

## Inside Spain Nr 136

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### Summary

Rajoy offers to be Trump's interlocutor in Europe and Latin America.  
King's brother-in-law convicted for fraud and influence peddling.  
Thousands protest as former Catalan Premier stands trial.  
Merchandise exports notch up yet another record.  
Spain drops to 41<sup>st</sup> position in Transparency International's Corruption Index.

### Foreign Policy

#### Rajoy offers to be Trump's interlocutor in Europe and Latin America

Prime Minister Mariano Rajoy spoke with US President Donald Trump on the telephone and offered Spain as the 'interlocutor in Europe, Latin America, North Africa and the Middle East'.

The proposal was fiercely criticised by Mario Jiménez, spokesman for the opposition Socialists, who called Rajoy Trump's 'butler'.

Foreign policy experts said Rajoy's idea was out of character as he is cautious by nature and reluctant to lead any initiative or stick his neck out. Furthermore, Spain has a strong streak of anti-Americanism which cuts across party lines.

The former Spanish Prime Minister José María Aznar (1996-2004) forged a closer relationship with the US and supported the invasion of Iraq, despite public opinion being overwhelmingly against it.

Before the conversation with Trump, Rajoy spoke with Mexican President Enrique Peña Nieto to offer his support in resolving the controversial issue of Trump's determination to extend the wall between the US and Mexico, which has plunged relations between the two countries into crisis.

Rajoy and Peña Nieto agreed to 'join efforts in the search for a fair, sensible and reasonable arrangement that will help overcome the current situation'.

When asked to comment on Trump's immigration policy, including the travel ban on citizens from seven Muslim countries, Rajoy said he was 'not in favour of vetoes or of borders, nor do I believe the world is heading in this direction'.

Spain has a close relationship with Mexico, particularly since the death of General Franco in 1975. Mexico received thousands of supporters of the Spanish Second Republic who went into exile after Franco won the 1936-39 Civil War.

As a result of another hostile decision by Trump –to revise the free trade agreement between Mexico and the US (NAFTA)– Rajoy is in favour of accelerating a new commercial agreement between the EU and Mexico. The current one, in place since 2000, needs to be changed because of agreements made since then with other countries.

Spanish opposition parties also criticised Rajoy for his slow and muted response to Trump's executive orders, compared with the more forceful reaction of the conservative German Chancellor Angela Merkel and the Socialist French President François Hollande.

Foreign Minister Alfonso Dastis denied the government was being deliberately silent about Trump's orders. He defended the need to act 'serenely, without rushing into things'.

#### Miffed over White House decision to remove Spanish language website

The government is not happy about the disappearance (as of 23 January) of the White House's Spanish-language website, particularly given that there are an estimated 57 million Spanish speakers in the US, the largest minority living in the 320 million-strong country.

According to White House Press Secretary Sean Spicer, the website is being updated.

Foreign Minister Alfonso Dastis said the removal of texts in Spanish 'doesn't seem like a good idea', while Íñigo Méndez de Vigo, the government spokesman, said Spanish had 'helped bring together the multicultural North American society for centuries'.

Trump criticised during his campaign the speaking of Spanish in the US. 'To have a country, we have to have assimilation. This is a country where we speak English, not Spanish'.

Under Barack Obama, the White House also had a Spanish-language blog. Obama himself tweeted in Spanish on 13 January, a week before Trump took office.

Spanish is the most frequently taught foreign language in the US. Latinos are the only minority to have their own TV networks (Univisión and Telemundo) in Spanish. Unlike previous Administrations, Trump's team does not have a single prominent Latino.

According to estimates and surveys by the *Washington Post*, Trump received 18% of the Latino vote, the lowest level on record for any presidential candidate.

### Conciliatory on Brexit, favouring deal for Brit expats in Spain

Spain is shaping up to be the most conciliatory country towards the UK when the Brexit negotiations begin as of April, which is not that surprising given the importance of the trade, investment and tourism relation between the two countries and the number of British citizens living in Spain.

Prime Minister Mariano Rajoy met Theresa May, his counterpart, on the sidelines of the EU leaders meeting in Malta where the idea was put forward that if a EU-wide agreement on guaranteeing the rights of Brits in EU countries after the UK leaves the EU could not be agreed then a bilateral accord might be made.

