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Summary

Troops complete withdrawal from Afghanistan.

Catalan parliament defies Constitutional Court order to halt secession process.

Brussels warns on budget deficit targets.

Unemployment drops below 5 million for first time in four years.

Ibex 35 companies lift profits 22% in first nine months.

Foreign Policy

Troops complete withdrawal from Afghanistan

Spain completed its withdrawal from Afghanistan after 14 years. The last troops to leave were 450 stationed at the Forward Support Base of Herat.

In total, 29,861 Spanish troops were deployed since January 2002, making it the longest military operation of Spain's modern armed forces, with 102 dead (62 of them in an aircraft crash in Turkey while returning home in May 2003).

The presence in Herat consisted of the protection force operating at the base and the city's airport, the Air Force military officials in charge of running the airport, the Role 2E military hospital, a logistic unit and personnel at the general headquarters of the Training, Advise and Assist Command West.

The withdrawal came at a time when the US was reconsidering its continued presence after the end of this year. Concern is growing over the ability of the Afghan Army and police to control the situation.

Government presses in UN for terrorism victims' statute

Spain took advantage of being the rotating President of the UN Security Council last month to push for an international statute to defend the victims of terrorism.

Foreign Minister José Manuel García-Margallo and Interior Minister Jorge Fernández Díaz chaired a closed session of the Council convened to listen to the victims of terrorist acts.

'As long as there is international terrorism, and therefore there are victims of terrorism throughout the world, there must be a statute of victims worldwide', said Fernández Díaz.

Spain has suffered terrorism by the Basque separatist group ETA (857 victims in more than 40 years, 95% of them since the death of the dictator General Franco in 1975)[1] and by Islamic extremists (the March 2011 bombing of trains in Madrid killed 192 people and injured 1,800 others). ETA declared a 'definitive' ceasefire four years ago, but has yet to lay down its arms.

Close to half of the 118 people detained in Spain since 2013 for jihadism have Spanish nationality or were born in Spain, according to a report by the Real Instituto Elcano.

The number of Spaniards arrested (53) in the last two years was three times higher than those imprisoned for terrorism activities or killed while committing them in Spain between 1996 and 2012 (before the creation of ISIS).

Spain, like France –which suffered a horrendous attack on 13 November with the loss of 129 lives–, has a worrying problem of home-grown jihadism.

The UN meeting was attended by representatives of terrorism-victim groups from among others Spain, Egypt and Nigeria. María del Mar Blanco, whose brother Miguel Ángel, a town councillor, was murdered by ETA in 1997, called the meeting 'an historic event'. 'We have come to show that victims are always innocent, and terrorists, the torturers, are always to blame'.

Domestic Scene

Catalan parliament defies Constitutional Court order to halt secession process

The new Catalan parliament, just over half of whose members are in favour of independence, defied an order from the Constitutional Court and vowed to continue its secession process.

The Court suspended the parliament's law that set out a road map for independence and warned lawmakers they could face criminal charges if they did not do so. Spain's constitution bars regions from unilaterally making decisions that affect the whole of the country.

[1] See my analysis of the change in Spain since 1975 at http://www.realinstitutoelcano.org/wps/portal/web/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/ari66-2015-chislett-spain-40-years-after-franco-change-nation.

The Court's ruling, in response to the central government's challenge, means that Catalan legislation is suspended for up to five months while judges hear arguments and reach a decision.

'We are fulfilling and will continue to fulfil the mandate of a sovereign parliament', said Neus Munté, vice-president of the Catalan government.

Prime Minister Mariano Rajoy called the Catalan law an affront to democracy. 'It's not just a reaction to a motion passed in parliament, this is about defending a whole country', he said. 'This is a blatant disregard for the state's institutions. They are trying to do away with democracy. I will not allow it'.

The 'Together for Yes' pro-independence coalition, an unholy alliance of Artur Mas's centre-right Democratic Convergence of Catalonia party and the more radical Republican Left of Catalonia, won 62 of the 135 seats in September'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.

Meanwhile Mas failed for the second time to remain as Catalonia's Prime Minister. The vote was 73 to 62. If no deal can be reached between the pro-independence parties before 10 January, a new election will have to be held. The main obstacle is CUP, which wants someone else among other reasons because of the corruption scandals that have engulfed Mas's party.

After a prudent silence King Felipe VI spoke out in favour of the Constitution. 'The Constitution will prevail, nobody should doubt it', he said. 'The King, as head of state, will always stand by the side of all Spaniards'.

