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Summary

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Foreign Policy

Rajoy calls for more Spanish trade and investment at the African Union summit
Prime Minister Mariano Rajoy urged African leaders at their summit in Equatorial Guinea to involve Spain more in the continent's development.

'I am not here to offer anything because I do not have anything that Africans cannot give themselves. I come here to ask that you count on Spain as a partner for your growth. I come to ask for more trade and more investment between our countries, and I come to reiterate that Spain wants to participate in the rebirth of Africa'.

Rajoy's visit to Equatorial Guinea, a former Spanish colony ruled by President Obiang Nguema Mbasogo since 1979, was the highest-level Spanish trip to the country in 23 years. The oil-rich nation has one of the world's worst human-rights records.

Spain has participated in 20 peace-keeping missions in Africa since 1989, and currently has troops in Mali, the Sahel, the Central African Republic and the Horn of Africa.

Rajoy's presence at the summit also gave him an opportunity to court in private African support for Spain's bid for a non-permanent seat on the UN Security Council, which will be decided in October. Spain is competing with Turkey and New Zealand.

Government cold shoulders Gibraltar's Chief Minister on visit to Madrid
Fabian Picardo, the Chief Minister of Gibraltar, the UK overseas territory claimed by Spain, met with representatives of Spain's main political parties in Madrid, but was given a wide berth by the ruling Popular Party.

His visit came almost a year after Gibraltar dumped 70 concrete blocks in contested waters in order to create a small artificial reef and regenerate depleted fish stocks. This move prompted Madrid to impose stringent controls at the border, which have created queues on either side of up to several hours during busy times of the year. The checks are ostensibly a crackdown on tobacco smuggling, which is rife as prices are much lower in Gibraltar.

The government did not officially react to the visit. An editorial in the conservative newspaper *ABC* criticised the Socialists, the main opposition party, for not maintaining a common position with the government.

In an article in *El País*, the leading and centre-left newspaper, Picardo said it was time to talk about what unites Spain and Gibraltar rather than insist on what separates them. He said there was an 'absolute absence of dialogue'.

The UK Foreign Office summoned Federico Trillo, Spain's ambassador in London, to protest the actions of Spanish navy ships in waters near Gibraltar. This then provoked the Spanish Foreign Ministry to summon the UK ambassador in Madrid, Simon Manley.

Mr Manley was told that the summoning of an ambassador to register a formal protest is a 'very serious' act that 'should be reserved for especially serious situations.' The Foreign Ministry said that what Britain described as an incident was nothing more than 'the routine action of a Spanish navy ship in Spanish waters.

Domestic Scene

Exodus of immigrants further reduces Spain's population...
Spain's population continued to fall in 2013, from 46.8 million in 2011 and 46.7 million in 2012 to 46.5 million, according to provisional figures from the National Statistics Office (INE).

The number of foreigners fell 7.8% last year to 4.67 million (10% of the total population, down from a peak of 12.2% in 2010).[1] The largest outflow of immigrants was of Ecuadoreans, 56,466 of whom left Spain (see Figure 1). Britons are also leaving: pensioners are finding it increasingly difficult to make ends meet because of the rise in the cost of living since they retired to Spain. Of the 547,890 emigrants, 22.7% more than in 2012, 52,160 were native Spaniards and 27,146 naturalised Spaniards.

Figure 1. Resident foreign population by main nationalities in 2012 and 2013

	1 January 2013	1 January 2014	Change
Rumania	769,608	730,340	-39,269
Morocco	759,273	714,221	-45,052
UK	316,362	311,774	-4,588

[1] The figures released by INE in April were 'advance' estimates and gave a total population of 46.7 million. See Inside Spain nr 106, 20/V/2014.

Ecuador	269,436	212,970	-56,466
Italy	181,046	182,249	+1,203
Colombia	223,140	172,368	-50,772
China	169,645	164,555	-5,091

Source: INE.

Of the 291,041 immigrants, 4.3% lower than in 2012, 16,172 were native Spaniards and 17,221 naturalised Spaniards. Total net migration of foreigners and Spaniards (the difference between emigration and immigration) was 80.2% higher at 256,849, up from 42,675 in 2010 and net immigration of 12,845 in 2009 (see Figure 2).

