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LLORENTE & CUENCA

SPAIN NOW.
ANALYSIS OF THE CURRENT
POLITICAL AND ECONOMIC
CONTEXT.

Madrid, September 2017

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Executive Summary

Various factors indicate the **Spanish political and economic scenario will get complicated** over the next few months:

- **The tension due to the Catalan independence debate** is conditioning the times in Spain and will continue to do so. Irrespective of the scenario after October 1st, the next few months will be very much marked by the Catalan issue and any possible derivative reforms.
- **The handling of the Catalan issue** is a matter of national consensus among the parties PP, PSOE and Ciudadanos. However, the electoral impact on all the parties is not all that obvious, nor is the party that will come out of it stronger.
- **The economy is improving** yet, despite the job creation, it will do so at a slower pace and the unresolved problems will be made more visible. Specifically, the labor conflict will once again be at the forefront.
- Pressure from the autonomous regions for better **autonomous financing** will be decisive.

- **Social discontent** will increase if the economic growth does not reach everyone and at the proper pace.
- The Government's difficulties achieving parliamentary majorities will get worse in a context where passing the Budgets for the next few years will be necessary. **The Government will find itself in the minority on many issues**, which will make it possible to pass laws in Parliament without the Government's support.

In short, the political uncertainty connected to the October 1st referendum in Catalonia will continue to be headline news, along with an economic situation which will tend to produce social movements demanding recovery reach everyone.

It is highly likely that **elections will be called early for the end of next year**. In spite of this, the Parliament numbers will probably not change radically afterwards in comparison to now, except for a possible increase in votes and seats for PSOE and Ciudadanos to the detriment of Podemos, PP and abstentions. In such case, it probably also will not be easy to form an alternative majority other than PP which does not include stakeholders such as Ciudadanos and Podemos which are excluding each other for the time being.



1. Where We Are

Spain seems to be regaining stability after having suffered its greatest economic, social and political crisis in the last 40 years. However, we're at a standstill. The tectonic movements suffered have not yet fully settled and the effects of the earthquakes are still present in people's daily lives.

Still pending is the task of deciding which road to take in this new scenario following the crisis, which is loaded with all-new challenges requiring collective action.

A decade was needed to get back to pre-crisis income (GDP) levels, yet we're still faraway from reaching the employment and wealth volumes of the past. On the other hand, **the political and institutional system continues to be affected by the upheaval involved with the 2015 break from the flawed two-**

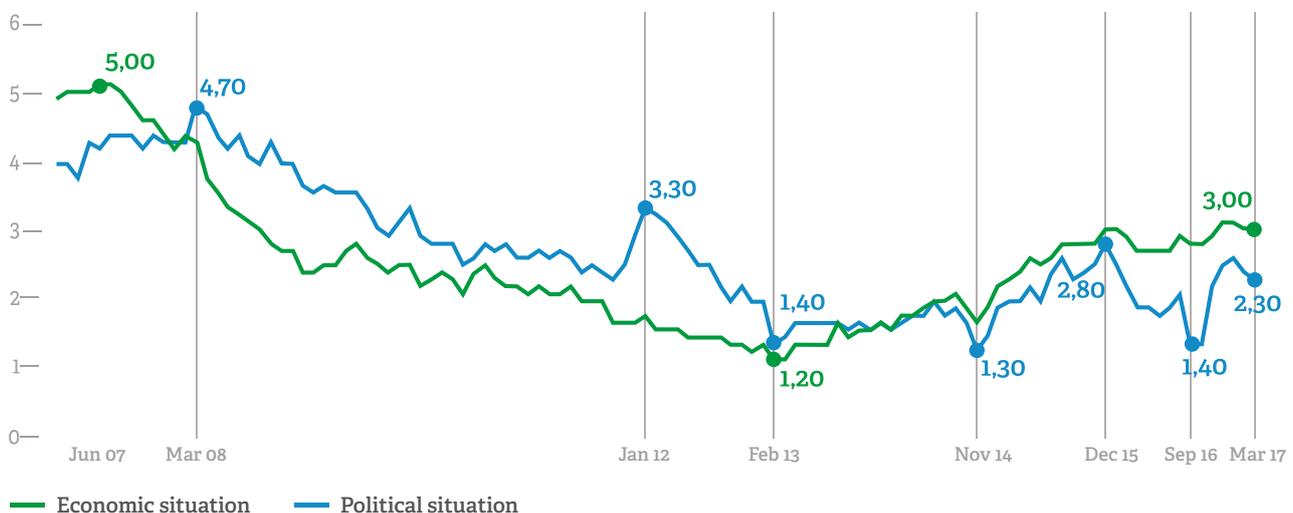
party system which had reigned since the very first democratic elections, the independence challenge posed by the autonomous government of Catalonia and the judicial drift in the various corruption cases involving the Government's party. But, **it can now be said that the economic crisis has ended** and that the PP's minority Government is capable of creating enough parliamentary alliances to move the National Budgets ahead and pass the most important laws.

