

## Inside Spain Nr 121

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### Summary

Rajoy presides over UN Security Council session, adopts resolution on women and peace.

Catalan Prime Minister Mas in court for organising independence vote.

Brussels deals blow to Madrid and orders re-write of 2016 budget.

Acciona and Germany's Nordex to create global wind-energy player.

VW 'guarantees' €4.2 billion investment in Spanish plants.

### Foreign Policy

**Rajoy presides over UN Security Council session, adopts resolution on women and peace**

Prime Minister Mariano Rajoy became the first Spanish leader to preside over a session of the UN Security Council. The session adopted unanimously the resolution ensuring active participation of women in processes to search and consolidate peace.

The 18-point initiative, presented by the UK, includes actions to promote the role of women in prevention and peace-building processes and to guarantee their rights during conflicts.

'We must spare no efforts to combat sexual violence, which is used as a weapon of war and terror, and often, in conflicts, it's more dangerous to be a woman than a soldier', Rajoy said.

He also insisted on the need of a global commitment regarding gender equality and women's empowerment.

Spain was elected to occupy one of the five non-permanent seats on the Council last October for 2015-16. The country joined the UN in 1955. This is the fifth time it has been one of the rotating members, and it is the Council's President for October.

**Kerry and Margallo sign agreement to clean up site of 1966 nuclear accident**

The US Secretary of State John Kerry and Spain's Foreign Minister José Manuel García-Margallo signed an agreement under which Washington will clean up 50,000 square metres of contaminated soil near the village of Palomares where a US B-52 bomber

carrying four nuclear bombs collided with a tanker plane in 1966 during mid-air refuelling. The soil will be shipped to the US and disposed of.

Three of the aircraft's H-bombs fell in or around Palomares while the fourth crashed into the sea about five miles offshore in the Mediterranean. There was no nuclear blast, but plutonium was spread over a wide area.

Under an earlier accord that expired in 2010, the US government paid €314,000 a year for tests for contamination as well as regular blood tests for residents of Palomares.

## Domestic Scene

### Catalan Prime Minister Mas in court for organising independence vote

Artur Mas, the Catalan Prime Minister, locked in a long-running battle with the central government in Madrid over independence for the region, appeared in court for questioning over the symbolic plebiscite on secession from Spain held last November.

Several hundred pro-independence mayors and independence party leaders cheered him on arrival at the court, shouting 'this court does not represent us'.

Mas is accused of grave disobedience, abuse of public funds, prevarication, usurping powers and obstructing justice, after he defied a ruling against the non-binding referendum by the Constitutional Court. If found guilty he faces disqualification from office or up to a year in prison. He said he might disobey the court if he is disqualified from office, which would presumably mean prison and martyrdom for his supporters.

The ultimate weapon that the central government could wield against Catalonia would be to implement article 155 of the Constitution which allows it to intervene in a region if its government does not comply with the nation's laws.

Mas's court hearing coincided with a sensitive date in Catalan history: the 75<sup>th</sup> anniversary of the execution of the Catalan nationalist leader Lluís Companys by firing squad under Francisco Franco's dictatorship. Companys declared a short-lived Catalan state within the Spanish Republic in 1934. Exiled after the 1936-39 Civil War, he was captured and handed over by the Gestapo to the Franco regime.

The Together for Yes' pro-independence coalition, an unholy alliance of Mas's centre-right Democratic Convergence of Catalonia party and the more radical Republican Left of Catalonia (founded by Companys, among others), won 62 of the 135 seats in last month's election for the Catalan parliament, billed as a *de facto* vote on secession.

Together with the 10 seats of the anti-capitalist Popular Unity Candidacy (CUP), the pro-independence camp garnered 48% of the vote (72 of the 135 seats) against 52% for parties opposed to independence (see Figure 1).<sup>1</sup>

Mas proclaimed to cheering crowds that this gave him the ‘strength and legitimacy’ to push ahead to separate Catalonia from Spain. He later argued in an [article](#) in *The Guardian* earlier this month that the case for Catalonia’s independence was now overwhelming and Madrid must accept that the ‘problem’ will not just disappear.

**Figure 1. Results of Catalan election (seats, votes and % of votes)**

	Seats	Votes	% of votes
Junts pel Sí ('Together for Yes')	62	1,620,973	39.6
Ciutadans	25	734,910	17.9
Catalan Socialists	16	522,209	12.7
CSP (1)	11	366,494	8.9
Popular Party	11	348,444	8.5
CUP (2)	10	336,375	8.2

(1) Catalunya Sí que es Pot: several leftist parties including Podemos and Initiative for Catalonia-Greens.

