

POLITICAL INSTABILITY COULD UNDERMINE SPANISH ECONOMY - ARAOZ & RUEDA

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Madrid's economy is returning to growth but regional, national and local elections may have a negative impact on the recovery

Araoz & Rueda partner Alejandro Fernández de Araoz says Madrid is to a large extent Spain's economic engine but he adds that, as the city overcomes the crisis and returns to growth, it is also "over-lawyered," with stiff competition among law firms competing for business in a buyer's market. "Projects are starting up again as banks return to lending, and credit is the lifeblood of the economy," Fernández de Araoz says. He adds that Spain "is back, after some terrible years" due to the government's structural reforms.

Fernández de Araoz says controversial new labour laws that facilitate lay-offs and reduce trade unions' powers of negotiation have increased companies' incentive to hire, as well as marginally lowering the soaring unemployment rate. Meanwhile, he adds that there has been significant investment by large funds – such as Fortress, Lone Star, KKR, Apollo and Blackstone – in Spanish real estate and a reactivation of M&A. In addition, tourism continues to rake in significant revenue given Spain's attraction to tourists around the world, according to Fernández de Araoz.

Spain's automotive sector is also a significant economic driver, thanks to the skilled and relatively cheap labour force, with salaries having remained frozen, Fernández de Araoz says. He adds that the country's communication and logistics infrastructure – as well as its location – facilitates exports, which in turn have been buoyed by a weaker euro and lower oil prices.

But uncertainty looms. "In political terms, you never know," he said, citing David Cameron's recent routing of the opposition in the UK general election as an example of the unpredictability of polls. "Although the next general elections will not take place until December, the recent outcome of regional and local elections could remove some of the newfound stability and have a negative impact on the economy. "We are a lot better than we were economically, but there are some big question marks surrounding governability post-election," he says.