Business confidence rises to the highest levels as expectations improve and uncertainty drops. However, Spanish citizens are not as optimistic about the situation and have changed their concerns and perceptions. The main problems for the Spanish people back in 2007, still in an economic boom, were ETA terrorism, unemployment and housing (in that order). Currently, unemployment is the main concern for 1 percent of the population, followed by corruption and fraud and various economic issues.

Business confidence rises to the highest levels as expectations improve and uncertainty drops.

Recovery is obvious in companies' profit and loss accounts but it still has not reached the general population. Seventy-four percent rate the economic situation as "poor or mediocre" and 45 percent think it will not improve over the next year. Likewise and despite the attempts at "political regeneration" and the fight against corruption, 57 percent of Spaniards say the political situation is "poor or mediocre".

Figure 1. Assessment of the economic and political situation



Source: own compilation based on CIS data



ECONOMIC RECOVERY: AN ILLUSION FOR MANY

Just like the rest of the Eurozone countries, **Spain has gone through the two world economic crises:** the one deriving from the crash of the international credit markets in 2008, with the Lehman Brothers bankruptcy as the emblem; and the subsequent trust in the euro which particularly affected the peripheral, most indebted countries. It is also seeing improvements now, mostly as a result of the expansionist policies implemented by the European Central Bank. **The Spanish economic cycle is thus aligned with the other European countries with which it shares its currency within the European Union.**

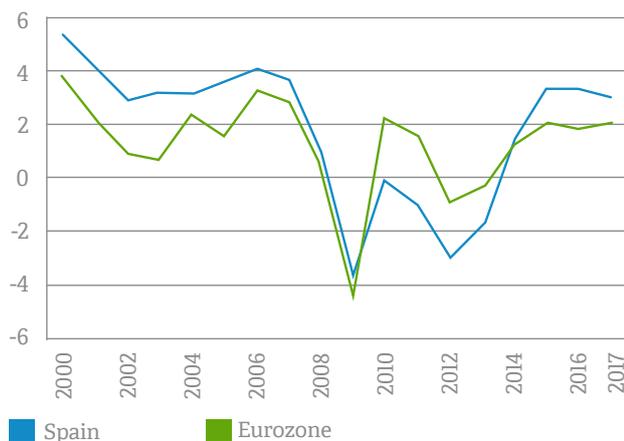
Nowadays, we are in the third consecutive year of growth above the European average and all forecasts coincide in that this reality will continue over the next few years. Thus, **we are beginning a new cycle of economic expansion** yet it is still too early to determine the definitive characteristics since we are right in the middle of a process of change.

But we can anticipate the following **positive** traits which stand out from other cycles of expansion seen in the last few decades:

- The spectacular turn in the **payment balance** following the intense “internal wage devaluation” process, which has quickly gone from being highly deficient to reflecting a significant surplus. The growth in exports and the positive contribution of the net non-tourism services balance account for new data which reflect the intense internationalization process undergone by many Spanish companies.
- GDP growth of more than 3 percent annually is being seen in a **context of bank credit restrictions and household and corporate indebtedness**, which had not occurred since 1996. The credit volume at the end of 2016 totaled 1.28 billion euros, which is 2.7 percent less than in 2015, and 35 percent below the maximum reached in November 2008. Moreover, the private sector has reduced the weight of its debt in GDP by 50 percentage points, moving from a maximum of 215.7 percent of GDP in 2010 to 166 percent in 2016.

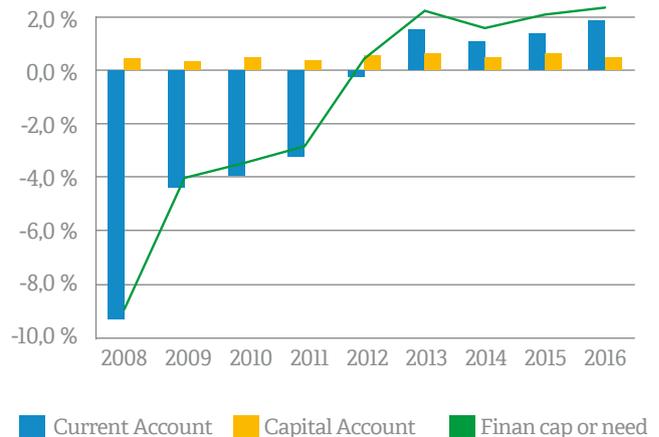
Spain grows in a restricted context in terms of credit and of private debt relief.