(2) Pro-independence Popular Unity Candidacy.

Source: Catalan government.

Meanwhile, the CUP was holding back its support for Mas so that he could continue as Prime Minister. The party wants the current Catalan government to begin to ignore the Constitutional Court and push ahead with independence before the swearing in of the new Prime Minister.

King Felipe VI sought to allay concerns over the Catalan independence bid by telling the European Parliament in Strasbourg that Europe could count on a ‘diverse and united Spain’ without specifically mentioning the region as he has to tread a very careful path.

‘You may count on Spain as a loyal member that is responsible when it comes to the European project; on a Spain that is united and proud of its diversity; on a Spain that shows solidarity and respect for the rule of law’, he said.

He described the 1978 Spanish Constitution as the ‘the great pact that defends, preserves and protects the rights and freedoms of citizens’ and that ‘protects the people

<sup>1</sup> See my analysis of the results at

[http://www.realinstitutoelcano.org/wps/portal/web/rielcano\\_en/contenido?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_in/zonas\\_in/commentary-chislett-pro-independence-parties-win-the-catalan-regional-elections#.VgIfUGSqqkq](http://www.realinstitutoelcano.org/wps/portal/web/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/commentary-chislett-pro-independence-parties-win-the-catalan-regional-elections#.VgIfUGSqqkq).

of Spain in the exercise of their diverse cultures and traditions, languages and institutions’.

There are growing calls for constitutional reforms to accommodate Catalonia, although the pro-independence camp is in no mood to make the concessions that would be required to satisfy the Popular Party (PP) and the Socialists, the two parties that have alternated in power over the last 33 years.

Meanwhile, the ceasefire by the Basque terrorist group Eta, which began fighting for independence 47 years ago with the loss of 850 lives, has held firm for four years as of this month. The group, however, has yet to lay down its arms.

Nothing will be done to try to resolve the Catalan problem before the general election on 20 December which will, for the first time in post-Franco Spain, be a four-horse race with two new parties at the national level, the leftist Podemos and the centrist Ciudadanos. The latter did well in the Catalan election to become the third-largest party in parliament and the main one in the region against independence. Emboldened by its results, Ciudadanos has its sights set on obtaining a significant number of seats in the December election.

According to the latest Metroscopia poll, it is gaining popularity in the rest of Spain and is not far behind the PP and the Socialists, while Podemos has been losing support since January (see Figure 2). Ciudadanos is expected to be the kingmaker for either the PP or the Socialists in a coalition government, depending on which of the two gets the most votes. Neither of them is expected to win an absolute majority.

**Figure 2. Voting intentions (% of valid votes)**

	2011 general election	Oct. 2014	Jan. 2015	March	April	July	October
Podemos	–	13.8	28.2	22.5	22.1	18.1	14.1
Socialists	28.7	30.9	23.5	20.2	21.9	23.5	23.5
PP	44.6	30.2	19.2	18.6	20.8	23.1	23.4
Ciudadanos	–	–	8.1	18.4	19.4	16.0	21.5

Source: Metroscopia.

### The Infanta Cristina and husband to stand trial in January

The Infanta Cristina, eldest sister of King Felipe VI, and her husband Inaki Urdangarín will stand trial on 11 January along with 16 others in the case.

Cristina was indicted as part of a four-year probe into her husband, who faces charges of money-laundering and fraud. They have repeatedly asserted their innocence.

If convicted she could face up to four years in prison and Urdangarín up to 19 years. Urdangarín is accused of embezzling about €6 million in public contracts through a non-profit foundation.

On assuming the throne last June after King Juan Carlos abdicated, Felipe said he intended to restore public trust in the tarnished monarchy. Opinion polls show his popularity ratings have risen.

### Spain ranked 10<sup>th</sup> in scientific output...

Spain was classified 10<sup>th</sup> in the global Nature Index which tracks the affiliations of high-quality scientific articles published in 68 science journals independently chosen by the scientific community as the journals scientists would most like to publish their best research in (see Figure 3).

The results belied the image of a country that attaches little importance to science. There has been a brain drain of young scientists over the past decade because of budget cuts and lack of opportunities. The Higher Council of Scientific Research (CSIC), the main such state institution, has been hard hit.

