open Method of Coordination (OMC) in social welfare. These are also objectives envisaged by the Spanish National Reform Programme, which includes the simplification of early retirement procedures and the continuance of support programmes to help people over 60 years old remain in employment.

In any case, the starting point is that the comparative situation in Spain is not unfavourable in this area. The effective date for starting to take a retirement pension in Spain is increasing year by year, currently at 63 years (62.9 for men/63 for women), one of the highest in Europe. However, there are a number of factors that indicate the need not to lose sight of the objectives of retaining and stimulating older workers. Without trying to cover everything, it is worth remembering the particularly pronounced scenario of population ageing that Spain is facing in the medium term, the disturbing upward trend in early retirement that was experienced up until 2006, and the situation in which the actual time of leaving the employment market is often well before retirement age, with a significant number of people first going through a stage of unemployment.

For the first time in several years, early retirements decreased slightly (2.3%) in 2007 compared to 2006. This is a reflection of the lower number of early retirements with a reduction coefficient, which went from 28% to 26% of the total, since the other models (and particularly the semi-retirement model) have continued to increase.

Furthermore, it seems that from the middle of 2007 there was an increase in the number of beneficiaries over 65 years old, which would indicate a growing acceptance of the incentives for continuing to work over the age of 65. In proportion to the entire population in this age group, however, it still continues to be a minority option. This is the reason for the interest in disseminating good practice in the area of managing the age factor, retaining talent and encouraging voluntary full-time employment for older workers by companies.

The dependent care system

One of the most significant changes in the Spanish welfare system in recent decades emanates from the creation of the *Sistema de Autonomía y Atención a la Dependencia* (Self-Help and Dependent Care System, henceforth referred to as SAAD) after the approval of Law 39/2006 of 16 December. It promotes self-help and care for people in positions of dependency (*Ley de promoción de la Autonomía personal y Atención a las Personas en situación de Dependencia*, henceforth referred to as LAAPD). The implementation of the system in 2007 was marked by a delay, in compliance with the provisions of the law, which can be explained in part by the fact that the effective application of the law required a regulatory process which was not started until April 2007. Among the regulatory processes of the LAAPD, it is worth highlighting Royal Decree 504/2007 of 20 April, through which the evaluation criteria for situations of dependency are approved. This decree sets out a grading system for potential situations in terms of their seriousness, as well as the list of the law's services and provisions. The classification of situations has been set in relation to the timetable for the progressive application of the law, which provides for a period of eight years for it to become fully effective and encompasses all situations envisaged by the criteria.

The assessment of progress in the first year of the law's application is conditioned by the limited information available and the difficulties in interpreting it. As at 20 January 2008 (a year after the law came into force), 130,000 accepted claims had been submitted at level III (high dependency). More than half the claimants are women (65%), compared to a lower proportion of men (35%). As expected, the percentage of claimants increases in proportion to age, with the highest proportion of those claiming services and provisions from the dependency system being 66 years of age and above (83%).

It is not known whether the claims submitted are new ones, ones that had previously been evaluated or dealt with in each region, or what type of services were caused by these evaluations. These are some of the more noteworthy omissions in relation to the information available. However, it all points to the fact that these are fundamentally financial provisions, given the limited amount of time that has elapsed for the implementation of new services and equipment.

Furthermore, the claims and reports on situations of dependency carried out during the first year of the operation of the SAAD indicate a wide variation between the regions. This does not seem to correspond so much to the number of people who are potentially beneficiaries as to the diversity of information criteria on users of the new provisions. So in terms of the number of claims submitted, the 104,959 submitted in Andalusia and the 32,258 in Catalonia stand out, whilst in Madrid only 1,794 claims were submitted. Once 2008 had arrived, it seems that the SAAD had begun operating at full speed, since in just one month the number of claims had doubled: at 24 February 2008 the number of claims submitted was already 288,540.

It is worth remembering that there are still important issues in the regulatory process for the necessary consensus to be reached in the Territorial Council, such as the harmonisation of common standards and accreditation, quality, the system of co-payment, as well as aspects related to the training and qualification of the professionals who work in the system. Given the need to develop an adequate and quality range of services, one needs to mention the importance of achieving common criteria on the accreditation of public and private dependent care centres, and also the criteria needed to govern agreements between affected administrations and the centres providing the services. Linked to the above, greater coordination between the healthcare system and SAAD would enable better overall efficiency in the care of dependent people.

Lastly, it should be pointed out that, despite the potential for job creation linked to the development of the dependency care system, the plans for physical and human resources to address the requirements of the system are unknown. In short, one of the main priorities is the creation of information on the operation of the dependency care system, and also improving information for potential users and their families.

Family support policies

The progress made in Spain in the area of family protection through a number of isolated measures has not been sufficient to get close to the European average, at least up to the latest date for which comparative figures are available. Although expenditure in terms of units of ‘family’ purchasing power multiplied ninefold between 1995 and 2005 (in terms of GDP it has gone from 0.4% to 1.1%), the gap between this and the EU average is still very considerable: the average expenditure in this area across the EU-25 (without counting tax credit support) was 2.1% of GDP in 2005.

The measures adopted in the last two years should help to improve this comparative position in Spain. Specifically, a number of initiatives were carried out in this area in 2007 that have helped to open up the debate on the issue of the place that family policies have within the overall area of social policy. The most controversial of these initiatives was the creation of a single payment for birth and adoption, although it was not the only one in what appears to be a major opening up of these issues. Law 40/2007, covering Social Security measures, incorporated various rules aimed at improving family support during its passage through Parliament. Large families and those with people with disabilities were among those targeted, with the government committing itself to reinforcing family support policies in its budgets over the coming years, through the improvement of deductions in Personal Income Tax and financial provisions at the contributory level in Social Security, as well as at the non-contributory level. Furthermore, the income limit for entitlement to non-contributory Social Security provisions for dependent children has been extended. The main Social Security innovations introduced by the Constitutional Law covering effective equality between women and men should also be added to the above –in particular, the creation of allowances for paternity and special circumstances– although family support will not figure among the objectives of these regulations.

The effort put into driving financial provisions does not seem to have been sufficiently matched by the creation of support services, essentially for dependent children under compulsory school age or during out-of-school hours. There is also a regional disparity in resources and in the focus of family support policies, which at least deserves to be studied.

In this regard, it should be remembered that in Report 9/2007[5] the ESC recommended that a White Paper should be prepared on the situation of families in Spain, comprising a diagnosis of the present situation and evaluating existing measures and provisions in order to detect shortcomings and find solutions, all from a comparative point of view.

Immigration and social integration

A significant increase in the number of foreigners, up to 10% in the census of 1 January 2007, confirms the trend of recent years and makes Spain one of the European Union member states with the greatest influx of immigrants. The social changes arising from this phenomenon require an integrated response, above and beyond the management required from the employment point of view, which has been the focus of attention in recent years. Furthermore, according to data from the Permanent Immigration Monitoring Observatory, 36% of Spanish residents from outside the EU were permanent residents at the end of the year. This accentuated the

[5] Report 9/2007 on the draft law establishing an allowance for birth or adoption within Personal Income Taxation and a one-off payment for birth or adoption by Social Security.

need to draw up and implement integration policies, this being a two-way process requiring the participation of both the local population and immigrants, and it must extend to all areas: education, housing, health and employment. This is the approach of the Strategic Plan for Citizenship and Integration (Plan Estratégico de Ciudadanía e Integración —PECI) approved in 2007, and also of the main European and Spanish initiatives undertaken in this area.

PECI 2007-2010 sets out to give an integrated response to the various challenges presented by immigrant integration, in different areas: education, employment, social services, housing, health and social participation. Many of the basic public services and a large number of the actions aimed at reception and settlement depend on the regions and local authorities. To this end, the regional governments have approved a series of plans geared towards the integration of foreigners. With regard to the role of local governments, which are at the level of public administrations that is closest to the citizens and which have to respond to many of the immigrants' needs, in most cases they have tried to include immigrants within general municipal services. In some local authorities this has been done through specific integration plans.

In the European arena, progress was made in 2007 in relation to a common policy on immigration and asylum, with integration policies being put in the spotlight. In this regard, the communication from the Commission titled *A Common Immigration Policy* puts policies of integration and non-discrimination at the heart of immigration policy. As far as asylum policies are concerned, the Green Paper on *The Future of the Common European Asylum System* initiated a process of deliberation, with the aim of it becoming a reality as the Common European Asylum System (CEAS) in 2010.

It should be remembered that the incorporation into our legal system of the EU directive relating to the status of long-term residents from non-member states is still pending, its period of incorporation having ended on 23 January 2006. It should also be remembered that its application will extend the freedom of movement of workers to resident nationals from non-member states into a position of permanent residence.