Figure 2. GDP Growth (percent international variation)



Source: own compilation based on INE and Eurostat data

Figure 3. Payment balance evolution (in percent of GDP)



Source: own compilation based on Bank of Spain and INE data

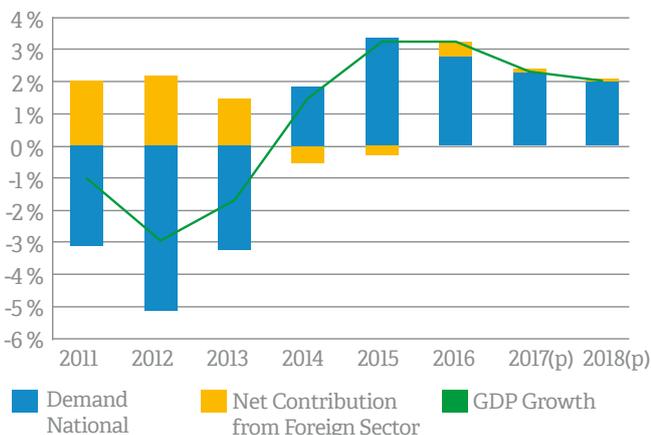


- **The pull from tourism** largely explains the improvement seen in employment as well as in the payment balance. While construction was the economic driver before, tourism is now. The tourism sector creates 13 percent of all employment and it is creating jobs at the same pace as construction did during the real estate boom.
- Following the plunge in internal demand as a result of the policies applied to overcome the over-indebtedness crisis in trade, **balance is being regained in contributions to growth**, both from exports as well as household consumption.

Nonetheless, the current economic period reflects **negative characteristics**:

- **Inequality has increased.** Wage devaluation has affected workers with lower salaries more: the actual wages between 2008 and 2015 in the first two wage deciles dropped 22.5 percent and 13.7 percent, respectively, whereas the 30 percent of the workers with the highest salaries received raises of more than 1.7 percent.
- **Average annual household income** in Spain has dropped by more than 7 percent since the start of the crisis (-11 percent for the poorest decile). On the other hand, wealth has also decreased by 18 percent, mainly due to the drop in the value of housing (-44 percent), the primary asset held by Spanish families, particularly those with less revenue.

Figure 4. GDP growth in Spain

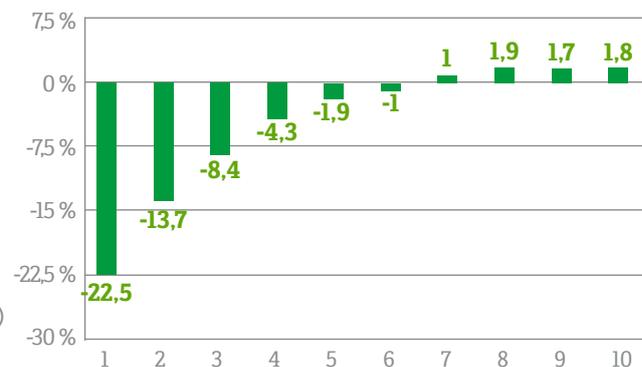


Source: own compilation based on INE data

Inequality has increased and wage devaluation has affected workers with lower salaries.

- All of these drops in income and wealth have led to a surge in **poverty, which has also become more extreme**. Up to 27.9 percent of the population is at risk of poverty or social exclusion and more than a million people live in households without any type of revenue.
- According to Bank of Spain studies, a significant part of the current growth, 2.2 percentage points out of 3.2 percent growth, is explained by **transitory exogenous factors**. Standing out are lower oil prices and the drop in interest rates, which have especially benefitted the economy given the great debt and immense dependence on imported oil as is the case in Spain.
- **The capacity for job creation is lower** than in other cycles and, furthermore, it is concentrated in more precarious jobs. For each contract signed before, two or three contracts are signed now but with worse compensation and subject to seasonality or part-time hours. Recovery has brought with it an increase in temporary contracts by 1.14 million versus the barely half-million indefinite contracts. And the growth has not had an impact on wages, which continued to drop last year (-0.3 percent).

Figure 5. Actual wages by decile. Wage variation deflated by the CPI 2008-2015



Source: own compilation based on INE data



- It is **still too soon to talk about a change in the production model** as a result of the crisis and the measures adopted. The only thing that is sure is that public and private investment has not gone back to the pre-crisis level.

THE POLITICAL CRISIS ENDS THE TWO-PARTY SYSTEM

The complex political map in Spain has also significantly changed in recent years. The economic crisis and its handling submerged Spain in a major **political crisis and drop in trust among citizens in the main political parties**. This crisis is reflected in the following novel events which represent a clear break with the situation that had existed ever since the Transition:

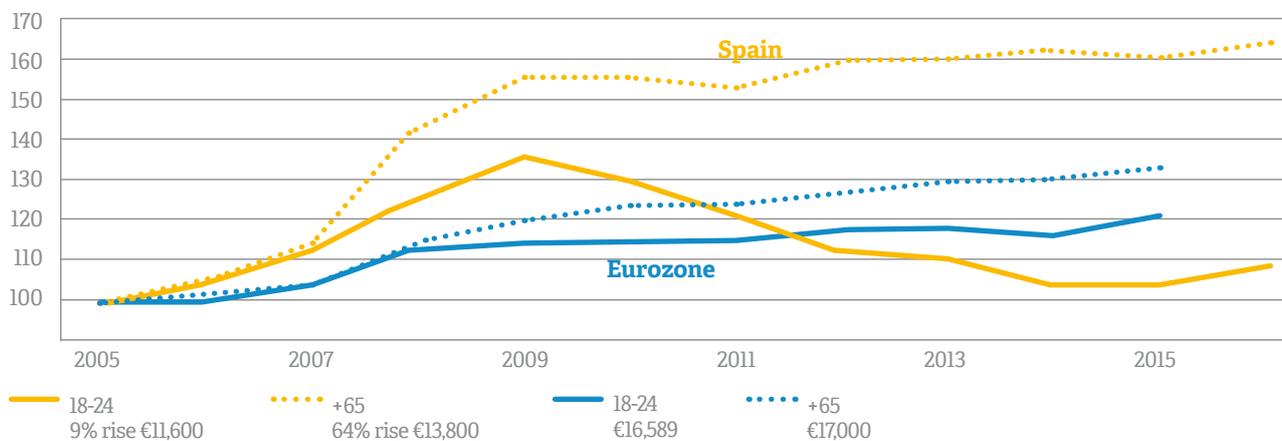
- For the first time ever, nearly 11 million voters (31 percent of the census) voted for parties other than PSOE and PP, whereas barely 4.5 million voters did so back in 2008 (12 percent of the census).
- For the first time, the birth of two new parties has given rise to a **multi-party system**. The new political parties to the left, Podemos (alternative left), and to the right, Ciudadanos (liberals), have altered the logic of parliamentary activity.

- For the first time ever, the candidate with the most votes chose not to submit to investiture (January 2016), which led to two failed investitures (Pedro Sánchez in March 2016 and Mariano Rajoy in August 2016).
- The elections had to be repeated for the first time ever (June 2016).
- For the first time ever, the main opposition party facilitated the formation of a Government (October 2016).
- For the first time without absolute majorities, the nationalist Catalan parties did not support the investiture of the President of the Government of Spain.

Rodríguez Zapatero’s first legislative period (2004-2008) coincided with years of immense economic expansion and, by the end of 2007, Spain had seen fourteen years of consecutive growth. But, at the same time, **significant imbalance was accumulating** such as over-indebtedness in the private sector and a real estate bubble which would soon explode. Instability reached Spain with the international economic crisis and the accumulating problems began to flourish.

In order to get the public accounts back on track, PSOE completely changed course with its policies after

Figure 6. Young people and senior income (Average income per person, standardized 2005=100)



Source: own compilation based on Eurostat data



2010, passing the **2010-2013 Fiscal Consolidation Plan**, which was fundamentally based on reducing public expenditure. The measures particularly focused on the pension system, aimed at harshening the conditions of access to pensions and in employment, grounded in the liberalization of hiring and firing. Financially, reforms were implemented regulating savings banks, transparency measures were taken and the demands for capital from credit institutions rose.

This turn in socialist policy was particularly evident upon passing **constitutional reforms in September 2011**. PSOE and PP agreed to urgently introduce the principle of budget stability to limit the deficit. The new article 135 of the Spanish Constitution, which granted absolute priority to debt repayment and respect for structural European deficit margins (0.4 percent of the GDP) opened up the wound even more among socialist voters who were already unhappy due to the effects of the crisis and the reduction in public expenditure. At the time, PSOE justified the reform as inevitable and necessary as the markets would end up forcing more cut-backs.

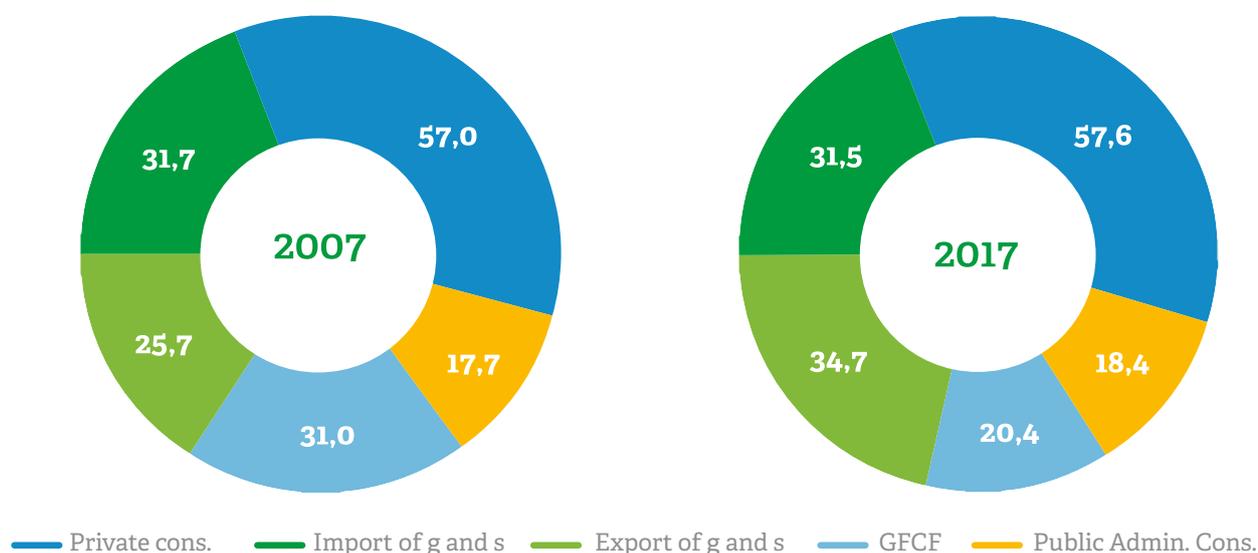
But the voter discontent was reflected in the ballot boxes with PSOE harshly punished in the November 2011 elections. The socialists saw their greatest loss in votes, more than 4 million voters. This failure by the socialists fostered an absolute majority by the Partido Popular party with practically the same number of votes as in 2008 (around 10 million).