**Figure 3. Nature Index 2015 global top 10 countries by research articles**

	Number of research articles
1. US	17,520
2. China	6,352
3. Germany	3,964
4. UK	3,236
5. Japan	3,066
6. France	2,150
7. Canada	1,441
8. Switzerland	1,218
9. South Korea	1,146
<b>10. Spain</b>	<b>1,061</b>

Source: Nature Publishing Group.

Spain is ranked 27<sup>th</sup> out of 54 countries in the Global Innovation Index 2015 (see Figure 4).

**Figure 4. Global Innovation Index 2015**

Rank	Rank
1. Switzerland	<b>27. Spain</b>
2. United Kingdom	31. Italy
5. United States	35. Hungary
6. Finland	39. Bulgaria
12. Germany	45. Greece
19. Japan	46. Poland
21. France	54. Rumania

Johnson Cornell University, INSEAD and WIPO.

At the other end of the education spectrum, the latest comparative data from Eurostat underscores one of the bitterest lessons of Spain’s crisis: the better qualified, the better chances of a job. The jobless rate for those without tertiary education was 31.4% in 2014 compared with 10.8% for those who went on studying after completing their secondary education. The latter rate was considerably below the overall unemployment rate of 22% (see Figure 5).

**Figure 5. Unemployment rates by educational attainment level, 25-64 year olds (%)**

	Tertiary education	Upper secondary education and post-secondary non-tertiary education (levels 3 and 4)
Greece	19.1	27.6
<b>Spain</b>	<b>13.8</b>	<b>31.4</b>
Italy	7.6	15.2
France	5.8	24.8
EU-28	5.7	17.4
Germany	2.5	12.0

Source: Eurostat, July 2015.

Students dropped out of school in droves after completing their compulsory education at 16 to work in the construction sector during the decade-long boom and were among the first to lose their jobs when the economy went into recession. Depending on their age when they became unemployed, some have returned to school to complete their secondary education.

## Spanish archbishop raises storm by questioning whether Spain should be welcoming refugees

The Archbishop of Valencia, Cardinal Antonio Cañizares, sparked controversy when he questioned whether Spain should be putting out the welcome mat for refugees from Syria.

‘What’s happening in Europe?’ the Catholic bishop asked. ‘This invasion of immigrants... are they completely trustworthy? Where will it leave Spain in a few years?’.

He also asked whether refugees were coming to Spain ‘because they were being persecuted’ arguing that ‘many are not’.

‘We must be clear headed and not let everyone in, because today it could be someone who gets along very well, but it is in fact the Trojan horse for European societies and specifically Spain’.

Syria is a predominantly Muslim nation.

Cañizares is no stranger to controversy, claiming in 2009 that abortion was worse than child abuse.

According to a survey by the Pew Research Center before the Syrian migrant crisis, 46% of Spaniards believed immigrants were a burden on their country, the third highest proportion among the five largest EU economies (see Figure 6).

**Figure 6. Views of immigrants in Europe: % who say immigrants today...**

	Make our country stronger because of their work and talents	Are a burden on our country because they take our jobs and social benefits
Italy	19	69
France	45	52
<b>Spain</b>	<b>47</b>	<b>46</b>
UK	52	37
Germany	66	29

Source: Pew Research Center.

The Cardinal’s words were at odds with Pope Francis who urged ‘every Catholic parish in Europe’ to take in a refugee family.

## The Economy

### Brussels deals blow to Madrid and orders re-write of 2016 budget

Spain's image as the poster boy for the benefits of economic orthodoxy took a knock when the European Commission said the PP government would narrowly fail to meet its budget deficit target this year and more so next and told it to re-write the 2016 budget.

The Commission said the deficit would be 4.5% of GDP in 2015 and 3.5% in 2016, respectively 0.3 percentage points and 0.7 points higher than the agreed targets. The latter overshoot would mean that Spain would break the 3% threshold under the Stability and Growth Pact and could face a reprimand and possible sanctions.

The Commission said the 2015 budget appeared 'broadly plausible', although slightly above its scenario, while the macroeconomic scenario for 2016 was 'somewhat optimistic' and the government needed to 'take the necessary measures to ensure that the 2016 budget will be compliant with the Stability and Growth Pact'.

Luis de Guindos, the Spanish Finance Minister, said before the decision was taken that he was convinced the 2015 budget target would be met.

One reason for the discrepancy between Madrid and Brussels over the 2016 deficit is that the Spanish government is more bullish on growth. Its GDP forecasts, moreover, have proved to be more accurate than the Commission's: Madrid sees growth of 3% next year compared with the Commission's projection of 2.6%.

