

**Inside Spain Nr 113
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Summary

Spain takes up seat on UN Security Council. Madrid and Washington to negotiate stationing permanent US Marines Africa force in Spain. The year 2015 will be replete with elections and corruption cases in the courts. Spain to grow faster in 2015 than the other big euro-zone economies. China's Dalian Wanda takes 20% stake in Atlético de Madrid.

Two policy studies co-authored by Elcano, among the best three published by think tanks worldwide, according to University of Pennsylvania ranking.

Foreign Policy

Spain takes up seat on UN Security Council

Spain took up a seat on the UN Security Council this month for two years, after beating Turkey last October in the third round of run-off voting for the second of two Western seats. The other seat went to New Zealand.

This is the fourth time that Spain has been a member of the council since 1968. It will chair the committee that monitors compliance with the sanctions on Iran and North Korea and the Committee for the Non-proliferation of Weapons of Mass Destruction and in October the Security Council's sessions.

Reflecting the Council's priorities –resolving the conflicts in the Middle East and North Africa–, José Manuel García-Margallo, Spain's Foreign Minister, visited Egypt, Jordan, Palestine and Israel. His visit to Israel followed a vote in the Spanish parliament last November in favour of a non-binding resolution agreed with the opposition Socialists calling for the recognition of a Palestinian state.

García-Margallo was the first Spanish minister to visit the Gaza Strip in 10 years. He signed a €36 million agreement with his Palestinian counterpart Ryad Al-Malki for the period 2015-17. 'We are working on lifting the [Israeli] siege on Gaza to enable people to live in dignity. We are also committed to supporting the reconstruction drive', García-Margallo said.

Of particular interest to Spain during its tenure of the UN Security Council is the new situation in Cuba, a former Spanish colony, following US President Barack Obama's historic decision last month to start re-establishing normal relations with the communist country for the first time since 1961.



García-Margallo visited Havana in December, although he was not received by President Raul Castro. Spain has been at the forefront of a rapprochement with Cuba. In November 2012 the EU Council approved a mandate to negotiate with Cuba as a result of Spain's initiative.

Madrid and Washington to negotiate stationing permanent US Marines Africa force in Spain

Madrid agreed to start negotiations with Washington to host a permanent US Marines intervention force for deployment on missions to Africa.

This involves amending the two countries' 1988 defence accord and permanently extending an agreement under which the force has been based at Morón de la Frontera, near Seville in southern Spain.

The new agreement could boost the strength of the contingent from 800 to 3,000 personnel.

Rajoy visits Andorra to combat tax fraud...

Prime Minister Mariano Rajoy became the first head of a Spanish government to visit Andorra officially. He agreed measures making it more difficult for Spaniards to hide their wealth in the microstate known as a tax haven.

The agreement includes a system for automatically sharing tax information between the two countries.

His visit followed the admission last July by Jordi Pujol, the former President of Catalonia for 23 years, which he had kept an undeclared multi-million euro family inheritance in Andorran banks since his father died in 1980.

A former girlfriend of one of Pujol's sons told Udef, Spain's financial police unit, in December 2012 that her former boyfriend regularly brought bags of cash from Andorra to Barcelona (a distance of around 200km) filled with €500 and €200 bank notes.

Pujol, his wife and all of their seven children are under investigation for various alleged crimes.

Rajoy signed a double-taxation agreement that will allow Andorran companies doing business in Spain to pay fewer taxes and vice versa.

Domestic Scene

2015, a year replete with elections and corruption cases in the courts

General, municipal and in the case of Andalusia and Catalonia regional elections will be held this year at a time when the courts are bursting with

corruption cases involving an estimated 2,000 suspects, most of them linked to political parties.

