

## Inside Spain Nr 137

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### Summary

King Felipe VI trumps US President in a state visit to the UK.  
Basque terrorist group Eta says it will disarm fully by 8 April.  
Former Catalan Prime Minister barred from public office for two years.  
OECD praises Spain for recovery, but needs to do more to reduce inequalities.  
Colombian government orders liquidation of Gas Natural's affiliate.  
Repsol makes big oil discovery in Alaska's North Slope.

### Foreign Policy

#### King Felipe VI trumps US President in a state visit to the UK

King Felipe VI will make the first state visit of a Spanish monarch to the UK since his father, King Juan Carlos I, was there in 1986 with Queen Sofía. The visit, on 6-8 June, was to have been made last year but was postponed because of political instability in Spain, where no party was able to form a government following two inconclusive elections.

The King's visit will come before that of US President Donald Trump who is now expected to make his controversial state visit in October. That visit, hastily announced by the British government soon after Trump took office, led John Bercow, the Speaker of the House of Commons, to express his 'strong opposition' to Trump speaking at a joint session of the House of Lords and the House of Commons because of some of his policies.

Bercow said the invitation for a foreign leader to speak 'is not an automatic right, it is an earned honour'. King Felipe will be accorded that honour.

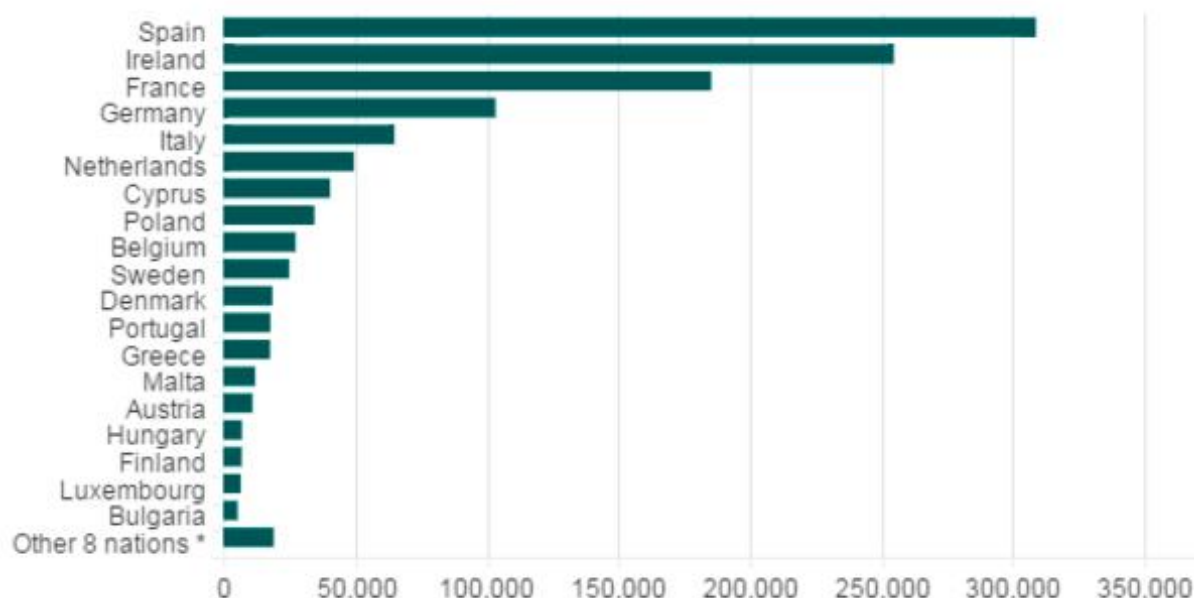
Queen Elizabeth II hosts only two state visits a year, usually at Buckingham Palace.

The visit by King Felipe and Queen Letizia will come two months after the British government triggers Article 50, which starts the negotiations for the UK to leave the EU.

