



**d+i** developing  
ideas

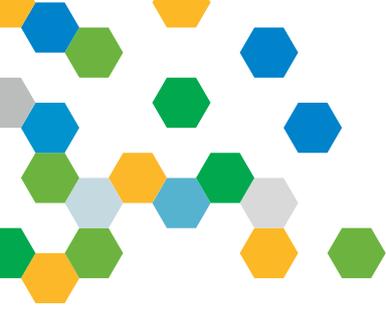
LLORENTE & CUENCA

A PORTRAIT OF THE SPANISH MOMENT AND ITS SCENARIOS



## Spain defines the economic crisis and confronts a new political reform

Madrid, April 2017



The official visit of the Spanish President, Mariano Rajoy, to Brazil and Uruguay from 24<sup>th</sup> to 26<sup>th</sup> of April shall prove to be particularly significant because he will attempt to enrich the negotiations between the European Union and Mercosur at a time when the Spanish Government has joined the so-called *hard nucleus* of the EU –Germany, France and Italy– and assumed the need for it to continue moving full speed after resolving the negotiated departure of the United Kingdom and some of its Member Countries explicitly outline the most realistic way to adjust their rhythms to the integration process both economically and politically sought by the Union’s heavyweight States, 60 years after the founding Treaty of Rome.

Latin America takes on a new dimension given the current circumstances surrounding the European Union. **Donald Trump’s presidency with a commitment towards protectionism**, contrary to regional free trade treaties –including the one being negotiated between the United States and the EU– force the members of the Union to go to great lengths to achieve new partners and alternative markets. To the extent that all of the Member Countries, that have joined **the European project of unity, can continue maintaining 25 percent of the world’s GDP** and overcome the current conditioning factors that tied it with the United States, in detriment of other options including the Ibero-American countries.

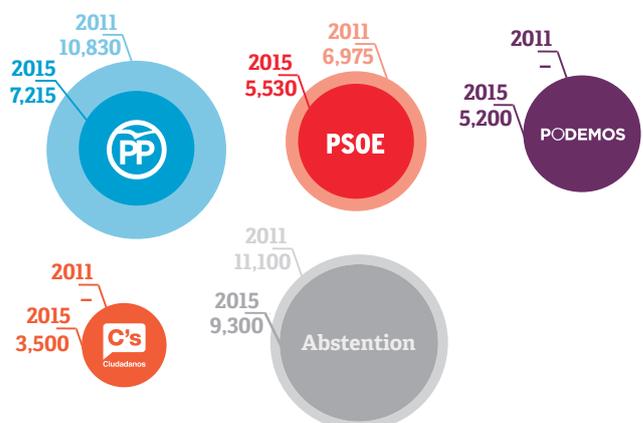
The Euro-skepticism inherent in the populism emerging in the European Union (Holland, France, Poland, Italy and, to a lesser extent, Germany) and the rising outbreaks of **nationalism**, isolationism in the United Kingdom –as in Great Britain and Northern Ireland– foster Mariano Rajoy’s suitability as the *ambassador* of the EU in Latin America, due to that the expressions of Europhobia are not socially or politically relevant in Spain and because Mariano Rajoy is the only leader in the Union’s four major countries who, at least temporarily, enjoys stability and has no set date for facing electoral processes which would be decisive in the immediate continuity of their governance.

Nonetheless, the President of the Spanish Government will be arriving in Brasilia and Montevideo with relative political solidity. Between 2014 and 2017, there have been a series of political disruptions in Spain which are altering the linear route of the democratic system that

started off with the approval of the 1978 Constitution, yet not always or not necessarily in a negative manner. Under Rajoy’s mandate –as a fully operative government from December 2011 until December 2015, as an interim government until 2<sup>nd</sup> November 2016 and since then again as a fully operative government– there have been some decisive events in Spain:

- 1 Succession in the Crown.** The abdication of King Juan Carlos I de Borbón y Borbón in June 2014, and the subsequent proclamation of Felipe VI, the heir to the Crown by constitutional mandate.
- 2 Two new political forces .** The rise, first in the 2014 European elections, then in the May 2015 autonomous regional and municipal elections, in the general elections on 20<sup>th</sup> December of that same year and in those on 26<sup>th</sup> June 2016, of two new political forces: **Podemos** (called Unidos Podemos in 2016) left wing party, which fits very well into the model of authors who inspired the populism seen in some Latin American countries, and **Ciudadanos** who define themselves as centrist progressive liberals. These emergences –which account for more than 100 of the 350 seats in the Congress of Deputies– have broken the traditional imperfect two-party system in Spain. (Figure 1 and 2).

