

**Inside Spain Nr 116
(25 March-20 April)
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Summary

Madrid and Caracas in dust-up over political prisoners.

Rodrigo Rato detained in tax fraud probe.

Bank of Spain upgrades growth to 2.8%, IMF follows suit with 2.5%.

ACS wins €1.85 billion Canada bridge contract.

Foreign Policy

Madrid and Caracas in dust-up over political prisoners

Spain and Venezuela summoned each other's ambassadors after the Spanish parliament called for the release of Venezuela's 'arbitrarily detained' prisoners and President Nicolás Maduro turned up the heat by calling Spain's Prime Minister, Mariano Rajoy, a 'racist'.

Leopoldo López, founder of the Popular Will party, has been in jail for more than a year and Antonio Ledezma, the mayor of Caracas and leader of the Fearless People's Alliance, was arrested earlier this year on charges of being behind a coup attempt.

Felipe González, a former Prime Minister of Spain and a lawyer, is to defend them.

Maduro used his weekly television programme to denounce the moves. 'I am prepared for a battle with Madrid', he said. He accused Rajoy of having 'historical racism', saying he was 'behind all manoeuvrings against Venezuela', and called Spanish lawmakers 'racists from the corrupt elite'.

Maduro's remarks irked Spain's Foreign Ministry, which called the accusations 'intolerable' and summoned Venezuela's ambassador in Madrid. Venezuela's Foreign Ministry said it would conduct an 'exhaustive review' of its bilateral ties with Spain, and also summoned Spain's ambassador in Caracas.

Spats between the two countries are not new and have arisen several times since former Venezuelan President Hugo Chávez came to power in 1999. In 2007, Spain's King Juan Carlos asked Chávez, 'Why don't you shut up?' as the President interrupted a speech at a regional summit.

Maduro has lashed out at Spain more frequently over the past year as Venezuela's political and economic situation has become increasingly fragile. In February he said there was a Miami-Bogotá-Madrid axis of 'permanent conspiracy' against Venezuela's government. Last October, Rajoy met with López's wife, further enraging Maduro.

Constitutional Court suspends Catalan foreign affairs law

The Constitutional Court suspended the Catalan government's foreign affairs law, which enhances the region's presence abroad, after agreeing to study the central government's appeal against it for encroaching on its powers.

Catalonia, which is holding a snap election in September as part of the push by nationalists for independence, has delegations in the US, Belgium, the UK, France, Germany, Rome and Vienna.

The Catalan government announced in February that it intended to open 50 delegations abroad to represent the region's political, commercial and cultural interests.

Domestic Scene

Rodrigo Rato detained in tax fraud probe

Rodrigo Rato, the former head of the International Monetary Fund and Deputy Prime Minister in the previous Popular Party (PP) government, was held for seven hours in a headline-grabbing arrest on suspicion of tax fraud, money laundering and asset stripping.

The investigation into him is the highest profile case yet of a string of probes into top bankers and politicians. Rato is also under investigation for his role in the 2011 botched listing of Bankia, the fourth-largest bank, which culminated with the bank's collapse and part nationalisation in 2012, triggering a €22 billion bail-out. He is under scrutiny too in a separate case involving the misuse of off-the-books corporate credit cards.

Rato's arrest was photographed and televised, suggesting the media were tipped off beforehand. In a humiliating photo that went viral, a law-enforcement officer placed his hand on Rato's neck and pushed him down into a car.

Rafael Catalá, the Justice Minister, said the case was linked to Rato's decision to repatriate foreign assets to Spain as part of a government tax amnesty offer in 2012. 'What is being investigated by the anti-money laundering authority is whether the source of those repatriated earnings was legal or illegal', he said.

Rato was one of 31,000 tax evaders who were offered amnesty in 2012. They were given the chance to 'regularise' their undeclared assets with a one-off payment of 10% of their value, even though it is a criminal offence to hold more than €120,000 in undeclared assets. This was later amended to 10% of the profits. The Tax Agency announced last year that it was investigating 705 of the amnestied evaders.