Spain could be one of the EU countries most affected by Brexit. A hard Brexit could cost the Spanish economy up to €1 billion in lost exports and have 'innumerable repercussions' for the 800,000 Britons who live in Spain and the 300,000 Spaniards in the UK, according to a report written for the Spanish government's Brexit commission,

leaked to the daily *El País*.<sup>1</sup> Spain has the highest number of resident UK migrants in Europe (see Figure 1).

**Figure 1. UK migrants living in other EU nations**



(\*) Slovakia, Czech Republic, Lithuania, Romania, Latvia, Croatia, Slovenia and Estonia.

Source: UN (2015), 'Trends in International Migrant Stock' / BBC.com.

The UK is a major source of revenue for some of Spain's largest companies including Banco Santander, Telefónica and Iberdrola, all of which made acquisitions in Britain.

Brexit will also have an impact on Gibraltar –the UK overseas territory that voted 96% in favour of remaining in the EU and long claimed by Spain–, migration flows and on Spanish students going to universities in the UK.

### Rajoy joins French, German and Italian leaders to back multi-speed EU...

Prime Minister Mariano Rajoy attended a summit in Paris of the euro zone's four biggest economies that backed a multi-speed Europe ahead of the start of negotiations on the UK leaving the EU.

Rajoy said Spain was ready to go further with integration 'with all those that wish to pursue that integration. In my opinion, it is necessary to complete the banking union... it is essential to deepen the coordination of economic policies to make our economies more competitive'.

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<sup>1</sup> The number of Britons officially registered in Spain at the last count (July 2016) was 296,000. The other 500,000 are assumed to be those who spend part of the year in Spain as they own property in the country. The figure for the number of Spaniards in the UK used by the Office for National Statistics is 130,000.

While supporting a multi-speed EU, Rajoy's preferred option among the five scenarios outlined this month in the European Commission's White Paper on the future of Europe is a federalist EU.

Spain's influence is still well below its full potential. If it wants to play in the big league it has to accept there will be some unpopular costs, for example in security and defence.

### ... An independent Scotland would be 'at the back of the EU queue'

Foreign Minister Alfonso Dastis said an independent Scotland would be at the back of the queue if it wanted to rejoin the EU. He was responding to the announcement this month by Nicola Sturgeon, Scotland's First Minister, that she intends to hold a second independence referendum.

Sturgeon wants another referendum before Brexit comes into force during 2019.

'Spain supports the integrity of the United Kingdom and does not encourage secession or divisions in any of the member states. We prefer things to stay as they are', Dastis said.

His comments reaffirmed the government's position when Scotland held its first referendum in 2014. Among other reasons for its stance, the government does not want to send the wrong signal to Catalonia's separatist movement, which is pushing for a referendum on the region's independence.

Parallels between Scotland and Catalonia, however, are tenuous. In Scotland's case, an independence referendum would be a constitutional, legal procedure agreed with London, as in 2014, whereas Catalonia's plebiscite is a unilateral action and unconstitutional.

## Domestic Scene

### Basque terrorist group Eta says it will disarm fully by 8 April

Six years after renouncing violence, the Basque terrorist group Eta said it would lay down all its arms by 8 April, but it did not announce that it would disband.

Formed in 1959, with the goal of achieving an independent Basque homeland, which straddles northern Spain and south-western France, Eta murdered 845 people in bombings and shootings, most of them after the end of the Franco dictatorship in 1975 when Spain engineered a successful transition to democracy.

The Spanish government reacted cautiously to the news. 'Eta has to do two things: disarm and dissolve itself', said government spokesman Íñigo Méndez de Vigo.

Bruno Le Roux, the French Interior Minister, where most Eta activists are believed to be in hiding, said the disarmament will not 'be subject to any negotiations', a view echoed by the Spanish government.

Txetx Etcheverry, a French Basque activist involved in earlier proposals to hand over Eta's arsenal, announced the disarmament.

