

**Inside Spain Nr 112  
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**Summary**

Margallo visits Cuba, not received by Raul Castro.  
Spain's first Transparency Law comes into force, improvement in public sector corruption ranking.  
Podemos slips in voting intention poll, unveils economic programme.  
Bankia's accounts for its public listing 'full of errors'.

**Foreign Policy**

*García-Margallo visits Cuba, not received by Raul Castro*

Foreign Minister José Manuel García-Margallo visited the former Spanish colony of Cuba, but came away without having spoken to the country's dictator, Raul Castro. Although a meeting with Castro was not on the schedule before he arrived, a meeting at some point was expected.

The visit, the first by a Spanish Foreign Minister since July 2010, was part of a push by the EU to improve relations with Cuba and give momentum to the timid market-oriented reforms under President Castro who succeeded his brother Fidel in 2008, when the latter became ill.

EU policy towards Cuba is guided since 1996 by the so-called Common Position, promoted by the former Spanish Prime Minister José María Aznar, which rules out full relations with Havana until it makes reforms in areas such as more diverse political participation and freedom of expression. The policy has not been very effective.

There was speculation that García-Margallo's speech in Havana on Spain's much admired transition to democracy after the death of General Franco might have annoyed Castro, although the word Cuba was never mentioned. The Minister did not meet with Cuban dissidents.

The US President, Barack Obama, also appears to be interested in more constructive relations with Cuba. Last year, he described the long-standing US policy towards Cuba, resulting from the 1960 economic embargo, as anachronistic.

The UN General Assembly voted overwhelmingly in October for the 23<sup>rd</sup> time to condemn the embargo. Many nations praised the island state for its response in fighting the deadly Ebola virus ravaging West Africa.

Had García-Margallo managed to meet Castro, he would have urged him to attend the Ibero-American summit in Mexico, the first attended by Spain's new King Felipe VI. At the last minute Castro sent his Vice-President, Miguel Díez-Canel, in his place. The left-leaning leaders of Argentina, Brazil, Bolivia, Nicaragua and Venezuela also sent their deputies.

*First visit to Israel by a Spanish Defence Minister since diplomatic relations established*

Pedro Morenés became the first Defence Minister to visit Israel since Spain established diplomatic relations in 1986. His visit came a month after the Spanish parliament voted overwhelmingly in favour of a non-binding resolution to recognise a Palestinian state.

The visit returned that to Madrid by Israeli Defence Minister Edhud Barak in 2010 when a military co-operation agreement was signed.

Morenés and the current Defence Minister Moshe Ya'alon discussed the agreement and Spain's military contribution to the UNIFIL mission in the south of Lebanon.

*UK-Spain spat threatens Gibraltar's inclusion in EU airspace reform*

The territorial dispute between Madrid and London over Gibraltar threatens the inclusion of the Rock's airport in the Single European Sky initiative.

The initiative, launched in 2004, would merge flight corridors into transnational 'blocks'. More direct flight paths would cut costs and reduce carbon dioxide emissions. Madrid, however, wants Gibraltar excluded until the issue of sovereignty over the Rock is resolved.

Philip Hammond, the UK's Foreign Secretary, accused Madrid of using the EU to further its claims over Gibraltar, which was ceded to Britain in the 1713 Treaty of Utrecht. Ana Pastor, Spain's Minister of Public Works and Transport, described the airport on the narrow strip of land (isthmus) linking Gibraltar to Spain as 'an area that is being illegally occupied by the UK' (according to Spain's interpretation of the Treaty, the isthmus was not ceded to the UK, which did not occupy it until the early 19<sup>th</sup> century).

Hammond also criticised the Italian Presidency of the European Council for allowing Gibraltar to be excluded for the moment.

Under the 2006 Cordoba agreement between London, Spain's then Socialist government and Gibraltar, Spain agreed to stop seeking the exclusion of Gibraltar airport from EU aviation measures. The conservative Popular Party (PP) government, in essence, does not recognise the agreement and has taken a much harder stance on Gibraltar since coming to office at the end of 2011.

The airspace reforms cannot be implemented until the wrangle is resolved.

Earlier this year Madrid tried to block the UK opting back into a series of EU police and criminal justice agreements, but then yielded.