The further tribulations of Rato are a mixed blessing for the PP. On the one hand, Rato's detention shows that no one is above the law. On the other hand, the spectacle of his arrest raised questions of whether such publicity was

necessary and whether it was done to burnish the image of the PP, tarnished by a plethora of corruption cases.

The four main parties virtually neck and neck if elections held today

The four main parties vying to win Spain's next general elections, expected to be held in December, are separated by less than three percentage points, according to the latest Metroscopia poll.

The radical anti-austerity Podemos ('We can') continues to be out front, but only just, while the other upstart party the centrist Ciudadanos (Citizens' Party) is fast catching up (see Figure 1). The ruling PP and the Socialists have gained a little support since the March survey.

Figure 1. Voting intentions (% of valid votes)

	2011 general election	October 2014	November 2014	January 2015	February 2015	March 2015	April 2015
Podemos	–	13.8	27.7	28.2	27.7	22.5	22.1
Socialists	28.7	30.9	26.2	23.5	18.3	20.2	21.9
PP	44.6	30.2	20.7	19.2	20.9	18.6	20.8
Ciudadanos	–	–	–	8.1	12.2	18.4	19.4

Source: Metroscopia.

The PP and the Socialists, which between them have governed Spain since 1983, continue to enjoy the most support in rural areas and among voters over the age of 55, while in towns and cities of more than 50,000 inhabitants and among younger voters it is a tight race between the four parties.

Albert Rivera, the leader of Ciudadanos, is still only known by 77% of respondents, according to the Metroscopia poll, but in April was the most approved political leader (53%), while Pablo Iglesias, the founder of Podemos, is known by almost everyone but only won a 29% approval rating.

Government in U-turn on illegal immigrants' access to free public healthcare

Three years after banning illegal immigrants from using free public healthcare unless they paid into a special insurance scheme, the government reversed its decision as it had led to a 'saturation' of accident and emergency wards in hospitals.

The only exceptions to the government's ruling were pregnant women, children and access to A&E in emergency cases.

It is estimated that over 800,000 migrants had their health cards removed while the government reported that only 500 people had signed up to the special insurance policy.

As well as crowding A&E wards, which is exerting more pressure on a health system already suffering from budget cuts, the government's policy proved to be ineffective in some regions such as the Basque Country and Catalonia because they created their own regulatory framework allowing undocumented migrants to access free health care.

Meanwhile, 1,166 immigrants were caught trying to enter mainland Spain illegally in the first quarter of 2015, up from 419 a year earlier, according to Frontex, the EU's border management agency.

The number of immigrants caught last year was almost 70% higher at 12,549, according to the Spanish Interior Ministry. Most of them made bids to enter European territory via the Spanish enclaves of Ceuta and Melilla on the North-African coast. Of the 5,819 migrants stopped in Melilla, 2,861 had entered with forged ID papers, while just over 2,000 scaled the six-metre-high fences.

Madrid recently passed a law allowing for 'rejection at the border' which the Council of Europe says is unlawful.

Big rise in population with tertiary education

The share of Spain's population between 25 and 34 years old with tertiary education rose from 26% in 2000 to 41% in 2013, according to the latest comparative figures from the OECD, the Paris-based think tank (see Figure 2).

Figure 2. Population with tertiary education 25-34 year-olds (% in same age group)

	% in same age group
Korea	67.1
Ireland	51.1
UK	48.3
US	44.8
France	44.1
Poland	41.8
Spain	41.1
OECD average	40.5
Germany	30.0
Italy	22.7

Source: OECD.

The figure of 41% is higher than both the average for the EU (36.3%) and OECD countries (40.5%).

Spain's economic crisis since the bursting of a massive property bubble in 2008 and a trebling of the jobless rate to close to 24% (the rate peaked at 26% in 2013) has made the pursuit of higher education increasingly important.

During the decade-long economic boom, many students left school to work in construction and related sectors. The early school-leaving rate has dropped from 31.2% of those aged between 18 and 24 in 2009 to almost 22% in 2013 (EU average of 12%).