Whether a bilateral deal would be done is somewhat uncharted territory, as the scope for EU countries to strike such agreements is limited (taxation is a notable area where these deals exist). The EU's permission would probably be needed.

Some EU countries are harder than Spain over a deal on the issue of Brits who were living and/or working in the EU before the Brexit referendum. The UK government would like a deal that applies to all non-British nationals in the UK and to all UK nationals in the 27 EU states.

There are 300,000 Britons officially registered as living in Spain (by far the largest number in a EU country) and more than 100,000 Spaniards in the UK. Last year 17.8 million of the 75.3 million tourists in Spain came from the UK.

The House of Commons Brexit select committee last month heard that British pensioners in Spain may struggle to afford private healthcare if the NHS can no longer foot the bill as a result of an EU-wide post-Brexit deal.

Brexit is seen as something of a threat to the Spanish economy. Not only is the UK the main source of tourists and UK retirees living in Spain also play an important role in local economies, particularly on the *costas* during the low season, but the trade and direct investment relation is also strong.

Some of these pensioners have already moved back to the UK as they cannot wait more than two years to get a resolution.

### Domestic Scene

#### King's brother-in-law convicted for fraud and influence peddling

Iñaki Urdangarín, King Felipe VI's brother-in-law, was given a six-year-and-three-month jail term in a landmark corruption trial. His wife, the Infanta Cristina, was cleared but will have to pay a civil fine of €265,000 as she benefited, albeit unknowingly, from illegal gains.

There were 16 other defendants in the case, including Jaume Matas, a former Popular Party government minister and Premier of the Balearic Islands, who was sentenced to

three years and eight months. Diego Torres, Urdangarín's former business partner, was given eight years and six months. Nine defendants were acquitted.

Urdangarín was accused of using the non-profit Noos Institute sports foundation he set up to win falsely inflated contracts from regional government bodies and then salting the money away via tax havens.

The case began in 2010 at the height of Spain's recession and a great deal of public anger at corruption among the country's elites, including the royals, factors that played a role in the decision of King Juan Carlos to abdicate in 2014.

The trial was perceived a test that everyone being equal before the law, and could do something to restore trust in public life.

### Thousands protest as former Catalan Premier stands trial

Artur Mas, the former Catalan Premier, went on trial in Barcelona along with two members of his cabinet for organising a non-binding illegal vote in 2014 on independence.

He walked to court and was greeted by thousands of supporters including members of the current Catalan government and of the regional parliament shouting 'independence' and 'you are not alone'.

Around 2.3 million people –between 36% and 43% of the electorate, depending on which side's figures are used– cast a ballot in the plebiscite and 80% voted for independence. Pro-independence forces then won 48% of the vote in the Catalan legislative election in 2015 and have an absolute majority of seats.

Mas, accused of civil disobedience, faces a 10-year ban from holding public office. He said there had been no intention to break the law. Moreover, he argued, the Constitutional Court's decision to rule against the vote days beforehand had not made clear what the legal consequences would be. 'If it was so evidently a crime, how is it possible the Constitutional Court did nothing to enforce its resolution?'

The central government's 'Operation Dialogue', launched in January in a bid to avoid a train crash with the Catalan government, has got nowhere. Madrid is not prepared to discuss the holding of the legally-binding referendum which Barcelona plans to hold in September regardless of whether the go-ahead is given.

In a separate development, which further intensified the antagonism, the Civil Guard arrested 18 people during a series of raids as part of a probe into the alleged illegal financing of Convergència, the party of Mas and of Carles Puigdemont, the current Catalan Premier, before it was renamed in 2015.

Carme Forcadell, the President of the Catalan parliament, also faces charges of disobedience for allowing MPs debate independence. She defended her action in an [article](#) in the *New York Times*.

### Podemos head sees off challenge to his leadership

Pablo Iglesias, leader of the anti-establishment Podemos ('We can'), which burst onto the political scene three years ago and won 21% of the vote in last June's general election, secured his post as Secretary-General and radical programme when he easily defeated a bid by his deputy and rival, Íñigo Errejón, to steer a more moderate course.