## **Domestic Scene**

### *Spain's first Transparency Law comes into force, improvement in public sector corruption ranking*

Spain finally caught up with the rest of the EU when its first ever Transparency Law came into effect this month, almost 40 years after the end of the Franco dictatorship and despite repeated promises in the past. However, it only operates at the state level (at municipal and regional levels, where most corruption occurs, next December).

As of 10 December, the website ([www.transparencia.gob.es](http://www.transparencia.gob.es)) began to publish the salaries of senior officials, details of public sector contracts, state subsidies and other information of public interest. Citizens can request information that is not on the website and will receive a reply within 30 days.

If the answer is not forthcoming or is unsatisfactory, citizens may turn to the oversight body, the government-appointed Transparency Council, which will decide whether there are security issues that justify withholding the information.

Spain has been very slow to bring itself into line in transparency matters with the rest of the EU; former communist countries introduced similar laws some years ago.

The new legislation, however, leaves Spain in 64<sup>th</sup> place out of 100 countries with right-to-know laws, according to Access Info Europe and the Centre for Law and Democracy, which draw up an annual Global Right to Information Rating.

Jesús Lizcano, the head of the Spanish chapter of Transparency International, said the 12 limits on providing information were too many and 'excessively ambiguous'. Information can be denied for reasons of national security, foreign relations, economic and commercial interests and economic and monetary policy, among other factors. If these limits are interpreted narrowly, access to information would be reduced to a minimum.

Spain was ranked the 37<sup>th</sup> least corrupt country out of 175 nations in the latest corruption ranking by the Berlin-based Transparency International, up from 40<sup>th</sup> in 2013 (see Figure 1). Its score of 60 was one point higher (five points lower than in 2012). The nearer to 100, the cleaner the country.

**Figure 1. Ranking of perceived levels of public sector corruption, selected countries (1)**

Country ranking out of 177 nations	Score out of 100
1. Denmark (1)	92 (91)
3. Finland (3)	89 (89)
12. Germany (12)	79 (78)
14. UK (14)	78 (76)
26. France (22)	69 (71)
<b>37. Spain (40)</b>	<b>60 (59)</b>
69. Italy (69)	43 (43)

(1) 2013 ranking and score in brackets. 177 countries in 2013.

Source: Transparency International.

Spain is awash in high profile corruption scandal, ranging from the long-running probe into the ruling Popular Party for receiving bribes in return for public contracts and other political favours (known as Gürtel), to the ongoing investigation into Iñaki Urdangarín, the son-in-law of former King Juan Carlos, for embezzling millions in public funds, and most recently the resignation last month of Ana Mato, the Health Minister, accused of benefiting from her former husband's activities (to the tune of €55,400 to her and her family). He is a suspect in the Gürtel case. In Andalucía, the Socialist UGT trade union is embroiled in a scandal involving the fraudulent use of millions of euros of public funds.

The slight improvement in the ranking is probably due to the perception that Spain's notoriously slow and understaffed justice system is finally getting to grips with the spate of cases, in response to rising public anger. Carlos Fabra, the PP cacique in the province of Castellón, entered prison this month –11 years after he was first investigated for tax offences—. He was sentenced to four years in November 2013 and managed to put off going to jail by appealing and asking the government for a pardon, which was denied.

The corruption survey, which was first conducted in 1995 and is based on perceptions, draws on a variety of sources, including World Bank and World Economic Forum assessments, and Transparency International's own Bribe Payers Survey.

A survey by the government-funded CIS published this month showed that corruption and fraud were Spaniards' second main concern (63.8% of respondents, see Figure 2). The figure in the previous survey was 42.7%.

**Figure 2. What is Spain's main problem? (%)**

	%
Unemployment	77.0
Corruption and fraud	63.8
Economic problems	25.5
Politicians, political parties and politics	23.3
Social problems	8.9
Public health system	8.6
Education	7.7

Source: CIS.

More than 800 town halls (10% of the total) are under investigation and several thousand people have been accused in corruption cases.

Prime Minister Mariano Rajoy told parliament this month that corruption was not endemic in Spain. 'I cannot accept that the suspicion of corruption is extended to all politicians in Spain'.