Figure 2. Net migration of foreigners and Spaniards, 2009-13

	Immigration	Emigration	Balance
2009	392,963	380,118	12,845
2010	360,704	403,379	-42,675
2011	371,335	409,034	-37,698
2012	304,054	446,606	-142,552
2013	291,041	547,890	-256,849

Source: INE.

Net migration of native and naturalised Spaniards has risen steadily since 2008 and last year was 45,913, up from 1,804 in 2008 at the start of the crisis but less than 20% of the total (see Figure 3).

Figure 3. Net migration of native and naturalised Spaniards, 2008-13

	Immigration	Emigration	Balance
2008	31,701	33,505	-1,804
2009	27,596	35,990	-8,394
2010	30,418	40,157	-9,739
2011	35,442	55,472	-20,030
2012	31,565	57,267	-25,702
2013	33,393	79,306	-45,913

Source: INE.

… which will be the world's third-oldest in 2050

More than one-third of Spain's population in 2050 will be over the age of 65, the third-highest proportion in the world, according to latest projections by the United Nations Population Division (see Figure 4).

Figure 4. Population over the age of 65 in 2010 and 2050 (% of total)

	2010	2050
Japan	23.0	36.5
South Korea	11.1	34.9
Spain	**17.1**	**34.5**
Italy	20.3	33.0
Germany	20.8	32.7
France	16.8	25.5
UK	16.6	24.7

Source: United Nations Population Division.

The forecast increase in the share of the population of this age group –from 17.1% in 2010 to 34.5% in 2005– is due to Spain's low birth rate (see Figure 5), the considerable increase in life expectancy over the last 40 years and a new factor: the outflow of immigrants whose average age is lower than that of Spaniards and whose women tend to have more children.

The life expectancy of men in Spain has risen from 69.6 years in 1970 to 79.4 and that of women from 75 to 85 years. The fertility rate of 1.32 is below the replacement rate (the reproduction rate that keeps a population stable).

Figure 5. Fertility rate in EU countries

	Children per woman
Ireland	2.01
France	2.01
UK	1.92
Italy	1.43
Germany	1.38
Spain	**1.32**
Portugal	1.28

Source: United Nations Population Division.

Felipe VI's sister and husband in corruption charges: King begins reign with symbolic changes
A court upheld corruption charges against Cristina de Borbón, one of the two sisters of King Felipe VI who assumed the throne last month after Juan Carlos I abdicated.

Cristina was caught up in the investigation into her husband Inaki Urdangarín's business dealings. She is charged with tax fraud and money laundering. Urdangarín is accused of using his connections to win public contracts to stage events through his non-profit organisation Noos Foundation, and of embezzling several millions of euros in public funds. No date has been set for the trial.

In a bizarre turn of events, the anti-corruption prosecutor Pedro Horrach appealed the charges against Cristina brought by the judge José Castro.

Felipe VI began his reign with an official visit to Morocco and a more inclusive style. Today's Spain is very different from the one his father found in 1975 when the monarchy was restored (see Figure 6).

Figure 6. From Juan Carlos I in 1975 to Felipe VI in 2014, key indicators

	1975	2014
Total population (million)	36.0	46.7
Rural population (%)	26.0	22.0
Immigrants registered	166,067	5,333,821
Female employment rate (%)	28.0	53.0
Number of unemployed and jobless rate (%)	510,500 (3.8%)	5,933,300 (25.9%)
University students	324,036	1,438,115
Housing (average €/m^2)	45.07	2,376
Number of cars registered	693,590	31,203,203

Source: INE.

Felipe VI became the first Spanish head of state to receive a delegation of lesbian, gay, bisexual and transsexual groups (LGBT) and no longer are new members of state institutions and minsters sworn into their posts in the monarch's presence with the bible and a crucifix before them. This change seeks to comply belatedly with the principle of a non-confessional state set out in Spain's 1978 constitution, although the Roman Catholic Church is still given a special recognition in it.