With a general election on 20 December, Rajoy urged the main opposition parties –the Socialists, the leftist Podemos and the centrist Ciudadanos– to back him. The Socialists and Ciudadanos are basically in agreement over the 'general principles' that need to be followed in order to uphold the law. Podemos rejects a common front. Its leader, Pablo Iglesias, said the solution was to have a politically binding referendum.

The ruling Popular Party would win the election if it were held today, but far from the absolute majority it currently enjoys. Support for Podemos continues to decline and that for Ciudadanos to increase (see Figure 1).

Figure 1. Voting intentions (% of valid votes)

	2011 general election	Jan. 2014	Jan. 2015	April	July	October
PP	44.6	30.2	27.3	25.6	28.2	29.1
Socialists	28.8	26.6	22.2	24.3	24.9	25.3
Podemos	–	–	15.3	22.5	23.9	10.8
Ciudadanos	–	–	3.1	13.8	11.1	14.7

Source: CIS.

Only 2.3 million people out of 5.4 million eligible to vote in Catalonia voted in a mock non-binding referendum a year ago, of which 1.6 million favoured independence. An opinion poll published by the Catalan government earlier this month showed that a 'no' vote in a legally binding and authorised referendum would win by the skin of its teeth (47.8% against 46.7%).

Another poll, published by Metroscopia last month, showed that only 26% were hard-core secessionists, and 45% were in favour of a 'third way' which would enable Catalonia to stay part of Spain with new powers for the region.

Rajoy has slowly recognised the need to reform the Constitution, but not until after next month's election.

The Catalan movement for independence is giving wings to those in the Basque Country, the other bastion of nationalism, in favour or seceding from Spain. The Abertzale Left registered in the Basque parliament a legislative proposal backing a referendum on independence.

Spain ranked 23rd in EU social justice index

Spain continued to fall in the EU social justice index (SJI). With a score of 4.73 out of 10, it ranked equal 23rd with Hungary out of 28 countries (see Figure 2).

Figure 2. EU social justice index

	2008	2011	2014	2015	Change 2008/15
1. Sweden	7.54	7.34	7.44	7.23	-0.31
7. Germany	6.16	6.27	6.56	6.52	+0.37
12. France	6.26	6.15	6.12	6.18	-0.09
13. UK	5.95	5.96	5.96	5.97	+0.02
15. Poland	4.48	5.01	5.30	5.46	+0.98
23. Spain	**5.54**	**5.13**	**4.86**	**4.73**	**-0.82**
25. Italy	5.17	5.16	4.60	4.69	-0.48
28. Greece	4.46	4.44	3.57	3.61	-0.85

Source: BertelsmannStiftung.

The index is based on six dimensions: in poverty prevention Spain was ranked 21st, equitable education 20th, labour market access 27th, social cohesion and non-discrimination 18th, health 12th and inter-generational justice 22nd, which, in turn, are drawn up using many indicators.

Spain's performance in the SJI has gradually worsened since 2008, and was the second-largest fall after Greece. Poland's increase was the largest. Spain ranks among the bottom third of countries in four of the six dimensions, and among the bottom five in terms of labour-market access. With regard to the SJI's focus this year on children and youth, Spain ranks 25th with a score of 3.94 in this sub-index.

The Economy

Brussels warns on budget deficit targets

The European Commission's latest forecasts show that Spain will fail to meet its agreed budget deficit targets this year and next by a wider margin than Brussels envisaged last month.

This year's deficit will come in at 4.7% of GDP and next year's at 3.6% compared with the respective targets of 4.2% and 2.8%. This would mean that Spain continued to fail to meet the 3% threshold under the Stability and Growth Pact, which has been renegotiated several times in recent years.

Prime Minister Rajoy, whose campaign to win the 20 December general election is based on the Popular Party's economic record and return to growth after a prolonged recession, said the Commission 'cannot give many lessons' on deficit control, and reminded Brussels that he inherited a deficit of 9.1% of GDP when he took office. The latest voter intention poll showed the PP moving ahead.

Luis de Guindos, the Economy Minister, played down the upward revision and said this year's and next year's deficits would be on target.

The budget deficits of seven of the 17 regional governments for the first eight months were higher than the target for the whole year. The goal, imposed by the central government, for the overall regional deficit is 0.7% of GDP. The deficits of Murcia, Extremadura and Valencia, the latter ground zero of the property collapse, were 1.47%, 1.37% and 1.14%, respectively. Thanks to the lower deficits of the other regions, the total deficit was just below 0.70%.