The illegal financing of political parties is to be incorporated into the penal code. No significant changes, however, have been made to the mechanisms for awarding public contracts, which is the source of most corruption, and the top echelon of the *Tribunal de Cuentas*, responsible for auditing the accounts of the public sector and political parties, is mainly appointed by political parties.

A law of silence prevails within political parties regarding corruption; the very few whistleblowers that have come forward have been expelled from the party's ranks. This situation is epitomised in the popular expression '*El que se mueve no sale en la foto*' ('If you move, you're out of the picture').

Pedro Sánchez, the Socialist leader, rejected a global pact with the PP on corruption on the grounds that the party had no moral authority as it was involved in many scandals.

Meanwhile, state prosecutor Pedro Horrach said the tax fraud charges against the Infanta Cristina, sister of King Felipe VI, and brought by *Manos Limpias* (Clean Hands) should be dropped, while her husband, Iñaki Urdangarín, should be tried for fraud and embezzlement. He faces a sentence of 19 years. It is now up to investigative judge José Castro to decide who should be formally indicted in the case.

Horrach cited the so-called 'Botín doctrine', named after the late Emilio Botín, former chairman of Santander, according to which a private prosecution is considered null if neither the attorney general's office nor the Inland Revenue has brought charges.

#### *Podemos slips in voting intention poll, unveils economic programme*

The radical anti-establishment party Podemos (We Can), which is not yet a year old, appears to be slipping in popularity after a voting intention poll in November showed it would win the general election. The latest poll puts it in second place, after the Socialists, with 25.0% of votes, down from 27.7% in November (see Figure 3).

**Figure 3. 2011 general election and voting intention since then (% of votes)**

	2011	August2014	October2014	November2014	December2014
Popular Party	44.6	32.3	30.3	20.7	20.0
Socialists	28.7	31.7	30.9	26.2	27.7
Others + blank votes	15.1	17.1	16.5	18.2	16.9
IU/ICV	6.9	4.9	5.2	3.8	5.6
UPyD	4.7	3.3	3.4	3.4	4.8
<b>Podemos</b>	–	<b>10.7</b>	<b>13.8</b>	<b>27.7</b>	<b>25.0</b>

Source: Metroscopia.

The poll was conducted several days after Podemos unveiled its economic programme. Its slippage could well be due to its policies, which for some go too far and for others not enough. Having diagnosed Spain's problems, which have a zero political cost, the party is now having to spell out its solutions and submit itself to scrutiny.

The loss of popularity is particularly acute among Socialist voters, 52% of whom in November believed in Podemos' economic policies compared with 42% now. The party has also lost confidence among voters under the age of 34.

The 68-page manifesto, which will serve as a basis for Podemos' election programme softens some of the party's more radical ideas contained in its programme for last May's European elections, such as a guaranteed basic income for everyone in need and retirement at 60, but sets out a battery of measures that, in the opinion of its opponents, would turn Spain into a Venezuela-style basket case.<sup>1</sup>

The proposals include:

- Credit should be enshrined in the constitution as an 'essential public service', state banks created and an undefined 'citizens' bank of public interest' established.
- Pensions, wages, public and private investment and welfare spending should be increased. Podemos calls for the elimination of the Popular Party's 2013 pension reforms, designed to make the untenable system more sustainable. The reforms severely restrict index-linking of pension payouts and are gradually raising the retirement age to 67 from 65. Podemos says the retirement age should remain at 65.
- Abolition of the PP's 2012 labour-market reforms, which reduced the cost of shedding workers on permanent contracts and enable companies to opt out of sector-wide made collective bargaining agreements in certain circumstances.

<sup>1</sup> The full programme in Spanish is available at [http://estaticos.elperiodico.com/resources/pdf/7/8/1417174096987.pdf?\\_ga=1.48315814.141551448.1415180559](http://estaticos.elperiodico.com/resources/pdf/7/8/1417174096987.pdf?_ga=1.48315814.141551448.1415180559), while my analysis of it is at [http://www.realinstitutoelcano.org/wps/portal/web/rielcano\\_en/contenido?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_in/zonas\\_in/commentary-chislett-can-spain-afford-the-economic-programme-of-podemos#.VlxzTWTF-iY](http://www.realinstitutoelcano.org/wps/portal/web/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/commentary-chislett-can-spain-afford-the-economic-programme-of-podemos#.VlxzTWTF-iY).