The general election will most probably be held in December and municipal elections are scheduled for May. Corruption cases and Spain's economic crisis have eroded the two-party system and led to the creation of a third party in January 2014 at the national level, the far-left anti-establishment Podemos ('We Can'), which has surged in popularity. If an election were to be held today, Podemos would win 28.2% of the vote even though half of its potential voters say they do not share its policies (see Figure 1).¹

Figure 1. Voting intentions (% of valid votes)

	2011 general election	August 2014	October 2014	November 2014	January 2015
Podemos	–	10.7	13.8	27.7	28.2
Socialists	28.7	31.7	30.9	26.2	23.5
Popular Party	44.6	32.3	30.2	20.7	19.2
IU/ICV (1)	6.9	4.9	5.2	3.8	5.3
UPyD (2)	4.7	3.3	3.4	3.4	5.0

(1) United Left and Greens.

(2) Union, Progress and Democracy.

Source: Metroscopia.

Prime Minister Mariano Rajoy offered political support for the embattled Greek Prime Minister, Antonis Samaras, by visiting Athens before the 25 January snap general election which was won by the far-left Syriza party, a close ally of Spain's Podemos. The ruling Popular Party and Samaras' New Democracy are part of the same bloc in the European Parliament, as are Podemos and Syriza in another bloc.

Pablo Iglesias, Podemos's leader, revelled in Syriza's victory, hailing it as the first plank of an anti-austerity movement sweeping Europe. He joined Syriza's leader, Alexis Tsipras, onstage for his final campaign rally. Although a close ally, Podemos has recently sought to downplay the comparisons between Spain and Greece, which are exaggerated.² Podemos is one year old and Syriza has been represented in the Greek parliament since 2004.

¹ See my analysis of Podemos' programme 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#.VLqAcmTF-iY.

² See my commentary on the similarities and differences between Spain and Greece at http://www.realinstitutoelcano.org/wps/portal/web/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/commentary-chislett-spain-and-greece-the-same-and-different#.VMEhiWR4rKk.

Polls show corruption as Spaniards' second biggest concern after massive unemployment. The main corruption cases are:

- The Gürtel investigation involving businessmen who allegedly paid kickbacks to the Popular Party (PP) between 1999 and 2005 in exchange for public contracts. The prosecution is asking for 125 years in jail for Francisco Correa and a fine of €15.5 million and 42 years for Luis Bárcenas, a former PP party treasurer and senator. Bárcenas was recently released on bail from 19 months in prison pending his trial and immediately reiterated his allegation that the PP's leader, Prime Minister Mariano Rajoy, knew about the existence of the slush fund 'from the very beginning'. Rajoy has repeatedly denied any knowledge of the fund.
- Iñaki Urdangarín, the brother-in-law of King Felipe VI, is charged with money laundering, tax evasion and fraud through his non-profit entity, Nóos Institute, which organised sporting events and tourism conferences paid for with regional public funds. His wife, Cristina de Borbón, is to stand trial on tax fraud charges.
- In Catalonia, Jordi Pujol, the region's former premier and the father of modern Catalan nationalism, has been summoned to testify before a judge on 27 January over allegations about secret bank accounts which he admitted holding in Andorra and other tax havens for 34 years. His wife and three of their seven children have also been subpoenaed by the judge. In separate cases, two sons are being investigated for possible tax evasion and destruction of documents, and in another case, their brother Oriol, the former secretary general of Convergència Democràtica de Catalunya, the party founded by his father, is under investigation for influence-peddling.
- Also in Barcelona, Narcís Serra, former chairman of CatalunyaCaixa and a former Socialist Defence Minister, is under investigation for abusive salary rises when the bank was on the point of collapse.
- This is also a key year for the nationalised Bankia, whose near collapse in 2012 sparked a €41.3 billion EU bailout for various banks. Former chairmen Rodrigo Rato, the managing director of the International Monetary Fund, and Miguel Blesa are under investigation for alleged irregularities including providing false information to regulators in the process for Bankia's stock market listing. Separately, an independent audit showed that, when Blesa was chairman, board members of Caja Madrid (later merged with six other ailing savings banks to form Bankia) were paid €15 million more than they should have received. Another inquiry revealed that top managers and directors at Caja Madrid spent more than €15 million on personal items using undeclared 'black' credit cards.