Iglesias received 89% of the votes as party leader and his supporters 60% of the seats on Podemos' citizens' council, the main decision-making body. His policy platform won 51% of the votes against 34% for Errejón's proposal.

The dispute between the two boiled down to being more accommodating towards the Socialists and the centre ground, as proposed by Errejón, by making Podemos cross political boundaries (being 'transversal', in the jargon), or pursuing harder left policies in the streets and not just in parliament.

The internal divisions had been simmering since June when Podemos formed an electoral alliance with United Left (the revamped Communist Party) and won 950,000 fewer votes than in December 2015 when the two parties ran separately. Errejón was against the alliance.

Unidos Podemos had been expected to overtake the Socialists and so become the main party on the left.

A repeat election was held six months later in order to try to break a deadlocked parliament and elect a new government. After months of wavering, the Socialists backed the Popular Party last October for a second term in office.

Podemos fell victim to the very divisions that led Iglesias to voice despair at the left's tendency to get bogged down in arguments that mean little to the average voter. 'There are always fresh batches of leftists who need to be reminded that radical politics, like anything else, is measured by results', he wrote in a published collection of his essays.

### Rajoy re-elected as Popular Party

While Podemos struggled to cast off its divisions and present a common front, the Popular Party (PP) re-elected Prime Minister Mariano Rajoy as its President for a fourth term with a resounding 96% of the vote. He was the only candidate.

Rajoy maintained most of the party's leadership including María Dolores de Cospedal, the Defence Minister, as the second-in-command. She used the occasion to try to draw a line under the wave of PP corruption scandals.

Three leading figures in the mega corruption case known as Gürtel were sentenced to 13 years in jail each two days before the congress, including Francisco Correa, alias *El Bigotes* ('Mustachio'), the mastermind behind the bribes-for-contracts network between 1999 and 2005.

One of the ramifications of the case involves the possibility of illegal party financing by the PP. Secret accounts kept by former treasurer Luis Bárcenas suggest the existence of a slush fund within the PP.

The party continues to be dogged by alleged corruption scandals. A day after its congress, a judge accused Pedro Antonio Sánchez, the PP Premier of the region of Murcia, of carrying out fraudulent contracts.

### Socialists gear up to choose a new leader

Patxi López, a former Socialist Premier of the Basque Country, and Pedro Sánchez, the party's former leader ousted last year in an ugly battle over whether to allow the conservative Popular Party (PP) back into government or face another defeat in a third election, are to compete for the post of Secretary-General in a primary election in May.

Susana Díaz, the regional Premier of Andalusia, the Socialists' stronghold, is also expected to throw her hat into the ring.

The party has been run since last October by an interim leader, Javier Fernández, regional Premier of Asturias, who has skilfully and calmly managed to keep the peace among the warring factions, at least publicly, and struck some deals with the ruling PP in return for concessions (for example, an 8% rise in the minimum wage).

Mario Jiménez, the Socialists' spokesman, took the unusual step of holding up a piece of paper at a press conference with the words '100 days of useful opposition' written on it.

The Socialists face a long haul in regaining the kind of support they previously enjoyed. Their share of the vote in general elections plummeted from 44% in 2008 to 22.6% last June when the party was almost outflanked by the far-left Unidos Podemos (21.1% of the vote).

According to the latest poll by the state-funded CIS, the Socialists are beginning to reverse the fall in their support (see Figure 1). It is the only party that has gained support since last November.

**Figure 1. Voter intention (% of valid votes)**

	<b>June 2016 election</b>	<b>July</b>	<b>November</b>	<b>January 2017</b>
Popular Party	33.0	32.5	34.5	33.0
Socialists	22.7	23.1	17.0	18.6
Unidos Podemos	21.1	19.6	21.8	21.7
Ciudadanos	13.0	12.0	12.8	12.4

Source: CIS.

Fernández, in his first appearance in the CIS poll, scored the highest rating of political leaders, though 70% of respondents said they did not know who he was and he was better viewed by PP and Ciudadanos voters than by those from his own party.

The Socialists, more than the PP, have lost the support of young voters, many of whom voted for the upstart Podemos, which came to prominence three years ago and ran on a joint ticket with Izquierda Unida (United Left) last June under the name Unidos Podemos.