- Debt relief, particularly for those struggling to pay mortgages.

#### *Catalan President unveils roadmap for independence*

Artur Mas, the President of Catalonia, who faces four charges for holding an illegal mock referendum on independence last month, unveiled his roadmap for achieving a separate state.

The non-binding vote defied a ruling by the Constitutional Court. Of the 2.3 million votes cast, more than 80% were in favour of independence (29% of the total possible votes of 6.3 million).

Mas proposed holding early regional elections and running on a united ticket with other pro-independence parties. The votes cast for it would be seen as a plebiscite on the independence issue.

If the secessionist ticket won, there would be another vote within 18 months to formalise the creation of an independent Catalan state. This would probably happen in 2016.

‘There is little time to do an enormous task’, said Mas, who heads the nationalist Convergence party.

The more radical Republican Left of Catalonia (ERC), which heads the polls and is at the forefront of pushing for independence, has yet to give its blessing to a joint ticket.

Prime Minister Mariano Rajoy told the regional leaders of his Popular Party, to much applause, that ‘the sovereignty and unity of Spain are not negotiable’.

#### *Population continues to fall mainly because of emigration*

Spain’s population stood at 46.46 million on 1 July, almost 50,000 lower than at the start of the year and mainly due to emigration by foreigners. The population has not stopped falling since 2012 because of the economic crisis (see Figure 4).

**Figure 4. Spain’s population and foreigners’ share, 2005-14**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 (1)
Population (mn)	44.1	44.7	45.2	46.1	46.7	47.0	47.2	47.3	47.1	46.5
Foreigners’ share (%)	8.5	9.3	10.0	11.4	12.1	12.2	12.2	12.1	11.7	9.7

(1) Provisional figures at 1 July.

Note: the figures for 2005-2013 are for 1 January of each year and are based on those registered with local town halls. They are rounded to the nearest decimal point.

Source: INE (National Statistics Office).

The foreign population dropped by 138,556 to 4.67 million (see Figure 5). The biggest drop (27,014) was in the number of Ecuadoreans.

**Figure 5. Foreign population by the top-10 countries of origin, 1 July 2014 and 1 January 2014**

	1 July 2014 (1)	1 January 2014	Change
Rumania	721,445	728,253	-6,808
Morocco	697,074	717,992	-20,917
UK	310,074	310,052	-22
Ecuador	187,025	214,039	-27,014
Italy	184,179	180,823	3,356
China	165,571	165,978	-407
Colombia	154,320	173,193	-18,873
Germany	147,972	148,502	-531
Bulgaria	137,915	139,931	-2,015
Bolivia	109,596	127,477	-17,881
Other countries	1,723,332	1,770,819	-47,487
<b>Total</b>	<b>4,538,503</b>	<b>4,677,059</b>	<b>138,556</b>

(1) Provisional figures.

Source: INE.

Net migration (the difference between immigration and emigration) was -50,426. Of the 206,492 people who emigrated in the first half of this year, 21% fewer than in the second half of 2013, 42,685 of them were Spaniards (see Figure 6). Almost two-thirds of the Spaniards who emigrated in the first half of 2014 were born in Spain as opposed to being immigrants who acquired Spanish nationality.<sup>2</sup>

**Figure 6. Net migration of Spaniards, 2012-14**

	Immigration	Emigration	Net migration
First half 2012	14,675	25,835	-12,663
Second half 2012	16,890	31,432	-14,878
First half 2013	14,255	36,371	-22,116
Second half 2013	18,166	36,958	-18,792
First half 2014	17,951	42,685	-24,734

Source: INE.

### *Big rise in share of adults with tertiary education*

The proportion of adults with tertiary education reached one-third in 2013, up from less than 30% in 2007 (see Figure 7). This would suggest that more people are continuing their education as a result of massive unemployment. During the decade-long economic boom, which ended in 2008, the early school-leaving rate reached 31%. It is now down to around 25%.