Figure 1. 2011 – 2015 election results (000).



Source: Compiled internally

**3 Consolidation of the sovereigntist process in Catalonia.** The appearance, in 2012, and later consolidation of what is known as the sovereigntist process in **Catalonia** which, with considerable force, is demanding a referendum on self-determination and which is supported by Podemos –as they support a constituent process that recognizes the State as pluri-national and subjects the form of the State to a binding consultation vote.

**4 Two elections.** The unprecedented organization of two legislative elections in a period of only seven months (December 2015 and June 2016), the also unprecedented failed investitures of the ex-general secretary of the PSOE party, Pedro Sánchez (March 2016) and Mariano Rajoy (September 2016) and the Parliament's designation of the latter in a second investiture session as President of the Government in November of last year.

**5 Minor governmental support.** The Spanish Government is supported in Congress for the first time since the 1978 Constitution by only 137 seats

(of 350) because of the support for the President's investiture by the 32 Ciudadanos members of Parliament and one from Coalición Canaria as well as abstentions by the socialist parliamentary group which holds 85 seats.

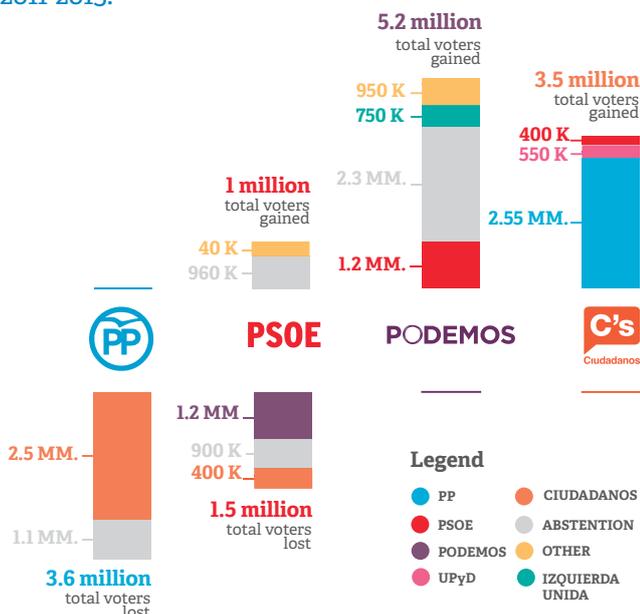
**6 Crisis in the left party.** In October 2016, there was a serious crisis in the socialist party Partido Socialista Obrero Español (PSOE) as its Federal Committee removed the party's secretary general, Pedro Sánchez, from power following major discrepancy over how to vote during Mariano Rajoy's investiture.

During this PSOE party meeting –the most important one between congresses– the decision was made for the socialist members of Parliament to abstain during the conservative leader's investiture and a Governing Committee was immediately formed which called for primaries (scheduled for 21<sup>st</sup> of May coming up) to choose the new secretary

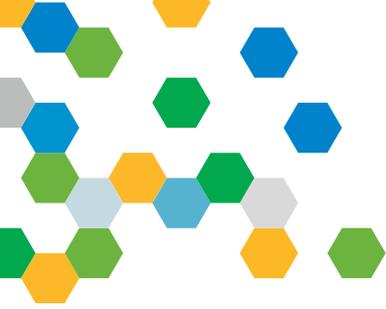
general that is to be voted upon at the organization's 39<sup>th</sup> Congress in the month of June.

[The] isolationism in the United Kingdom (...) foster Mariano Rajoy's suitability as the ambassador of the EU in Latin America

Figure 2. Vote migration, General Elections 2011-2015.



Source: Compiled internally



After seeing the results of these electoral processes, Mariano Rajoy will make a decision as to whether the legislature will be stretched out as much as possible with an extension of the 2016 General Budget (his has been the only Spanish Government to pass five budget acts in four years of their mandate) and a paralysis of all legislative initiatives that do not reach sufficient consensus in the lower Chamber. The President of the Spanish government's determination will also depend on the country's social and economic performance.