In its latest (October) forecasts, the International Monetary Fund predicted growth of 2.5% next year, the same figure as in July (see Figure 7) and closer to the Commission than to Madrid.

**Figure 7. IMF forecasts for Spain, 2015 and 2016 (annual % change, unless stated otherwise)**

	Real GDP	Consumer prices	Current account balance (% of GDP)	Unemployment (%)
<b>Spain 2015</b>	<b>3.1</b>	<b>-0.3</b>	<b>0.9</b>	<b>21.8</b>
Euro area	1.5	0.2	3.2	11.0
<b>Spain 2016</b>	<b>2.5</b>	<b>0.9</b>	<b>1.1</b>	<b>19.9</b>
Euro area	1.6	1.0	3.0	10.5

Source: IMF, October 2015.

Madrid submitted the 2016 budget to Brussels well ahead of the deadline, so that Parliament could approve it ahead of the general election on 20 December. Prime Minister Mariano Rajoy is making fiscal rectitude and economic recovery, albeit with unemployment at 22%, the central planks of his campaign.



The PP's most pressing economic problem has been to get to grips with the budget deficit it inherited from the Socialists of 9.4% of GDP in 2011 (including aid for banks and well beyond the 6% target originally agreed with Brussels) and a commitment to reduce it to the EU threshold of 3% in 2013. As expected, the 3% target was far too ambitious a wrench for an economy in recession and the government was given in July 2012 another year to meet the threshold. This, too, proved to be unrealistic and after missing targets in 2012 (the deficit came in at almost 7% of GDP and 10.3% including aid) and struggling with the goals for 2013, due to a combination of weaker-than-expected revenues, some expenditure overruns and higher social spending resulting from massive unemployment, Brussels came to Madrid's rescue again in May 2013 and gave the government a further two years (until 2016) to meet the 3% reference.

The 2015 budget was due to be approved this week, while revising the 2016 budget will be left to the government that emerges from the 20 December general election.

### Tax Agency owed €50 billion

The Tax Agency was owed €50.2 billion at the end of 2014 (5% of GDP), almost double the amount in 2007, the last year of Spain's boom period (see Figure 8). The increase in the debt, however, was by far the smallest since the onset of the crisis in 2008, indicating that individuals and companies are over the worst.

**Figure 8. The rise in the debt owed to the Tax Agency (€ billion and % change)**

	€ billion	% change over previous year
2007	26.65	11.1
2008	30.42	14.2
2009	37.69	23.9
2010	41.95	11.3
2011	45.73	9.0
2012	48.67	6.4
2013	50.17	3.1
2014	50.22	0.1

Source: Agencia Tributaria.

### *Economic slowdown reduces number of dollar millionaires*

There were 360,000 individuals in Spain in the middle of this year with a net worth of more than US\$ 1million, 21% fewer than a year earlier, according to the latest Credit Suisse Global Wealth Databook (see Figure 9).

**Figure 9. Top wealth countries, 2015 (1)**

Rank	Over US\$1 million (thousands)	% of global wealth
1. US	15,656	46.43
2. UK	2,364	7.01
3. Japan	2,126	6.30
4. France	1,791	5.31
5. Germany	1,525	4.52
6. China	1,333	3.95
<b>13. Spain</b>	<b>360</b>	<b>1.07</b>

(1) Wealth is defined as the value of assets minus debts including homes and consumer durables.

Source: Credit Suisse Global Wealth Databook 2015.

Spain suffered the ninth largest drop (-104,000) in the number of millionaires in the world and the fourth in Europe after France (-631,000), Germany (-392,000) and Italy (-378,000). As in other euro zone countries, Spain's figure in US dollars –the currency used in the report– was affected by the euro's depreciation against the US currency.

Two-thirds of adults in Spain have net wealth of between €10,000 and €100,000, a much higher proportion than the other large EU economies (see Figure 10). The median wealth per adult in Spain is US\$59,223 (see Figure 11). The country's Gini coefficient, which measures the hot topic of inequality (which has increased during the crisis) was 67.1%, better than the other main euro economies and far from the US's 85% (0 represents perfect equality and 100 perfect inequality).

**Figure 10. Wealth pattern within countries, 2015 (1): distribution of adults (%) by wealth range (US\$)**

	Under 10,000	10,000- 100,000	100,000-1 mn	Over 1 mn	Gini (2) (%)
France	16.9	33.1	46.3	3.7	70.3
Germany	29.7	33.9	34.2	2.3	77.5
Italy	12.4	37.6	47.7	2.3	66.7
<b>Spain</b>	<b>12.1</b>	<b>62.8</b>	<b>24.1</b>	<b>1.0</b>	<b>67.1</b>
UK	10.0	33.9	51.3	4.9	67.8
US	28.1	32.9	32.6	6.4	85.0

(1) Wealth is defined as the value of assets minus debts including homes and consumer durables.

