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Foreign Policy

Spaniards take a dim view of Donald Trump

Only 1% of respondents in the latest opinion poll conducted by the Elcano Royal Institute believe Donald Trump will be the best US President for Spain, compared with 84% for Hillary Clinton.

Trump is poorly viewed across the Spanish political spectrum: respondents who said they were left-wing gave him a score of 0.9, those in the centre 1.6 and those on the right 2. The respective figures for Hillary Clinton were 5.5, 5.8 and 6.3. Trump is also the worst-perceived leader after Vladimir Putin, whose score is 1.5 out of 10.

This was the first time Trump was included in Elcano's *barómetro*, which was published shortly after the government let it be known that the next Ambassador to the US would probably be Pedro Morenés, the former Defence Minister, in place of Ramon Gil-Casares, a career diplomat.

Spaniards' support of globalisation –one of Trump's most effective campaign slogans was 'America first'– is higher than a decade ago. Seventy seven per cent of respondents said the opening of markets was a good opportunity for Spanish companies, compared with 71% in a 2005 poll conducted by the government-funded CIS. The percentage of those who saw globalisation as a threat to Spanish jobs remained virtually unchanged at 45%.

As regards the UK's decision to leave the EU, 60% said the latter should act firmly in the Brexit negotiations and not offer any special concessions. Eighty two per cent were in favour of Spain remaining in the euro.

Domestic Scene

Constitutional Court halts Catalan plan for independence referendum

The Constitutional Court dealt another blow to the pro-independence Catalan regional government by provisionally halting its plan to hold a referendum next September.

The move came hard on the heels of a bid by the central government in Madrid to be more conciliatory by dispatching Soraya Sáenz de Santamaría, the Deputy Prime Minister, to Barcelona with the mission of beginning to explore political ways to avoid a showdown.

The Court's interim ruling was in response to a challenge from the government which says the referendum is unconstitutional, and was another step in a long running legal battle.

Leaders of the secession movement said they would ignore the Court. 'The institutions of the Spanish state should know that they cannot silence the will of a majority of our people,' said Jordi Sánchez, the President of the pressure group Catalan National Assembly.

Sáenz de Santamaría, who is also the Minister for the Territorial Administrations, has set up an office in Barcelona. Other ministers are expected to go to Catalonia more regularly and speak to their counterparts, as part of a concerted effort to establish a dialogue that has been sorely lacking, partly because Spain spent 10 months without a functioning government (until November) as a result of two inconclusive elections.

Having stonewalled the Catalan government during the Popular Party's previous term of office (2011-15), when it had an absolute majority, the minority PP government has taken note that studiously ignoring the Catalan question is no longer an option. The dialogue, however, looks like being one of the deaf.

The minority Catalan government of the Junts pel Sí (a coalition of the former conservative CiU and the centre-left ERC), led by Carles Puigdemont since January, is backed by the radical anti-capitalist CUP in an unholy alliance. The pro-separatist parties have a majority of seats in the Catalan Parliament.

The Constitutional Court is countering the Catalan Parliament's pro-independence roadmap at every stage. The ballot on secession would be held under laws gradually passed by the Catalan Parliament. Although it will continue to be blocked by the Constitutional Court, the Catalan government regards them as the only valid rules. For the secessionists, the ballot would thus be legally binding.

The latest opinion poll by the Catalan government shows the camp against independence gaining the edge over those in favour of secession: 45.1% against 44.9%.

The movement for independence began to gather pace 10 years ago when the Catalan Parliament approved a new autonomy statute. It was ratified by the Congress and Senate

in Madrid and then challenged by the PP before the Constitutional Court which ruled against parts of the statute.

Sáenz de Santamaria suggested the PP might have erred by unilaterally challenging the statute without seeking a joint response with the Socialists. Since then matters between Madrid and Barcelona have gone from bad to worse (see Figure 1).

