

# Global Economic Dynamics and forecast for Markets

A first assessment on the commitments done  
by Spanish new government

December, 2011


andbanc  
Private Bankers



## Measures announced by the new government in Spain

Scope	Measures announced	Andbanc Assessment.
<ul style="list-style-type: none"> <li><b>Budgetary austerity and fiscal discipline.</b></li> </ul>	<ul style="list-style-type: none"> <li><b>The first law to pass will be the “<u>Budget stability</u>” law:</b> Commitment to reduce the deficit by €16.5bn in 2012 (4.4%) and to fix it at 3% in 2013. Progressive reduction of debt to 60% in 2020. Maximum overall structural deficit of 0.4% for all Public Authorities from 2020.</li> <li><b>New “Non availability of expenditure ” agreement</b> in the extension of the 2011 budget (in addition to those signed in January and May).</li> <li><b>Redesigning the public sector:</b> a) Zero rate of replacement (except for security and police forces and basic public services) and <u>dismissal of public employees that have not passed competitive exams</u>. b) cuts in the running costs of Public Administration c) Integrated management of property and rentals. d) Reform of central purchasing. e) Development of new models for the <u>management of public TV channels, opening the door to privatization</u>. f) Streamlining of resources. g) Law on Grants with greater transparency, better implementation and evaluation of their impact.</li> </ul>	<p>😊</p> <ul style="list-style-type: none"> <li>We welcome <u>deficit and debt limits</u> amongst the various Public Authorities being governed by law, and the <u>responsibility of each one in case of default</u>.</li> <li>Ex-ante controls and establishment of <u>“personal” responsibility of public managers</u>.</li> <li>There is a view that there is some margin (saving capacity) in points of public TV channel management and areas of integral management of assets, which is aimed at both generating income (from sale of property) as well as cost reduction (through rentals).</li> <li>The aim of Rajoy is to reduce the gap between expenditures and revenues by <u>€16.5 bn in 2012</u>.</li> </ul>
<ul style="list-style-type: none"> <li><b>Restructuring the financial system.</b></li> </ul>	<ul style="list-style-type: none"> <li><b>Commitment to complete the restructuring process in the first six months of the year:</b></li> <li>a) <u>Sale of completed properties</u> held by financial institutions. b) <u>Prudent valuation of less liquid assets</u>. c) <u>Assumption of latent or hidden losses</u>. d) Which will require a <u>new “wave” of restructuring</u>. e) <u>Change in the system of supervision and regulation of the Bank of Spain</u>.</li> </ul>	<p>😊</p> <p>The target set for the sector does not seem over ambitious.</p> <ul style="list-style-type: none"> <li><u>We like the critical view that Rajoy shows towards the Bank of Spain</u>. And we should stress his desire to strengthen the institution's technology to ensure control of the system.</li> <li><u>We expect a painful process, although slower than proposed by the new government</u>, but without doubt, the objectives established are in line with restructuring and orthodoxy, which is a reason for optimism.</li> </ul>

## Measures announced by the new government in Spain

Scope	Measures announced	Andbanc Assessment.
<ul style="list-style-type: none"> <li>▪ <b>Fiscal Reform:</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>VAT:</b> New VAT regime for the self-employed and small businesses.</li> <li>▪ <b>VAT:</b> Maintenance of super-reduced rate for (usual) home purchase.</li> <li>▪ <b>Corporation tax:</b> <u>The turnover has increased (5 to 12 million euros) for access to a special regime of 20%, intended for small companies. And the turnover limit to qualify for the reduced rate of 25% is increased to 500 million.</u></li> <li>▪ <u><b>The tax on non-distributed profits will be 10% less when these are allocated to the acquisition of new assets (investment).</b></u></li> <li>▪ <b>Investment:</b> Companies are not taxed on the sale of fixed assets when income is reinvested.</li> <li>▪ <b>Promoting employment.</b> <u>€3,000 tax subsidy for hiring the first employee.</u></li> <li>▪ <b>Income Tax:</b> <u>The income tax deduction for investment in usual home is restored.</u></li> <li>▪ <b>Tax on savings:</b> Improved tax treatment of pension plans.</li> <li>▪ Law to support business people.</li> <li>▪ Automatic compensation for any debt recognized by Public Authorities</li> </ul>	 <ul style="list-style-type: none"> <li>▪ With these measures the new government intends to give some support to the property sector and to give "relief", although moderately, to the situation of oversupply. <u>At Andbanc, we do not in any case see these measures as a mechanism to "reactivate" the sector;</u> a mechanism of "<u>limited positive impact</u>" in any case that could contribute, gradually, to reduce excess capacity (stocks) and the future formation of a floor in these assets.</li> <li>▪ We welcome the <u>extension of the group of companies that will benefit from the special regime of corporation tax.</u></li> </ul>