Pero el desencanto de los votantes quedó reflejado en las urnas y el PSOE fue duramente castigado en las elecciones de noviembre de 2011. Los socialistas experimentaron entonces **la mayor pérdida de votos, más de 4 millones de electores**. Este fracaso de los socialistas propició que el **Partido Popular** consiguiera una **mayoría absoluta** con prácticamente los mismos votos que en 2008 (en torno a 10 millones).

Mariano Rajoy began a legislative period characterized by a number of corruption cases which directly affected the party and harsh budget austerity measures under the auspices of Brussels. This restrictive fiscal policy consisted of expansive cut-backs in social items such as education and healthcare and deep labor reforms in 2012, which, along with the previous ones, made it cheaper to dismiss employees and encouraged temporary work. Moreover, the Government had to request a financial rescue from Europe that same year given the lack of solvency and liquidity in a significant part of the Spanish banking system.

Citizen anger, which was emphasized by the austerity policies and numerous cases of corruption, led to endless protests (such as those known as “mareas” (tides) defending education and healthcare) and **social movements**. Thousands of people took to the streets to demand a change in the social, political and economic system on May 15, 2011 at the Puerta del Sol in Madrid. And this “15M movement” set off a wave of protests

Figure 7. Distribution of gross domestic product (percent GDP)



Source: own compilation based on INE data



in many different cities in Spain. Protesting were citizens who had seen how the economic crisis and reforms taken afterwards were worsening their living conditions and frustrating their life plans.

Young people were at the center of these social movements. In fact, most of the voters who stopped trusting in PSOE upon the 2011 elections were unhappy youth. The age gap in voting patterns is one of the characteristics of today's political system: the youngest are committing to new parties while confidence in the traditional parties rises with age.

Podemos and Ciudadanos came onto the Spanish political scene with force. During the 2015 elections, the Partido Popular again won yet lost its absolute majority (3.6 million votes less) and the Socialist Party continued to lose voters (another 2 million). This wear in both parties was taken advantage of by the new ones: Podemos got more than 5 million votes and up to 3.5 million voted for Ciudadanos.

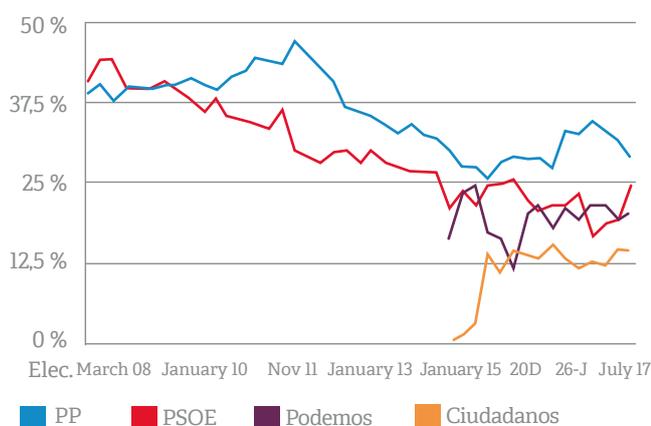
The society thus expressed its desire for change and dialog among the parties. But the political parties were not able to reach an agreement to form a Government. For the first time in Spanish democratic history, **the elections had to be repeated** six months later. The result was quite similar, yet this time Partido Popular was able to form a Government with support from Ciudadanos and a **historic abstention by the socialists**.

The PSOE abstention to allow Rajoy's investiture in October 2016 brought with it a major internal crisis in the party. The candidate for President on behalf of the socialists, Pedro Sánchez, was relieved of his duties at the head of the party for not facilitating a conservative Government. Finally, and after an intense primary process, Sánchez recovered control of the party.

PSOE went from facilitating the investiture of the President of the Government of Spain to opposing the approval of its Budgets. After that, in May 2017, PNV and Nueva Canarias, along with Ciudadanos, became the Spanish Government's new allies. Together, they hold the 176 deputy seats needed for an absolute majority. Despite the rise of new parties nationally, the nationalist parties are still needed to obtain majorities in Spain.