Spain's **unemployment rate remains resistant (20 percent)**, especially as concerns long-term unemployment (57 percent of all unemployed); however, the economic growth (between 2.5 and 3 percent) is enabling jobs creation yet mostly temporary and with seriously devaluated salaries (Figure 3). The expectation is for unemployment to **drop in 2017 to 17 percent**. These data feature structural components of the Spanish economy – a high percentage of the GDP is opaque– which the market will have a difficult time absorbing.

Spain is experiencing the sad phenomenon of working poverty due to wage cuts which explain the increase in productivity and, as a result, increased exports. It is still more than three percentage points from the GDP

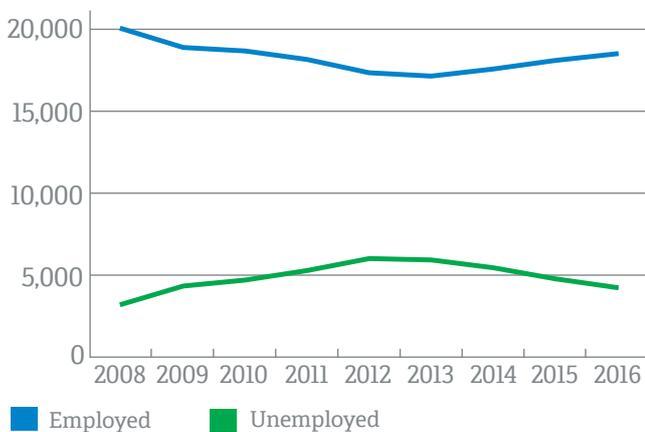
### The financial rescue (...) has made it possible to radically reform the savings bank sector and push the worst omens away from the Spanish banking system

in payroll in comparison with the years prior to the crisis (2007 and 2008). In this context, the **increase in inflation (2 percent)** which affects internal demand (Figure 4), consumption and the buying power associated with salaries and pensions must be highlighted. Along with unemployment –a problem that, according to recurrent surveys by the Centre for Sociological Research, continues to be the main concern of its people– the

rampant **political corruption** has placed Spain in the worst position in the International Transparency ranking, falling from 36 to 41– the Spanish economy reflects two very serious risks. On the one hand is the **heavy State indebtedness** which already exceeds 100 percent of the annual GDP which produces extraordinary financial expenditure recurrence; on the other hand, **a demographic**

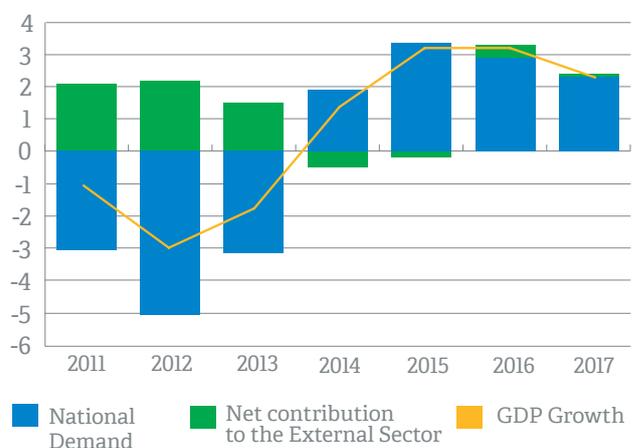
**recession** which, along with a high life expectancy, unemployment and low salaries, has brought the exemplary Spanish pension system into a state of precariousness that is challenging the Government and the various political groups to find efficient solutions. Finally, the financial rescue requested by the Spanish Government in June 2012 has made it possible to radically reform the savings bank sector and push the worst omens away from the Spanish banking system.

Figure 3. Evolution of the job market in Spain. 2008-2016 (thousand).

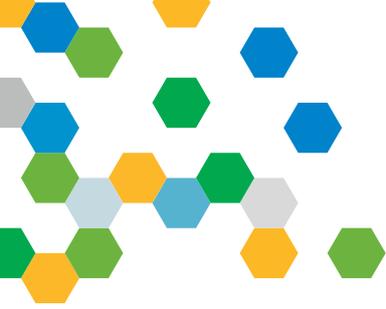


Source: INE (Spanish Statistics Institute)

Figure 4. Growth in Spanish GDP.