The measures for preventing and opposing discrimination represent one of the fundamental tools for removing the obstacles faced by immigrants in gaining access to rights, property and services. Data from the ad hoc Eurobarometer report prepared at the end of 2006 indicate that Europeans perceive a significant increase in discrimination. In order to pre-empt the situation, in April 2007 the Council of Justice and Interior Ministers approved the framework decision relating to the fight against racism and xenophobia. At its base, public incitement to violence or hate against groups of people due to their racial, ethnic or religious origin will be considered a crime, as will the denial or trivialisation of crimes against humanity or genocide as recognised by international tribunals.

In Spain, one of the noteworthy innovations in 2007 was the creation of the Council for the Promotion of Equal Treatment; its powers include assistance for the victims of discrimination and measures to promote and enable its elimination. It is also worth highlighting the judgements in 2007 that declared various articles of the Constitutional Law on Foreign Persons 8/2000 as unconstitutional. These articles prohibited the exercise of certain fundamental rights to foreigners in breach of the regulations, specifically those of association, meeting, unionisation, striking, free legal assistance and non-compulsory education.

Various other provisions also came into effect. RD 240/2007 of 16 February governs the system for entry, stay and residence of EU citizens and specified family members and amends the conditions required for exercising the right of family reunification in specific cases. For the first time, it includes unmarried partners of EU citizens within its scope of application. Furthermore, Constitutional Law on Equality 3/2007 amends the Asylum Law and extends its remit to cases of persecution on account of gender.

Now, in February 2008, the Social Dialogue Steering Committee on Immigration has approved a document in which it brings together the most noteworthy aspects of the social dialogue in recent years. It is considered that an integrated and multilateral immigration policy should operate on three bases: prevention and opposition of illegal immigration, effective management of migratory flows and integration of immigrants.

Social cohesion and inclusion

In Spain, there was an increase of 4.8% in the average per capita income compared to the previous year according to the Survey of Living Conditions in 2006, rising from €7,925 to €8,403. In parallel, there was also an increase in the threshold of what is considered as the risk of relative poverty, the indicator that enables imbalances of income to be measured within a country's population: in that year, this threshold in Spain was €6,860 per year.

The improvement in the economic situation and in average incomes over recent years has not, however, resulted in a significant reduction in social inequalities. In 2006[6] 19.9% of the Spanish population was below the poverty threshold after social transfers, a similar proportion (with slight variations) to that recorded in the previous ten years. Moreover, in comparison with the rest of Europe Spain attracts attention due to the limited palliative effect that social transfers have on the risk of poverty, since the difference between the risk of poverty before and after social transfers is quite a lot less than the majority of countries in the former EU-15.

The risk of poverty is greater for women (21.2%) than for men (18.5%). The poverty rate is at its highest for elderly people, with 30.6% of the population in this age group.

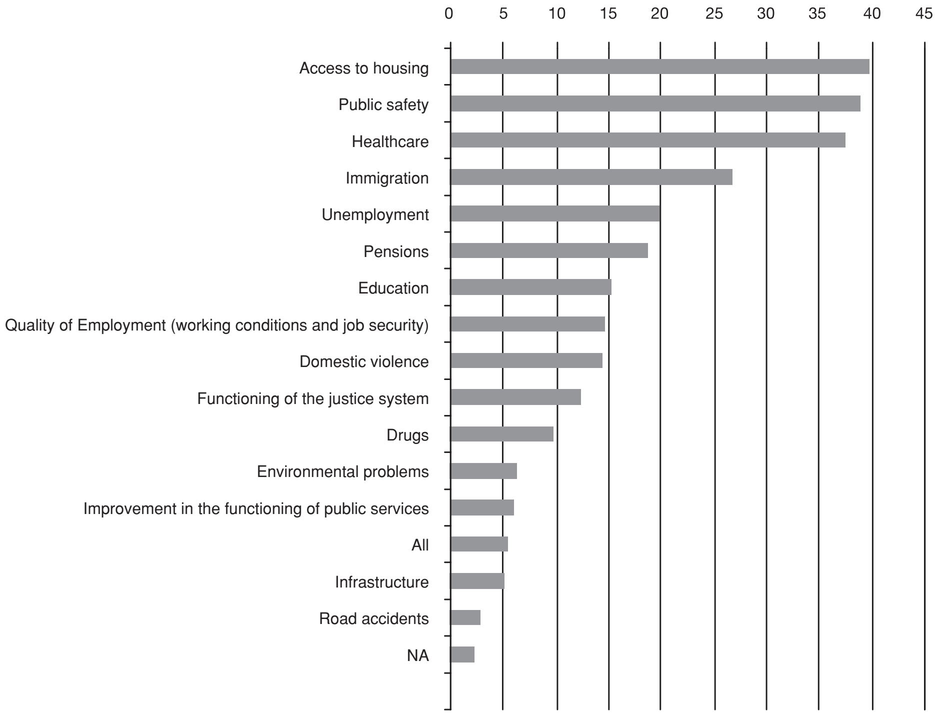
The child population is a group that is especially vulnerable to the risk of poverty, and this has led to special attention being given to this issue by EU guidelines with regard to policies for social inclusion within the framework of the Open Method of Coordination. Around 23.8% of children under the age of 16 are at risk of relative poverty in Spain. Child poverty seems to be closely connected to the 'work intensity' of the household in which the child lives. In line with the objectives of the Lisbon Strategy, the promotion of employment and its status in general, and employment participation by women in particular, are key tools for eradicating child poverty, with policies for reconciliation of family and working lives playing an important role in this context.

[6] Standard indicator applied by the European Union and the OECD for measuring poverty, which looks at the situation of the population to which the individuals belong. This threshold is set at 60% of the average income per individual unit of consumption.

It should be remembered that the capacity of policies specifically aimed at addressing problems of poverty and social inclusion —such as the National Plan for Social Inclusion and programmes for the eradication of poverty— is, in itself, limited. Much greater is the redistributive potential of all the employment and fiscal policies that have been addressed in this chapter –especially pensions, health and education– to anticipate and address these risks more effectively, thus helping to maintain and enhance social cohesion. This is reflected in the integrated and cross-functional approach of recent EU and national strategies on social inclusion.

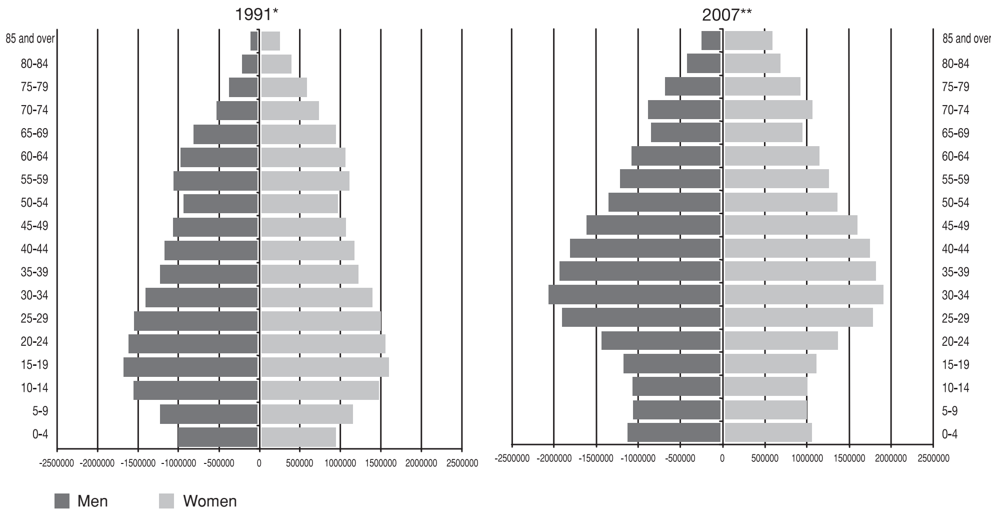
With the exception of Social Security, the majority of powers over social policies are fully decentralised, including some closely connected to the circumstances of the most disadvantaged people such as minimum incomes in the regions. A prime example of the importance acquired by these issues in recent years and the interest in going deeper into their elaboration and application is the sizeable area dedicated to them in the reforms of the Statutes of Autonomy addressed during 2007, as explained in Chapter II. The new requirements that emerge as a result of the social and economic changes will represent a major challenge to social cohesion in a country like Spain, which, in spite of its economic advances in recent years and the considerable improvement in the protection afforded by the social welfare system, has not managed to restrict the risks of vulnerability and social exclusion that affect certain groups.