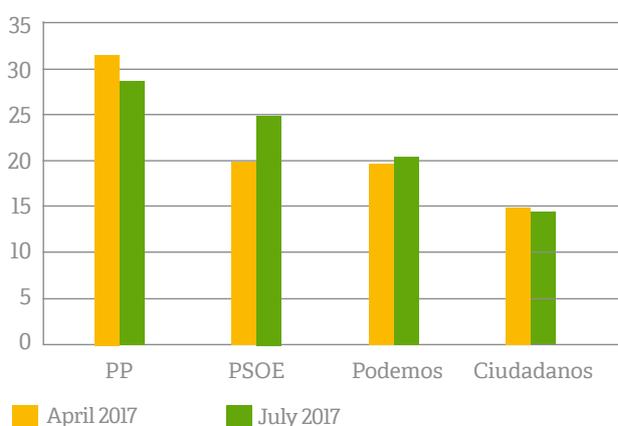
In short, the **political scene has changed with the economic crisis and the measures that were taken by the various governments**. The latest data from the CIS certify PSOE's comeback, which is getting closer to PP as there is now only a four-point difference. While PP has gone from 31.5% to 28.8% in voter intention in just three months, the socialists have risen from 19.9% to 24.9%. On the other hand, Podemos and Ciudadanos continue to hold onto their voters' support at 20.3% and 14.5%, respectively.

Figure 8. Electoral evolution



Source: own compilation based on CIS data (except elections)

Figure 9. Evolution in voting intention



Source: own compilation based on INE data



2. Future Challenges

The **political decisions** to come over the next few months will be marked by the effects of the economic crisis and subsequent austerity policies applied, which have accumulated and likely boosted problems left unresolved.

The Government's actions will be further conditioned by a **new parliamentary scenario** which features more political stakeholders and other challenges that must be overcome. They particularly include the Catalan independence debate as well as the many corruption cases affecting Partido Popular which are currently in the hands of the courts.

THE CATALAN PROBLEM

This is one of the affairs truly impacting the political agenda in Spain. Since the year 2010, when the Constitutional Court partially declared the Statute endorsed by citizens in Catalonia unconstitutional, **the territorial issue has moved into a new phase of tension between the central and regional governments.**

The Spanish economic situation since 2012 has turned into a new argument among those favoring independence. In fact, most of the support for independence comes from a desire by many citizens to improve their economic situation. More than half of those surveyed by the Opinion Study Center (CEO) believe their living conditions would be better in an independent Catalonia. Nevertheless, support for independence is not exclusively due to economic reasons but rather there are many ideological and identity issues involved as well.

For the first time in the Spanish democratic period they had to repeat the elections.

The Catalan Government is currently comprised of Junts pel Sí (a voting coalition formed by different parties which favor independence comprised of PDECAT, ERC and independents) with the support from the anti-capitalist CUP. The main political goal is to hold a referendum on independence on October 1, 2017, but it does not have the necessary legal support. Whether or not some type of consultation is done on that date, it will not have any legal/political consequences.

These are the **four main scenarios for October 1st**:

1. One scenario is that the Government (Catalan government) will accept the impossibility of holding the referendum since the necessary logistical elements are not available such as voting places, ballots, ballot boxes or a census, or because of warnings from the authorities. This scenario is not the most likely at this time.
2. A second scenario is that the Government is willing to organize the referendum and the Government of Spain will apply the National Security Law. In practice, this would mean the President of the Government must issue a decree stating the situation is of national interest, which allows the Government to establish the necessary material and human resources to handle such national situation of interest. For example, this would mean an order by the Government to the National Police, the Civil Guard and even the Catalan Mossos d'Esquadra police force to prevent polls from being opened or closing them down.
3. A third scenario involves the Government being willing to organize the referendum and, at the request of the Spanish Public Prosecutor's Office, the judges of ordinary law, requiring the Mossos d'Esquadra, National Police or the Civil Guard to act as court police and prevent the opening of the voting places or close them down. Although the effect would be the same in practice, this scenario is more plausible politically speaking. It is not the same for the Government to directly order the police to close down voting places as the ordinary courts doing so. This is the main scenario the



Government of Spain is currently looking towards, according to various sources.

4. A fourth scenario is that, as a result of any of the three scenarios above, the Govern may organize some type of alternative consultation at the voting places other than the one initially planned which is considered unofficial and volunteer-based. The Government of Spain could allow that after proving the referendum initially called by the Generalitat was prevented and if very low participation is expected.

Irrespective of the scenario after October 1st, **the debate will continue given the level of support for independence.** Support for independence is at the same percentage as in 2012 (41.1 percent), which reflects some stabilization in a challenge that no politician has yet been able to resolve in a satisfactory manner.

The evolution in the tension due to the debate on Catalan independence may also have negative effects on the Spanish risk premium and reduce investments in our country. The analysts at J.P. Morgan have recommended selling Spanish bonds. Moody's and Standard&Poor's have warned that the growing sovereigntist tension could lower Spain's credit rating.

SYSTEMATIC CORRUPTION IS JUDGED BY THE COURTS

A number of corruption cases have seen the light in recent years, affecting various political parties. In the last year and a half alone, nearly 1400 people have been indicted for corruption in Spain.

Many of these cases affect the governing party, PP; which is a challenge to stability in Spain. Mariano Rajoy is governing as a minority and needs the trust of other political forces to pass the Budgets and carry out various plans.