**Figure 7. Adult population with tertiary education, 2007-13 (%) (1)**

	2013	2007
Ireland	41.5	32.8
UK	39.6	32.0
<b>Spain</b>	<b>33.7</b>	<b>29.3</b>
France	32.1	26.6
EU-28	28.5	23.5
Germany	28.5	24.3
Italy	16.3	13.6

(1) 25-64 years old.

Source: Eurostat.

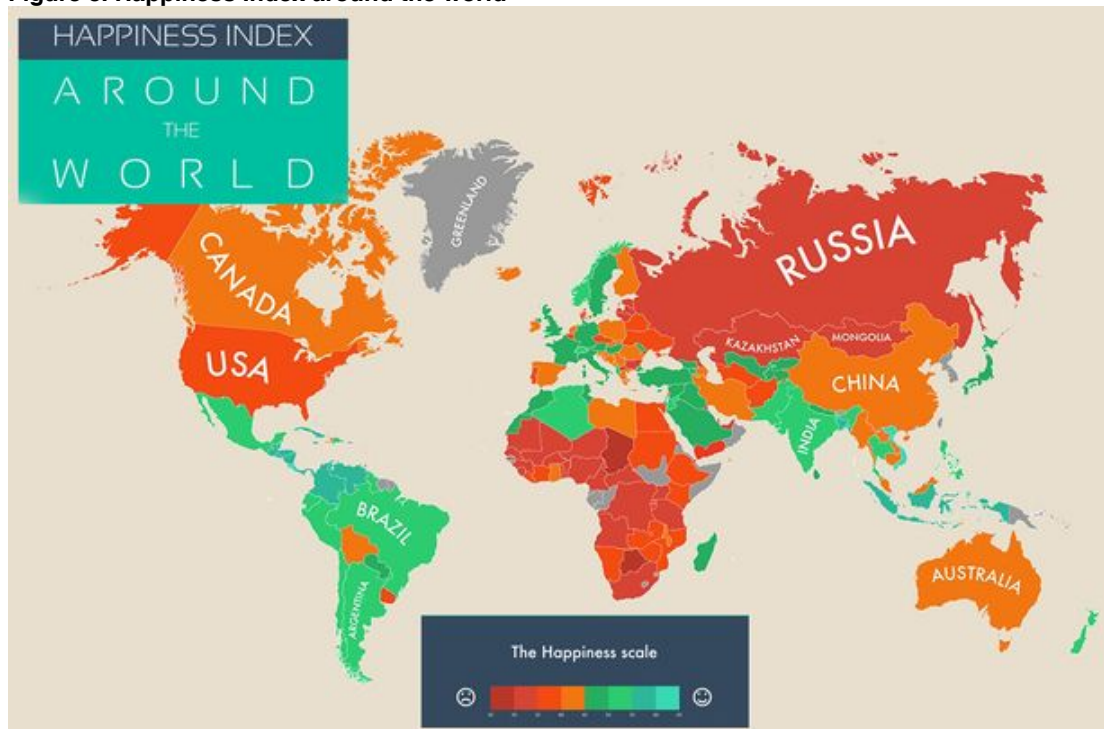
<sup>2</sup> A total of 225,793 people acquired Spanish nationality in 2013.



*Spain, the 62<sup>nd</sup> happiest place to live in the world*

Spaniards are generally perceived as a happy people, and not just because the origin of the word *fiesta* is Spanish. Yet, according to a new map of 151 countries based on people's well-being, Spain is only the world's 62<sup>nd</sup> happiest place to live (see Figure 8).

**Figure 8. Happiness Index around the world**



Source: Movehub based on data from the Happy Planet Index (HPI). Happy countries to live in appear more green while unhappy countries appear more red.

The map, compiled by the relocation website Movehub using data from the latest Happy Planet Index (HPI), measures happiness in terms of life expectancy, the level of well-being experienced and the ecological footprint and not on the basis of wealth.

Experienced well-being was assessed using a question called the 'Ladder of Life' from the Gallup World Poll. This asks respondents to imagine a ladder, where 0 represents the worst possible life and 10 the best possible life, and which step they feel they currently stand on.

The map does not take into account inequality measures and human-rights issues. This explains why some countries like Syria and Iraq feature so surprisingly high. The happiest country is Costa Rica.