Around 350 convicted Eta members are in prisons in Spain far from the Basque Country or in France. Eta wants them moved closer to home. The government will only consider this once Eta has disarmed and dissolved.

The last Eta killing was in 2010 when a police officer was killed in a shootout with Eta militants in a Paris suburb. Since then, Spanish and French police have made scores of arrests and seized stashes of weapons.

### Former Catalan Prime Minister barred from public office for two years

The High Court in Barcelona barred Artur Mas, the Prime Minister of Catalonia between 2010 and 2015, from holding public office for two years after finding him guilty of disobedience for defying a 2014 ruling by the Constitutional Court prohibiting an informal referendum on secession from Spain.

Joana Ortega, the former Deputy Premier of Catalonia, and Irene Rigau, the former Education Minister, were banned for one year and nine months and 18 months, respectively.

Mas, who has ambitions to be the region's leader again, attacked the court's decision. 'In the Spanish state, the law is not the same for all'. He regards the case against him a political trial.

The court's decision was the latest move in the long-running battle between the Catalan and central governments. The Popular Party is backed by the Socialists and Ciudadanos. Barcelona intends to hold a legally-binding referendum on independence in September whether Madrid agrees to it or not. Such a referendum would go against the constitution which enshrines the unity of Spain.

Mas and his co-defendants are to appeal against the court's verdict and could take it all the way to the European Court of Human Rights.

With neither side ceding any ground, the ultimate weapon that Madrid could wield against the Catalan government would be to activate Article 155 of Spain's constitution which allows the central government to intervene directly in the running of an autonomous region.

Such a step would be a last resort and would turn the conflict into a constitutional crisis.

Opinion polls show Catalans are evenly divided on independence, although the vast majority back a referendum.

Meanwhile, Mas's former party, the conservative nationalist *Convergència Democràtica* (CD), which was re-founded as *Partit Demòcrata Europeu Català* in July 2016 after a series of corruption scandals hit the CD, is under investigation for having financed itself by charging a 3% commission in return for granting public-works contracts.

### Three-cornered contest to lead Socialist party

Susana Díaz, the Prime Minister of Andalusia, threw her hat into the ring to lead the Socialist party when she joined *Paxti López*, a former head of the Basque government, and *Pedro Sánchez*, the party's former Secretary-General who was ousted last October in a power struggle.

The party has been run for the last six months by an interim caretaker administration, which has adopted an accommodating position towards the ruling Popular Party (PP). A leadership primary will be held in May.

The battle to lead the party looks like being a bruising one. Sánchez was forced to resign after he refused to enable a second term in power for *Mariano Rajoy*, the PP Prime Minister, and thus put an end to 10 months' political deadlock following two inconclusive elections. As a result, the PP formed a minority government.

Had the Socialists not done that, Rajoy would have called and almost certainly won a third election last December at which the Socialists would have run the risk of losing more votes. Their performance in last June's election was their worst ever.

Díaz led the internal coup against Sánchez at a crucial meeting of the party's federal committee.

Andalusia is the largest of Spain's regions run by the Socialists. She is backed by *José Luis Rodríguez Zapatero*, the Prime Minister between 2004 and 2011, and most of the party's so-called regional 'barons'.

The last two Socialist heads of the Andalusian government, *Manuel Chaves* and *José Antonio Griñán*, are scheduled to go on trial this year in the so-called ERE case involving the alleged misappropriation of millions of euros of public money to help companies make severance payments.

López, like Sánchez, believes that allowing the PP back into power was a mistake. There was, however, no alternative as the Socialists were unable to win enough support from other parties, particularly the far-left, insurgent *Unidos Podemos*, to form a government.

Whoever becomes the leader, the Socialists will be more combative towards the government. If elections were held tomorrow, the PP would continue to win them, according to the latest *Metroscopia* poll (see Figure 2).