New Socialist leader elected to revamp the ailing party

The Socialist party, deeply wounded by its poor results in May's European elections and its failure to capitalise on the Popular Party's unpopular austerity measures, sought to renew itself by electing the unknown Pedro Sánchez as its new Secretary-General.

Sánchez, an MP for Madrid, obtained 49% of the votes compared with 36% for Eduardo Madina and 15% for José Antonio Pérez Tapias. The 42-year-old Sánchez replaces Alfredo Pérez Rubalcaba (62), part of the Socialists' 'old guard' (he served in governments between 1992 and 2011).

Sánchez won the most votes in 11 of the 17 autonomous regions and particularly in the party's fiefdom of Andalusia (20,381 of the 62,411 votes he received).

Traditionally, the party's leader is automatically the Socialists' candidate for prime minister in the general election. Nonetheless, a primary election will be held to select the candidate to run in the next election, which has to be held by the end of 2015.

Opinion polls put the PP and the Socialists more or less neck and neck if elections were held tomorrow. Not only have the Socialists failed to make any headway against the PP, but the left in Spain has become even more fragmented following the stunning results of the radical Podemos in the European elections (1.2 million votes and five seats). Podemos took votes from both the Socialists and from United Left.

Public health system feels the squeeze

The public health system shed 28,496 jobs between January 2012 and January 2014 and the average waiting time to see a specialist rose from 59 days to 67, according to the latest figures from the Finance Ministry.

A decree law at the end of 2011 ordered only one in every 10 people who retired from the system to be replaced, as part of the government's austerity measures.

Spain ranks low in appraisal of teachers and feedback…

More than one-third of teachers (36%) in Spain say they have never been formally appraised and 32% report never having received feedback in their current school (see Figure 7), way above the respective averages of 12% and 7% for the 34 countries that took part in the OECD Teacher and Learning International Survey (Talis).

Figure 7. Teachers who have never been formally appraised, according to their school principal (%)

	%
Italy	70
Spain	**36**
Finland	26
France	1
England	0
US	0

Source: OECD Teacher and Learning International Survey (Talis).

Only 8% believe that the teaching profession is valued in society compared with a Talis average of 31%. Those countries where teachers feel valued tend to do better in the international PISA tests for 15-year-olds. Spain was ranked 29th out of 65 countries in the latest (2012) PISA test for science, 33rd in maths and 30th in reading, and 13th out of 18 countries in the first PISA report on financial literacy published this month (see Figure 8).

Figure 8. Mean performance in financial literacy

	Score
1. Shanghai-China	603
2. Flemish community (Belgium)	541
7. Poland	510
9. US	492
11. France	486
13. Spain	**484**
17. Italy	466
OECD average (13 countries)	500

Source: PISA 2012 Financial Literacy, OECD.

Three-quarters of teachers work in schools where the principal reports that there is no induction programme, and for 59% there is no access to a mentoring system (Talis averages are 34% and 26%). Strong performance is rarely rewarded. One in five teachers (18%) agree or strongly agree that the best-performing teachers in their school receive the greatest recognition, and 10% report a moderate or large positive change in salary and/or a financial bonus after they received feedback on their work at their school (Talis averages of 38% and 25%, respectively).

Close to 60% of teachers in Spain are women and their situation is generally in line with the country average (see Figure 9).

Figure 9 Talis teacher survey (%)

	Spain	Country average
Female teachers	58.8	68.1
Average age	45.6	42.9
With tertiary education	95.6	90.9
With teacher education or training	18.3	16.2
Full time employment	89.2	82.4
With permanent contract	81.5	82.5
Students per class	23.6	24.1

Source: OECD Teacher and Learning International Survey (Talis).

… with one-third of graduates in jobs below their qualification
Around 70,000 of the graduates employed in 2013 were in jobs for which they did not need their degree and some were in jobs that required hardly any studies at all, according to the annual report of the Conocimiento y Desarrollo (CyD) foundation.

The figure highlighted the extent of the over-qualification of Spanish students for the job they obtain (the highest in the EU) in an economy excessively based on bricks and mortar and with an unemployment rate of 26%. Around 220,000 students graduate every year in Spain.