- The case known as Operation Púnica, another kickbacks-for-contracts scandal that took place in Madrid, has engulfed Francisco Granados, the region's former PP secretary general.
- Lastly, in Andalusia, prominent members of the Socialist party and trade union officials are under investigation for syphoning off government funds assigned to help struggling businesses pay severance to laid-off workers.

The spate of cases finally working their way through the glacial justice system has boosted confidence in the judiciary, which is perceived as not being sufficiently independent of the executive and legislative branches of government.

Eduardo Torres-Dulce, the Attorney General, resigned, officially for 'personal reasons'; but his disagreements with the government were an open secret.

In his first Christmas Eve message since his father Juan Carlos abdicated, King Felipe hit out at corruption. 'There must not be favoured treatment for those occupying a position of public responsibility', he said without referring directly to his sister.

The King's forthrightness on this and other issues and the greater transparency he has introduced into the royal family have significantly improved the monarchy's standing (see Figure 2).

Figure 2. Evaluation of public figures (% approval/disapproval)

	Approve	Disapprove	Approval balance
Pope Francis	81	17	+64
King Felipe VI	70	21	+49
Queen Letizia	67	23	+44
Barack Obama	71	27	+44
Ban Ki Moon (UN Secretary General)	41	30	+11
Jean-Claude Juncker (European Commission Pres.)	30	42	-12
Matteo Renzi (Italian Prime Minister)	29	41	-12
Angela Merkel (German Chancellor)	42	55	-13

Source: Metroscopia.

The government was ranked the 13th most open and transparent in the world out of 86 countries, according to global rankings looking at public access to official data. Spain's first ever transparency law only came into effect last December at the state level (from December 2015 it will be extended to the municipal and regional levels, where most corruption occurs).

Spain was among the countries in the category of emerging and advancing. It was up four places since the last ranking. The UK government topped the ranking by the World Wide Web Foundation,³ founded by the web inventor Sir Tim Berners-Lee (see Figure 3).

Figure 3. Government openness and transparency

	Score	Rank	Change
UK	100.00	1	0
US	92.66	2	0
Sweden	83.70	3	0
France	80.21	4	+6
Spain	59.89	13	+4
Chile	58.70	15	+10
Italy	50.58	22	-2

Source: World Wide Web Foundation.

Catalonia calls election

Artur Mas, the president of Catalonia who is pushing for a referendum on the region's independence, called a snap election that is intended to serve as a plebiscite on the creation of a separate Catalan state.

The divisive election will be held on 27 September, a year early and a couple of months before Spain's general election.

Mas defied the central government in Madrid last November 9 and went ahead with a symbolic secession vote. He has been charged with disobedience, perverting the course of justice, misuse of public funds and abuse of power.

The mock poll was called after the constitutional court ruled the non-binding referendum scheduled for the same day illegal. 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). Supporters of independence hailed the turnout of 37% as a victory and opponents said it was a failure.

Mas's Convergence party had hoped to persuade Oriol Junqueras, the leader of the Republican Left of Catalonia (ERC), to field a joint list of candidates, but the ERC rejected the idea. The two parties, however, have what Mas called a 'common national road map'.

³ See the full report at <http://barometer.opendataresearch.org/report/summary/>.

The more radical ERC, which is leading the pro-independence movement at street level, is forecast to win the election. ‘If we win on 27 September, independence will begin’, Junqueras said.

A poll by the Catalan government last December showed for the first time in several years a slim majority against independence.

Spain is a ‘happier’ country

Spaniards are happier with their life than they were a year ago, according to a poll by WinGallup International. Six per cent said they were unhappy compared with 14% in 2013. While the number of those declaring themselves to be happy was lower at 45% (52% in 2013), 10% said they were very happy (a category not included in 2013).

The happiest countries out of the 65 surveyed was Fiji (93%) and the least happy Iraq (31%). Africa was the happiest continent and Europe the unhappiest.