**Figure 2. Voter intention (% of valid votes)**

	2011 election	20/XII/2015 election	3/IV/2016	26/VI/2016 election	13/X/2016	11/XI/2016	9/III/2017
PP	44.6	28.7	27.7	33.0	37.8	35.7	31.2
Socialists	28.8	22.0	21.0	22.7	18.0	17.9	19.0
Podemos	–	20.7	15.9	21.1 (1)	22.1	23.1 (1)	21.5
Ciudadanos	–	13.9	18.8	13.0	11.6	13.0	16.5

(1) Unidos Podemos as of the June 2016 election.

Source: Metroscopia.

### Former IMF chief and Popular Party Economy Minister convicted for embezzlement...

Rodrigo Rato, a former Managing Director of the International Monetary Fund (IMF) and Popular Party Economy Minister (1996-2004), was sentenced to four a half years in jail for misusing the funds of Bankia, which he headed and was later nationalised after it collapsed.

Rato, once regarded as a successor Prime Minister José María Aznar, was sentenced along with 64 other Bankia directors and executives for running up €12.5 million in unlawful corporate credit card purchases over a decade.

He is the most prominent person to be convicted since Spain's banking crisis in 2012 when the government negotiated a EU bailout for various banks.

Rato, Bankia's Chairman, and other executives are embroiled in an ongoing case centred on claims of mismanagement at the bank. He is also under investigation for tax evasion.

Miguel Blesa, the former Chairman of Caja Madrid, the largest of the seven banks merged to form Bankia, was sentenced to six years in prison for his role in the credit card scheme.

### ... Former Socialist Deputy Prime Minister under investigation in bank probe...

Narcis Serra, a former Socialist Deputy Prime Minister (1991-95) and Chairman of CatalunyaCaixa, is under investigation for allegedly irregular real-estate activities between 2000 and 2007 that left a hole of €720 million in the Catalan bank.

According to a report prepared by the Fund for Orderly Bank Restructuring (FROB), Serra and other executives 'carried our intensive and increasing real estate investments' without guarantees of the viability of the projects.

The bank was nationalised and bought by BBVA in 2015.

### ... Almost two people a day on corruption charges in 2016

Spain's judges processed or put on trial 659 people last year on corruption charges, an average of close to two a day, according to a report issued by the Consejo General del Poder Judicial (General Council of the Judiciary).

While high, the figure was below the 1,348 between 1 July 2015 and 30 September 2016, an average of three a day.

### Government appoints commissioner to reverse low birth rate

Prime Minister Mariano Rajoy appointed Edelmira Barreira Diz, a demographic expert, to head a commission to find ways to encourage women to have more children.

Deaths outnumbered births in 2015 for the first time since 1941, setting off alarm bells. Spain's fertility rate of 1.32 children is one of the lowest in Europe (see Figure 3). According to Funcas, the number of childless couples almost trebled between 1977 and 2015 to 4.4 million.

**Figure 3. Fertility rate (number of children per woman)**

	2002	2014
France	1.88	2.01
EU-28	1.46	1.58
Germany	1.34	1.50
Italy	1.27	1.37
<b>Spain</b>	<b>1.25</b>	<b>1.32</b>
UK	1.63	1.81

Source: Eurostat.

Spain's fertility rate began to decline as of 1980 when it stood at 2.20. Contraception by then was widely available (during the 1939-75 Franco regime contraceptive methods and abortion were banned).

The fall has gathered pace since 2008 when the economy was headed towards a prolonged recession and couples put off starting families. Spanish women today are the oldest first-time mothers in the EU, as they have their first child at 32, according to the Institute for Family Policies.

The huge rise in unemployment to a peak of 27% in 2013 and in job precariousness, particularly for those under the age of 30, turned Spain from a country of net immigration

into one of net migration as Spaniards sought jobs abroad and immigrants returned home.

The economic crisis, however, is not the only factor. Spain is not noted for its family-friendly policies in terms of free nurseries, child care and the work-life balance.