Ángel Gurría, the secretary general of the OECD, the Paris-based think-tank and one of the people who presented the report, called the professional training situation in Spain 'alarming'. He claimed the average Japanese upper secondary school student had roughly the same skills as a Spanish graduate. He offered no data to support this assertion.

The report also exposed the unemployment gap between those who had not completed their basic education and those with higher education qualifications. The respective jobless rates were 43.3% and 15.8%.

Former head of Balearic Islands' government imprisoned…
Jaume Matas, who headed the Popular Party (PP) government of the Balearic Islands between 1996 and 1999 and 2003 to 2007, was jailed after he lost his appeal against a nine-month sentence for trafficking of influences.

Matas was sentenced to six years in prison in 2012 for six crimes. The Supreme Court overturned this and reduced the sentence to nine months and for just one crime.

The government, which has promised a battery of measures in September to 'regenerate democracy', denied Matas a pardon.

In a separate case, José Luis Baltar, the former president of the Ourense provincial council for more than 20 years and the PP's 'baron' in the area, went on trial for corrupt practice. He is accused of personally appointing 104 people without advertising the jobs as required. Baltar stepped down from his post two years ago and was replaced by his son.

In another incidence of questionable practices, Ramón Álvarez de Miranda, the president of the Court of Auditors (*Tribunal de Cuentas*) which is responsible for supervising political parties and public institutions, appeared before a parliamentary commission after it was revealed that around 100 of its 700 employees were related to current and former senior management at the Court and its trade union representatives.

Those aspiring to work for the Court, whose salaries are well above the average, take a competitive examination which is marked by a panel of senior management and trade union representatives.

In Catalonia, Oriol Pujol, the son of Jordi Pujol, the former president of the region's government (1980-2003), stepped down as a member of the Catalan parliament following a 16-month formal investigation into alleged corruption over the awarding of licences to operate official vehicle testing centres. Pujol gave up his post as secretary-general of Convergencia Democrática last year.

… and European Commission to investigate statistical reporting in Valencia region

The European Commission launched a formal investigation into the possible manipulation of statistics in the region of Valencia.

The investigation will examine whether deliberate or seriously negligent misreporting of expenditure in the region caused Spain's national debt and deficit data to be misrepresented over several years.

This is the first time that the Commission has used its new powers under the 'Six Pack' economic governance legislation to investigate suspected manipulation of a member state's debt and deficit data. If manipulation is confirmed, the Commission may apply appropriate sanctions.

The Economy

Tax reforms fail to incorporate experts' recommendations and 'endanger' budget deficit targets

The government's long-awaited tax reforms will lower personal and corporate income tax rates next year, but, in the view of the reforms' critics, will put budget deficit targets at risk.

The top income tax rate will come down from 52% to 47% and the bottom rate from 27% to 24%. Finance Minister Cristóbal Montoro said taxpayers would pay 12.5% less on their income than at present. The corporate rate will fall from 30% to 28% and to 25% in 2016. Seventeen EU countries currently have rates of less than 25% (see Figure 10). Tax rates on savings income will also be reduced. The drop in tax revenues is estimated at 0.9% of GDP.

Figure 10. Maximum corporate tax rates in the EU in 2014 (%)

	%
France	38.0
Italy	31.4
Germany	30.2
Spain	**30.0**
UK	21.0
Poland	19.0
Bulgaria	10.0

Source: Eurostat.

The reforms are probably the last before next year's general elections. The Popular Party hopes the lower tax rates will boost its chances of victory.

The loss of revenue from the cuts will be partly offset by phasing out some deductions and exemptions. The government steered away from the unpopular measure of raising more revenue from VAT, one of the main recommendations of the non-binding report produced at its request by a committee of experts, because it would be politically unpopular and run the risk of stymying the incipient recovery of domestic demand.

The committee also wanted changes to hydrocarbon taxes and to those raised by regional governments. In the view of one committee member, who asked to remain anonymous, 'the government is overly confident on the elasticity of tax revenue to economic growth to cure all its maladies'.