The PP attracts elder voters to a greater extent than the Socialists. According to Metroscopia, 26% of voters under the age of 34 voted for either the Socialists or the PP between 2011 and 2016 compared with 52% between 2004 and 2010 (see Figure 2).

**Figure 2. Percentage of those between 18 and 34 who said they voted for the party that won the general election, 1979-2016**

<b>Year of general election and party that won</b>	<b>%</b>
1979 (UCD)	14
1982 (Socialists)	47
1986 (Socialists)	37
1989 (Socialists)	28
1993 (Socialists)	28
1996 (Popular Party)	24
2000 (Popular Party)	39
2004 (Socialists)	49
2008 (Socialists)	35
2011 (Popular Party)	25
2015 (Popular Party)	12
2016 (Popular Party)	15

Source: Metroscopia and CIS.

The young have borne the brunt of Spain's recession, one factor (along with corruption scandals in the PP and the Socialists) that drove them to vote for Unidos Podemos.

The latest survey published last month by the Bank of Spain on household income shows that the total annual income of households whose oldest member was under 35 dropped from €34,300 in 2008, the last year before Spain went into a protracted recession, to €25,500 in 2014, while that of those between the ages of 65 and 74 rose from €26,900 to €29,700 (see Figure 3).



**Figure 3. Average annual income (thousands of 2014 euros) of households by family head age groups (1)**

Age groups	2008	2011	2014	% change 2008/14
Under 35	34.3	34.7	25.5	-25.6
35 to 44	38.5	33.8	32.6	-15.3
45 to 54	45.6	40.6	33.2	-27.2
55 to 64	45.8	45.7	39.6	-13.5
65 to 74	26.9	29.1	29.7	+10.0
Over 74	17.7	19.2	18.4	+3.9

(1) The measure of household income used is the total gross income of the household (including income from employment and other income of all its members), i.e. before taxes and social-security contributions, for the whole of the calendar year prior to the survey, which for 2014 is 2013.

Source: Bank of Spain.

The demise of trade unions in Spain, particularly since 2008, has also not helped the Socialists. Affiliation is no more than 15%, according to the most optimistic estimates, and 10% according to some analysts, compared with 70% in Sweden, 25% in Italy and the UK and 20% in Germany.

### Spain holds firm in EIU democracy index

Spain's ranking in the 2016 Economist Intelligence Unit's Democracy Index was unchanged at 17<sup>th</sup> out of 167 countries and with the same score as in 2015 (8.30 out of 10).

The index is based on five categories: electoral process and pluralism; civil liberties; the functioning of government; political participation; and political culture (see Figure 4). Based on their scores on a range of indicators within these categories, each country is then itself classified as one of four types of regime: 'full democracy'; 'flawed democracy'; 'hybrid regime'; and 'authoritarian regime'. The US, for the first time, was classified as a 'flawed democracy'.

**Figure 4. The Economist Intelligence Unit's Democracy Index, 2016**

	Rank	Overall score	Electoral process & pluralism	Functioning of government	Political participation	Political culture	Civil liberties
<b>Full democracies</b>							
Norway	1	9.93	10.00	9.64	10.00	10.00	10.00
Iceland	2	9.50	10.00	8.93	8.89	10.00	9.71
Sweden	3	9.39	9.58	9.64	8.33	10.00	9.41
New Zealand	4	9.26	10.00	9.29	8.89	8.13	10.00
Denmark	5	9.20	9.58	9.29	8.33	9.38	9.41
Canada	=6	9.15	9.58	9.64	7.78	8.75	10.00
Ireland	=6	9.15	9.58	7.86	8.33	10.00	10.00
Switzerland	8	9.09	9.58	9.29	7.78	9.38	9.41
Finland	9	9.03	10.00	8.93	7.78	8.75	9.71
Australia	10	9.01	9.58	8.93	7.78	8.75	10.00
Luxembourg	11	8.81	10.00	8.93	6.67	8.75	9.71
Netherlands	12	8.80	9.58	8.57	8.33	8.13	9.41
Germany	13	8.63	9.58	8.57	7.78	7.50	9.71
Austria	14	8.41	9.58	7.86	8.33	6.88	9.41
Malta	15	8.39	9.17	8.21	6.11	8.75	9.12
UK	16	8.36	9.58	7.14	7.22	8.75	9.12
<b>Spain</b>	<b>17</b>	<b>8.30</b>	<b>9.58</b>	<b>7.14</b>	<b>7.22</b>	<b>8.13</b>	<b>9.41</b>
<b>Flawed democracies</b>							
US	=21	7.98	9.17	7.14	7.22	8.13	8.24
Italy	=21	7.98	9.58	6.43	7.22	8.13	8.53

Source: The Economist Intelligence Unit.