The publication of the map coincided with a study of six countries by the Vodafone Institute for Society and Communications, which showed that Spaniards between the ages of 18 and 30 are the most pessimistic about the future after the Italians (see Figures 9 and 10).

**Figure 9. Evaluation of the future (1)**

	Sum of the four most optimistic values (%)
Germany	43
Netherlands	42
Czech Republic	39
UK	33
<b>Spain</b>	<b>29</b>
Italy	23

Do you think that, overall, your generation will generally lead a better life or a worse life than your parents' generation in terms of income and standards of living?

Source: Vodafone Institute for Society and Communications.

**Figure 10. Feelings about the future (1)**

	Sum of the four most optimistic values (%)
Netherlands	71
Germany	66
Czech Republic	60
UK	58
<b>Spain</b>	<b>49</b>
Italy	40

(1) Taking all aspects of your life into account, how do you feel about your future?

Source: Vodafone Institute for Society and Communications.

According to the survey, 72% of respondents believe that job opportunities are better in other countries, 58% are planning to move in the future because of job chances (21% in Germany), and only 21% would not consider moving abroad for a job.

## The Economy

### *Spain submits €53 billion of projects for the 'Junker fund'*

Spain has submitted €53 billion of projects to the recently launched European Fund for Strategic Investment (EFSI), the third-largest amount after Italy and the UK, which is aimed at reviving EU economies (see Figure 11).

**Figure 11. Value of projects, 2015-17 (€ billion)**

	€ billion
Italy	87
UK	63
<b>Spain</b>	<b>53</b>
France	48
Belgium	20
Poland	18

Source: European Commission and European Investment Bank.

The EFSI is the first major initiative since Jean-Claude Juncker took office as President of the European Commission and envisages total investment of €315 billion. The seed money will include €16 billion from the EU's existing budget and €5 billion from the European Investment Bank. The idea is to leverage small amounts of public money to attract large volumes of private capital.

Spain's public investment has fallen by more than 40% since the onset of its crisis in 2008. The government's budget for 2015, with a general election due by December, increases investment in infrastructure for the first time since 2009.

The initial list of projects includes electricity connections with Europe (around half the total value) and high-speed Internet access in rural areas.

*Government agrees benefit for long-term unemployed*

Around 450,000 of Spain's 2.4 million long-term unemployed (more than two years) could benefit from the new benefit of €426 a month to be introduced as of January, provided they enrol in the government's programme to be re-integrated into the labour market.

Spain's unemployment subsidy ends after two years. It is estimated that 450,000 jobless receive no form of state support and are at risk of social exclusion.

The long-term unemployed officially account for more than 40% of the total jobless number of 5.4 million.

Prime Minister Mariano Rajoy is trumpeting the economic recovery (GDP growth of around 1.3% this year and more than 2% in 2015<sup>3</sup>) after a long recession but admits it 'has not reached everyone in the same way'.

*Labour costs in manufacturing inch up, R&D spending falls*

Spain's hourly labour costs in manufacturing rose a little in 2013 and were close to Japan's, while R&D spending continued to decline to 1.24% of GDP.

The very sharp fall in Japan's costs brought made them less than one euro more than Spain's (see Figure 12).

**Figure 12. Hourly labour costs in manufacturing, 2013 (€)**

Ranking and country	€ (1)
1. Norway	56.5 (57.8)
6. Germany	36.8 (36.9)
7. France	36.4 (36.8)
10. Italy	26.6 (27.5)
11. US	25.9 (25.9)
12. UK	24.4 (25.1)
13. Japan	23.3 (29.6)
<b>14. Spain</b>	<b>22.7 (22.4)</b>
26. China	4.4 (4.0)

(1) Figures rounded up to nearest decimal point and 2012 figures in brackets.

Source: Cologne Institute for Economic Research.

<sup>3</sup> See the Twenty-three reasons for optimism in Spain by the Secretary of State for European Affairs.  
[http://www.realinstitutoelcano.org/wps/portal/web/rielcano\\_en/contenido?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_in/zonas\\_in/twenty-three-reasons-for-optimism-in-spain-maec#.VJB7LGTF-iY](http://www.realinstitutoelcano.org/wps/portal/web/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/twenty-three-reasons-for-optimism-in-spain-maec#.VJB7LGTF-iY)

R&D expenditure has fallen every year since 2010 when it reached a peak of 1.40% of GDP (see Figure 13). Such a low level is out of kilter with the need to create a more knowledge-based economy.