The standard VAT rate of 21% (raised from 18% in September 2012) is in line with that of most other EU countries, but a wide range of goods and services pay a lower rate. Spain's VAT take in 2012 was 5.5% of GDP, the lowest level among the 28 EU countries (see Figure 11). The total tax burden in 2013 was 37% of GDP, also below the EU average, and public debt is fast approaching 100% of GDP.

Figure 11. VAT revenue (% of GDP), 2012 and 2007

	2012	2007
Denmark	10.0	10.4
UK	7.3	6.4
Germany	7.3	7.0
EU-28	7.1	7.0
France	7.0	7.2
Italy	6.1	6.2
Spain	**5.5**	**6.0**

Source: Eurostat.

The European Commission and the IMF are also not happy with the failure to raise VAT. The government is committed to reducing its budget deficit from a projected 5.6% of GDP this year to the EU threshold of 3% in 2016. Unless there is a substantial rise in revenue, which the government is confident will occur, further public spending cuts will be required.

Spain's Foundation for Applied Economic Studies (FEDEA) said the reform is 'an insufficient bunch of mere adjustments in income tax to reverse year 2012's rise'. The rating agency Moody's said the measures were 'credit negative' and fell 'far short of the initial ambitions' as recommended by the committee. The agency raised Spain's sovereign rating in February to Baa2 – two notches above junk– with a positive outlook. Its 'credit negative' stance does not threaten that upgrade, but several might prompt the firm to reconsider.

The IMF, meanwhile, significantly upgraded its 2014 GDP growth forecasts for Spain from 0.6% in April to 1.2% and from 1% to 1.6% in 2015. Although the country has 'turned the corner', the IMF sees a long period of low growth after expanding 3.5% on average between 1995 and 2007 (the highest and longest growth period since the 1970s) and very high unemployment (see Figure 12).[2]

Figure 12. IMF forecasts for Spain, 2014-19

	2014	2015	2016	2017	2018	2019
GDP growth (%)	1.2	1.6	1.7	1.8	1.9	2.0
Unemployment (%)	24.9	23.8	22.6	21.4	20.1	18.7
Budget deficit (% of GDP)	5.7	4.7	3.8	2.9	2.2	1.8
Public debt (% of GDP)	99.0	101.0	102.0	102.0	101.0	100.0

Source: IMF.

The IMF's recipe for job creation is as follows:

- Government: cut taxes on employing the less skilled to encourage companies to hire them. Improve training and job-finding services for the unemployed.
- Companies and workers: continue wage moderation so that companies have more money to hire the unemployed and invest in their equipment.

- Europe: continue integrating Europe's banking system so Spanish companies can borrow on the same terms as German ones.
- European Central Bank: make sure inflation in the euro area is not too low so there is more demand for Spain's exports. Make sure banks are strong so they can lend more.
- Banks: build up capital so they can lend more. Restructure the debt of insolvent, but viable, companies to help them grow.

Registered unemployment continues to fall

The number of people registered as unemployed in the government's network of employment offices fell by 122,684 in June to 4.4 million. The decline on a seasonally adjusted basis in these jobseekers was 16,113, the largest fall in the month of June since 2001 and the 11th consecutive monthly fall.

The total fall in the registered jobless in the first six months was 251,637, the largest since the statistical series began.

The higher stated figure for the number of unemployed (5.9 million in June, based on the quarterly labour force survey) includes people who say they want to work but who are not registered as jobless because they do not think it worthwhile or their benefits have ended, they are not really interested in working or wish to avoid controls as they are working in the black economy.

[2] See the IMF's country report on Spain released on 10 July for its full appraisal of the situation at www.imf.org/external/pubs/ft/scr/2014/cr14192.pdf.

According to Eurostat, 5% of Spain's labour force is available to work but not seeking employment (see Figure 13).

Figure 13. Persons available to work but not seeking (% of labour force), 2013

	% of labour force
Italy	12.1
Spain	**5.0**
EU-28	3.8
UK	2.4
Germany	1.3

Source: Eurostat.