Figure 1. A decade of divergences between Catalonia and Madrid

Date	Events
8 August 2006	Catalan Parliament passes new autonomy statute, approved in referendum in the region and ratified by the Congress and Senate in Madrid.
26 June 2010	Constitutional Court rules there is no legal basis to recognise Catalonia as a nation and that the Catalan language should not take precedence over Castilian Spanish. This followed a challenge by the Popular Party, the ombudsman and five regional governments.
10 July 2010	Massive demonstration in Catalonia against the Constitutional Court's ruling.
20 September 2012	Catalan Premier Artur Mas meets Prime Minister Mariano Rajoy in bid to obtain a fiscal pact. Fails and calls an early election in the region.
25 November 2012	Mas's CiU party wins the election but with 12 fewer seats in Parliament. He remains Premier thanks to the support of the openly pro-independence ERC, which captures 11 more seats.
9 November 2014	Mas defies the Constitutional Court and holds an informal, non-binding referendum on secession. More than 80% in favour but only 2 million out of an estimated 5.4 million eligible voters took part.
21 November 2014	The public prosecutor brings charges against Mas and two of his Ministers for holding the referendum.
1 September 2015	Ruling Popular Party enables the Constitutional Court to sanction those in elected positions who do not comply with its rulings.
28 September 2015	Junts pel Si wins Catalan parliamentary election and forms alliance with anti-capitalist CUP. Refuses to keep Mas as Premier. Majority of MPs are pro-independence.
9 November 2015	Catalan Parliament approves declaration of sovereignty and the right to decide.
2 December 2015	Constitutional Court annuls the declaration of sovereignty and right to decide.
10 January 2016	Carles Puigdemont becomes new Catalan Premier, with the goal of calling a binding referendum on independence.
1 August 2016	Constitutional Court suspends independence roadmap approved by the Catalan Parliament.
28 September 2016	Puigdemont announces an independence referendum in September 2017 with or without Madrid's permission.
17 October 2016	Public prosecutor brings charges of disobedience against Carme Forcadell, President of the Catalan Parliament, for allowing the pro-independence roadmap to be put to a vote in July.
14 December 2016	Constitutional Court blocks plans to hold an independence referendum.

Source: the author

Catalan nationalists are divided into two groups: those who are going all out for independence and will accept nothing else (holding a referendum is a red line) and those who want a return to some kind of normality which would not involve a referendum.

The offer of dialogue has come too late for many in the pro-independence camp. Artur Mas, the previous Premier of Catalonia (2010-16), let it be known to ambassadors that Madrid had missed the boat in offering the region an economic agreement similar to that in the Basque Country (known as the *cupa*).¹

An offer to transfer more powers from Madrid to Catalonia, an improved finance deal and more investments in the region by the central government could win over the more 'moderate' nationalists.

Few of the other regions, however, would welcome a better deal for Catalonia as it would be seen as favouring an already prosperous region, and one whose success in attracting foreign investment has so far not been diminished by the determination to achieve independence.

Whilst the Socialists are prepared to consider a more federalising Spanish constitution, and the centrist Ciudadanos would be prepared to make minor concessions, the PP is highly reluctant to tamper with the 1978 constitution, which most Spaniards consider satisfactory, particularly regarding the asymmetrical architecture of the regions as they fear it would open up a Pandora's box of competing demands.

Meanwhile, the trials (which pro-independence Catalans see as political show trials) of some of the foremost figures in Catalan politics –including Mas (for staging a symbolic independence referendum in 2014) and Carme Forcadell, the President of the Catalan Parliament– are bound to bolster the resolve of those who want to achieve independence, as well as turning these people into 'martyrs'.

Earlier this month 15 British MPs from the Scottish National Party (SNP), Plaid Cymru and the Irish Social Democratic and Labour Party (SDLP) called on the House of Commons to express their concern at the charge of disobedience brought against Forcadell for allowing a parliamentary debate on independence.

Puigdemont will hold a 'summit' of parties and entities in favour of an independence referendum on 23 December. Prime Minister Mariano Rajoy has called a meeting of the Premiers of all the 17 autonomous regions on 17 January. Whether Puigdemont attends or boycotts the meeting will give some indication of the temperature between Madrid and Barcelona.

¹ This is explained at http://www.basquecountry.eus/t32-448/en/contenidos/informacion/concierto_economico/en_467/concierto_i.html.

Spain improves in PISA international education tests

Spain did better in the latest (2015) PISA international tests for 15-year old secondary-school students, regarded as a yardstick of a country's education system, and improved its position in the ranking, but mainly because of a fall in the average scores of OECD countries

Spain was ranked 25th in reading out of 72 countries (with a score just above the OECD average), 30th in science (the same as the average) and 32nd in maths (below the average, see Figure 2). Its scores were 496 in reading (+8 points), 493 (-3) in science and 486 in maths (+2). The OECD averages for reading, science and maths dropped by 3, 8 and 4 points respectively.

The Programme for International Student Assessment (PISA), launched in 2000, is conducted every three years and involves some 500,000 students.