There is some leeway, however, as the higher deficit of the regions could be offset by local governments generating a larger surplus.

The Commission forecast a rise of 0.6% in salaries next year (0.7% in 2015), the fourth lowest among EU countries and well below the average increase of 2% (see Figure 3).

Figure 3. Salary rises in 2015 and 2016 (annual % change), European Commission forecasts

	2016	2015
UK	3.3	2.8
Germany	2.7	2.9
EU-28	2.0	1.7
France	1.3	0.8
Spain	**0.6**	**0.7**
Italy	0.4	0.5
Greece	0.1	-2.0

Source: European Commission.

Unemployment drops below 5 million for first time since 2011

The number of unemployed (4.85 million) dropped below 5 million for the first time in four years, but the jobless rate of 21.18% was still among the highest in the developed world, according to the latest quarterly labour-force survey.

The news was a symbolic boost for Prime Minister Mariano Rajoy, who is hoping the gradual economic recovery, from a low base, will see his Popular Party returned to office in the 20 December election.

When the Popular Party trounced the Socialists at the 2011 election there were 5.28 million unemployed and the jobless rate was 22.6%. The rate peaked at 27% in 2013 (6.3 million unemployed).

The INE statistics office said 349,400 jobs were created in services in the 12 months to the end of September, 91,800 in industry, 60,100 in construction and 43,400 in agriculture. Most of the new service jobs were tourism, which is enjoying another bumper year. These jobs, however, are mostly low paid and temporary. There are now more people employed in services than when Rajoy took office (see Figure 4).

Figure 4. Employment in Spain by sectors, 2007-15 (million jobs) [1]

	2008	2010	2011	2012	2014	2015 [2]
Services	13.83	13.40	13.19	12.71	13.23	13.73
Industry	3.04	2.62	2.52	2.38	2.38	2.51
Construction	2.18	1.57	1.27	1.07	0.99	1.08
Agriculture	0.80	0.80	0.80	0.78	0.74	0.70
Total jobs	19.85	18.40	17.80	16.95	17.34	18.04

(1) Average figures for each year.

(2) September.

Source: INE, based on labour force survey.

Unemployment by regions varied considerably between 3.17% in Andalusia and 13.6% in La Rioja and Navarre (see Figure 5).

Figure 5. Stated unemployment rates by Spain's regions, 2015 (%) (1)

	%
Andalusia	31.7
Aragón	15.0
Asturias	17.0
Balearic Islands	13.9
Basque Country	13.8
Canary Islands	28.6
Cantabria	16.2
Castilla y León	16.6
Castilla-La Mancha	24.7
Catalonia	17.5
Extremadura	28.5
Galicia	17.7
La Rioja	13.6
Madrid	16.3
Murcia	23.5
Navarre	13.6
Valencia	22.4
Spain	21.2

(1) September.

Source: INE, Labour Force Survey.

More than 720,000 households with no member working stood at 721,900, and 2.9 million of the 4.85 million jobless had been unemployed for at least a year.

Brussels recommends bank customers be compensated for illegal interest-rate floors

The European Commission recommended that customers whose mortgage contracts were found by Spain's Supreme Court to have illegal interest rate floors should be repaid in full. The sum involved could run into the billions of euros.

The court ruled in May 2013 that the floors of BBVA, Cajamar and Novacaixagalicia were null and void because the clauses were not clearly and transparently explained.

However, it said that the ruling could not be retroactive as this would imperil the financial system. The Commission's observation is not binding on the court.
The Commission's report comes at a time when banks are in much better shape, as a result of reforms following the bursting of Spain's massive property bubble in 2008. This led to a €41.3 billion EU bail out for some banks, most notably Bankia which had to be nationalised.

The profits of the four largest banks (Santander, BBVA, Caixabank and Bankia) rose 16% year-on-year in the first nine months to €8.7 billion. Bankia's profits surged 93% to €698 million.

It would seem that the good times have returned, but this is not yet the case as the improvement was largely due to greatly reduced provisions against bad property loans, in some cases to the incorporation of banks acquired and activity abroad.

Non-performing loans plus foreclosed assets amounted to a whopping €224 billion at the end of June (latest figure), 8.7% of the total assets of banks' business in Spain. These two types of assets do not generate revenue and reduce the capacity to generate profits.

The environment of very low interest rates and the large volume of non-productive assets will continue to bear down on banks' income statements. In the Bank of Spain's view this makes it necessary for banks to create more sustainable business models, involving the application of new technologies, new activities and a branch and staffing structure better tailored to attaining this model.