Spain inches up the Social Progress Index to 20th position

Spain was ranked 20th out of 133 countries in the Social Progress Index, published by the US Social Progress Imperative (SPI), up from 21st position last year (see Figure 3).

Figure 3. Social Progress Index, ranking (1)

Rank	Score
1. Norway	88.36
11. UK	84.68
14. Germany	84.04
16. US	82.85
20. Spain	81.17
21. France	80.82
31. Italy	73.38

(1) Out of 133 countries.
Source: Social Progress Imperative.

The SPI defines social progress as 'the capacity of a society to meet the basic human needs of its citizens, establish the building blocks that allow citizens and communities to enhance and sustain the quality of their lives, and create the conditions for all individuals to reach their full potential'.

The index is based on three dimensions that incorporate 52 indicators (see Figure 4).

Figure 4. Spain's position in the social progress index component-level framework

Basic human needs	Foundations of wellbeing	Opportunity
Water and sanitation: 19 th	Access to basic knowledge: 2 nd	Personal rights: 22 nd
Nutrition and basic medical care: 10 th	Access to information and communications: 26 th	Tolerance and inclusion: 14 th
Shelter: 23 rd	Health and wellness: 11 th	Personal freedom and choice: 28 th
Personal safety: 23 rd	Ecosystem sustainability: 100 th	Access to advanced education: 18 th

Source: Social Progress Imperative.

More than 7 million tax declarations assigned funds to the Roman Catholic Church

The Roman Catholic Church received €247.5 million from taxpayers in 2013, slightly less than in 2012, as a result of 7.2 million tax declarations assigning funds to the Church.

Since 2007 taxpayers can tick a box on their annual tax declaration in favour of assigning 0.7% of their income tax payable to the Church or to 'social purposes'. This funding arrangement was part of a reform by the Socialist government allowing taxpayers to earmark a higher percentage of their taxes for the Church (0.7% rather than 0.52%) in return for the government no longer providing an annual contribution to make up the difference between the Church's income and expenditure (see Figure 5). The Roman Catholic faith is the only religion in Spain that receives money in this way.

Figure 5. Taxpayers' contribution to the Roman Catholic Church (€ million)

	2006	2007	2008	2009	2010	2011	2012	2013
Contribution	173.7	241.3	252.6	249.9	248.6	247.1	240.0	247.6

Source: Conferencia Episcopal Española.

According to Europa Laica, which campaigns against the public funding of religions, the Spanish State also contributes €11 billion worth of subsidies and tax exemptions to the Church including the financing of grant-assisted schools known as *concertados*, often run by the Church.

The State's agreement with the Church in 1979 after the death of General Franco, who rewarded the Church with privileges for supporting his 1936 uprising against the democratically-elected government of the Second Republic, was that it would become self-financing after six years, but this has not happened.

The Economy

Bank of Spain upgrades growth to 2.8%, IMF follows suit with 2.5%

Spain's economy continues to gather muscle. Both the Bank of Spain and the International Monetary Fund (IMF) have upgraded growth for this year from 2.5% to 2.8% and from 2.0% to 2.5%, respectively (see Figures 6 and 7). GDP, however, is still below the pre-crisis level.

Figure 6. Bank of Spain's forecasts for 2015 and 2016 (% change unless otherwise stated)

	2014	2015	2016
GDP	1.4	2.8	2.7
Private consumption	2.4	3.3	2.4
Public consumption	0.1	-0.4	-0.1
Gross fixed capital formation	3.4	5.9	6.7
Exports of goods and services	4.2	5.2	5.8
Domestic demand (contribution to GDP growth, pp)	2.2	3.0	2.7
Net external demand (contribution to GDP growth, pp)	-0.8	-0.2	0.0
Unemployment rate (% of working population)	24.4	22.2	20.5
Financing capacity (+)/need (-) (% of GDP)	-5.5	-4.5	-3.9

Source: Bank of Spain.