Figure 2. PISA report assessing competencies in reading, maths and science, selected ranking of countries, 2009, 2012 and 2015 (1), ranking by 2015 results

Reading	Maths	Science
1. Singapore 535 (570; 556)	1. Singapore 564 (573; 600)	1. Singapore 556 (580; 575)
4. Finland 526 (524; 536)	7. S. Korea 524 (554; 546)	5. Finland 531 (545; 554)
5. Ireland 521 (523; 496)	12. Finland 511 (519; 541)	11. S. Korea 516 (538; 538)
12. Germany 509 (508; 500)	16. Germany 506 (514; 513)	16. Germany 509 (524; 520)
20. France 499 (505; 496)	26. France 493 (495; 497)	17. UK 509 (514; 514)
21. UK 498 (499; 494)	27. UK 492 (494; 487)	23. Portugal 501 (489; 493)
22. Portugal 498 (488; 489)	28. Portugal 492 (487; 487)	27. France 495 (499; 498)
25. Spain 496 (488; 481)	OECD av. 490 (494; 496)	28. Sweden 493 (485; 495)
OECD av. 493 (496; 493)	30. Italy 490 (490; 483)	OECD av. 493 (501; 501)
31. Portugal 498 (488; 489)	32. Spain 486 (484; 483)	30. Spain 493 (496; 488)

(1) 2012 and 2009 scores in brackets and out of 72 countries.

Source: OECD.

The results continued to vary considerably by region and widened the north-south divide, though not as much as in Italy. Twelve regions scored above the national average and five below. Navarra scored 518 in maths, for example, well above the 486 for Spain as a whole and considerably higher than the 466 for Andalusia (see Figure 3). The difference of 52 points between Navarra and Andalusia is the equivalent of a school course and a half.

Figure 3. PISA results by Spain's 17 regions (score)

	Maths		Reading		Science	
	2015	2012	2015	2012	2015	2012
Navarra	518	512	514	509	512	514
Castilla y León	506	509	522	505	519	519
Madrid	503	504	520	511	516	517
Catalonia	500	493	500	501	504	492
Basque Country	492	505	491	511	483	506
OECD average	492	494	493	496	493	501
Spain	486	484	496	488	493	496
Extremadura	473	461	475	457	474	483
Andalusia	466	472	479	477	473	486

Source: OECD.

Generally speaking, the higher a region's PISA score the lower its unemployment rate (see Figure 4).

Figure 4. Unemployment rates by region and PISA results in maths and science

	Jobless rate (%) (1)	PISA scores
Navarra	12.4	518 and 512
Castilla y León	13.9	506 and 519
Madrid	15.2	503 and 516
Catalonia	14.6	500 and 504
Basque Country	12.8	492 and 483
Extremadura	25.6	473 and 474
Andalusia	25.8	466 and 473
Spain	18.9	486 and 493

(1) Third quarter 2016.

Source: OECD and INE.

The results, which confirmed Asia's leading position, showed that Spain has basically stood still over the last decade except in reading. Spain's score in reading in 2015 was 15 points higher than in 2009 and 35 more than in 2006, while in maths it was only three points more and in science five.

Improving Spain's education system is a key issue that needs to be resolved for a successful transition to an economic model based more on knowledge and less on a construction sector that collapsed as of 2008. Spain has a particularly high dropout rate from schools when students reach 16 (the age at which compulsory schooling ends). One in every five people between the ages of 18 and 24 are early school leavers, almost double the EU average but down from a peak of close to one-third during the economic boom, when students abandoned the classroom and flocked in droves to work in the construction and real-estate sectors.

According to government officials, one of the reasons for the lack of any really significant improvement except in reading is that Spain has had to cope with a very large influx of immigrants over the past decade.

Other factors are a curriculum regarded as antiquated, the rote system of learning, the quality of teachers and the still large proportion of students who have to repeat a year (31%) because they do not pass the required number of exams (see Figure 5). Largely as a result of Spain's economic crisis since 2008, the early school-leaving rate has declined to 20% from 32% but it is still nearly double the EU average.

Figure 5. Students who repeat grades (%)

	2015	2012
Andalusia	38	38
Castilla y León	31	36
Catalonia	21	31
Extremadura	38	44
Madrid	31	33
Basque Country	24	22
Spain	31	34
OECD	12	16

Source: OECD.

Andreas Schleicher, the OECD's director of education, said the previous Popular Party government's 'excessive concentration on legislation and regulations had diverted attention far from the only thing that will achieve better results: the quality of teaching'.

Neighbouring Portugal has improved its PISA results to a much greater extent than Spain, despite being a poorer country and investing less in education. It is ranked much higher than Spain in all three subjects (17th in science, 18th in reading and 22nd in maths) and with substantially better scores.

Spain's primary school pupils also improved in the latest TIMSS, a series of international assessments of mathematics and science knowledge conducted in 49 countries. Spain scored above the average in mathematics for the first time (see Figure 6). The score in mathematics of 505 was 23 points higher than the last test in 2011 and in science 13 points more at 518, but still below the OECD and EU averages of 525 and 519, respectively, in mathematics and 528 and 521 in science.