The latest figures raised hopes that the destruction of jobs had finally bottomed out. For the first time since the crisis began, more jobs were created than were shed. Most, however, are temporary and a large number are related to the tourism season that is now in full swing and enjoying another record number of visitors.

Spain has a long way to go before recovering the pre-crisis jobless rate of 8%. To do this, the number of unemployed has to be reduced by 4.5 million. In order to reach the structural unemployment rate of the last 30 years (14%), unemployment has to be cut by more than 3 million.

Growth in itself is not sufficient to reduce Spain's unemployment, due to its composition: 61% are long-term jobless; 42% over the age of 45; 55% have not completed their advanced secondary education; and 15% are under the age of 25 and have no work experience.

The dire situation is also highlighted by the sharp drop in Spain's employment rate –persons with a job as a percentage of the population of working age (15-64 years)–. It plummeted from 64.5% in 2008 to 54.8% in 2013 compared to a drop of just 1.2 percentage points in the OECD average (see Figure 14).

Figure 14. Employment rate, 2008 and 2013 (%)

	2013	2008
Germany	73.3	70.1
UK	70.8	71.5
OECD average	65.2	66.4
France	64.1	64.8
Italy	55.6	58.8
Spain	**54.8**	**64.5**

Source: OECD.

Inward and outward investment rebounds

Net foreign direct investment (FDI) in Spain last year was 52.4% higher at US$39.16 billion, the highest level since 2010, and outward investment by Spanish companies was US$26.03 billion (US$3.98 billion negative in 2012 after deducting disinvestments), according to UNCTAD's 2014 World Investment Report.

Spain's FDI inflows were the largest in Europe, underscoring the economy's enhanced attractiveness following structural reforms and improved competiveness (see Figure 15).

Figure 15. FDI inflows by EU countries, 2008-13 (US$ million)

	2008	2009	2010	2011	2012	2013
France	64,184	24,215	33,628	38,547	25,086	4,875
Germany	8,109	23,789	65,620	59,317	13,203	26,721
Ireland	-16,453	25,712	42,804	23,545	38,315	35,520
Italy	-10,835	20,077	9,178	34,324	93	16,508
Netherlands	4,549	38,610	-7,324	21,047	9,706	24,389
Spain	**76,993**	**10,407**	**39,873**	**28,379**	**25,696**	**39,167**
UK	89,026	76,301	49,617	51,137	45,796	37,101

Source: World Investment Report 2014, UNCTAD.

Outflows were the fifth largest at US$26 billion (see Figure 16), a significant turnaround on 2012 when the figure was US$3.9 billion negative (the difference between investments and disinvestments).[3]

Figure 16. FDI outflows by EU countries, 2008-2013 (US$ million)

	2008	2009	2010	2011	2012	2013
France	155,047	107,136	64,575	59,552	37,195	-2,555
Germany	72,758	69,639	126,310	80,971	79,607	57,550
Italy	67,000	21,275	32,655	53,629	7,980	31,663
Netherlands	68,334	34,471	68,341	39,502	267	37,432
Spain	**74,717**	**13,070**	**37,844**	**41,164**	**-3,982**	**26,035**
Sweden	30,363	26,202	20,349	29,861	28,951	33,281
UK	183,153	39,287	39,416	106,673	34,965	19,440

Source: World Investment Report 2014, UNCTAD.

The inward stock of FDI reached US$715.99 billion (52.7% of GDP), up sharply from US$644.67 in 2012, and the outward stock rose from US$636.73 billion to US$643.22 billion (47.3% of GDP).

Among last year's investments, Santander acquired an 8% stake in China's Bank of Shanghai for €470 million, and Prosegur, one of the world's largest security firms, bought Chubb's cash-in-transit armoured vehicles unit in Australia for €95 million. Santander agreed this month to acquire GE Capital's consumer finance unit in Sweden, Denmark and Norway for about €700 million. The bank is already the largest provider of loans to buy cars in the Nordic region.

This year looks set to be another good one for inward FDI. According to press reports, gross investment in the first six months was €26.8 billion based on the main operations announced (see Figure 17).