PUBLIC OPINION ON AREAS WHICH WOULD WARRANT PRIORITY ACTION BY PUBLIC ADMINISTRATION



Source: MAP (Ministry of Public Administration), Assessment and Quality Agency, *Public Perception of the Functioning of Public Services (2006). An assessment of the results of a Joint Survey by the CIS and the Assessment and Quality Agency.* Study by the Observatory on the Quality of Public Services. Papers 5/2007.

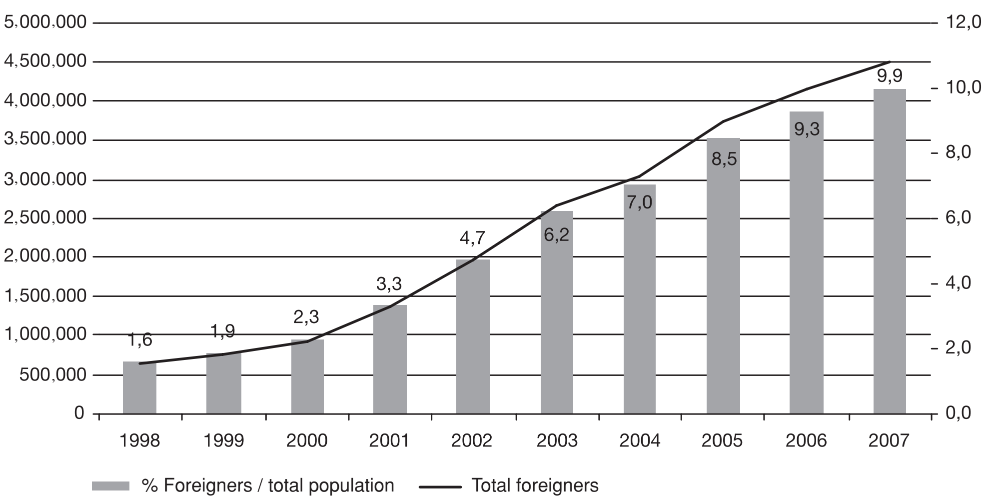
POPULATION STRUCTURE IN SPAIN, 1991-2007



* Total population 1991: 38,617,997.
** Total population 2007: 45,116,894.
Source: INE (National Statistics Institute), Population Register Use.

GROWTH IN FOREIGN POPULATION (LEFT) AND SCALE AS PROPORTION OF TOTAL POPULATION (RIGHT), 1998-2007

(People and percentage)



Source: INE, *Padrón Municipal de Inhabitants (Municipal Population Register), 1 January.*

EVOLUTION OF EU-25 COMPARED WITH BENCHMARKS FOR 2010[7] IN EDUCATION AND TRAINING

Education indicators in the European Union	% of population of 25 to 64 years involved in education and training		% of population of 20 to 24 years who have completed at least secondary educ. Level 2 stage (1)		% of young people who are early school leavers (2)		Graduates in Science and Technology (3)		Young people without minimum levels of reading (PISA 2000, 2003, 2006) (4)		
	2001	2006	2001	2006	2001	2006	2001	2005	2000	2003	2006
UE-25	7.59(5)	11.0	76.3	77.3	17.3(5)	15.2	10.4(5)	12.6	–	–	–
Southern Europe and Mediterranean											
Cyprus	3.4	7.1	79.0	80.7	18.5	18.1	3.4	4.2	–	–	–
Spain	***4.4***	***10.4(*)***	***65.9***	***61.3***	***29.1***	***30.8(*)***	***9.9***	***12.5***	***16.3***	***21.1***	***25.7***
France	2.7	7.6	81.6	82.8	13.3	12.6	19.6	–	15.2	17.5	21.7
Greece	1.2	1.9	79.3	84.0	18.2	13.3	0.0	8.0	24.4	25.3	27.7
Italy	4.5	6.1	68.8	72.9	25.3	21.9	5.7	10.1	18.9	23.9	26.4
Malta	4.6	5.5	40.9	48.1	54.2	41.2	3.4	–	–	–	–
Portugal	3.3	4.2**	42.8	48.4	42.6	38.6	6.3	11.0	26.3	21.9	24.9
Northern Europe											
Denmark	18.4	29.2	69.8	76.0	11.6	8.5	11.7	13.8	17.9	16.5	16.0
Finland	17.2	23.1	87.8(*)	84.8	8.9(*)	9.3	16.0	–	7.0	5.7	4.8
Sweden	17.5*	32.0(e)	85.2	87.8	7.7	11.7(*)	11.6	15.9	12.6	13.3	15.3
Central and Western Europe											
Germany	5.2	7.5	74.7	71.0	14.9	13.8	8.2	9.0	22.6	22.3	
Austria	8.2	13.1	84.7	85.9	10.2	9.0	7.2	8.7	14.6	20.7	21.5
Belgium	6.4	7.5**	80.9	80.3	12.5	13.0	9.7	11.2	19.0	17.9	19.4
Ireland	–	7.3	82.4	86.1(**)	–	12.3(**)	24.2	23.1	11.0	11.0	12.1
Luxemburg	5.3	8.2	77.5	71.1	16.8	13.3	1.8	–	35.1	22.7	22.9
Holland	15.9	15.6	71.7	74.6	15.5	13.6	5.8	7.9	–	11.5	15.1
Britain	20.9	26.6**	76.4	77.1	18.4	14.0	18.5	18.1	12.9	–	19.0
Eastern Europe											
Slovenia	7.3	15.0	87.0	90.6	–	4.3	8.9	9.3	–	–	16.5
Estonia	5.4	6.5	83.6	80.9	14.2	14.0	7.0	8.9	–	–	13.6
Hungary	2.7	3.8	83.6	83.3	13.8	12.3	4.5	5.1	22.7	20.5	20.6
Latvia	–	6.9**	76.8	81.8	–	11.9	7.4	9.4	30.6	18.0	21.2
Lithuania	3.5	4.9**	77.9	85.2	16.7	9.2	13.5	17.5	–	–	25.7
Poland	4.3	4.7	87.8	90.0	–	5.5	6.6	9.4	23.2	16.8	16.2
Czech Republic	–	5.6	91.1	90.3	–	6.4	5.5	7.4	17.5	19.3	24.8
Slovak Republic	–	4.1	94.5	91.5	–	5.8	5.3	9.2	–	–	27.8

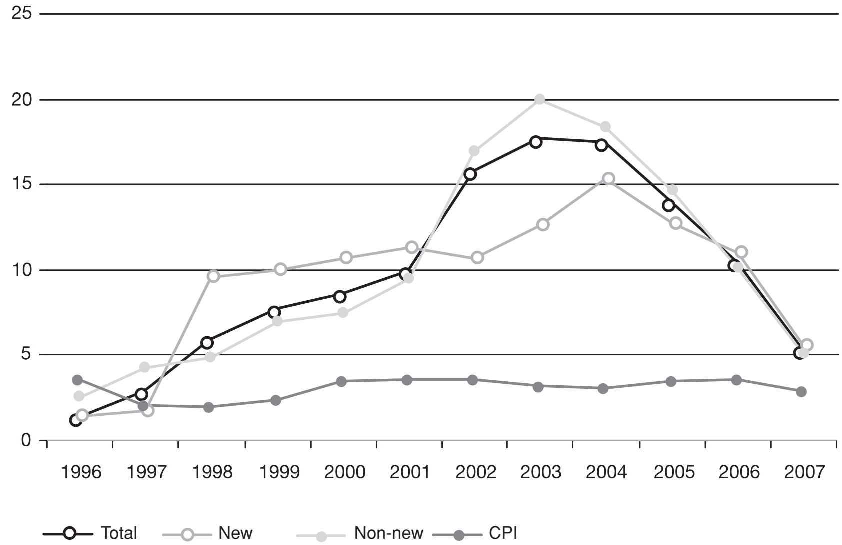
* Series break. ** Provisional Data. (e) Estimated data
(1) According to the CNED-2000- ISCED-97 correspondence, this level includes second stage of secondary education (general-secondary and middle level of vocational training and special scheme) and education for training and entry to work which require first stage secondary school qualifications for entry. (2) Percentage of young people between 18 and 24 years who have not completed the second stage of secondary education and are not following any type of training or education. (3) Graduates (secondary school) per 1,000 of population amongst young people 20 to 29 years old. (4) Standard 1 or lower.

Sources: Eurostat, *Structural Indicators* and OECD, Knowledge and Skills for life, First results from PISA 2000; Learning for Tomorrow's World. First results from PISA 2003; Science Competencies for Tomorrow's World PISA 2006.