Spain's score has consistently remained above 8 over the last 10 years, although it is among the lowest-scoring countries in the 'full democracy' category. Its score, however, is higher than that of both France and Italy (both classified as 'flawed democracies', see Figure 5).

**Figure 5. The Economist Intelligence Unit's Democracy Index, 2006-16, main EU countries, score out of 10**

Country	2016	2015	2014	2013	2012	2011	2010	2008	2006
France	7.92	7.92	8.04	7.92	7.88	7.77	7.77	8.07	8.07
Germany	8.63	8.64	8.64	8.31	8.34	8.34	8.38	8.82	8.82
Italy	7.98	7.98	7.85	7.85	7.74	7.74	7.83	7.98	7.73
<b>Spain</b>	<b>8.30</b>	<b>8.30</b>	<b>8.05</b>	<b>8.02</b>	<b>8.02</b>	<b>8.02</b>	<b>8.16</b>	<b>8.45</b>	<b>8.34</b>
UK	8.36	8.31	8.31	8.31	8.21	8.16	8.16	8.15	8.08

Source: The Economist Intelligence Unit.

Since the index was launched in 2006, Spain's score in the category of electoral process and pluralism has remained steady at 9.58, dropped in functioning government (from 7.86 to 7.14), risen in political participation (from 6.11 to 7.22), fallen in political culture (from 8.75 to 8.13) and remained unchanged in civil liberties (9.41, see Figure 6).

**Figure 6. The Economist Intelligence Unit's Democracy Index, 2016, by category for Spain, scores out of 10**

Category	2016	2015	2014	2013	2012	2011	2008	2006
Electoral process & pluralism	9.58	9.58	9.58	9.58	9.58	9.58	9.58	9.58
Functioning of government	7.14	7.14	7.14	7.50	7.50	7.50	7.86	7.86
Political participation	7.22	7.22	7.22	6.11	6.11	6.11	6.67	6.11
Political culture	8.13	8.13	6.88	7.50	7.50	7.50	8.75	8.75
Civil liberties	9.41	9.41	9.41	9.41	8.53	9.41	9.41	9.41
Overall score	8.30	8.30	8.05	8.02	8.02	8.02	8.45	8.34
Rank	17 <sup>th</sup>	17 <sup>th</sup>	22 <sup>nd</sup>	25 <sup>th</sup>	25 <sup>th</sup>	25 <sup>th</sup>	15 <sup>th</sup>	16 <sup>th</sup>

Source: The Economist Intelligence Unit.

Like the US (with the election of Donald Trump) and the UK (the vote to leave the EU), Spain experienced in 2016 deep popular dissatisfaction with the status quo and a hankering for change. In Spain's case, this was expressed in the June general election when the two main parties, the conservative Popular Party and the Socialists, were successfully challenged by two new parties, the centrist Ciudadanos and the radical leftist Unidos Podemos, which between them won 103 of the 350 seats in parliament.

One weak area that will begin to be tackled this month is a draft law to finally regulate lobbying. This is one of six recommendations by the Council of Europe's Group of States against Corruption (Greco) that Spain has failed to implement. Greco said last year that rules on how MPs engage with lobbyists and other third parties who seek to influence the legislative process should be introduced.

### Drops to 41<sup>st</sup> position in Transparency International's Corruption Index

Spain dropped five places in Transparency International's 2016 corruption perception index to 41<sup>st</sup> out of 168 countries, its lowest position ever, but its score of 58 out of 100 (the nearer to 100 the cleaner the country) remained unchanged over 2015 (see Figure 7).