Figure 6. TIMSS results in mathematics and science (1)

Mathematics	Score	Science	Score
Singapore	618	Singapore	590
UK	546	Taiwan	555
Portugal	541	Finland	554
US	539	Poland	547
Italy	507	US	546
Spain	505	Spain	518
Average	500	Portugal	508
France	488	Average	500

(1) Pupils aged 9 and 10.

Source: TIMSS 2015.

The minority Popular Party government hopes to agree a national pact on education with the opposition parties, following a vote in Parliament against implementing its education legislation, known as LOMCE which became law in late 2013 (when the PP had an absolute majority). Its contents are being applied gradually. One of its most controversial measures is the introduction of externally-assessed standardised tests (known popularly as *reválidas*) that students will have to pass in order to receive their high school and pre-university diplomas, regardless of how well they performed in school. The *reválidas* have been dropped.

Population rises for first time since 2012

The population stopped declining and increased by 57,953 in the first half of 2016 to 46.46 million. This was the first year-on-year growth since 2012.

Net immigration was 30,504 (immigration of 186,059 and emigration of 155,555) compared with net emigration of 18,403 (emigration of 173,062 and immigration of 154,659) in the first half of 2015. The number of foreigners was 0.5% lower at 4.39 million (9.4% of the total population), mainly due to the acquisition of Spanish nationality (see Figure 7).

Figure 7 Foreign population by nationality, top 10 countries

	1 July 2016 (1)	1 January 2016
Rumania	686,911	695,054
Morocco	668,852	680,513
UK	298,250	296,562
Italy	196,746	191,645
China	174,194	172,237
Ecuador	150,396	158,956
Germany	142,150	142,136
Colombia	134,514	135,775
Bulgaria	129,213	130,505
France	101,667	100,795
Total of all countries	4,396,871	4,418,157

(1) Provisional figures.

Source: INE.

The Economy

IMF hails 'impressive' economic recovery

The International Monetary Fund (IMF) praised the government for Spain's 'impressive' economic recovery but warned of challenges ahead resulting from weaker growth and high structural unemployment.

'The Spanish economy has continued its impressive recovery and strong job creation. Earlier reforms and confidence-enhancing measures have paid off, and combined with external tailwinds and fiscal loosening fuelled the strong economic rebound of the past two years', the IMF said in its annual country assessment.

The report forecast GDP growth of 2.3% in 2017, down from 3.2% this year.

The fund welcomed the 2012 labour-market reforms, which, among other things, lowered firing costs, but said more needed to be to improve employment prospects. The jobless rate stands at 19%, down from a peak of 27% in 2013, but with a still very high number of short-term temporary jobs.

Further reforms in this area will not be easy as the PP no longer has an absolute majority, Parliament is fragmented and the Socialists and Unidos Podemos are hostile to the PP and want to abolish the 2012 labour reforms.

Competitiveness could be improved by encouraging companies to be larger –Spanish firms are smaller, less productive and export-oriented than those in their EU peers– and removing barriers for trade between the 17 autonomous regions (implementing the Market Unit Law is going slowly), the IMF said.

Andrea Schaechter, the IMF's mission chief for Spain, was careful not to suggest that the country needed further austerity. Spain has to lower the fiscal deficit to 3.1% of GDP in 2017, as agreed with the European Commission, from an expected 4.6% this year to avoid fines or a freeze on funds it receives from the EU. The previous PP government and before that the Socialists consistently missed the budget deficit targets.

The minority PP government is to raise taxes on alcohol, tobacco and sugared drinks in order to obtain an extra €4.65 billion in corporate and special taxes. Some 'social' measures to reduce inequality such as more funds to combat child poverty, a subsidy for those under the age of 30 on low salaries and individualised support for the long-term unemployed aged 30 to 54 have also been announced. Spain is one of the very few EU countries (along with Italy) that has not regained its pre-crisis (2008) level of people at risk of poverty or social exclusion.

Minimum wage to rise 8%, largest increase since 1986

The minimum monthly wage will rise by 8% in 2017 to €707.6. Workers receive 14 payments (extra ones in July and December), which leaves the annual amount at €8,491.2 (see Figure 8).

The Socialists insisted on the increase as part of their deal for supporting the minority Popular Party government's measures for lowering the fiscal deficit next year to 3.1% of GDP from 4.6% this year.

Figure 8. Spain's minimum monthly wage, 2008-17 (1)

Year	€
2008	600.0
2010	633.3
2012	630.3
2012	641.4
2013	645.3
2014	645.3
2015	648.6
2016	655.2
2017	707.6

(1) There are 14 payments a year.