Spain's declining and rapidly ageing population has potentially serious long-term consequences including a rise in the dependency ratio (the inactive elderly as a percentage of the working age population). This is already exerting pressure on the sustainability of the pay-as-you-go pension system. The number of social security contributors for each pensioner dropped from 2.53 in 2007 to 2.07 in 2016.

Only 5% of those between the ages of 65 and 69 were employed in 2015, almost the lowest figure in the EU (see Figure 4).

**Figure 4. Employment rates of those aged 65 to 69 (%), 2015**

	%
Sweden	21.6
UK	21.2
Germany	14.5
EU-28	11.7
Italy	8.6
France	5.9
<b>Spain</b>	<b>4.9</b>

Source: Eurostat.

The lack of children is also accentuating the already deep divide between urban and rural Spain. The latter has become known as *la España vacía* ('empty Spain') after a book of the same name by Sergio del Molino published in 2016.

### Parliament calls for Franco's tomb to be moved

Opposition parties outvoted the government and approved a motion calling for the tomb of Francisco Franco, Spain's dictator between 1939 and 1975, to be removed from a state-funded basilica in the mountains near Madrid and a 'truth commission' to be created to examine the crimes of his regime.

Francisco is buried prominently behind the altar at the Valley of the Fallen, a site created after he won the 1936-39 Civil War and built by both Republican prisoners earning remission and free labour. Some 30,000 people killed in the conflict are buried there. On the other side of the altar is buried José Antonio Primo de Rivera, the founder of the



Fascist-rooted Falange, which became the nucleus of Franco's National Movement, the only legal party during his regime.

The basilica, part of Spain's National Heritage organisation and run by the Roman Catholic Church, is crowned by a 150 metre stone cross, the highest in the world.

The ruling Popular Party has long resisted any attempts to uncover the Franco past and deal with the legacy of the dictatorship, while the left –mainly– regards this as unfinished business from the transition to democracy. 'The way to end the divisions in Spain is not by covering up and shutting up', said Antonio Pradas, a Socialist party MP.

The consensus that made a peaceful transition possible was epitomised by the so-called Pact of Forgetting, an unspoken agreement between the reformist right and the non-violent left to look ahead and not rake over the past politically.

The Socialist government of José Luis Rodríguez Zapatero passed a historical memory law in 2007, which led to the removal of some Francoist monuments and street names and provided funds for uncovering Republican mass graves. Little has been done to implement and advance that law since the Popular Party took office in 2011.

The Socialist government appointed a commission of experts in 2011 to draw up proposals for the Valley of the Fallen including removing Franco's grave and burying him elsewhere. When the PP won the election later that year it shelved the document, on the grounds that any change needed a consensus, something that remains as elusive as ever.

### Spain receives many more asylum seekers, less than half of them successful

Close to 16,000 people sought asylum in Spain last year, six times more than in 2015, but only 6,855 of them were successful, according to Eurostat. Of the 15,755 applications (1.3% of the EU's total), 3,395 were rejected and 5,505 are still waiting to be processed.

Although Spain received more refugees, the number was tiny compared with Germany's 745,265 and lower than the 28,925 that went to Sweden, a country whose population is one fifth that of Spain (Figure 5).

**Figure. 5. Asylum seekers in the EU, 2016**

	<b>Number</b>
Germany	745,265
Italy	123,370
France	83,485
UK	38,870
Hungary	29,430
Sweden	28,925
<b>Spain</b>	<b>15,755</b>
Total	1,259,265

Source: Eurostat.

Most of the refugees (90%) who came to Spain were Syrians, but only 355 of them were granted full refugee status. The remaining 6,500 were given 'subsidiary' protection, which is open to review.

Spain's Refugee Council (CEAR) said more should be done to help asylum seekers and that Spain was failing on its legal obligation to process applications rapidly as some 20,370 applications were pending at the end of 2016.