**Figure 7. Corruption Perceptions Indexes, 2010-16, main EU countries (1)**

2016 rank	2016score	2015score	2014score	2013score	2012score
1. Denmark	90	91	92	91	90
10. Germany	81	81	79	78	79
10. UK	81	81	78	76	74
18. US	74	76	74	73	73
23. France	69	70	69	71	71
<b>41. Spain</b>	<b>58</b>	<b>58</b>	<b>60</b>	<b>59</b>	<b>65</b>
60. Italy	47	44	43	43	42

On a scale of 0 (highly corrupt) to 100 (very clean).

Source: Transparency International.

The country is awash in corruption cases, almost all of which took place before the PP took office at the end of 2011 but which have come to light since then and involve the party. These cases are mainly confined to municipal and regional politicians and their involvement in the awarding of public contracts and permits.

The fact that Spain fell five places but its score remained the same was due to the entry into the ranking of four small countries. Barbados, Saint Lucia, Saint Vincent and the Grenadines and Dominica all scored better than Spain, while Cape Verde improved its score and is above Spain.

Spain's corruption is not systemic. What has happened is that the country has suffered a spate of scandals related to political parties.

According to the governing body of the judiciary, there were 1,700 lawsuits in 2015 (latest year available) and more than 500 people were charged or investigated, only 20 of whom received jail sentences. The region with the most cases under judicial investigation was

Andalucía, the Socialists' fiefdom, with 541, followed by Valencia, previously a PP stronghold, with 200.

### Spain bucks the trend in right-wing populist parties

Spain has all the ingredients –massive unemployment, growing inequality, an influx of immigrants and the loss of trust in established political parties– to produce a right-wing populist presence in politics, but remarkably has not done so, unlike other countries, most notably France (National Front) and the UK (UKIP).

Why is this? The reasons are explained by Carmen González-Enriquez in a [study](#) published this month by the Elcano Royal Institute.

Among the reasons are: the prevalent and persistent pro-European sentiment, higher than average; the Spanish are the least inclined of any European people to support returning power from the EU to the member states; they hold favourable attitudes to globalization compared with other EU countries and anti-immigration sentiment is also well below the European average.

Other factors are the relative weakness of Spanish national identity, partly explained by the strong nationalist movements in regions such as Catalonia and the Basque Country, and the association of the extreme right with the 1939-75 Franco regime.

Populism in Spain has gained a foothold in the far-left Podemos.

### Early school-leaving rate below 20%, still second highest in EU

The early school-leaving rate fell to 19.4% in 2016, down from 31% in 2008, but it is still the second highest in the EU (see Figure 8). With youth unemployment of more than 40%, students have little option but to continue to study after the legal school-leaving age of 16.

**Figure 8. Early school-leaving rates, 2016 (%)**

	%
Malta	19.8
<b>Spain</b>	<b>19.4</b>
Italy	14.1
UK	11.2
EU-28	10.8
Germany	10.3
France	8.9
Croatia	2.8

Source: Eurostat.

## The Economy

### Merchandise exports notch up yet another record

Spain's exports of goods rose in 2016 for the seventh year running, defying expectations that they would tail off as the economy recovers and domestic consumption picks up.<sup>1</sup>

Exports were 1.7% higher than in 2015 at €254.5 billion and imports 0.4% lower at €273.3 billion.

A very small number of exporters accounted for a big share of exports (see Figure 9).

**Figure 9. Percentage distribution of Spain's exports by value and number of companies, 2016**

% of exports	Value (€ bn)	Number of companies
50	127	259
30	76	2,425
20	52	146,110

Source: ICEX.

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<sup>1</sup> See my analysis at:

[http://www.realinstitutoelcano.org/wps/portal/rielcano\\_en/contenido?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_in/zonas\\_in/Commentary-Chislett-Spain-merchandise-exports-notch-up-yet-another-record](http://www.realinstitutoelcano.org/wps/portal/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/Commentary-Chislett-Spain-merchandise-exports-notch-up-yet-another-record)

### Unemployment at lowest level since 2009, inflation surges

The jobless rate fell to 18.63% at the end of 2016, the lowest level since the end of 2009, still almost the highest in Europe but way down on 27% in March 2013.

The government's labour reforms, which among other things lowered firing costs and allowed companies to opt out of collective pay-setting agreements, coupled with annual growth in the economy of around 3% in the last two years, have spurred job creation.