Only six Spanish banks will have to undergo the EU-wide stress test in 2016, conducted by the European Banking Authority, compared with 15 at the last test in 2014.

Santander remained in the revised list of the 30 global systemically important banks ('too big to fail') and BBVA was dropped.

Tax Agency unearths almost €91 billion of assets abroad

Spaniards and residents of Spain declared €90.97 billion of assets held abroad in 2013, the first year when it was obligatory to present a form detailing money held in bank accounts, mutual funds, insurance policies, shares and real estate.

By far the most popular country for locating these assets was Switzerland, which held close to €20 billion, €4.83 billion in accounts (see Figure 6). Luxembourg was the most favoured place for mutual funds, Sicavs and insurance policies and France for real estate.

Figure 6. Top 10 countries with assets abroad held by Spaniards (€ bn)

	€ bn
Switzerland	19.86
Luxembourg	10.67
Netherlands	7.54
UK	5.20
US	5.04
France	4.84
Brazil	4.16
Andorra	4.06
Germany	3.59
Belgium	2.85

Source: Tax Agency.

The form, known as Modelo 720, came into force in 2013 and obliged residents to fill it out if they were the owner, beneficiary, authorised signatory or had the authority to dispose of assets worth more than €50,000.

Submission of the disclosure in successive years is only obligatory when this limit has been increased by more than €20,000 in a year.

A large part of this wealth, held by 135,000 taxpayers, was already known to the Tax Agency, as they had already declared it in their annual tax declarations.

Private sector debt falls to level of 2006…

The debts of households and companies dropped to 179% of GDP in June, the lowest level since 2006 and down from a peak of 217.5% in 2010 as deleveraging continued, according to the Bank of Spain.

These debts amounted to €1.9 trillion compared to 2.3 trillion in the first half of 2010.

The level is still higher than the other large EU economies apart from France (see Figure 7).

Figure 7. Private sector debt (% of GDP in 2014) (1)

	% of GDP
France	180.9
Spain	178.7 (2)
UK	161.3
Italy	121.2
Germany	108.9

(1) Excluding financial institutions.

(2) June 2015.

Source: Eurostat and Bank of Spain.

… New car sales close to pre-crisis level

Around one million new cars look like being sold this year for the first time since 2008. Sales in the first 10 months were up 20.5% year-on-year at 863,973 units, according to Anfac. The 5% rise in October to 80,055 was the 26th straight monthly increase.

Total output of all vehicles was 2.6 million, 2.15 million of which were exported (see Figure 8).

Figure 8. Output and Exports of Motor Vehicles, 2007-15 (million units)

	Output	Exports	Exports as a % of total output
2007	2.88	2.38	82.6
2008	2.54	2.18	85.8
2009	2.17	1.88	86.7
2010	2.38	2.97	87.0
2011	2.37	2.12	89.4
2012	1.97	1.72	87.4
2013	2.16	1.87	86.6
2014	2.40	2.03	84.5
2015 (1)	2.60	2.15	82.6

(1) First 10 months.

Source: Anfac.

Spain's support for reforms among the lowest in the EU

Seventy six per cent of Spaniards agree there is a need for significant reforms to improve the performance of the economy, the third lowest among the 19 euro zone countries surveyed by the European Commission (see Figure 9).

Figure 9. There is a need for significant reforms to improve the performance of our economy. Agree or disagree?

	Agree	Disagree	Don't know
Cyprus	88	9	3
Italy	87	10	3
France	78	19	3
Euro area	78	18	4
Spain	**76**	**20**	**4**
Germany	72	21	7

Source: European Commission.

The country that most supports reforms is Cyprus, which is still seething from its 2012-13 financial crisis, and Germany is the one that is least in favour, reflecting the healthy state of its economy.

Four savings-bank executives jailed

Four senior bank executives were jailed for misappropriation after they were found guilty of illegally increasing their pension payments after two ailing Galician savings banks were merged to create Novacaixagalicia with the help of €9 billion of public funds.

The four received prison sentences of two years each and were ordered to pay €14.2 million to FROB, which was established in 2009 during Spain's banking crisis to restructure the financial system.

Corporate scene

Ibex 35 companies lift profits 22% in first nine months

The companies that comprise the Ibex 35, the benchmark index of the Madrid stock exchange, increased their profits 22% year-on-year in the first nine months to €26.6 billion.

Revenues were up by only 0.17%, however, as they were distorted by the sharp fall of 18% at the steel producer ArcelorMittal. Excluding this company, revenues were 4.2% higher.