Source: INE & FMI



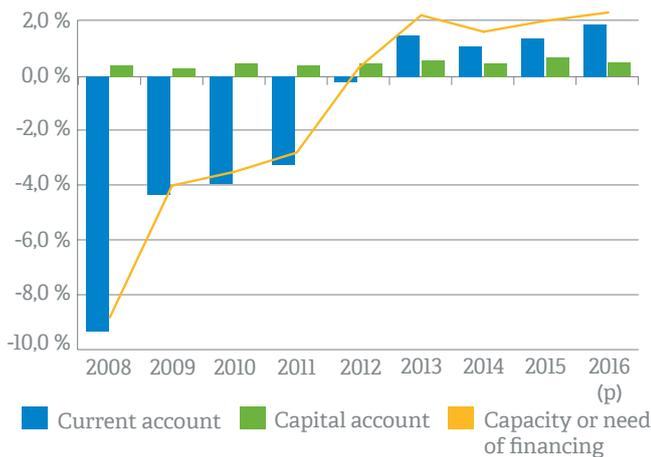
In addition, the good news from the external sector has reduced drastically our commercial deficit, being this one of the main structural changes of our economy (Figure 5).

Spain's present and immediate future largely depend on the outcome of European Union events, but also on internal political and institutional reforms because the 1978 constitutional system is already in need of substantial reforms that affect the territorial model –the **federalization of the autonomous region system** as concerns the functions of the Senate and distribution of competencies–, a better way of including Catalonia within the nation in response to the sovereignists challenge and the adjustment of the Head of State (the Crown) to the development of a system that has proven to be more complex than the constituents once thought.

It must not be forgotten that the country was operating under an **interim Government** from December 2015 to November 2016. Nonetheless, the minority government (137 members of parliament out of 350), the fragmented leftist forces, the crisis in the Socialist party and the

sovereignist process in Catalonia do not favor, but rather weaken, the possibility of a new constitutional consensus and the reform of the current electoral law that is so highly demanded. Such is the case that Mariano Rajoy –for whom the voting intention with his PP party is only a little more than 30 percent in spite of which he just revalidated his leadership with 95.65 percent of the votes by party members at their 18th congress held last February– must exercise leadership involving mere balancing, **low legislative productivity**, minimal and consensual reforms in an attempt for the 12<sup>th</sup> legislature of the Spanish democracy to be the preface of another legislative period which, after overcoming the disruptions of recent events, re-strengthens the constitutional system, reaffirms Europeanism as the great national objective, prevents any further emergence of populism from the left, avoids populism from the right and recovers the major agreements that made the transition from a dictatorship to democracy possible and culminated in the 1978 Constitution.

Figure 5. Evolution of the Balance of Payments (in % of GDP).



Source: Spanish National Bank/ 2016: Government provisions

There is no doubt that the general lines of a sustained and sustainable foreign policy will have to be inserted among such major **renewed consensuses**, particularly oriented towards Europe in addition to Latin America, a region with plenty of affinities, that does not receive the necessary attention and resources due to the persistence of historical long-term misunderstandings duly spurred by **populist demagoguery** and the absence of any awareness of reciprocal potential to create agreements that enhance relations with the Ibero-American countries. Relations that, depending on the various countries, must be asymmetric but always directed by conscientious efforts to build a community of interests, values and aspirations that justify statist policies from both sides of the Atlantic.



**José Antonio Zarzalejos** is a licensed attorney, graduate of Deusto University and journalist, as well as Editor-in-Chief of *El Correo of Bilbao*, Secretary-General of Vocento and Editor-in-Chief of *ABC* in Spain. He works in connection with LLORENTE & CUENCA as a permanent external Adviser and served as managing director of the firm in Spain. He received several awards, including the Mariano de Cavia award, the award presented by Federación de Asociaciones de la Prensa Española (Federation of Press Associations of Spain), the Godó de Periodismo and the Luca de Tena awards. [Spain].

[jazarzalejos@llorenteycuenca.com](mailto:jazarzalejos@llorenteycuenca.com)

# Reputation Management, Communication and Public Affairs

## Leader in Spain, Portugal and Latin America

LLORENTE & CUENCA is the **leading reputation management, communication, and public affairs consulting firm in Spain, Portugal, and Latin America**. It has **23 partners** and almost **500 employees** who provide strategic consultancy services to companies in all industries, with operations aimed at the Spanish-speaking and Portuguese-speaking world.