## Measures announced by the new government in Spain


Scope	Measures announced	Andbanc Assessment.
<ul style="list-style-type: none"> <li>▪ <b>Structural Reform (Labour Market):</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Unions:</b> Reform of collective bargaining with respect to structure and content.</li> <li>▪ <b>Youth Employment Plan:</b> 100% tax deductions during the first year in any contracts for people under the age of 30 who start their first job.</li> <li>▪ Mechanisms to prevent labour abuse (discrimination and absenteeism).</li> <li>▪ Encouraging the return to work after periods of inactivity for employment matters.</li> <li>▪ It will give priority to extrajudicial resolution of disputes.</li> <li>▪ Increasing training opportunities.</li> <li>▪ Rigorous evaluation of the effectiveness of employment policies.</li> <li>▪ Moving holidays to the closest Monday</li> </ul>	<p>☹</p> <ul style="list-style-type: none"> <li>▪ Only two measures announced in this area attract our attention: a) <u>Union claims will be negotiated at an "optimal regional or industry level".</u> A very positive aspect if it is applied generally and <u>helps in setting wages according to specific conditions and not by collective agreements.</u> b) <u>Tax deductions for youth employment.</u></li> <li>▪ <u>Much of the work was done by the PSOE with the reform of June 2010: Cost for unfair dismissal from 45 to 33 days for all new permanent contracts (although we'd still be in the top half for redundancy costs in the EU). Recognition of dismissal in cases of past and planned losses, or even in the case of persistent decline in income. Dismissal for absenteeism. Suspension of the validity of collective agreements (although here it must be applied generally).</u></li> <li>▪ <u>Despite the reforms passed, much remains to be done (temporary ratio of 1 in 3).</u></li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Structural Reforms (competitiveness):</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Removing barriers to the free movement of goods and services throughout the country (through a system of mutual recognition of licenses and permits).</li> <li>▪ Reduction in the number of regulators.</li> <li>▪ Reform of the energy system, using all available technologies without exception.</li> <li>▪ Support for business innovation.</li> <li>▪ Comprehensive Plan for Tourism.</li> </ul>	<p>☹</p> <p><u>None of these measures is, at present, the basis for the country to embark on a process of long-term strategic positioning.</u> Only the commitment to support innovation points to a more ambitious horizon, but it is necessary to specify this support.</p>

## Measures announced by the new government in Spain

Scope	Measures announced	Andbanc Assessment.
<ul style="list-style-type: none"> <li>▪ <b>Structural Reforms (Education):</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>New education law aimed at creating a "final law."</b> This law will promote the idea of competition in schools. The law will also promote 3 years of high school education and Spanish-English bilingualism throughout the educational system.</li> <li>▪ <b>Promoting a National Strategy for Quality Education.</b></li> <li>▪ <b>New national system of access to the teaching function.</b></li> <li>▪ Reforms in the university system.</li> </ul>	<p style="text-align: center;">☹</p> <ul style="list-style-type: none"> <li>▪ Promoting stability in laws governing education is a positive factor. Nonetheless, we <b>consider these proposals insufficient</b>, at least to achieve a drastic change in the poor state of the data.</li> <li>▪ The education system in Spain continues to be stuck in mediocrity, as shown by the results of the OECD PISA 2009 report - see table on slide 8). Of the 65 countries studied, Spain remains well below the OECD average in the three study subjects. In reading comprehension Spain is 7 positions below the OECD average, in mathematics 10 positions below, and in scientific ability 13 positions below.</li> <li>▪ <u>The debate about the educational model remains stalled</u>, but we think it is necessary to shift this model from the current assessment according to content to a mixed one based on content and skills (as assessed in the PISA study). We hope this is reflected in its commitment to a National Strategy for Quality Education.</li> </ul>



## Measures announced by the new government in Spain

Scope	Measures announced	Andbanc Assessment.
<ul style="list-style-type: none"> <li>▪ <b>Structural Reforms (Social Welfare):</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Health:</b> <u>Basic Services Law</u>. A portfolio of "common basic services" will be designed for all citizens to ensure funding for these services. In their budgets, <u>authorities must distinguish between spending on basic services and other health services.</u></li> <li>▪ <b>Removal of early retirement</b> (except in very exceptional circumstances). <u>Bringing the actual age of retirement and the legal age closer together.</u></li> <li>▪ <b>The retirement pension</b> is calculated on the basis of <u>average salary throughout the working life.</u></li> </ul>	 <ul style="list-style-type: none"> <li>▪ Quite simply, <u>the new Basic Services Law seems to be aimed at reducing the number of products and services under the umbrella of the state.</u></li> <li>▪ <u>Bringing the actual retirement age nearer the legal age is positive</u>, insofar as it is useless increasing the legal age if it does not actually mean any savings for the state.</li> <li>▪ Changing the basis for calculating pensions <u>by taking into account the wages earned during the entire working life involves a convergence towards the European average.</u> This will actually result in a lower cost to the state, which can lead to and encourage private pension plans and savings.</li> </ul>