[7] The 5 benchmarks in education and training for 2010 are: 1- The European average for early school leavers ("dropping out") amongst young people between 18 and 24 years should not exceed 10 per 100. 2. To reduce this by at least 20% compared with 2000 the percentage of young people of 15 years who do not possess the minimum required Standard in reading comprehension. 3. 85% of Europeans over 22 years of age must have completed secondary education. 4. The percentage of students in scientific and technology degree courses must increase to at least 15% in 2010, as well as reducing the imbalance between men and women in these subjects. 5. To increase the average rate of adult participation in continuous education to 12.5%.

INCREASE IN THE AVERAGE PRICE PER SQUARE METRE IN HOUSING AND CPI IN SPAIN. 1996-2007

(Year-on-year variation)



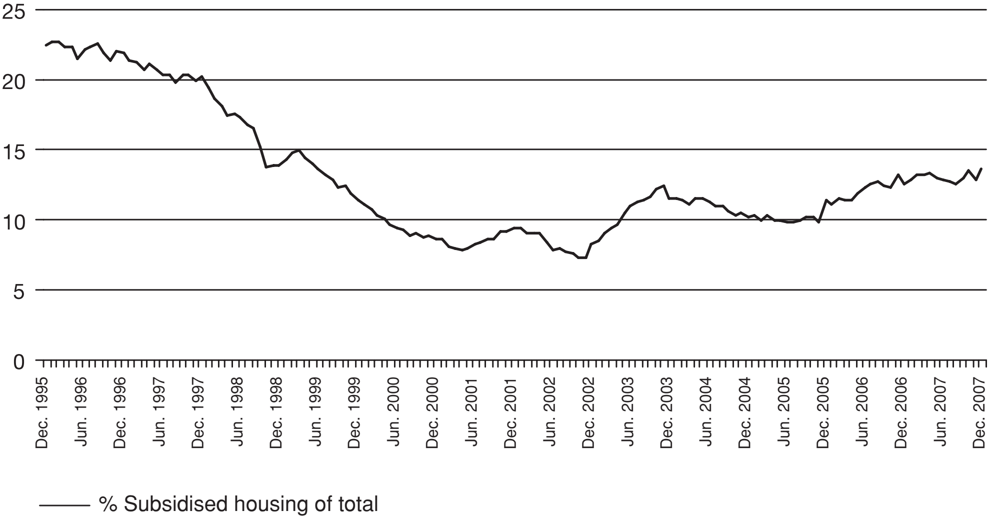
Source: Ministry of Housing.

EVOLUTION IN ACCESS TO HOUSING IN SPAIN. 1996-2007

	Accessibility Indicators				
Years	Occupied (CNE 95) year-on-year variation (1)	Youth unemployment rate. 20-29 years (2)	Price of housing/GDI per household (3)	Annual theoretical effort without deductions (4)	Annual theoretical effort with deductions (5)
1996	403	32.4	3.5	36.7	27.7
1997	510	29.3	3.5	30.4	23
1998	642	26.8	3.6	28.3	21.6
1999	762	21.9	3.8	27.8	20
2000	760	19.6	3.9	31.8	22.7
2001	444	17.2	4.2	30.5	21.6
2002	391	17.3	4.8	31.7	22.3
2003	627	16.7	5.5	31.8	22.5
2004	659	15.7	6.2	35.0	24.6
2005	801	13.4	6.7	36.4	25.5
2006	608	12.0	7.0	42.6	29.9
2007	505	11.4	7.0	46.2	37.0

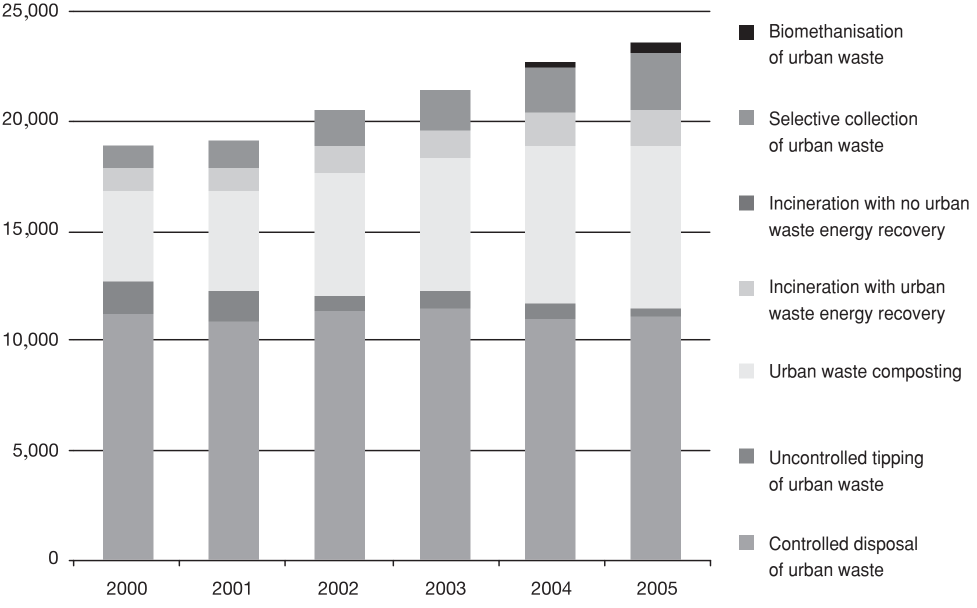
(1) End of period
(2) Average for period
(3) Price of housing/ Gross Income per household: average price of an available home of 93.75 m2 constructed (based on figures from the Ministry of Housing) divided by estimated gross income of average household (see Bank of Spain Economic Bulleting. May 2005. pp. 65-71).
(4) (5) Theoretical annual effort with and without deductions: Gross total of quotas to be paid by average household. (net of tax deductions) in the first year after purchase of a home financed with a standard loan covering 80% of the value of the home. as a percentage of the household’s annual available income.
Source: Bank of Spain. *Síntesis de Indicadores económicos: Indicadores del Mercado de la vivienda*. (Summary of Economic Indicators: Housing Market Indicators.

EVOLUTION OF THE PERCENTAGE OF INITIATED SUBSIDISED HOUSING AS A PERCENTAGE OF TOTAL IN SPAIN, 1995-2007



Source: Bank of Spain, *Síntesis de Indicadores*. (Summary of Indicators).

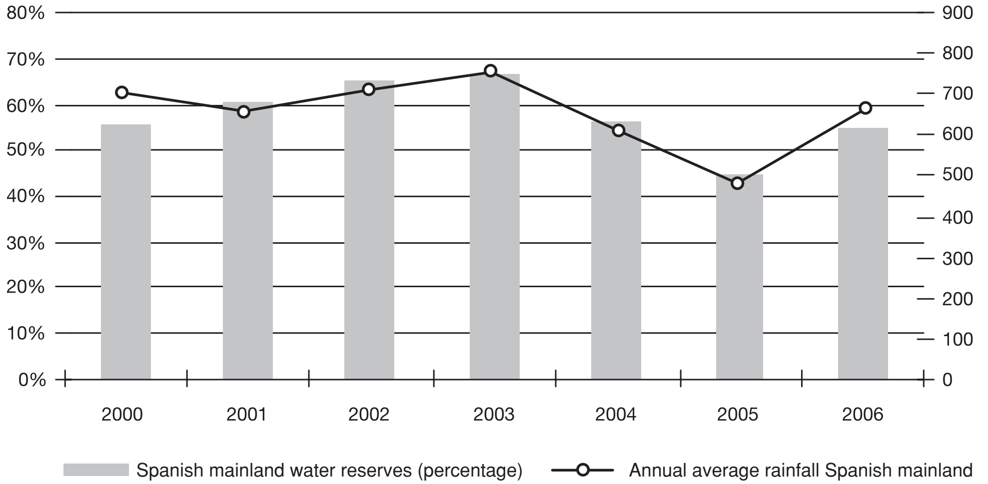
URBAN WASTE MANAGEMENT, 2000-2005 (THSND MT)



Source: Ministry of Environment, *Datos estadísticos de coyuntura ambiental 2000-2005. (Statistical Data for Environment Period 2000-2005.*

RAINFALL AND WATER RESERVES, 2000-2006

(In l/m² and percentages respectively)