The reforms approved in February 2012, however, have not reduced job precariousness (see Figure 10).

**Figure 10. Five years of labour reforms**

	2012	2013	2014	2015	2016
Jobless rate (%)	27.77	25.73	23.70	20.90	18.5
Temporary jobs (% of salaried workers)	23.40	23.20	24.0	25.20	26.5
Number of Social Security contributors (million)	17.3	17.1	17.6	18.1	18.5
Average salary before tax (euros)	25,716	24,400	25,105	25,211	–

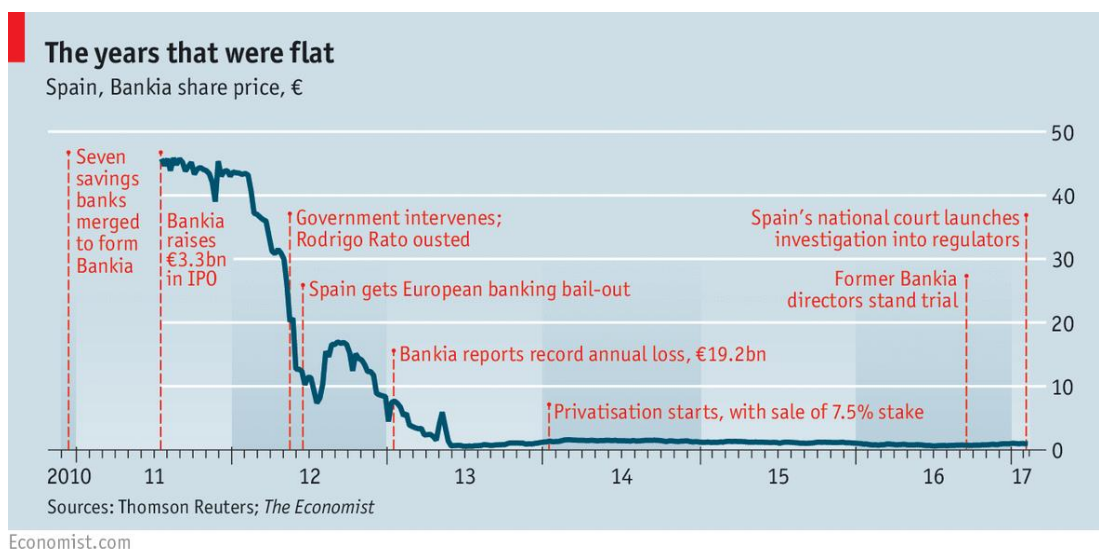
Source: INE.

The IMF, in its latest assessment of the Spanish economy, urged the government to implement more effective active labour market policies to lower long-term and youth unemployment.

The annual inflation rate rose to 3% in January for the first time since December 2012, fuelled by higher energy prices.

### Ex-Bank of Spain head investigated for failed Bankia flotation

The highest criminal court is to investigate the former Governor of the Bank of Spain and the head of the CNMV stock-market regulator over their failure to stop the ill-fated flotation of Bankia, whose collapse in 2012 led to its nationalisation and sparked a EU bailout of some banks (see Figure 11).

**Figure 11. The years that were flat**

The *Audiencia Nacional* said there was enough evidence to indict Miguel Ángel Fernández Ordóñez, the former head of the central bank, Julio Segura, the ex-President of the market regulator, Fernando Restoy, a former senior CNMV official who later became the central bank's Deputy Governor, and five other officials in connection with the IPO in 2011. They were declared formal suspects but they have not yet been charged.

The court said the eight gave the listing regulatory clearance 'despite having full and thorough knowledge of the situation in which the entity found itself.' Internal emails showed an awareness of Bankia's parlous state. One described the bank as a 'money-losing machine' while another lamented the influence of politicians on Bankia's board.

Rodrigo Rato, the former Chairman of Bankia and a former IMF Chief, is the subject of several ongoing court cases including a trial over whether the bank's management failed to accurately disclose the status of its accounts before the IPO. Rato and other former Bankia directors are also on trial on accusations they used corporate credit cards for personal purchases, and Rato is under investigation by the tax authorities. According to a leaked report by the fraud office, he failed to declare €14 million of income between 2004 and 2015.