**Overall assessment:** 😊😊😊😊😞😞😞

There are positive aspects in the series of commitments announced today (especially on budgetary discipline, fiscal reform and social spending), however, the lines of action announced in key economic areas such as labour market reform, competitiveness and education seem poor to us. Three structural areas with historically significant deficits and which are precisely the areas that should lead the recovery.

Our initial mark is rather "mediocre" and we believe that everything announced so far should only be the "beginning" of a long course of action. Otherwise, with the current proposals, Spain will not achieve a better strategic position globally and will remain stuck in that group of countries that depend on the outside to experience an improvement in their dynamics.

## Redundancy costs in Europe

### COSTE DEL DESPIDO EN EUROPA\*

País	Indemnización
Irlanda	3 meses y 8 días = 98 días (pérdida de salarios) 98 x 65,75 = 6.443,5 €
Dinamarca	De 1 a 6 meses de salario 3 x 1.972,5 = 5.917,5 €
Italia	15 meses de salario 15 x 1.972,5 = 29.587,5 €
Bélgica	6 meses de salario 6 x 1.972,5 = 11.835 €
Portugal	De 15 a 45 días de salario por año de servicios 30 x 65,75 x 10 = 19.725 € + salario tramitación Total = 26.168,5 €
Alemania	1 mes de salario por año de servicios 10 x 1.972,5 = 19.725 € + salarios tramitación Total = 26.168,5 €
Francia	6 meses de sueldo 6 x 1.972,5 = 11.835 €
Reino Unido	Indemnización básica 659,02 x 10 = 6.590,2 + indemnización accessoria por pérdida de salarios Total = 13.033,7 €
Holanda	Indemnización discrecional 18 x 1.972,5 x 1 = 35.505 €
España	45 días de salario por año de servicio 45 x 65,75 x 10 = 29.587,5 + 98 días de tramitación de la sentencia Total = 36.031 €

\* Caso: despido improcedente de un trabajador de 56 años de edad, con una antigüedad en la empresa de 10 años y un salario bruto anual de 24.000 euros

FUENTE: SAGARDOY ABOGADOS

**Starting point:** Cost for unfair dismissal = 45 days per year (about 36,000 euros for unfair dismissal of a worker with more than 10 years of seniority). But under the "Contract to promote employment" system the cost was 33 days. This contract applied to young people aged 16-30, people over 45, people unemployed for over 6 months, the disabled and unemployed women.

#### June 2011 Reform (Zapatero mandate):

1. Extends the new system off 33 days to all new contracts (without retroactive effect). The actual cost was reduced from €36,000 to €26,400 (still at the top of the range).
2. Recognition of fair dismissal: Company losses for more than 6 months (present or planned losses) or companies with a persistent decline in income.
3. Suspension of the validity of the collective agreement in certain critical cases for the company.