Source: Ministry of Employment and Social Security.

The previous Popular Party government, under its austerity measures, imposed a two-year freeze on the minimum wage that ended in 2015.

Spain's minimum wage is still well below that in the most developed EU countries (see Figure 9).

Figure 9. Minimum monthly wage in selected EU countries, 2016 (€)

Country	€
Luxembourg	1,922.97
Ireland	1,546.35
France	1,466.62
Germany	1,440.00
UK	1,343.01
Spain	764.40
Greece	683.76

Source: Eurostat and based on 12 payments.

Move to set clocks back an hour and end the working day at 6pm

The government is considering reversing a decision by dictator Francisco Franco and putting the clocks back an hour as part of a move related to shortening the workday and bringing it more into line with the rest of Europe.

Spain was originally in the Greenwich mean time zone, along with the UK and Portugal, but in 1942 Franco put Spain's clocks one hour ahead (except in the Canary Islands) in a gesture of solidarity with Hitler's Nazi Germany during World War II. Franco stayed in power until he died in 1975 but the clocks were not then changed back. The sun sets an hour and 20 minutes later in Madrid than in New York City, though both are on the same latitude.

The government is proposing to end the workday at 6pm instead of at 8pm, as at present in many places, in order to improve the work/life balance. 'We want our workdays to finish at six o'clock and to achieve this we will work towards striking a deal with representatives from both companies and trade unions', Fátima Báñez, the Employment Minister, told Parliament. 'Someone's got to take the first step and that's why I'm asking for the support of the biggest companies and the trade unions'.

The Spanish workday is much longer than the norm of eight hours: the lunch break lasts up to two hours (allowing some to enjoy a siesta), dinner starts around 9pm (many restaurants do not open in the evening until that time) and shops stay open until late in the night. The average Spaniard sleeps one hour less than the World Health Organisation recommends. Spaniards have dinner two hours later than the French and the workday ends three hours later than in Germany.

Among the five largest EU countries, Spain works the second-largest average number of hours a year after Italy (see Figure 10).

Figure 10. Average hours worked per year, 2015

Country	Hours
Italy	1,725
Spain	1,691
UK	1,674
France	1,482
Germany	1,371

Source: OECD.

The change to the clock has the support of Ciudadanos and the Socialists, which means the chances of it passing through parliament are good.

Madrid makes a pitch for London business

The government is courting London-based companies and banks looking for a home if the UK leaves the EU with a hard Brexit.

The National Securities Market Commission (CNMV), the Bank of Spain and the Economy Ministry have set up a task force. The measures on offer to lure companies include fast-track authorisation, the ability to submit all documentation in English and a commitment not to impose regulatory requirements beyond those set down in EU law.

Madrid is vying with other cities such as Frankfurt, Paris and Dublin to attract post-Brexit business.

Corporate scene

US leisure company plans mega US\$2.2 billion centre near Madrid

The Cordish companies, best known for its redevelopment of Baltimore's Inner Harbour, unveiled plans to build a US\$2.2 billion leisure centre on the outskirts of Madrid embracing hotels, theatres, cinemas, shopping malls and restaurants.

The project would create 56,000 jobs, with up to 13,000 on the site itself, according to Cordish, and would give a major boost to the regional economy.

This is the second attempt by a US developer to build a mega leisure centre near Madrid. Three years ago Sheldon Adelson, the casino mogul, dropped a controversial plan to build a Las Vegas-style project that included six casinos and 18,000 gaming machines.

Joseph Weinberg, chief executive and managing partner of Cordish, said this project was different as it was not gambling and gaming-centric.

Chairman of struggling Banco Popular to be replaced

Ángel Ron, the long-serving chairman of Banco Popular, Spain's seventh-largest bank by market value, which is struggling with massive bad real-estate loans, is to be replaced by Emilio Saracho, the deputy chief executive of JP Morgan in Europe, in the first quarter of 2017.

Popular was slower than other banks hit by Spain's post-2008 housing collapse to get to grips with its toxic loan portfolio. Twenty-eight per cent of Popular's loans and property assets at the end of September were classified as non-performing, compared with 15.5% for Spanish banks as a whole.

The bank has raised €6.1 billion from investors since 2009 to calm market concerns that it does not have enough revenue to make more provisions to cover loan losses.

The bank's share price at the end of November, a few days before Popular's board decided to replace Ron, was 96% lower than in October 2004 when Ron became chairman.

The removal of Ron intensified speculation over whether Popular would be absorbed by another bank. One potential buyer, Banco Sabadell, walked away.