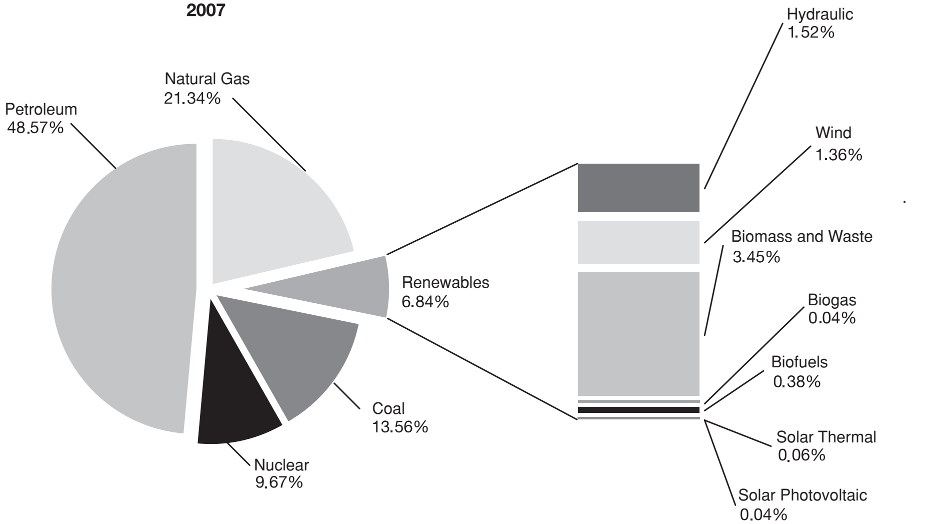


Source: Ministry of Environment, *Summary of Environment Period 2000-2006.*

ENERGY IN SPAIN 2007

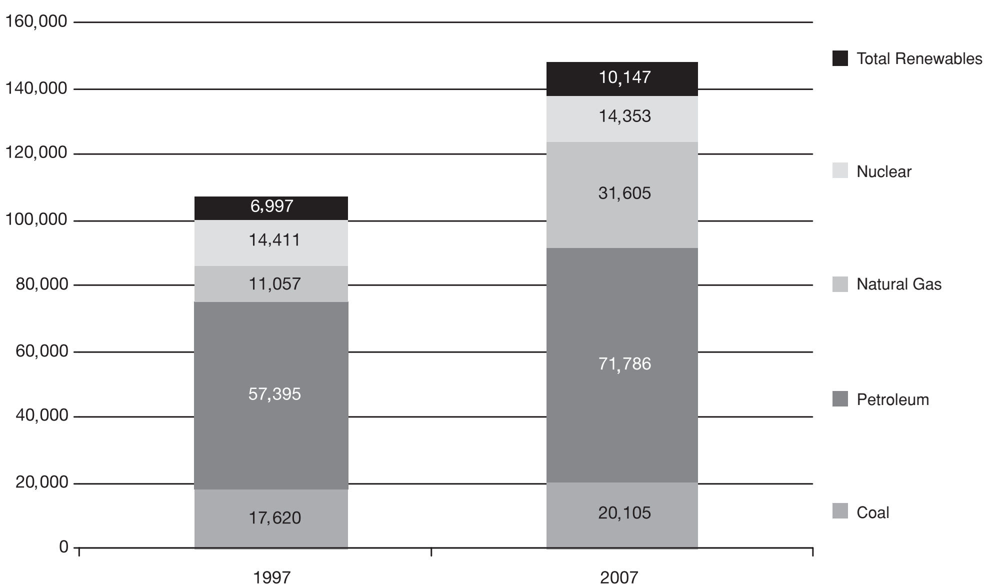
Proportions of primary energy consumption 2007

(Percentage Distribution)



Proportion of consumption 1997-2007

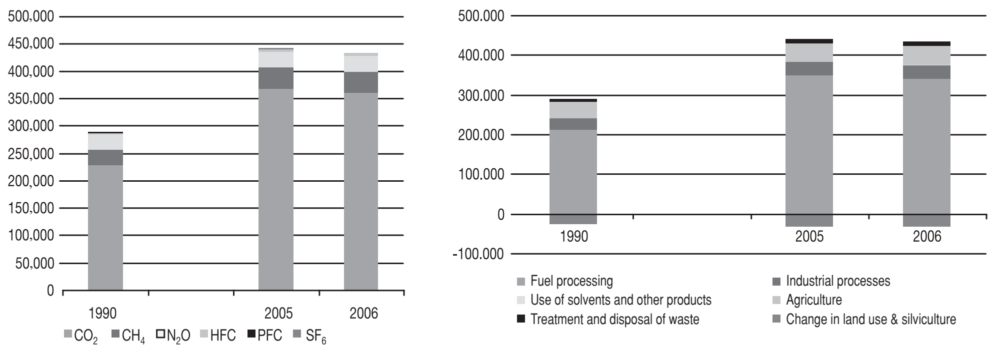
(Ktep)



Source: National Commission for Energy, *Información estadística sobre ventas de energía en Régimen Especial* (March 2008). (Statistical Information on energy sales under the Special Regime)

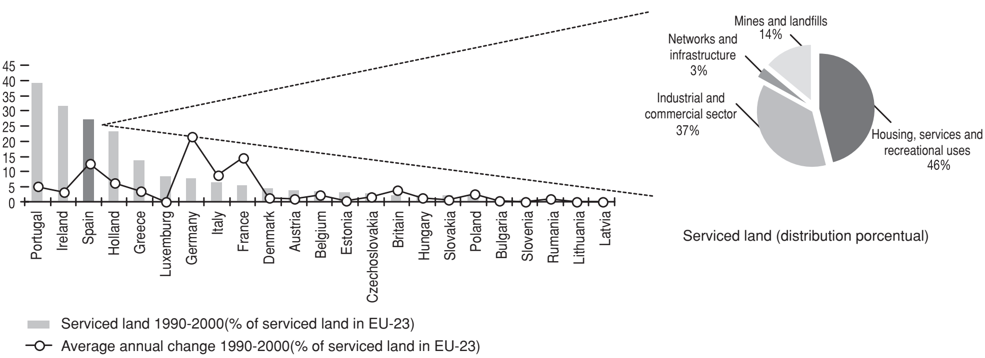
EMISSIONS AND ALLOCATION OF EMISSION RIGHTS BY SECTORS, 2006

By types of gas | By business sector



Source: *Ministry of Environment, Inventory of Greenhouse Gas Emissions for Spain, 1990-2006. Communication to the European Commission (March 2008).*

OBSERVED CHANGE IN LAND USE EU-23, 1990-2000



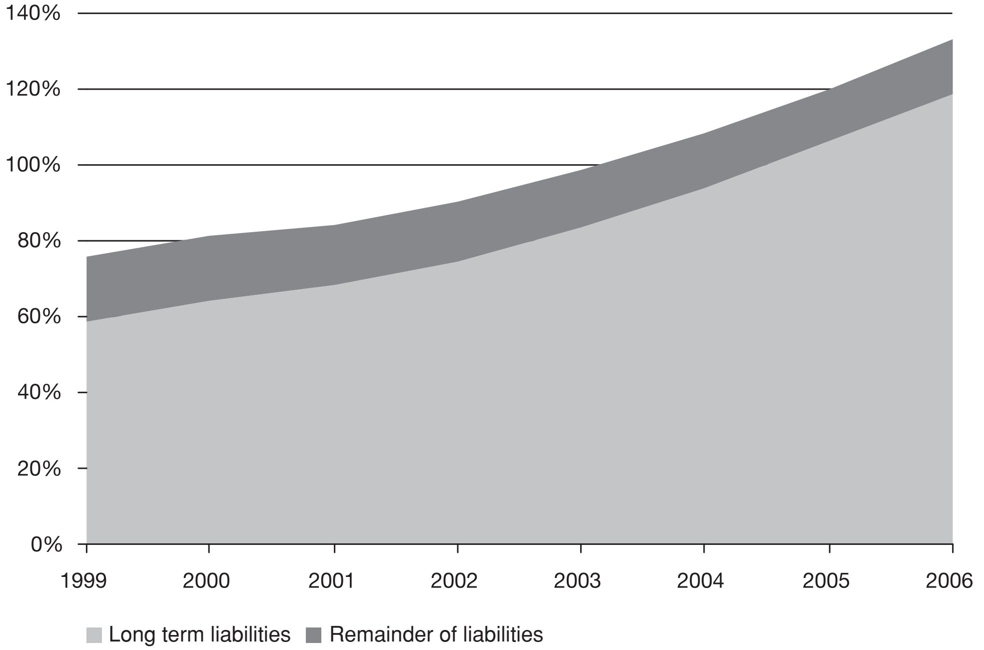
Source: European Environment Agency, Project CORINE Land Cover. Inventory of land use in Europe (National Statistics from Land Cover Accounts, 2005).