Figure 7. IMF's forecasts for 2015 and 2016 (% change unless otherwise stated)

	2014	2015	2016
GDP	1.4	2.5	2.0
Average inflation	-0.2	-0.7	0.7
Unemployment rate (% of working population)	24.5	22.6	21.1
Budget deficit (% of GDP)	-5.8	-4.3	-2.9
Public debt (% of GDP)	97.7	99.4	100.1

Source: IMF.

The fall in oil prices, the euro's depreciation (good for exports), the European Central Bank's liquidity measures and a good start to the year in tourism are all stimulating growth and creating jobs.

Luis Linde, the Bank of Spain Governor, sparked controversy when he defended the government's austerity measures as they had improved major macroeconomic imbalances and contributed to the recovery. 'Changing direction when on a path towards impossible and unsustainable situations is not "austerity" but common sense and, in a very real sense, patriotism', he told a meeting of bankers.¹

¹ The full speech is available at <http://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/IntervencionesPublicas/Gobernador/Arc/Fic/linde080415en.pdf>

The remark was seized upon by opposition politicians as crossing a red line because it was perceived as supporting the ruling PP in a year when there are regional, municipal and general elections. 'To speak of patriotism is very unfortunate as it is not patriotic to destroy the welfare state, reduce labour rights... cut unemployment benefits, etc', said Manuel de la Rocha, the Socialists' spokesman on the economy.

Linde justified his use of the word 'patriotism', saying that by it he meant 'working for overall interests and long-term'. 'This observation is not inconsiderable in an electoral year when there tends to be a greater temptation to act short term, for electoral interests'.

The number of unemployed registered in government offices was 4.45 million at the end of March, 60,214 fewer than in February and down from a peak of just over 5 million in the middle of 2012. March saw the biggest drop in the figure for this month since 2002.

The number of registered unemployed (jobless claims) is around 1 million lower than the stated number of jobless at the end of 2014, which is based on a quarterly survey of households and said to be more reliable.

The number of social security contributors was 16.83 million, 57,000 higher than at the end of 2014 but still far from the peak of 19.49 million in 2007. The bulk of the jobs created in March were in the tourism and constructions sectors.

The sharp fall in social security contributors over the last seven years has led to a large draw-down of the pension reserve built up during the boom years in order to meet pension payments. The number of contributors for each pensioner fell from a high of 2.71 in 2007 to 2.25 in 2014. The number of pensioners rose from 7.6 million in 2007 to 8.4 million in 2014.

The PP government moved pension financing from the general government budget to the reserve fund after taking office at the end of 2011 as part of its strategy to cut the high budget deficit it inherited from the previous Socialist government (8.5% of GDP in 2011).

'Bad bank' losses double to €585 million

Sareb, the 'bad bank' created in 2012 after the collapse of Spain's real-estate sector to absorb soured property assets, made a loss of €585 million in 2014, more than double the amount a year earlier.

Excluding the very prudent provisions for the assets, Sareb's loss was €45 million, lower than in 2013.

Sareb took over €50 billion of assets from Spain's bailed out banks, particularly from Bankia, the product of the merger of seven ailing savings banks overexposed to the property sector. It has 15 years to sell off the assets which last year were down to just over €44 billion.

The real estate sector, meanwhile, is beginning to recover (see Figure 8). Giant cranes are back in some areas where there is demand for new homes. The number of housing starts plummeted from 865,000 in 2006 to 34,800 last year (1.7% more than 2013).

Figure 8. The Economist house-price indicators

	Latest %change	
	On a year earlier	Since 1Q 2008
Ireland	16.2	-37.2
Britain	7.9	12.8
Germany	4,6	32.8
Spain	-0.2	-31.3
France	-2.1	-3.5
Italy	-3.8	-16.9

Source: The Economist, published 17 April.

Seopan, the body that represents construction companies, estimates the sector will grow this year by between 2% and 4% and contribute 0.3 points to GDP growth (see Figure 8). At the height of the boom in 2006 the sector was responsible for one-quarter of economic growth. The sector generated around 5.5% of GDP last year, half the figure in 2007.