Parliament is expected to agree next week to create a commission to finally investigate Spain's banking crisis, five years after Bankia's collapse. The move has sufficient support from opposition parties. A previous attempt in 2012 failed because the Popular Party, which was the dominant political influence in Bankia, blocked it as it had a majority of seats in parliament. This time round the PP is still the largest party but with far fewer seats.

The creation of a commission followed a call by Luis Linde, the current central bank Governor, to examine fully the bank's role during the 2008-2012 crisis.



In a separate development, the European Banking Authority said 126 bankers in Spain earned more than €1 million in 2015, seven more than in 2014. Their average salary was €2.24 million. Spain had the fifth-largest number of higher earners (see Figure 12).

**Figure 12. Top 10 EU countries by number of high banker earnings, 2015 (1)**

UK	4,133
Germany	279
France	178
Italy	174
<b>Spain</b>	<b>126</b>
Denmark	41
Netherlands	37
Austria	31
Sweden	28
Ireland	26

(1) Earning more than €1 million.

Source: European Banking Authority.

### Barcelona bans new hotels in city centre to stem tide of tourists

The Barcelona city council banned the building of new hotels and tourist apartments in the centre of the Catalan capital in a bid to try to limit the massive number of visitors that the authorities say are making living conditions intolerable for residents, driving up rents and reducing the number of apartments available for locals.

Barcelona (population 1.6 million) received 32 million visitors last year, around 8 million of whom stayed in hotels.

The home-sharing websites Airbnb and HomeAway were fined €600,000 each last year for offering unlicensed accommodation.

Barcelona ranks fifth in Europe for overnight visitors behind London, Paris, Berlin and Rome.

Spain received a record 75.6 million tourists in 2016, the seventh consecutive year of growth, 17.8 million of them from the UK (23.6% of the total), despite sterling's large depreciation after the vote to leave the EU which made holidays more expensive see Figure 13).

**Figure 13. The relentless rise in Spain's tourists, 2010-16 (million)**

Year	2010	2011	2012	2013	2014	2015	2016
Number	52.5	56.7	57.5	60.7	64.9	68.2	75.6

Source: INE.

## Corporate scene

### BBVA and Santander profits up, Popular records largest losses ever

Spain's two biggest banks, BBVA and Santander, posted higher profits in 2016, while the ailing Popular registered a loss of €3.48 billion, its largest ever.

BBVA's net attributable profit was 31.5% higher at €3.5 billion, after its 2015 earnings took a hit from a €1.8 billion writedown in Turkey where it owns a majority stake in Garanti.

The 2016 profit was the highest since 2010, when the Spanish economy was in recession and banks were struggling with massive toxic assets from the collapse of the real-estate sector.

BBVA's fourth quarter profit, however, fell 30% because of a 6% decline in profit at its bank in Mexico (a country that generates around half of the bank's total profit).

The bank's results were impacted by the 14% fall in the Mexican peso against the euro, reflecting concerns over US President Donald Trump's intention to renegotiate the NAFTA free-trade deal.

Santander's net profit rose 4% to €6.2 billion, despite recession in Brazil, which accounts for 21% of earnings, and economic headwinds in the UK (20% of profits), its two main markets. Pre-tax profits increased in nine of its 10 core markets. Santander is one of the world's most diversified retail banks (see Figure 14).

**Figure 14. Distribution of Santander's net profit (%)**

Country	%	Country	%
Brazil	21	Mexico	8
UK	20	Chile	6
SCF	13	US	5
Spain	12	Argentina	4
Portugal	5	Other	3
Poland	3		

(1) % of net profit excluding corporate centre and real estate activity in Spain

Source: Banks.

Both BBVA and Santander reduced their non-performing loans as a percentage of total lending. BBVA's NPL ratio dropped from 5.4% to 4.9% and Santander's from 4.36% to 3.9%.

Popular, whose Chairman, Ángel Ron, stepped down this month after he was ousted in a shareholders' revolt, was brought down by €4.2 billion of provisions for its toxic loans. Its annual loss was almost equal to its market capitalisation: the bank's share price has fallen more than 90% over the past five years. The bank is now probably a target for a take-over.

Fitch downgraded Popular's long-term issuer default rating to 'B+' from 'BB-', meaning it is a high risk investment.