HOUSEHOLD CONSUMER EXPENDITURE BY TYPE, 2006

	Total	Single person under 65 years	Single person 65 years or over	Childless copy	Couple with 1 child	Couple with 2 children	Couple with 3 or more children	Adult with children	Other type of household
Total expenditure (thsnd euros)	466,058,239.0	26,043,245.4	17,012,094.7	89,547,314.6	110,367,594.2	107,481,269.5	29,055,007.6	30,884,611.5	55,667,101.6
Average expenditure per household (euros)	29,393.9	19,660.5	12,328.5	26,149.4	33,166.5	38,734.2	41,934.6	25,029.0	32,798.2
Average expenditure per person (euros)	10,632.2	19,660.5	12,328.5	13,074.7	11,055.5	9,683.6	8,017.8	10,256.6	8,480.7
Food	14.0	9.2	16.2	13.7	14.1	14.1	15.2	15.0	14.8
Drinks, cigarettes	1.8	1.6	0.6	1.6	1.9	1.8	2.2	1.7	2.1
Clothes	6.7	5.9	4.5	6.0	7.2	7.3	6.9	6.0	6.7
Housing	26.4	31.9	50.4	29.1	24.3	22.6	21.1	29.4	24.8
Furniture	5.8	6.8	7.2	6.1	5.7	5.4	5.2	6.0	5.6
Health	2.9	2.5	3.5	2.9	2.8	2.9	2.5	3.3	2.8
Transport	14.3	13.9	2.3	13.7	15.3	15.6	16.3	11.8	15.2
Communications	2.9	3.3	2.6	2.6	2.9	2.9	3.1	3.3	3.2
Leisure, culture	6.8	6.7	3.0	6.6	7.0	7.7	7.4	5.9	6.1
Education	0.9	0.6	..	0.3	0.8	1.7	1.8	1.0	0.8
Hotels, restaurants	9.6	9.8	2.9	9.4	9.8	10.5	10.9	8.0	9.9
Others	8.0	7.9	6.9	7.9	8.3	7.7	7.5	8.7	8.1

Source: INE, *Encuesta de Presupuestos Familiares (Survey of Family Budgets).*

HOUSEHOLD DEBT AS A PROPORTION OF AVAILABLE GROSS INCOME 1999-2006



Source: Bank of Spain.

KEY INDICATORS OF THE NATIONAL HEALTH SYSTEM

	Total	Men	Women	
State of health				
Life expectancy at birth	80.23	76.96	83.48	
Life expectancy at 65 years	19.29	17.19	21.12	
Life expectancy in good health at birth	55.10	56.30	53.90	
Life expectancy in good health at 65 years	7.00	7.40	6.60	
Life expectancy free of disability at birth	70.69	69.03	72.39	
Life expectancy free of disability at 65 years	12.00	11.00	12.00	
Percentage of persons with negative assessment of their state of health	28.69	24.32	32.91	
Percentage of persons over 65 years with negative assessment of their state of health	61.94	55.11	66.99	
Mortality rate age-adjusted (AA), per 100,000 inhabitants	568.46	751.47	419.52	
Mortality rate (AA), for ischemic heart disease, ischemic heart disease, per 100,000 inhabitants	56.31	81.71	35.70	
Mortality rate (AA), for cerebrovascular disease, per 100,000 inhabitants	45.69	51.40	40.60	
Mortality rate (AA), for cancer, per 100,000 inhabitants	159.73	232.72	103.28	
Healthcare Resources	**Total**	**% NHS**	**Women**	
Registered professionals with medical degree per 1,000 inhabitants	4.61	42.86		
Medical staff who work in specialised care per 1,000 inhabitants	1.60	91.40	36.60	
Medical staff who work in primary healthcare per1,000 inhabitants	0.72			
Nursing staff (qualified) who work in specialised care per 1,000 inhabitants	2.76	88.91		
Nursing staff (qualified) who work in primary care per 1,000 inhabitants	0.60			
Functioning hospital beds per 1,000 inhabitants	3.36	70.87		
Places in day hospitals per 1,000 inhabitants	0.20	74.12		
Functioning operating theatres per 100,000 inhabitants	8.49	67.63		
Accessibility				
Patients on waiting list for non-urgent operations per 1,000 inhabitants	9.38			
Patients on waiting list for specialised surgery visits per 1,000 inhabitants	35.4			
Gynaecology	4.9			
Ophthalmology	8.1			
Waiting time for specialised surgery visits (average in days)	54.4			
Use of healthcare	**Total**	**Men**	**Women**	**% NHS**
Frequency (recorded) in external surgery visits for specialised care per 1,000 inhab/year	1.651			87.98
Frequency (recorded) of hospital admittances per 1,000 inhabitants/year (registered) of hospital admittances per 1,000 inhabitants/year	117.5			74.67
Frequency (declared) of hospital admittances per 1,000 inhabitants/year	120	110	120	
Frequency (declared) of emergency visits per 1,000 inhabitants/year	460	440	490	
Rate of surgical interventions per 1,000 inhabitants/year	97.3	68.91		
Average stay (days)	7.7	8.2	6.8	
Total Healthcare expenditure	**Total**			
Average expenditure per inhabitant (euros)	1,619.45			
Public health expenditure per inhabitant (euros)	1,158.88			
Public health expenditure per inhabitant (by region) with coverage (euros)	1,131.30			
Percentage of expenditure on primary health care services	14.39			
Percentage of expenditure on specialised care services	56.91			
Percentage of expenditure on pharmacy	23.36			
Percentage of expenditure on staff salaries	41.68			
Percentage of expenditure on intermediate consumption	19.75			
Percentage del expenditure devoted to agreements	10.57			
Percentage del healthcare expenditure devoted to resident training	1.22			

Source: *Key Indicators of the National Healthcare System.* Ministry of Health and Consumption, 2007.

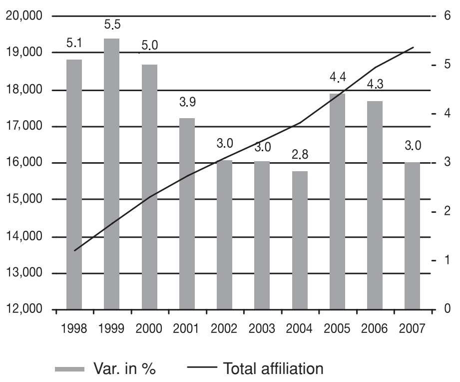
PUBLIC EXPENDITURE ON HEALTHCARE, 2002-2006

Functional classification	Current euros in thsnds			Percentage of total		Annual Variation				
	2002	2003	2004*	2005*	2006(*)	03/02	04/03	05/04	06/05	TAM
Hospital and Specialised Services	20,372,698 52.8	22,765,031 53.0	24,752,004 53.4	27,391,475 54.1	30,142,742 54.2	11.7	8.7	10.7	10.0	10.3
Primary Healthcare Services	5,906,098 15.3	6,675,103 15.5	7,180,925 15.5	7,699,277 15.2	8,581,793 15.4	13.0	7.6	7.2	11.5	9.8
Public Healthcare Services	571,961 1.5	492,739 1.1	573,527 1.2	625,003 1.2	707,423 1.3	-13.9	16.4	9.0	13.2	5.5
Collective health services	1,166,265 3.0	1,257,929 2.9	1,229,285 2.7	1,383,010 2.7	1,580,109 2.8	7.9	-2.3	12.5	14.3	7.9
Pharmacy	8,422,724 21.8	9,440,110 22.0	10,091,139 21.8	10,715,538 21.2	11,305,072 20.3	12.1	6.9	6.2	5.5	7.6
Transfer, prosthesis and therapy apps.	624,064 1.6	688,141 1.6	778,179 1.7	793,367 1.6	851,562 1.5	10.3	13.1	2.0	7.3	8.1
Capital Expenditure	1,499,235 3.9	1,637,838 3.8	1,744,237 3.8	1,982,880 3.9	2,412,437 4.3	9.2	6.5	13.7	21.7	12.6
Consolidated total	**38,563,045**	**42,956,889**	**46,349,298**	**50,590,549**	**55,581,138**	**11.4**	**7.9**	**9.2**	**9.9**	**9.6**

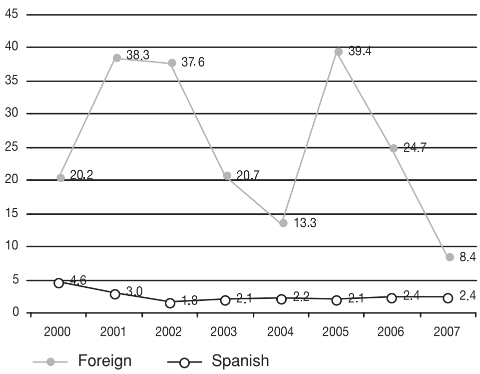
Source: Ministry of Health and Consumption (Provisional Data from 2006).