There are more than 50 corruption cases tied to PP, with more than 850 inditees, with important party authorities having been involved. The alleged irregular financing within PP led to the formation of a congressional investigative commission and the President of the Government, **Mariano Rajoy, appearing before a judge as a witness in the**

summer of 2017 and before Congress, both during a plenary session and as part of the investigative commission duties.

In view of so many cases being investigated by the **courts, corruption has become the second most important problem among Spaniards** and has produced a climate of mistrust towards politicians and public institutions. Trust in politics has dropped by more than ten percentage points in the last decade and up to 14 percent of Spaniards say they are "completely unsatisfied" with how their democracy is working.

All of this is hitting the governing party hard at the polls. Between the 2011 and 2015 elections, PP lost more than 3 million votes and the most recent surveys reflect a significant drop in vote intention for the party.

THE CHALLENGE FOR LEADERSHIP FROM THE LEFT

PSOE and Podemos will continue their wager to become the hegemonic Spanish left force. The socialists will attempt to recover their lost voters, many of whom decided to abstain or vote for Podemos, and reinforce their supremacy to the left. On the other hand, Podemos will continue to prove itself to the public as the alternative to PP.

Nonetheless, the entrance of Podemos in the regional socialist Government of Castilla-La Mancha is an experiment towards greater understanding between the two national parties. Although both forces are competing for leftist leadership, new means of dialog cannot be ruled out which would first have to break their mutual vetoes.

DIFFICULTIES CREATING A NON-PP MAJORITY

The corruption cases affecting Partido Popular open up the doors for other political parties in creating an alternative majority. However, this seems rather unlikely for the time being as long as Ciudadanos and Podemos maintain their mutual vetoes.

Socialist leader Pedro Sánchez continues to try to reach agreements to his left and right, although he



recently said that a vote of no confidence is not on the table despite efforts to oust the Government in the Parliament by forming an alternative majority.

In the **economic arena**, the decisions made will also be closely linked to the effects of the crisis and subsequent measures adopted. Some of these challenges that will mark Spain's economic future include:

GETTING TO EUROPEAN UNEMPLOYMENT LEVELS

The main problem deriving from the economic crisis is unemployment. Despite the job creation that has been seen in the last few years, the unemployment rate in Spain (17.22 percent in the second quarter EAP for 2017) continues to be one of the highest in the eurozone. In the next few years, more than 2 million jobs must be created to get back to the 2007 levels.

Special attention must be given to **youth unemployment** (39.5 percent), which doubles the eurozone average, and the problem of **long-term unemployment** must be resolved as it represents 54 percent of all unemployed. Employment policies must be enhanced to solve a serious coverage problem, which is currently at 58 percent (versus 70 percent in 2007).

SOCIAL COHESION AS A CO-EXISTENCE FACTOR

The austerity policies came with a process of internal devaluation which led to an increase in **job**

precariousness, inequality and poverty. Political economic measures must take these problems into special consideration so as not to continue lowering the household buying power and in order to reduce social discontent.

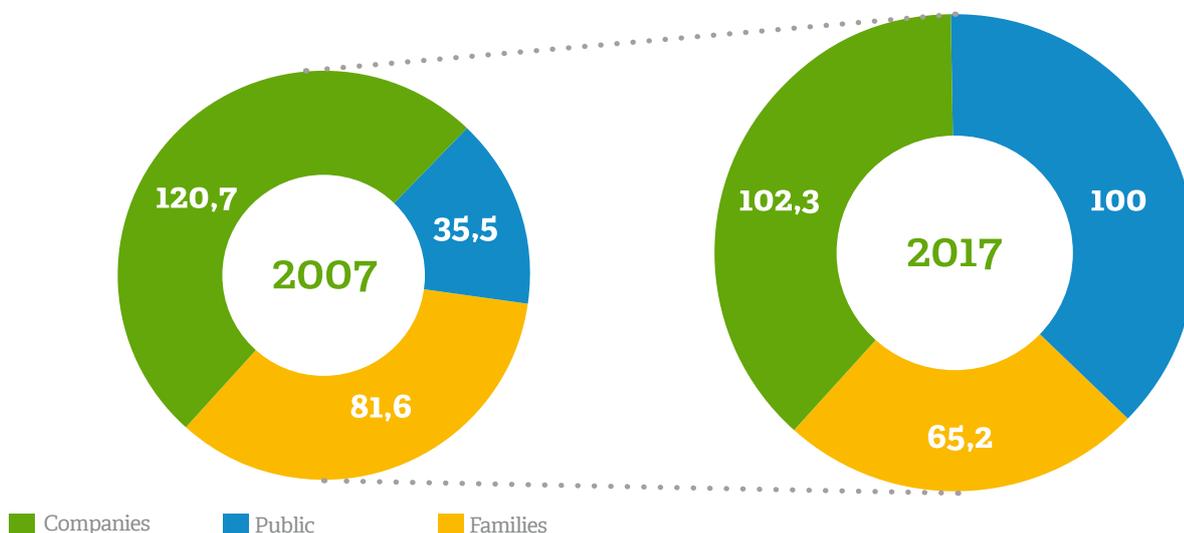
The recovery is creating jobs, but they are marked by **excessive temporality and part-time work** (involuntary in more than half of the cases). The July data are conclusive: **only one out of every twenty jobs created was indefinite and full-time** and the rate of job temporality in Spain (26.8 percent) is double the EU average.

