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One sickness, many cures: Spain's anti-crisis prescription

Popular opinion notwithstanding, Ukraine has much in common with other European countries—at least when it comes to economic problems.

And although each country resolves these problems on its own, borrowing from other countries in this area could prove helpful to Ukraine's President-elect.

ICPS analyst Kateryna Zarembo looked more closely at this in a recent article for the paper the Day

Of all the EU countries, the one whose economy has been hit to a similar degree as Ukraine's is the Kingdom of Spain—although there are obviously differences as well. First of all, the Spanish crisis began to be felt domestically in Spring 2008. Secondly, the Spanish Government did not recognize its emergence as a threat to the country's own economy and woke up only when the entire world was talking about a crisis. Thirdly, because of the first two factors, Spain is the one country that the European Union has been predicting will come out of the crisis last of the 27 members. But at least Brussels has not proposed the humiliating idea of intervening in national anti-crisis measures, as has been the case with Ireland and Greece.

Still, the course of the disease has many features in common with Ukraine. As in Ukraine, the crisis came just when the country's economy was growing sharply. In Spain, the job expansion rate between 2004 and 2008 was the highest in the EU. This was primarily driven by construction, which was attracting considerable foreign capital. During that same period, the level of foreign investment in Ukraine in 2007 was higher than that of Hungary, which was already enjoying the benefits of being in the Euro club.

As in Ukraine, the level of trust in Spain's leadership plunged. 78% of Spaniards have little trust in their Premier, Jose Luis Zapatero, according to a recent opinion poll. The rating of President Yushchenko in Ukraine was reflected in the number of votes he got on 17 January 2010.

Mr. Zapatero has been luckier: he still has time to improve his ratings prior to the 2012 election. Still, he faces a double challenge. He not only has to immediately apply anti-crisis measures but also effectively carry the half-year presidency of the European Union, which now falls to Spain. The Spanish leader has decided to combine these two tasks into one, making Spain's development a priority of his EU leadership. Among others, he has justly pointed out the common goals of European states: recovery from the financial crisis, combating unemployment and protecting civil rights. Just before the New Year, he revealed specific measures in the national anti-crisis strategy.

Typical of Spain's anti-crisis measures is that they are, so far, being undertaken without IMF credits, despite the fact that the country's budget has a deficit of nearly 11% of GDP. Another important factor is the timely passing of the 2010 Budget, in which the designated measures have been allocated the necessary funding.

So what does Spain's anti-crisis strategy consist of? Its essence can be stated thus: investment, support for Spanish citizens and savings. At first glance, it would seem that the last element does not really mix with the first two. Still, investment can precisely bring savings in the medium term, as the state in the meantime supports that part of the population that has been hit hardest by the crisis through subsidies and new opportunities.

Investment

Mr. Zapatero has firmly stated on more than one occasion that not a single funding project in R&D and technological innovations will be cut back in 2010 because of the crisis. Among other things, he is particularly interested in achievements in alternative energy and energy conservation. But spending is not limited to these two areas. The Spanish Government has been offering subsidies to individual Spaniards to improve their homes with insulated windows and to buy electric automobiles. Thus, the Spanish are killing several birds with one stone: not just saving fuel but also protecting the environment and combating climate change—not to mention promoting energy security. The concern of the leader of the Socialist Workers Party of Spain about ecology even found its way into the Law on sustainable economic growth, one of the key pieces of legislation in the country's anti-crisis strategy. One of its priorities is the development of individual sectors of the economy that are linked most strongly to the problem of climate change.

Support for citizens

Spain's Government has decided to ignore the Budget deficit and instead to be generous in funding assistance to ordinary Spaniards and businesses. Thus, Mr. Zapatero plans to raise the minimum wage and pension. Spaniards between 25 and 40 who have been laid off will have the right to enter a post-secondary institution to take advantage of the poor job market and gain a master's degree for free. In addition, the state is providing incentives for businesses to hire young people on a permanent basis. The problem with temporary employment, which is widespread in both Spain and other EU countries, is that a large part of the

workforce is under constant threat of losing their jobs the minute their short-term contracts expire.

The Government has been trying to resolve this problem by raising the hourly wage for temporary work higher than the minimum for permanent workers. Yet another measure could be reducing the size of the social benefits that employers must pay when they lay off workers. The idea is that companies could, in this way, improve their own productivity by creating openings and hiring better-qualified personnel. Finally, in order to stimulate job creation, local administrations have been allocated additional budget money to create new positions.

In addition to all this, the Government wants to simplify red tape for businesses and foster a more competitive environment. The services sector is being singled out for liberalization, under an "Omnibus" bill and amendments to 46 existing laws. Thus, businesses will now be far less restricted in offering services—for instance, newspaper kiosks will be able

to sell tobacco products—which should increase their competitiveness and, the Government hopes, revive internal economic processes.

Savings

As to all other areas of public administration, the opposition has demanded that the anti-crisis program involve severe cutbacks at the national level. The details of this part of the plan have not been broadcast yet, but, most likely, they will reflect the project to "rejuvenate" the domestic economy that is being actively lobbied by the opposition National Party. The first cut will be to eliminate unnecessary government offices and reduce public administration expenditures. Moreover, this will extend to Spain's autonomous regions, which are responsible for local public spending.

Whether or not these policies bring the desired results will be evident in short order. Mr. Zapatero predicts a slow recovery from the crisis even this year. There is no question that, for certain

groups of Spaniards, the crisis has offered serious advantages and could possibly even lead to the resolution of perennial problems, such as employment for young people. Taking advantage of extremely negative circumstances to the benefit of the country—such as reducing the level of air pollution through alternative energy—is both bold and innovative and offers an excellent example. Yet another positive aspect of Spain's anti-crisis management is investing in the quality of reform and not in the speed of its implementation.

Where the Spanish Government undoubtedly outperforms its Ukrainian counterparts is in having a focused anti-crisis strategy and specific propositions that are understandable to the ordinary voter. Let's hope that a similar strategy becomes equally real in Ukraine. ■

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Holidays put consumer mood on hold

The end of the New Year holidays—or the approaching election—seemed to dampen the mood among Ukrainians. In January 2010, the Consumer Confidence Index (CCI) continued to rise, but an almost insignificant 0.8pp to 74.3. This was largely due to a shift in estimations of their own current standing among Ukrainian consumers. The ICS fell 3.5pp to 62.3. This trend was counterbalanced by continuing growth in economic expectations, heated up by campaign promises among politicians running for the President's office. The Index of Economic Expectations (IEE) rose 3.7pp to 82.3 at the start of 2010.

In January 2010, inflationary expectations and expectations of changes in unemployment took a turn for the worse. The Index of Inflationary Expectations (IIE) rose 3.2pp to 183.7, which could be a reflection of rising

prices, especially for food, partly due to seasonal factors and partly due to the election. Expectations of growing joblessness increased considerably, as the IECU jumped 6.1pp to 127.8. This was likely an adjustment in perceptions of the labor market, which had been overly optimistic at the end of 2009. ■

Consumer Confidence Index in Ukraine

Month, year	Consumer Confidence Index (CCI)	Index of the Current Situation (ICS)	Index of Economic Expectations (IEE)	Index of Inflationary Expectations (IIE)	Index of Expectations of Changes in Unemployment (IECU)
01'10	74.3	62.3	82.3	183.7	127.8
12'09	73.5	65.8	78.7	180.5	121.7
01'09	41.8	40.4	42.8	186.2	164.6

Sources: GfK Ukraine, International Centre for Policy Studies

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