[3] For a more detailed look at outward investment see the author's analysis at http://www.realinstitutoelcano.org/wps/portal/web/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/ari31-2014-chislett-spanish-direct-investment-abroad-rebounds#.U7PO6I2Szwc.

Figure 17. Main inward direct investments in 2014

Investor	Country	Company	Stake/asset	Amount (€ bn)
Vodafone	UK	Ono	100%	7.2
Lone Star/JP Morgan)	US	Eurohypo	Real estate credits	3.5
International funds	Various	Repsol	9.5%	2.5
Aiqon Capital	Malaysia	Catalunya Bank	Bad loans	1.5
International funds	Various	Bankia	7.5%	1.3

Source: *Expansión* newspaper.

While the current success cannot be denied, it has to be seen in the context of a five year on-off recession which has trebled the unemployment rate to more than 25%, and in some areas, such as real estate, as a result of an economic model excessively based on it, and ailing banks overexposed to this same sector, has created bargains for foreign investors. It is no surprise that several of the largest foreign investments this year are in the real estate and banking sectors.

Trade deficit soars in first five months
Flagging exports and higher imports pushed up the trade deficit to €10.4 billion in the first five months from €5.71 billion in the same month of 2013.

Exports, which have led Spain's recovery so far, grew by only 0.8% year-on-year to €98.66 billion, though they set another record, and imports rose 5.3% to €109.06 billion. The faster than expected spurt in imports reflected the incipient upturn in domestic demand.

The weaker external sector reduced GDP growth in the first quarter by 0.2%.

Economic convergence with EU recedes to level of 1997…
Spain's per capita GDP stood at 95% of the EU average last year, the same level as 16 years earlier, as a result of the country's long recession (see Figure 18).

Figure 18. GDP per capita in purchasing power standards (EU = 100)

	2007	2010	2013
France	108	109	108
Germany	115	120	124
Italy	104	103	98
Spain	**105**	**99**	**95**
UK	118	108	106

Source: Eurostat.

When the economy was at the peak of its boom in 2007, Spain overtook Italy and an exuberant José Luis Rodríguez Zapatero, the former Socialist prime minister, boasted that the country would surpass Germany.

… while income inequality widens…
Spain suffered one of the largest increases in income inequality between 2007 and 2011, as the poorest bore the brunt of the economic crisis.

The Gini coefficient, the yardstick for measuring inequality rose 12.4% to 0.344 (0 is perfect equality), one of the highest among the 34 OECD countries. The income of the wealthiest 10% of the population was 13.8 times higher on average than the income of the 10% least wealthy (see Figure 19), up from 8.4 times in 2007 and the third highest level among the 34 OECD countries after Greece and Mexico.

Figure 19. Key indicators on the distribution of household disposable income

	Gini coefficient (1)			S90/S10 income share ratio (2)		
	2007	**2010**	**2011**	**2007**	**2010**	**2011**
France	0.293	0.303	0.309	6.8	7.2	7.4
Germany	0.287	0.286	0.293	6.7	6.7	6.9
Italy	0.313	0.321	0.321	9.0	10.5	10.2
Spain	0.306	0.334	**0.344**	8.4	12.1	**13.8**
UK	0.341	0.341	0.344	9.8	10.0	9.6
US	0.378	0.380	0.389	15.1	15.9	16.5
OECD	0.314	0.314	0.315	9.3	9.6	9.6

(1) 0 corresponds with perfect equality (where everyone has the same income) and 1 with perfect inequality (where only one person has all the income).
(2) The S90/S10 income share ratio refers to the ratio of average income of the top 10% to the average income of the bottom 10% of the income distribution.
Source: Income Inequality Update (June 2014), OECD.

'Anchored' poverty –with the value of the threshold fixed in real terms at the 2005 level (when the Spanish economy was growing strongly)– increased by eight percentage points in Spain compared with a rise of two points in the whole OECD area (see Figure 20).