LLORENTE & CUENCA currently has offices in **Argentina, Brazil** (São Paulo and Rio de Janeiro), **Colombia, Chile, Ecuador, Spain** (Madrid and Barcelona), **the United States** (Miami, New York, and Washington DC), **Mexico, Panama, Peru, Portugal, and the Dominican Republic**. It also operates in **Cuba** and offers its services through affiliates in **Bolivia, Paraguay, Uruguay, Venezuela, Costa Rica, Guatemala, Honduras, El Salvador and Nicaragua**.

The industry's top two publications have rated the consulting firm as one of the most important communication agencies in the world. It is 54<sup>th</sup> in the **Global Ranking 2016** prepared by *The Holmes Report* and 53<sup>rd</sup> in terms of global revenue according to *PRWeek's Global Agency Business Report 2016*.

**It is the most awarded communications firm in the markets where it operates.** The company received **77 awards** in 2016, including the *Public Relations Company of the Year (International Business Awards 2016)*.



## CORPORATE MANAGEMENT

José Antonio Llorente  
Founding Partner and Chairman  
jalloriente@llorenteycuenca.com

Enrique González  
Partner and CFO  
egonzalez@llorenteycuenca.com

Adolfo Corujo  
Partner and Chief Talent and  
Innovation Officer  
acorujo@llorenteycuenca.com

Carmen Gómez Menor  
Corporate Director  
cgomez@llorenteycuenca.com

## MANAGEMENT - AMERICAS

Alejandro Romero  
Partner and CEO Americas  
aromero@llorenteycuenca.com

Luisa García  
Partner and COO Latin America  
lgarcia@llorenteycuenca.com

Erich de la Fuente  
Partner and CEO United States  
edela Fuente@llorenteycuenca.com

José Luis Di Girolamo  
Partner and CFO Latin America  
jldgirolamo@llorenteycuenca.com

## TALENT MANAGEMENT

Daniel Moreno  
Chief Talent  
dmoreno@llorenteycuenca.com

Marjorie Barrientos  
Talent Manager for Andes' Region  
mbarrientos@llorenteycuenca.com

Eva Pérez  
Talent Manager for North  
America, Central America and  
Caribbean  
eperez@llorenteycuenca.com

Karina Sanches  
Talent Manager for  
the Southern Cone  
ksanches@llorenteycuenca.com

## SPAIN AND PORTUGAL

Arturo Pinedo  
Partner and Managing Director  
apinedo@llorenteycuenca.com

Goyo Panadero  
Partner and Managing Director  
gpanadero@llorenteycuenca.com

### Barcelona

María Cura  
Partner and Managing Director  
mcura@llorenteycuenca.com

Muntaner, 240-242, 1º-1ª  
08021 Barcelona  
Tel. +34 93 217 22 17

### Madrid

Joan Navarro  
Partner and Vice-president  
of Public Affairs  
jnavarro@llorenteycuenca.com

Amalio Moratalla  
Partner and Senior Director  
amoratalla@llorenteycuenca.com

Jordi Sevilla  
Vice-president of Economic Context  
jsevilla@llorenteycuenca.com

Latam Desk  
Claudio Vallejo  
Senior Director  
cvallejo@llorenteycuenca.com

Lagasca, 88 - planta 3  
28001 Madrid  
Tel. +34 91 563 77 22

### Impossible Tellers

Ana Folgueira  
Managing Director  
ana@impossibletellers.com

Impossible Tellers  
Diego de León, 22, 3º izq  
28006 Madrid  
Tel. +34 91 438 42 95

### Cink

Sergio Cortés  
Partner, Founder and Chairman  
scortes@cink.es

Muntaner, 240, 1º-1ª  
08021 Barcelona  
Tel. +34 93 348 84 28

### Lisbon

Tiago Vidal  
Managing Director  
tvidal@llorenteycuenca.com

Avenida da Liberdade nº225, 5º Esq.  
1250-142 Lisbon  
Tel. + 351 21 923 97 00

## UNITED STATES

### Miami

Erich de la Fuente  
Partner and Managing Director  
edela Fuente@llorenteycuenca.com

600 Brickell Ave.  
Suite 2020  
Miami, FL 33131  
Tel. +1 786 590 1000

### New York City

Latam Desk  
Erich de la Fuente  
edela Fuente@llorenteycuenca.com

Abernathy MacGregor  
277 Park Avenue, 39th Floor  
New York, NY 10172  
Tel. +1 212 371 5999 (ext. 374)