AFFILIATION TO SOCIAL SECURITY, 1997-2007* (In thsnds and percentage)

Evolution of affiliation



Annual Variation in foreign and Spanish affiliation as %



Note: Data as annual average.
Source: MTAS, *Boletín de Estadísticas Laborales (Employment Statistics Bulletin)*.

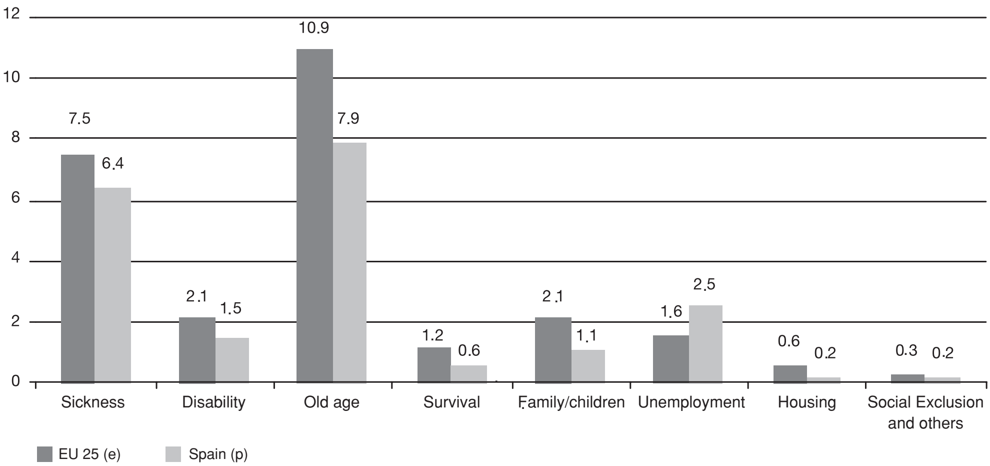
CONTRIBUTORY PENSIONS AND AVERAGE SUM PER CATEGORY

(In percentage and euros monthly)

Contributory pensions		2006	2007	Variations as %		
				Annual average 00/05	2005-2006	2006-2007
Total	Thsnd pensions	8,165.34	8,273.94	1.0	2.3	1.3
	Average amount in euros	*641.86*	*673.69*	*5.4*	*5.3*	*5.0*
Permanent disability	Thsnd pensions	859.78	888.78	1.0	3.2	3.4
	Average amount in euros	*731.55*	*760.71*	*5.5*	*4.5*	*4.0*
Retirement	Thsnd pensions	4,809.30	4,863.26	0.8	2.8	1.1
	Average amount in euros	*722.71*	*760.00*	*5.1*	*5.3*	*5.2*
Widow's pension	Thsnd pensions	2,196.93	2,225.50	1.5	1.4	1.3
	Average amount in euros	*476.70*	*498.30*	*6.5*	*4.7*	*4.5*
Orphan's allowance	Thsnd pensions	260.20	258.12	0.3	–1.0	–0.8
	Average amount in euros	*285.87*	*300.92*	*6.1*	*6.7*	*5.3*
Family carer allowance	Thsnd pensions	39.12	38.28	–2.0	–2.4	–2.1
	Average amount in euros	*374.57*	*398.24*	*7.3*	*7.1*	*6.3*

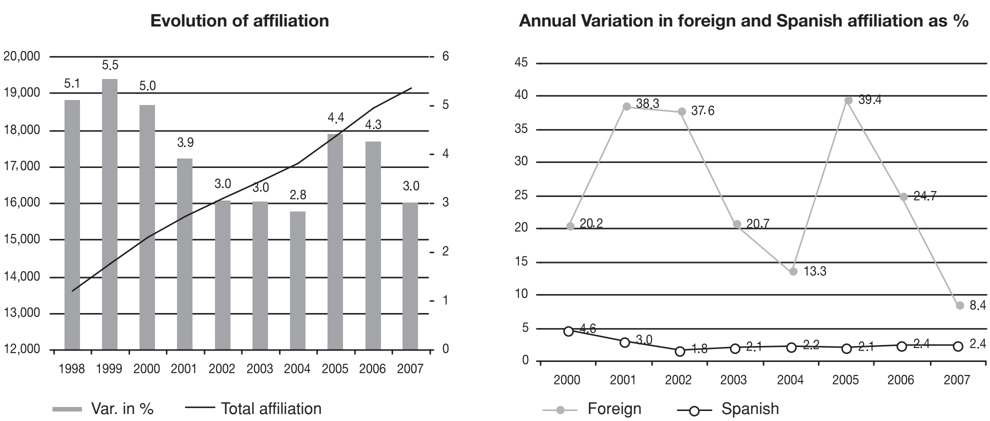
Note: Data as annual average.
Source: MTAS, *Boletín de Estadísticas Laborales (Employment Statistics Bulletin).*

EXPENDITURE ON SOCIAL PROTECTION BY FUNCTION IN SPAIN AND THE EUROPEAN UNION, 2005 (Expenditure as percentage of GDP)



(e): estimated.
(p): provisional.
Source: Eurostat, *European social statistics: Social protection. Expenditure and receipts.*.

AFFILIATION TO SOCIAL SECURITY, 1997-2007* (In thsnds and percentage)



* Data refers to annual averages
Source: MTAS, *Boletín de Estadísticas Laborales (Employment Statistics Bulletin)*.

SITUATION OF THE SOCIAL SECURITY RESERVE FUND

(Millions of euros)

Social Security Reserve Fund	Millions of euros
Provision per year	
2000	601.01
2001	1,803.05
2002	3,575.00
2003	5,493.86
2004	6,700.00
2005	7,000.00
2006	7,500.00
2007	8,300.00
Total provisions	40,972.92
Surplus of Accident Insurance Companies covering occupational diseases	177.18
Net return at 31 December 2007.	4,565.89
Total Fund (31/12/2007)	**45,715.99**

Source: MTAS, Secretary of State for Social Security, *Informe del Fondo de Reserva a 31 de diciembre 2007*. (Report on the Reserve Fund at 31 December, 2007).

DISTRIBUTION OF THE AMOUNT OF CURRENT PENSIONS BY ITEM (Millions of euros and percentage)

Type	2006			2007		
	Mn. Euros	Structure %	Var. 05/06 %	Mn. Euros	Structure %	Var. 06/07 %
Total						
Initial P.	3,282.87	61.7	7.7	3,554.32	62.6	8.3
Revaluations	1,698.09	31.9	6.0	1,757.20	30.9	3.5
Minimum add-ons	340.11	6.4	11.7	370.83	6.5	9.0
Total	5,321.07	100.0	7.4	5,682.35	100.0	6.8
Retirement						
Initial P.	2,284.69	64.8	7.6	2,483.34	65.8	8.7
Revaluations	1,043.14	29.6	6.1	1,077.52	28.5	3.3
Minimum add-ons	198.65	5.6	12.8	215.78	5.7	8.6
Total	3,526.48	100.0	7.4	3,776.64	100.0	7.1
Widowhood						
Initial P.	452.85	42.8	6.8	484.03	43.2	6.9
Revaluations	479.79	45.3	5.9	500.06	44.6	4.2
Minimum add-ons	126.18	11.9	9.4	137.46	12.3	8.9
Total	**1,058.82**	**100.0**	**6.7**	**1,121.55**	**100.0**	**5.9**

Note: December payroll.
Source: MTAS. Secretary of State for Social Security. Economic and financial report.
Social Security Budgets 2008.

NUMBER OF NEW RETIREMENTS, TOTAL SYSTEM

Category	2003		2004		2005		2006		2007	
Age	No.	%	No.	%	No.	%	No.	%	No.	%
Early Retirement	**76,292**	**43.83**	**86,265**	**49.58**	**89,667**	**42.00**	**98,350**	**46.47**	**96,040**	**44.83**
– With reduction coefficient	57,228	32.87	58,740	33.76	57,609	26.98	59,655	28.18	55,643	25.97
≤60	30,504	17.52	28,767	16.54	27,727	12.99	25,588	12.09	21,922	10.23
61	6,419	3.69	7,850	4.51	8,145	3.81	9,217	4.35	8,620	4.02
62	7,226	4.15	7,098	4.08	8,058	3.77	8,964	4.24	8,544	3.99
63	8,171	4.69	7,273	4.18	7,190	3.37	8,789	4.15	8,469	3.95
64	4,908	2.82	7,752	4.46	6,489	3.04	7,097	3.35	8,088	3.78
– Without reduction coefficient	3,398	1.95	4,491	2.58	4,943	2.32	4,834	2.28	4,851	2.26
– Special at 64 years	4,799	2.76	7,294	4.19	6,187	2.90	6,052	2.86	6,564	3.06
– Partial	10,867	6.24	15,740	9.05	20,928	9.80	27,809	13.14	28,982	13.53
Retirement ≥ 65 years	**97,788**	**56.17**	**87,710**	**50.42**	**123,839**	**58.00**	**113,311**	**53.53**	**118,183**	**55.17**
Total non SOVI* pensions	**174,080**	**100.00**	**173,975**	**100.00**	**213,506**	**100.00**	**211,661**	**100.00**	**214,223**	**100.00**
SOVI pension*	**16,494**	**–**	**13,129**		**51,764**		**23,468**		**17,561**	
Total retirement	**190,574**	**–**	**187,104**		**262,270**		**235,129**		**231,78**	

*SOVI: Ageing and Invalidity Insurance Pensions.
Source: INSS. (National Institute of Social Security).