The Economy

Spain to grow faster in 2015 than the other big euro zone economies

The economy will grow by 2% this year, the strongest growth of the main euro zone economies and higher than the zone’s average for the first time in several years, according to the IMF’s latest projections.

The IMF has been slow to recognise Spain’s recovery: its upgrading to 2% from a previous 1.8% was the sixth consecutive improvement and in line with the government’s forecast (see Figure 3). Together with the US, Spain is the only economy of significance whose growth forecast has not been downgraded. A year ago, the IMF projected growth of just 0.8% for Spain.

Figure 4. IMF growth forecasts 2015 and 2016 (% change)

	2015	2016
France	0.9	1.3
Germany	1.3	1.5
Italy	0.4	0.8
Spain	2.0	1.8
UK	2.7	2.4
Euro zone	1.2	1.4

Source: IMF.

The IMF, however, did not change its job creation forecast for 2015 from the 130,000 estimated last October, far from the government’s much more optimistic projection of 348,000.

Prime Minister Mariano Rajoy called 2014 ‘the year of recovery’ and 2015 ‘the year of the economy’s definitive take off’. Economic confidence has risen above the euro zone average for the first time in seven years. The main driver of growth is rising domestic demand and not exports.

Among the positive developments last year, when the economy grew by 1.4% (versus a euro zone average of 0.8%), were:

- More than 430,000 jobs were created in 2014 and the workforce increased, suggesting that those without work who gave up hope of finding a job are looking for work again. The unemployment rate, however, is still very high at 23.7%, although down from a peak of 26.9% at the end of 2013, and 61.5% of the total 5.4 million unemployed have been jobless for more than two years.
- The number of tourists looked like setting another record at around 65 million, as the number between January and October at 61.7 million was higher than for the whole of 2013.
- Car sales of 855,308 (+18.4%) were the highest since 2010, though still far from the average of 1.6 million between 2004 and 2008.
- Property sales were slightly higher for the first time in four years. A total of 181,182 homes were sold in the first 11 months and 112,209 second-hand properties. The overall number of sales (293,391) was 1% higher.
- Inflation was 1% negative compared to 0.3% positive in 2013, fuelling concerns of deflation, however. As a major importer of oil, Spain is benefiting from plummeting oil prices.

Another sign of confidence is the fall in the 10-year government bond yield to 1.36% on 26 January and with it a narrowing of the risk premium (spread) over Germany’s equivalent bonds (see Figure 5).

Figure 5. 10-year government bond yields (%) and spreads over Germany’s bund (pp)

	Yield 26 January (%)	Spread over Germany (pp)
Germany	0.39	–
Greece	9.10	+8.71
Ireland	1.09	+0.70
Italy	1.56	+1.18
Portugal	2.16	+1.77
Spain	1.39	+1.00

Source: ThomsonReuters.

Spain made one of its largest ever bond sales at a record low rate on 20 January drawing close to €23 billion. Last year, Spain paid close to 4% to borrow money for 10 years: last week it paid 1.66%.

Gross public debt, however, has surged over the last six years to close to 100% of GDP and Spain's external debt reached 162% of GDP last September (latest available figure). The net position (assets less liabilities) was 95% of GDP.

Spain, a net contributor to the EU for the first time

Spain became a net contributor to the EU last year for the first time since joining in 1986, when it paid €12,156 million and received €10,540 million, according to figures from the Spanish Treasury. The net balance was €1,616 million negative compared with €1,100 positive in 2013.

Freeze on minimum wage ends

The minimum monthly wage rose by 0.5% to €648.6, ending a two-year freeze and signalling a modest end to wage restraint (see Figure 6). Workers receive 14 payments (extra ones in July and December), which leaves the annual amount at €9,080.4.

Figure 6. Spain's minimum monthly wage, 2008-14 (1)

	€
2008	600.0
2010	633.3
2012	630.3
2012	641.4
2013	645.3
2014	645.3
2015	648.6

(1) There are 14 payments a year.
Source: Spanish government.