**Figure 13. R&D expenditure (% of GDP), 2013 and 2010**

	2013	2010
Finland	3.32	3.90
Germany	2.94	2.80
France	2.23	2.24
EU-28	2.02	2.00
UK	1.63	1.77
Italy	1.25	1.26
<b>Spain</b>	<b>1.24</b>	<b>1.40</b>

Source: Eurostat.

### *Exports set to maintain their momentum in 2015*

Spain's exports of goods and services, which have played a significant role in economic recovery, will grow faster in 2015, according to forecasts by the European Commission.

Growth is projected at 4.9% compared with an estimated 3.8% this year, and above the average EU rate of 3.9% (see Figure 14). The current account is forecast to remain in surplus this year to the tune of around 0.2% of GDP.

**Figure 14. Exports of goods and services, 2014 and 2015 (% annual growth)**

	2015	2014
Hungary	6.0	6.5
<b>Spain</b>	<b>4.9</b>	<b>3.8</b>
Germany	4.2	3.3
France	3.9	2.3
EU-28	3.9	2.9
Italy	3.4	1.5
UK	3.3	-0.6

Source: European Commission.

### *Spain's income inequality widens considerably*

The richest 10% of the population earned close to 14 times more than the poorest 10% in 2011, up from eight times in 2007, according to the latest comparative figures from the OECD (see Figure 15). Inequality is a hot topic globally and increasingly in Spain.

**Figure 15. Gap between the richest 10% and the poorest 10% (times)**

	2011	2007
Mexico	26.8	30.5
US	16.5	15.1
Turkey	14.5	13.8
<b>Spain</b>	<b>13.8</b>	<b>8.4</b>
Italy	10.2	9.1
UK	9.6	9.8
France	7.4	6.8
Germany	6.9	6.7

Source: OECD.

*Tax revenue as a share of GDP still far from the level before the crisis*

Spain's tax receipts represented 32.6% of GDP in 2013, slightly higher than in 2012 but still well below the level (36.4%) in 2007 before the onset of its crisis, according to the latest OECD figures (see Figure 16).

**Figure 16. Total tax revenues as percentage of GDP (%), 2013 and 2007**

	2013 (1)	2007
Denmark	48.6	47.7
France	45.0	42.4
Italy	42.6	41.7
Germany	36.7	34.9
OECD average	34.1	34.2
UK	32.9	34.1
<b>Spain</b>	<b>32.6</b>	<b>36.4</b>

(1) Provisional.

Source: OECD Revenue Statistics 2014.

## Corporate Scene

*Bankia's accounts for its public listing 'full of errors'*

The accounts used for the stock market listing of Bankia, whose collapse sparked a €41 billion EU bailout for several Spanish banks, were strewn with accounting errors, according to a report released this month as part of an ongoing court investigation into its public listing and bailout.

Bankia, formed from the merger of seven ailing savings banks, listed its shares in 2011 and less than a year later had to be rescued with a €22 billion bailout. More than 347,000 small investors lost money. The bank's chairman at the time of the listing was Rodrigo Rato, the former head of the International Monetary Fund and economy supremo in the Popular Party government of José María Aznar (1996-2004).

He appeared in court in July 2012 as part of a criminal investigation into whether he misrepresented Bankia's financial soundness. The report will be used to decide what action, if any, should be taken against Rato and other executives.

'The financial situation of BFA [the Bankia parent group] as described in the flotation documents did not give a true picture of the entity', said the report, which was written by two highly experienced Bank of Spain officials seconded to the court. 'The annual accounts for 2011 . . . did not give a true picture of the company'.

The 2011 accounts were restated after Rato left Bankia and was replaced by José Ignacio Goirigolzarri, the former CEO of BBVA. The small profit for 2011 became a loss of €3.3 billion. The report said the loss could still have been underestimated by €1.2 billion, because of the way some bad debts were reclassified.

Deloitte came under scrutiny for its role in Bankia's demise in a report earlier this year by Spain's accounting watchdog.