The companies began to benefit from the modest upturn in domestic demand. The largest profit (€5.9 billion; +36%) was posted by the bank Santander.

The improved climate was reflected in the business barometer published by ICEX-Invest in Spain and the IESE business school based on the opinions of more than 500 foreign companies in the country.

Time to start a business massively reduced in last 10 years

It takes 14 days on average to start a business in Spain, down from more than 130 in 2005 according to the latest edition of the World Bank's Doing Business report. Spain was ranked 33rd out of 189 countries in the overall ease of business ranking (see Figure 10).

Figure 10. Spain: ease of doing business rankings by category, 2015

	Rank out of 189 countries
Starting a business	82
Dealing with construction permits	101
Getting electricity	74
Registering property	49
Getting credit	59
Protecting minority investors	29
Paying taxes	60
Trading across borders	1
Enforcing contracts	39
Resolving insolvency	25
Overall ranking	33

Source: World Bank, Doing Business 2016.

While the improvement is considerable, in New Zealand a simple online procedure means that it takes only a few hours to set up a business.

Spain's distance to frontier score –which seeks to capture the actual distance it has to go to reach the frontier of 'best performance'– was 74.86, almost the same as France (75.96), better than Italy (72.07) and not far from Germany (79.87). This measure shows how each economy performs not only vis-à-vis other economies but also in absolute terms.

Life sciences Grifols to invest in Ireland

Grifols, a global leader in manufacturing plasma-based medicines, is to invest US$100 million in creating an international centre in Dublin which is expected to be fully operational around the middle of next year.

The facility will be the central warehouse for all plasma from the US. Regulatory and quality responsibilities will also be handled as well as R&D, administration and commercial activities.

Grifols generates more than 90% of its sales outside of Spain.

Spain leads the world market for transportation infrastructure

Spain has five companies in the top 10 transport developers based on the number of concessions currently operating or under construction and four based on invested capital, according to the latest ranking by Public Works Finance (see Figures 11 and 12).

Figure 11. Ranking of the world's 10 largest transportation developers (1)

	Operating or under construction	Of which in the US	Of which in Canada	Of which in home country	All other
1. ACS Group/Hochtief (Spain)	**60**	**3**	**8**	**19**	**30**
2. Global Via-FCC-Bankia (Spain)	**43**	**0**	**1**	**28**	**14**
3. Macquarie (Australia)	43	4	1	1	37
4. Vinci (France)	42	1	3	15	23
5. Abertis (Spain)	**41**	**0**	**0**	**14**	**27**
6. Ferrovial/Cintra (Spain)	**40**	**6**	**3**	**11**	**20**
7. Sacyr (Spain)	**29**	**0**	**0**	**15**	**14**
8. Bouygues (France)	27	1	1	10	15
9. NWS Holdings (China)	26	0	0	26	0
10. EGIS (France)	26	0	1	5	20

(1) Developers are ranked by the number of road, rail, port and airport concessions over US$50 million in investment value that they have developed worldwide, alone or in joint venture, and are currently operating or have under construction as of 1 October 2015.

Source: Public Works Financing.

Figure 12. Developers ranked by invested capital (1985-2015)

	Total invested capital (US$ mn) (1)	Total number of concessions, active, sold or expired
ACS (Iridium+Hochtief) (Spain)	**91,000**	**109**
Ferrovial (Cintra) (Spain)	**78,700**	**64**
Vinci (France)	76,000	48
Macquaire (Australia)	50,900	61
Bouygues (France)	40,200	31
John Laing (UK)	33,500	30
Egis (France)	27,700	27
Global Via (FCC+Bankia) (Spain)	**27,300**	**51**
Sacyr (Spain)	27,200	49
OHL (Spain)	**21,000**	**39**

(1) The sum of the original investment, in nominal dollars, of all of a company's transport P3 projects (highways, transit, ports, airports) that it has financed and put under construction and/or operation, or acquired and improved, from 1985 to 1 October 2015, for which it had a substantial developer role in financing, building and operating a publicly owned asset, or in acquiring and improving/operating an asset for a set amount of time, under a long-term contract with government. To capture all of a firm's development experience, we include both active and sold projects in the calculations. Some of largest P3 projects are developed by a consortium of companies, which results in some double counting of projects between the firms listed here. It includes Ferrovial's 2006 acquisition, upgrade and management of BAA's UK airports, using a US$24.3 billion enterprise value.

Source: Public Works Financing.