(2) The Gini coefficient is the most commonly used measure of inequality. 0 represents perfect equality and 100 perfect inequality.

Source: Credit Suisse Global Wealth Databook 2015.

**Figure 11. Median wealth per adult, 2015 (US\$)**

Country	US\$
France	86,156
Germany	43,898
Italy	88,603
<b>Spain</b>	<b>59,223</b>
UK	126,472
US	49,787

Source: Credit Suisse Global Wealth Databook 2015

In a separate report by the Workers Commissions trade union, the salaries of the top executives of the companies that comprise the Ibex-35, the benchmark index of the Spanish stock exchange, rose 80% in 2014 to €186.8 million compared with a 1.8% increase for employees.

At the lowest end of the wealth spectrum, the latest Eurostat figures show that 29.2% of Spain's population were at risk of poverty or social exclusion in 2014, up from 24.5% in 2008, the largest rise after Greece (see Figure 12). This means that they were in at least one of the following three conditions: at-risk-of-poverty after social transfers (income poverty), severely materially deprived or living in households with very low work intensity.

**Figure 12. People at risk of poverty or social exclusion in the EU, 2008 and 2014 (% of total population)**

	2008	2014
France	18.5	18.6
Germany	20.1	20.6
Greece	28.1	36.0
Italy	25.3	27.4
<b>Spain</b>	<b>24.5</b>	<b>29.2</b>

Source: Eurostat.

### Banks' bad loans at lowest level in 19 months

The non-performing loans (NPLs) of banks in Spain accounted for 10.9% of their credit to individuals and companies in August, the lowest level since April 2013 according to the Bank of Spain.

This was the third month running that the NPL ratio had fallen. The ratio peaked at 13.6% at the end of 2013.

In a separate development, the nationalised Bankia, the fourth-largest lender whose near collapse under the weight of dud loans to property developers triggered a €41 billion bail-out of several banks, sold its wholly-owned subsidiary Florida City National Bank to the Chilean Banco de Crédito e Inversiones.

## Corporate Scene

### Acciona and Germany's Nordex to create global wind-energy player

Spain's Acciona became a significant global player in the global wind-energy market when it agreed this month to team up with Nordex. The German wind-turbine maker is to buy Acciona's wind-power business for €785 million in cash and stock, and in return Acciona will receive a cash payment of €366.4 million and 16.1 million new shares of Nordex.

Combined with shares acquired from other large shareholders after the deal, which is expected to be completed in early 2016, Acciona's stake in Nordex will be almost 30%.

The two companies are complementary. Acciona Windpower is strong in the Americas and emerging markets, mainly with large scale wind farms, while Nordex focuses on Europe. As well as renewable energy, Acciona is engaged in the water services and infrastructure sectors.

### VW 'guarantees' €4.2 billion investment in Spanish plants

Volkswagen, grappling with a scandal over rigged emissions tests, will maintain its €4.2 billion investment in Spain, according to Industry Minister José Manuel Soria.

Soria said he had been given the assurance after meeting VW's Chairman. The company itself, however, has neither confirmed nor denied Soria's remarks.

The investment was billed as 'the largest industrial investment ever made in Spain'. Of this amount €3.3 billion will support the launch of four new SEAT models. The first of these models will be a compact SUV, the first ever to be built by SEAT.

Spain's car makers are all multinationals –Volkswagen bought SEAT from the state in 1986– and the overall industry generates around 10% of economic output and employs around 9% of the workforce.

### China Resources buys Galician canned-fish company

The state-owned China Resources acquired the canned-fish company Hijos de Carlos Albo, based in Vigo, Galicia, for €48 million.

The company produces around 100 different products (white tuna, yellowfin tuna, sardines and small sardines, anchovies, mackerel, octopus, squid, mussels, queen scallops, etc, as well as some ready-to-eat Spanish traditional dishes).

### Inditex President chosen as world's third-best business leader

The *Harvard Business Review* named Pablo Isla, President of Inditex, the world's largest fashion retailer –best known for its Zara stores– the world's third-best chairman or CEO, after Cisco's John Chambers and Novo Nordisk's Lars Sørensen.