### Washington, DC

Ana Gamonal  
Director  
agamonal@llorenteycuenca.com

10705 Rosehaven Street  
Fairfax, VA 22030  
Washington, DC  
Tel. +1 703 505 4211

## MEXICO, CENTRAL AMERICA AND CARIBBEAN

### Mexico City

Juan Rivera  
Partner and Managing Director  
jrivera@llorenteycuenca.com

Av. Paseo de la Reforma 412, Piso 14,  
Col. Juárez, Del. Cuauhtémoc  
CP 06600, Mexico City  
Tel. +52 55 5257 1084

### Havana

Pau Solanilla  
Managing Director  
psolanilla@llorenteycuenca.com

Lagasca, 88 - planta 3  
28001 Madrid  
Tel. +34 91 563 77 22

### Panama City

Javier Rosado  
Partner and Managing Director  
jrosado@llorenteycuenca.com

Sortis Business Tower, piso 9  
Calle 57, Obarrio - Panamá  
Tel. +507 206 5200

### Santo Domingo

Iban Campo  
Managing Director  
icampo@llorenteycuenca.com

Av. Abraham Lincoln 1069  
Torre Ejecutiva Sonora, planta 7  
Tel. +1 809 6161975

## ANDES' REGION

### Bogota

María Esteve  
Partner and Managing Director  
mesteve@llorenteycuenca.com

Av. Calle 82 # 9-65 Piso 4  
Bogotá D.C. - Colombia  
Tel. +57 1 7438000

### Lima

Luis Miguel Peña  
Partner and Senior Director  
lmpena@llorenteycuenca.com

Humberto Zogbi  
Chairman  
hzogbi@llorenteycuenca.com

Av. Andrés Reyes 420, piso 7  
San Isidro  
Tel. +51 1 2229491

### Quito

Alejandra Rivas  
Managing Director  
arivas@llorenteycuenca.com

Avda. 12 de Octubre N24-528 y  
Cordero - Edificio World Trade  
Center - Torre B - piso 11  
Tel. +593 2 2565820

### Santiago de Chile

Claudio Ramírez  
Partner and General Manager  
cramirez@llorenteycuenca.com

Magdalena 140, Oficina 1801.  
Las Condes.  
Tel. +56 22 207 32 00

## SOUTH AMERICA

### Buenos Aires

Daniel Valli  
Managing Director and  
Senior Director of New Business  
Development for the Southern Cone  
dvalli@llorenteycuenca.com

Av. Corrientes 222, piso 8. C1043AAP  
Tel. +54 11 5556 0700

### Rio de Janeiro

Maira da Costa  
Director  
mdacosta@llorenteycuenca.com

Rua da Assembleia, 10 - Sala 1801  
RJ - 20011-000  
Tel. +55 21 3797 6400

### Sao Paulo

Marco Antonio Sabino  
Partner and Brazil Chairman  
masabino@llorenteycuenca.com

Juan Carlos Gozzer  
Managing Director  
jcgozzer@llorenteycuenca.com

Rua Oscar Freire, 379, Cj 111,  
Cerqueira César SP - 01426-001  
Tel. +55 11 3060 3390

## **d+i** developing ideas

LLORENTE & CUENCA

**Developing Ideas** by LLORENTE & CUENCA is a hub for ideas, analysis and trends. It is a product of the changing macroeconomic and social environment we live in, in which communication keeps moving forward at a fast pace.

**Developing Ideas** is a combination of global partnerships and knowledge exchange that identifies, defines and communicates new information paradigms from an independent perspective. **Developing Ideas** is a constant flow of ideas, foreseeing new times for information and management.

Because reality is neither black nor white, **Developing Ideas** exists.

[www.developing-ideas.com](http://www.developing-ideas.com)

[www.uno-magazine.com](http://www.uno-magazine.com)



AMO is the leading global partnership of corporate and financial communications consultancies.

Our best-in-class approach brings together local-market leaders with unrivalled knowledge of stakeholder perceptions, financial markets and cross-border transactions in the key financial centers of Europe, Asia and the Americas.

Providing sophisticated communications counsel for reputation management, M&A and capital market transactions, media relations, investor relations and corporate crises, our partner firms have established relationships with many S&P 500, FTSE 100, SMI, CAC 40, IBEX 35 and DAX 30 companies.

[www.amo-global.com](http://www.amo-global.com)