Figure 9. Construction sector indicators

	2008	2009	2010	2011	2012	2013	2014	2015 (1)
Contribution to GDP growth (pp)	-1.3	-3.2	-1.6	-1.5	-1.2	-1.0	-0.1	+0.3
Contribution to job creation (000)	-287	-570	-238	-248	-243	-132	-36	+55

(1) Forecast.

Source: Seopan.

Seopan's chairman, Julián Nuñez, forecast the creation of 55,000 construction jobs this year (1.7 million have been destroyed since 2008).

Labour costs virtually unchanged in two years

Spain's hourly labour costs have hardly changed since 2012 and last year stood at €21.3, below the EU average of €24.6 (see Figure 10).

Figure 10. Labour costs per hour, 2012-2014, excluding agriculture and public administration

	2012	2013	2014
France	34.3	34.3	34.6
Germany	30.5	31.0	31.4
Italy	27.7	28.1	28.3
Poland	7.9	8.1	8.4
Spain	21.1	21.2	21.3
UK	21.7	20.9	22.3
EU	23.9	24.2	24.6

Source: Eurostat.

Spain, world leader in wine exports

Spain sold more wine abroad in 2014 than any other country but its success in volume terms was not matched by an improvement in prices as revenues fell.

Exports were 22.3% higher at 22.56 million hectolitres and revenues were 4.6% lower at €2.51 billion (see Figure 11).

Figure 11. Volume and value of wine exports, 2014

Volume	Million hectolitres	Value	€ million
Spain	22.56	France	7,732
Italy	20.42	Italy	5,111
Chile	0.80	Spain	2,511
Australia	0.73	Chile	1,400
South Africa	0.47	Australia	1,263
US	0.40	US	1,106

Source: Observatorio Español del Mercado del Vino.

Spain's wine sector has undergone a revolution in quality and quantity over the last 30 years, but the country continues to sell most of its wine abroad in bulk – whose prices are very low– and not in bottles. The market is divided between top-quality producers, such as Vega Sicilia, and hundreds of cooperatives. Of the 22.6 million hectolitres exported, only 7.4 million were in bottles.

Last year's wine harvest was exceptionally high at 53 million hectolitres, far outstripping domestic demand, estimated at around 10 million hectolitres, and encouraging shipment of the surplus in bulk by the low quality producers.

The average price of exported Spanish wine was €1.11 per litre compared with France's €5.37 (see Figure 12).

Figure 12. Average price per litre of exported wine (€), 2014

	€
France	5.37
New Zealand	4.36
Portugal	2.55
Germany	2.51
Italy	2.50
Argentina	2.38
Spain	1.11

Source: Observatorio Español del Mercado del Vino.

Corporate Scene

ACS wins €1.85bn Canada bridge contract

ACS, the construction group, won a 30-year €1.85 billion contract as part of a consortium to design, build, finance, operate and maintain a bridge in Montreal, Canada over the St. Lawrence River.

Sacyr to build Colombia's longest bridge

A consortium led by Sacyr has won a €223 million contract to build a bridge over the Magdalena River, which will be the longest in Colombia at 2.3km.

Antolín acquires Magna's car-interior's business

Grupo Antolín agreed to buy the car-interior division of North America's biggest auto-parts maker Magna for €490 million under its strategy to become the world's largest supplier of vehicle interiors.

The deal, which does not include Magna's seating business, includes 36 manufacturing operations and about 12,000 employees in Europe, North America and Asia. Magna is based in Aurora, Ontario, Canada.

Enagás teams up with Fluxys to buy Swedegas

Spain's Enagás and Belgium's Fluxys are to jointly acquire Swedegas, the owner and operator of Sweden's gas transmission grid, for around €200 million.

Enagás has operations in Spain and South America and Fluxys owns gas grids in Belgium, Germany and Switzerland. Both companies have invested in LNG terminals, including terminals in Zeebrugge, Dunkirk and Altamira in Mexico.