Figure 20. Total poverty rate (threshold 'anchored' in 2005), (%)

	2007	2010	2011
France	–	6.8	7.0
Germany	9.2	8.1	8.7
Italy	11.0	13.2	13.7
Spain	**10.4**	**15.5**	**18.3**
UK	11.2	10.6	10.6
US	–	18.1	18.3
OECD	8.4	9.2	10.4

Source: Income Inequality Update (June 2014), OECD.

According to the National Statistics Institute (INE), 27.5% of children in Spain are at risk of poverty. A major factor behind this is that the number of households with all adults unemployed has tripled since 2007 to close to 1 million.

UNICEF said scholarships and financial assistance for meals and books, two key elements to reduce inequality in access to education, have been hard hit since 2007, with investment down 7%. The Spanish National Committee for UNICEF said there was an urgent need for a state agreement to reduce child poverty and ensure equal opportunities in education.

… and the number of millionaires rises

The number of Spaniards with net assets of at least US$1 million (€740,000), excluding their primary residence and consumables, rose 11.6% in 2013 to 161,000, according to the latest world wealth report of Capgemini and RBC Wealth Management (see Figure 21).

Figure 21. Ranking of countries with the most high net worth individuals (thousands) (1)

	2012	2013
1. US	3,436	4,006
3. Germany	1,015	1,130
4. China	643	758
5. UK	465	527
6. France	430	472
10. Italy	176	203
14. Spain	**145**	**161**

(1) Out of 25.
Source: Capgemini Financial Services.

The number dropped sharply in 2008, when the economy slowed down before going into recession, and since then has recovered the level of 2007 (see Figure 22). One reason for the rise in wealth in 2013 was the upturn in the Madrid stock market whose Ibex-35 benchmark index increased 21%, after falling for three years.

Figure 22. Number of rich spaniards, 2002-10

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Number	141,000	148,000	157,000	161,000	127,000	143,000	140,000	137,300	145,000	161,000

Source: RBC Wealth Management and Capgemini, 2014 World Wealth Report.

Corporate Scene

WiFi provider Let's Gowex collapses, CEO admits fraudulent accounting

The bankruptcy of Gowex, an urban wireless internet company with a stellar stock market performance, exposed lax oversight by regulators.

The company collapsed after Gotham City Research, a US-based shortseller, issued a stinging report on 1 July that cast serious doubts on the company's management and accounting practices. This led Jenaro García Martín, Gowex's founder and CEO, to confess five days later than he had falsified the accounts for 'at least' the past four years.

Gotham alleged that Gowex overstated its revenues by 10 times, and the number of WiFi hotspots it managed was only 5% of what it claimed.

Gowex is the third company of the 23 on the MAB alternative stock market (for small cap firms seeking to expand) to declare bankruptcy. Share prices plummeted and four companies said they would leave the market for another one.

Other recent corporate scandals include the insolvency of Bankia, the fourth-largest bank which had to be nationalised and bailed out by the EU, and Pescanova, a frozen fish group whose debts of €3.6 billion were three times higher than those recorded in its accounts.

The high profile García was something of a star in Spain's fledgling high-tech sector and regarded as a role model. Prime Minister Mariano Rajoy hailed him as a 'reference entrepreneur' in March when he presented him with the Startex prize. Gowex was one of the world's best-performing shares, rising more than 1,000% since the start of 2013.

The company had contracts in Madrid, Chicago and Dubai to provide WiFi in public places and on public transport. Ana Botella, the Popular Party mayor of Madrid, visited Gowex's offices the very day that Gotham issued its report and presented García as an 'example' of the city's entrepreneurial class.

Luis de Guindos, the Economy Minister, portrayed Gowex as an isolated case. 'There are cases of fraud in every market in the world', he said.

The CNMV stock market regulator and the ICAC accounting watchdog are separately investigating Gowex and its auditor.

State loses €11.8 billion with sale of Catalunya Banc

BBVA, Spain's second-largest bank, won the auction to buy the nationalised Catalunya Banc with an offer of €1.18 billion. The amount paid was a fraction of the amount spent on propping up the bank, which was massively over exposed to a real estate sector that collapsed as of 2008. It is estimated the sale of the bank cost taxpayers €11.8 billion.