Luis de Guindos, Spain's Economy Minister, told parliament in May 2012 that both the creation of Bankia and its public listing were an error. He reaffirmed this more strongly this month when he accused the Bank of Spain and the National Securities Market Commission (CNMV) during the previous Socialist government of 'looking the other way' when Bankia was listed. Both institutions denied this. Guindos, to the surprise of many bankers, did not criticise Bankia's top management.

#### *BBVA raises its stake in Turkey's Garanti Bank*

BBVA, Spain's second-largest bank, paid €2 billion to increase its stake in Turkey's Garanti Bank to 40%, giving it control of the board. The funds came from a capital increase.

The Spanish bank acquired 25% of Garanti in 2010 from the Dogus Holding, with an option to increase its stake.

The acquisition represented a vote of confidence in Turkey, which has been negotiating full membership of the EU since 2005 at a snail's pace. Its economy is forecast to be one of the fastest growing in Europe (4.6% a year over the next decade according to BBVA).

'We believe that Turkey is a very exciting market where we can achieve strong long-term growth. We are maximising economic exposure to Garanti at a very good price', said Jaime Sáenz de Tejada, BBVA's chief financial officer. Garanti has a strong position (see Figure 17).

**Figure 17. Market shares of Garanti in Turkey (%)**

	%
Auto finance	20.3
Credit card customers	14.3
Consumer credit	13.9
Mortgages	13.6
Deposits	11.1
Lending	12.3

Source: BBVA.

The purchase stepped up BBVA's already significant geographic diversification (see Figure 18).



**Figure 18. Geographic distribution of BBVA's net attributable profit (% of total), first nine months of 2014 (1)**

	% of total
Spain (2)	7.6
Mexico	43.3
South America	24.2
Eurasia (3)	15.1
US	9.7

(1) Excluding the corporate centre.

(2) Including real estate activity.

(3) Pro forma financial statements with the revenues and expenses of the Garanti Group consolidated in proportion to the percentage of BBVA's stake.

Source: BBVA.

### *ACS wins US\$1.2 billion high-speed train contract in California*

A consortium led by ACS won a US\$1.2 billion contract to build 105km of the high-speed railway system in California between Fresno and Bakersfield.

Dragados has been involved in construction of 41 high-speed rail projects around the world over the past 25 years.

### *Mexico's Carlos Slim to become the main shareholder in FCC*

The Mexican magnate Carlos Slim is to invest up to €700 billion in the construction giant FCC in return for a stake of 25.6%. Esther Koplowitz, FCC's chairman, will reduce her stake from 50.0% to 22.4%.

Two companies owned by Slim will acquire the subscription rights for a €1 billion capital increase and will also buy additional shares in the rights issue.

At first it looked as if the US billionaire George Soros would invest in FCC as he was in exclusive talks with the company, hit hard by Spain's property slump as of 2008 and saddled with high debts.

Last year, Bill Gates paid €108.5 million for a nearly 6% stake in FCC.

These two high profile investments are seen as evidence that the Spanish economy is back on a sustained path of recovery.

### *Sacyr teams up with Manhattan Construction to enter the US*

Sacyr and Manhattan Construction have agreed to jointly undertake projects in the US relating to infrastructure, concessions (oil and gas, water and energy) and waste treatment.

The co-operation agreement signals Sacyr's entry into the US. The company is particularly active in Latin America (for example, it heads the international consortium that is widening the Panama Canal), but has so far been unable to break into the huge US market where its Spanish rivals, such as Ferrovial and OHL, have won significant contracts.



*Spain's three main business schools in Europe's top 10 FT ranking*

Spain's three leading business schools were again ranked among the 10 best in the Financial Times' classification of European business schools (see Figure 19).

**Figure 19. European business schools rankings**

2014 rank	Three-year rank	Business School	Country
1.	2.	London Business School	UK
2.	2.	HEC Paris	France
<b>3.</b>	<b>2.</b>	<b>IE Business School</b>	<b>Spain</b>
<b>4.</b>	<b>4.</b>	<b>Esade Business School</b>	<b>Spain</b>
5.	5.	Insead	France
6.	7.	University of St Gallen	Switzerland
<b>7.</b>	<b>6.</b>	<b>Iese Business School</b>	<b>Spain</b>

Source: Financial Times.