

## Sink or swim?

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### Spain tries to stay afloat, and in one piece

**L**ike Goya's famous "Dog half-submerged", Spain will just hold its head above water in 2014. A five-year, double-dip recession is over. But can Spain swim to the shore of recovery, or will it be sucked back under?

Bond markets trust Spain again and the European Union is slowly loosening the austerity straitjacket. But measures to reduce the government deficit to 5.8% of GDP will mean little growth in 2014. That in turn will mean few if any extra jobs in a country where one in four workers is idle. And without jobs, everything from internal demand to social peace remains fragile.

Two worrying trends will grow: emigration and Spain's renewed status as a country that receives more money from those living abroad than is sent out by immigrant families. But at least Spain can now concentrate on building up the economy, rather than just halting decline. That requires "internal devaluation", meaning further falls in real wages, pensions and house prices.

## Probabality theory

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### Italy's year in numbers

**G**iven the impossibility of predicting anything to do with Italy, we decided to try hard statistical probability.

The football World Cup looks like a good place to start. There have been 19 competitions and Italy has won four. So the Azzurri have a slightly better than one-in-five chance of lifting the trophy. Then again, they have made it into the semi-finals on eight occasions and reached the final six times. So they have an almost even chance of getting into the last four and, if they do, they are likely to get into the final, where they will probably win (having done so four times out of six). But hang on—the World Cup is in Brazil, and Brazil are rather good.

Thankfully, the economy is easier. Italy has endured its longest recession since the second world war. The slump appeared to be bottoming out in mid-2013, so it should end in 2014, with growth of perhaps 0.2%. But Italians will continue to feel poor. Their economy began shrinking in the fourth quarter of 2011, only two years after Italy emerged from another harsh recession in 2008-09. For almost a decade before that, GDP growth had been lacklustre at best. The IMF estimates that Italians' real

Exports will be the main motor of growth.

If recovery in jobs and household incomes does not come, then the centre-right People's Party of the prime minister, Mariano Rajoy, is in trouble. A general election is due by the end of 2015. Polls show the party's support sliding away. But the Socialist opposition is also doing badly. Elections to the European Parliament in May will signal just how chaotic a panorama awaits in the next government, as minority parties gain ground.

In September 2014 wealthy Catalonia will loudly mark the 300th anniversary of the moment a centralising monarch stripped it of much self-government. The regional premier, Artur Mas, has vowed to call some sort of consultation on independence during 2014. Mr Rajoy is refusing to permit that (though all eyes will be on Scotland's independence vote, also in September). Attempts to turn regional elections, which could be brought forward two years to 2014, into a plebiscite on independence are fraught with potential complications. Polls now show more than half of Catalans support separation. Mr Rajoy's refusal to budge will harden that further. ■

## All eyes will be on Scotland's independence vote

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GDP per head in 2014 will still be lower than it was in 1998.

Since then, Italy has suffered from a growing competitiveness problem. Nor has the euro crisis helped. Whereas competitiveness has improved in other countries of the euro-zone periphery, in Italy it has deteriorated further.

At the root of Italy's lack of competitiveness is its long-running failure to introduce structural economic reforms. For that, the country needs a government that is stable and courageous.

On the first count, the statistics are not encouraging. By the time Enrico Letta came to office in April 2013, post-war Italy had had 63 governments, lasting an average of 393 days. So if his coalition is still in business on May 26th 2014, he will have beaten the odds. Expect a

fresh election in 2014.

Mr Letta is well aware of what needs to be done. But there are at least two reasons for thinking his government's economic achievements will be modest. The first is that its priority is political reform, especially a new electoral law to ensure that at the next general election Italians produce a clear result. In February 2013 they gave the maverick Five Star Movement, led by a comedian, Beppe Grillo, a quarter of the votes. Mr Grillo refused any sort of alliance, so the centre-left Democratic Party to which Mr Letta belongs had no option but to form a government with Silvio Berlusconi's conservative People of Freedom movement. That points to the other doubt: a left-right coalition would find it hard to agree on bold reforms in any circumstances, let alone with Mr Berlusconi's many legal problems hanging over it.

The former prime minister is appealing against two convictions (one for leaking confidential evidence from a judicial investigation, the other for paying for sex with an underage prostitute and then using his position to cover it up). He also risks indictment in a third case in which he is suspected of bribery. The most confident prediction that can be made about Italy in 2014 is that Mr Berlusconi's legal problems will continue to weigh on the public life of the country (a 99% chance). ■



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