VALUATIONS AND RULINGS ON SITUATION OF DEPENDENCY

Region	Applications		Programmed Valuations		Valuation Made		Rulings		Grade 3		Grade 2 Level 2	
	Nº	%	Nº	%	Nº	%	Nº	%	Nº	%	Nº	%
Andalusia	104,959	36.38	89,252	85.07	75,704	72.13	62,424	59.47	48,752	78.1	5,991	9.6
Aragon	13,322	4.62	11,994	90.03	10,426	78.26	8,838	66.34	7,900	89.39	348	3.94
Asturias	14,596	5.06	15,490	106.12	5,157	35.33	3,737	25.6	3,737	100	0	0
Balearic Is.	8,733	3.03	2,176	24.92	417	4.77	417	4.77	417	100	0	0
Canary Is.	10,140	3.51	9,005	88.81	6,599	65.08	2,697	26.6	2,178	80.76	176	6.53
Cantabria (1) (3)	6,319	2.19	974	15.41	974	15.41	974	15.41	974	100	0	0
Castilla y León (1) (2)	2,720	0.94	2,720	100	2,720	100	2,720	100	2,720	100	0	0
Castilla La Mancha	17,907	6.21	16,371	91.42	13,768	76.89	8,756	48.9	7,348	83.92	447	5.11
Catalonia	32,358	11.18	24,749	76.72	24,749	76.72	24,749	76.72	22,547	91.1	2,129	8.6
Comunidad Valenciana	10,163	3.52	9,681	95.26	7,035	69.22	6,999	68.87	6,996	99.96	2	0.03
Extremadura	7,172	2.49	6,729	93.82	5,767	80.41	5,292	73.79	3,262	61.64	525	9.92
Galicia	30,088	10.43	6,510	21.64	6,510	21.64	6,510	21.64	5,139	78.94	433	6.65
Madrid	1,794	0.62	1,794	100	1,794	100	1,572	87.63	1,155	87.63	417	26.53
Murcia (2)	4,040	1.4	4,040	100	4,040	100	4,040	100	4,040	100	0	0
Navarre (1) (2)	12,600	4.37	10,042	79.7	10,042	79.7	9,581	76.04	3,970	41.44	1,446	15.09
Basque Country (1) (2)	6,754	2.34	6,754	100	6,754	100	6,754	100	6,754	100	0	0
La Rioja	3,660	1.27	1,766	48.25	1,178	32.19	2,141	58.5	1,616	75.48	174	8.13
DT IMNSERSO Ceuta	579	0.2	539	93.09	426	73.58	446	77.03	268	60.09	55	12.33
DT IMNSERSO Melilla	736	0.26	762	103.53	577	78.4	621	84.38	257	41.38	90	14.49
TOTAL	**288,540**	**100**	**221,388**	**76.73**	**184,637**	**63.99**	**159,268**	**55.2**	**130,030**	**81.64**	**12,233**	**7.68**

(1) Managing body which does not use the computing application running the SAAD Information System.
(2) Information provided by the Managing Bodies to the Imserso DG by CD for minimum level payment.
(3) Cantabria: applications recorded in the SISAAD computing application, rest of the information provided by CD.
Source: IMSERSO, Statistics Service of the Assistant Deputy Directorate for Valuation, Quality and Evaluation. Situation at 24th February 2008.

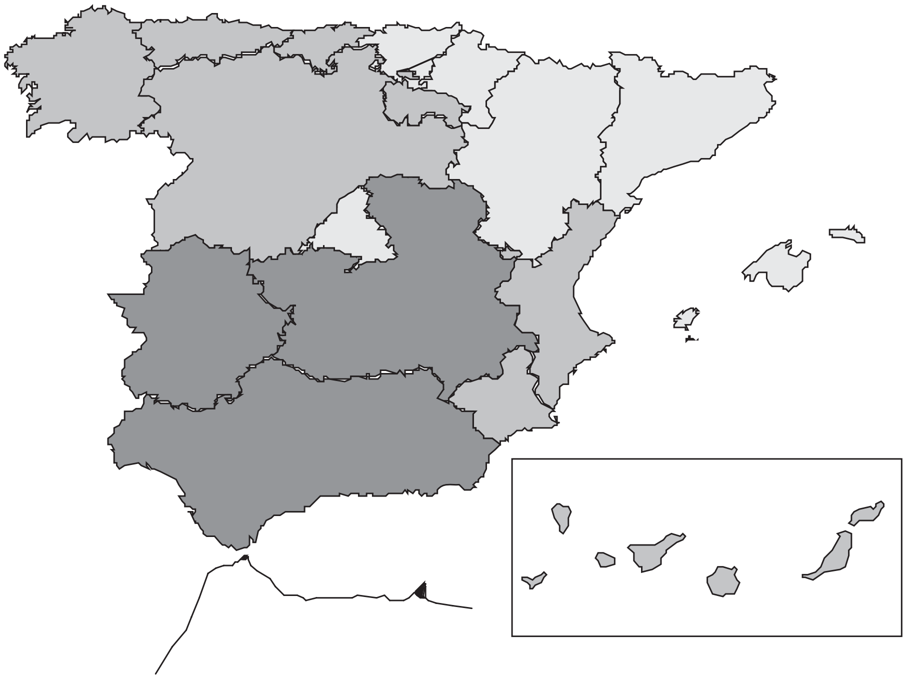
SOME INDICATORS ON INTEGRATION OF IMMIGRANTS

Years	(1) Population from outside Spain		(2) National-isations	(3) Mixed marriages		(4) Births of foreign father or mother		(5) Foreign students (non-university education)		(6) Families reunited
	Authorised residents (at 31 December 2007)	Foreigners registered (at 1 January 2007)		Absolute figures	% of total marriages	Absolute figures	% of total births	Absolute figures	Foreigners per 1,000 students	
1997	609,813	–	10,310	9,115	4.6	19,126	5.2	63,044	8.3	–
1998	719,647	637,085	13,177	10,411	5.0	20,706	5.7	72,335	9.9	–
1999	801,329	748,954	16,384	11,259	5.4	24,486	6.4	80,587	11.0	–
2000	895,720	923,879	11,999	11,794	5.4	31,319	7.9	107,303	14.9	–
2001	1,109,060	1,370,657	16,743	14,094	6.8	40,985	10.1	141,916	19.9	–
2002	1,324,001	1,977,946	21,810	18,460	8.7	52,740	12.6	207,112	29.5	14,063
2003	1,647,011	2,664,168	26,556	26,082	12.3	63,591	14.4	309,058	44.2	33,814
2004	1,977,291	3,034,326	38,335	30,930	14.3	73,457	16.2	402,116	56.9	71,532
2005	2,738,932	3,730,610	42,829	29,604	14.2	82,296	17.6	459,291	64.8	74,919
2006	3,021,808	4,144,166	62,335	25,008	12.3	93,152	19.3	529,461	74.0	97,759
2007	3,979,014	4,519,554	–	–	–	–	–	608,040	83.7	128,161

Sources:
(1) Foreigners with residency authorisation at 31 December: MTAS, Secretary of State's Office for Immigration and Emigration, *Informes Estadísticos (Statistical Reports).*
Registered foreigners: INE, *Municipal Register.*
(2) MTAS, Secretary of State's Office for Immigration and Emigration, *Statistics Yearbooks.*
(3) (4) INE, *Movimiento Natural de la Población (Natural Movement of the Population).*
(5) Foreign pupils: MEC, *Estadísticas de las Enseñanzas no universitarias (Statistics on Non-University Education).*
(6) MTAS, Secretary of State's Office for Immigration and Emigration, *Avance de Datos (Estimated Figures), 2007.*

RATES OF RELATIVE POVERTY BY REGION (National Threshold)

(income by unit of consumption*)



< 13 % Between 13% and 29% > 29 %

* In 2006: 6,860 annual euros.
Source: INE, *Encuesta de Condiciones de Vida, 2006. (Living Conditions Survey)*