Job precariousness is part of what was inherited by the anti-crisis policies and answers will be sought by requesting modifications of some aspects of the most recent employment reforms as well as reactivating the role of collective bargaining. The new measures should focus on achieving wage raises to reverse the loss in buying power for 9 percent of all workers and reduce the excessive temporality and part-time employment.

PUBLIC FINANCE SUSTAINABILITY

Spain must engage in **structural public revenue and expenditure reforms to put its public accounts back** on a sustainable path. Although the adjustments in recent years have made it possible to reduce the Public Administration deficit from 10 percent in 2012 to 4.33 percent, Spain continues to be a part of the European Commission's **Excessive Deficit Procedure** (EDP).

Figure 10. Public and private debt (percent GDP)



Source: own compilation based on data from the Bank of Spain



Public debt has gone from representing 35.5 percent of the GDP in 2007 to 100 percent at present. The 2017 National General Budgets reflect an item reserved to pay debt interest totaling 32.171 billion euros, which is 2.8 percent of the GDP. This quantity is more than double that which is used for research and development in our country (1.22 percent of the GDP) and nearly doubles the item reserved to pay unemployment (1.6 percent of the GDP).

On the contrary, **household and corporate debt has dropped since 2007**, to 65.2 percent and 102.3 percent of the GDP, respectively.

The strategy for achieving greater budget balance consisted of making deep **cut-backs in items such as education and healthcare**. The healthcare and education expenditure by the autonomous regions is still far from the 2009 levels: 44.640 billion were used for education in 2016, below the 49.692 billion in 2009; whereas the amounts for healthcare totaled 67.578 million, still far from the 72.939 billion seven years ago.

This negative impact on social items must be reversed in the coming years to guarantee the proper operation of national welfare services. Likewise, the role of expenditure policies must be reinforced in R+D and infrastructures, which have suffered from significant cut-backs as expenditure in these areas continues to be lower than in 2007.

The increase in public expenditure will make it very difficult to achieve a primary surplus to reduce the debt. This will **increase our vulnerability in a context of harsher monetary policies**.

CONSOLIDATING INTERNAL DEMAND WITH HIGHER SALARIES

Consumption has become the **main driver of economic recovery**. Maintaining this growth will not be easy in the upcoming months.

Household income has increased as the revenue has increased and the expenditure has decreased. On the one hand, jobs are being created and the 2015 personal income tax reforms have made it so Spanish families have an extra 3.5 billion in their pockets due to lower withholdings. On the other hand, the lower interest rates and drop in prices (with negative inflation between 2014 and 2016) have become “tailwinds” driving consumption.

The end of these cyclical factors may halt consumption and, therefore, economic growth. Without a significant increase in wages and with inflation at nearly 1.5 percent in 2017, **the drop in household buying power will impact consumption** and, thus, growth and employment.

IMPROVING PRODUCTIVITY IN THE PRODUCTION SYSTEM

The problem in the present and the near future continues to be increasing productivity in a way that allows Spain to finance itself internally and increase its international reputation (so our productivity allows us to pay debts to obtain external financing and continuing improving incomes and household living conditions).

Total factor productivity (TFP) in Spain (the indicator that measures the efficiency of an economy in the use of the job factor and the capital factor) is lower than in its neighboring countries. While TFP in France and Germany rose 2.4 percent and 7 percent, respectively, since 2000, it only advanced 0.4 percent in Spain and is at practically the same level as 20 years ago.

TURNING THE EXPORT REVOLUTION INTO REALITY

One of the most significant changes in the Spanish economy has been the change in the payment balance sign in Spain, maintaining the surplus from the last few years.

The negative side of this change in the foreign trade sector is the immense **external debt**, which reached **historic highs** this year in absolute terms at 1.9 billion euros (170 percent of the GDP). Moreover, and as already warned by the European Commission, Spain maintains a **high percentage of non-resident creditor debt** (43.3 percent).

This excessive foreign indebtedness makes the Spanish economy vulnerable to any new shocks. The measures implemented must reduce this indebtedness, especially in light of a rise in interest rates.

Over the next few years, strong boosts in exports will be needed to prevent the investment recovery from turning into imports and more trade deficit.



AT PEACE WITH THE ENVIRONMENT AND THE CLIMATE

Spain must act to **handle the environmental challenges and strengthen the fight against climate change** as part of the Paris Agreement. The various actions include reducing emissions, controlling waste, reinforcing the role of environmental and renewable energy taxation and reducing the effects of climate change, as the rising temperature on the planet will particularly affect southern European countries like Spain.

Spain must take measures to comply with European directives. To do so, measures are already being implemented such as the commitment to produce a Climate Change and Energy Transition Law and to create a panel of experts on the energy transition, which will be decisive over the next few years.

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