# PISA 2009 report on education system

■ COMPRENSIÓN LECTORA		■ COMPETENCIA MATEMÁTICA		■ COMPETENCIA CIENTÍFICA		■ COMPRENSIÓN LECTORA		■ COMPETENCIA MATEMÁTICA		■ COMPETENCIA CIENTÍFICA	
1	Shanghái (China)	556	1	Shanghái (China)	600	1	Shanghái (China)	575	38	Luxemburgo	472
2	Corea del Sur	539	2	Singapur	562	2	Finlandia	554	39	Austria	470
3	Finlandia	536	3	Hong Kong	555	3	Hong Kong	549	40	Lituania	468
4	Hong Kong	533	4	Corea del Sur	546	4	Singapur	542	41	Turquía	464
5	Singapur	526	5	Taipéi (China)	543	5	Japón	539	42	Dubai (EAU)	459
6	Canadá	524	6	Finlandia	541	6	Corea del Sur	538	43	Rusia	459
7	Nueva Zelanda	521	7	Liechtenstein	536	7	Nueva Zelanda	532	44	Chile	449
8	Japón	520	8	Suiza	534	8	Canadá	529	45	Serbia	442
9	Australia	515	9	Japón	529	9	Estonia	528	46	Bulgaria	429
10	Holanda	508	10	Canadá	527	10	Australia	527	47	Uruguay	426
11	Bélgica	506	11	Holanda	526	11	Holanda	522	48	México	425
12	Noruega	503	12	Macao (China)	525	12	Taipéi (China)	520	49	Rumanía	424
13	Estonia	501	13	Nueva Zelanda	519	13	Alemania	520	50	Tailandia	421
14	Suiza	501	14	Bélgica	515	14	Liechtenstein	520	51	Trinidad y Tobago	416
15	Polonia	500	15	Australia	514	15	Suiza	517	52	Colombia	413
16	Islandia	500	16	Alemania	513	16	Reino Unido	514	53	Brasil	412
17	Estados Unidos	500	17	Estonia	512	17	Eslovenia	512	54	Montenegro	408
18	Liechtenstein	499	18	Islandia	507	18	Macao (China)	511	55	Jordania	405
19	Suecia	497	19	Dinamarca	503	19	Polonia	508	56	Túnez	404
20	Alemania	497	20	Eslovenia	501	20	Irlanda	508	57	Indonesia	402
21	Irlanda	496	21	Noruega	498	21	Bélgica	507	58	Argentina	398
22	Francia	496	22	Francia	497	22	Hungría	503	59	Kazajistán	390
23	Taipéi (China)	495	23	Rep. Eslovaca	497	23	Estados Unidos	502	60	Albania	385
24	Dinamarca	495	24	Austria	496	<b>Media OCDE</b>		<b>501</b>	61	Qatar	372
25	Reino Unido	494	<b>Media OCDE</b>		<b>496</b>	24	República Checa	500	62	Panamá	371
26	Hungría	494	25	Polonia	495	25	Noruega	500	63	Perú	370
<b>Media OCDE</b>		<b>493</b>	26	Suecia	494	26	Dinamarca	499	64	Azerbaiyán	362
27	Portugal	489	27	Rep. Checa	493	27	Francia	498	65	Kirguistán	314
28	Macao (China)	487	28	Reino Unido	492	28	Islandia	496			
29	Italia	486	29	Hungría	490	29	Suecia	495			
30	Letonia	484	30	Luxemburgo	489	30	Austria	494			
31	Eslovenia	483	31	Estados Unidos	487	31	Letonia	494			
32	Grecia	483	32	Irlanda	487	32	Portugal	493			
<b>33</b>	<b>ESPAÑA</b>	<b>481</b>	33	Portugal	487	33	Lituania	491			
34	Rep. Checa	478	<b>34</b>	<b>ESPAÑA</b>	<b>483</b>	34	Eslovaquia	490			
35	Eslovaquia	477	35	Italia	483	35	Italia	489			
36	Croacia	476	36	Letonia	482	<b>36</b>	<b>ESPAÑA</b>	<b>488</b>			
37	Israel	474	37	Lituania	477	37	Croacia	486			

Fuente: OCDE. EL PAÍS





## Legal Disclaimer

All the sections in this publication have been prepared by the team of financial analysts from the financial institution in collaboration with the marketing team.

The views expressed in this document are based on the joint assessment of different studies and public reports made by third parties. These reports contain evaluations of a technical and subjective nature on economic data and relevant social and political factors, from which the financial institution's analysts have extracted, evaluated and summarized the information they believe to be the most objective, subsequently agreeing upon and drawing up reasonable opinions on the issues analysed herein.

The opinions and estimates in this document are based on the market events and conditions that took place before the publication of this document, and therefore cannot be determining factors in the evaluation of future events that take place after its publication.

The financial institution may hold views on financial instruments that differ completely or partially from the general market consensus. The market indices chosen have been selected following the exclusive criteria that the financial institution regards as most appropriate.

The financial institution cannot in any way guarantee that the predictions or events given in this document will take place, and expressly reminds readers that any past performances mentioned do not in any circumstances imply future returns; that the investments analysed may not be suitable for all investors; that investments can fluctuate over time in terms of their share price and value; and that any changes that might occur to interest rates or currency exchange rates are other factors that may also make it unadvisable to follow the opinions expressed herein.

This document cannot be regarded, under any circumstances, as an offer or proposal to buy the financial products or instruments that may have been mentioned, and all the information herein is for guidance purposes and should not be regarded as the only relevant factor when it comes to making a decision to proceed with a specific investment.

This document does not, therefore, analyse any other determining factors for properly appraising the decision to make a specific investment, such as the risk profile of the investor, his/her knowledge, experience and financial situation, the duration or the higher or lower liquidity of the investment in question. Consequently, investors are responsible for seeking and obtaining the appropriate financial advice in order to assess the risks, costs and other characteristics of any investments they wish to make.

The financial institution cannot accept any responsibility for the accuracy or suitability of the evaluations or estimates of the models used in the valuations in this document, or any possible errors or omissions that may have been made when preparing this document.

The financial institution reserves the right to change the information in this document at any time, whether partially or in full.