Spain's high-tech exports still low

High-tech exports accounted for only 5.5% of total exports in 2013, according to the latest comparative figures, reflecting, to some extent, Spain's low spending on R&D (see Figure 7).

Figure 7. High-tech exports (% of total exports), 2013

	% of total exports
France	20.3
UK	15.4
EU-28	15.3
Germany	14.2
Poland	6.7
Spain	5.5

Source: Eurostat.

Spain's R&D expenditure was 1.24% of GDP in 2013, well below the EU-28 average of 2.02% and ever further from the top countries such as Finland (3.32%).

High-speed train network set to add a further 1,000km

Spain's high-speed train network, the world's second largest after China (see Figure 8), will increase by around 1,000km this year when eight more provincial capitals are added to the service, according to government forecasts.

In the north, Zamora, León, Palencia and Burgos will be linked to the national network, in the east Castellón and Alicante and in the south Cádiz and Granada.

Spending on the AVE, as it is known, this year will be 48% higher than in 2014 at €3.56 billion.

Figure 8. High-speed railways



Corporate Scene

China's Dalian Wanda takes 20% stake in Atlético de Madrid

Billionaire Wang Jinlin, chairman of the Dalian Wanda property group, is to buy a 20% stake in Atlético de Madrid football club, the reigning Spanish champions, for €45 million.

The group bought the landmark Edificio España tower in Madrid last year for €265 million.

Atlético's assets include properties outside Madrid, which it was hoping to develop as part of a leisure and casino complex known as Eurovegas. The US billionaire and casino mogul Sheldon Adelson abandoned the US\$30 billion project in 2013 after failing to win concessions from the Spanish government. The project could now be revived.

Repsol to buy Canada's Talisman for €6.6 billion

Repsol, the oil and gas group, agreed to acquire Talisman Energy for €6.64 billion (€10.4 billion including its debt).

The deal increases Repsol's output by 76% and its reserves by 55% to 2.35 billion, making it one of the world's 15 largest energy companies. Its presence in South-East Asia is particularly increased (see Figure 9).

Figure 9. Exploration areas by geographic zones (% of capital employed)

	Latin America	N. America	Europe	S.E. Asia	Other
Repsol	50	30	7	–	13
Repsol+Talisman	22	50	4	14	10

Source: Repsol.

The acquisition marks the end of Repsol's search for assets, following the €5 billion compensation it received in 2014 for the nationalisation in 2012 of YPF, its Argentine operation.

Telefónica to sell its UK unit to Hong Kong's Hutchison Whampoa for £10.25 billion

Li-Ka-shing, Asia's richest individual, is to buy Telefónica's O2, the UK's second-largest mobile provider, for £10.25 billion.

His company Hutchison Whampoa already owns the Three network, and combining it with O2 will create the dominant mobile group in the UK.

Discussions to sell O2 to BT were broken off last year.

The sale marked a further disposal by Telefónica, which will use the proceeds to reduce its high net debt and possibly fund acquisitions in more core countries such as Brazil.

Ferrovial gives up bid for Transfield

Ferrovial, the infrastructure group, abandoned its take-over talks with Transfield after the Australian company rejected a new A\$1 billion (€668 million) offer for the Australian outsourcing and construction services company.

The purchase would have created a beachhead for Ferrovial in the dynamic Australian market and a springboard for expansion into China.

Santander changes track, lowers dividend and raises capital

Santander, the euro zone's largest bank by market capitalisation, cut its longstanding dividend by 66% to €0.20 per share and issued €7.5 billion of new shares overnight through an accelerated placement, in a move that signalled a change of strategy by Ana Botín who took over as executive chairman after the sudden death of her father Emilio last September.

The bank had one of the weaker balance sheets among its European peers, with a common equity tier-one ratio estimated at 8.3% at the end of 2014, well below the sector average of 11%. There was speculation that the European Central Bank called for Santander to raise more capital. The size of its dividend also raised eyebrows.



The increased capital puts Santander in a better position to make a big acquisition. Ana Patricia Botín said the bank would use the funds to lend more to clients in markets where it already operates.