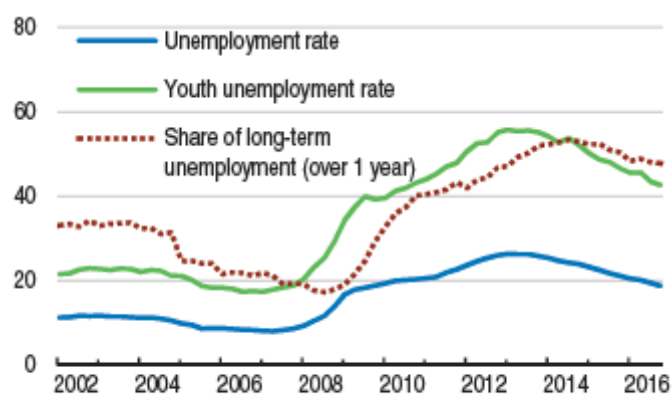
## The Economy

### OECD praises Spain for recovery, but needs to do more to reduce inequalities

Spain's reforms have helped produce an 'impressive' recovery, but more needs to be done to address inequalities, according to the latest survey of the country by the OECD, the Paris-based think tank.

Economic growth will be more than 2% over the 2018-18 period, down from the 3.2% registered over 2015 and 2016, and unemployment, while still stubbornly high at close to 19%, is coming down (see Figure 6).

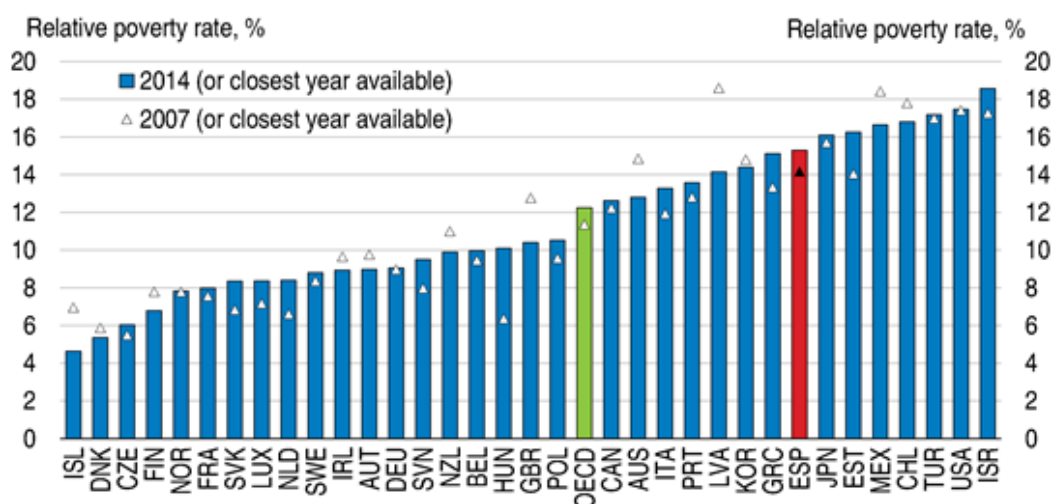
**Figure 6. Unemployment remains very high (%)**



Source: OECD (2017), *OECD Employment and Labour Market Statistics* (database), February and Eurostat (2017), "Employment and unemployment (Labour Force Survey)", Eurostat Database, February.

Poverty has risen since the onset of the crisis as of 2008, mainly due to lack of quality jobs that provide enough hours of paid work to support decent incomes (see Figure 7). The risk of poverty is concentrated on jobless households and households with only temporary workers. A quarter of those who are employed are on temporary jobs. The risk of poverty is particularly intensified among jobless households with children.

**Figure 7. Poverty has increased during the crisis**



Note: The relative poverty rate is defined as the share of people living with less than 50% of the median disposable income (adjusted for family size and after taxes and transfers) of the entire population. The OECD aggregate is calculated as an unweighted average of the data shown.

Source: Provisional data from the OECD Income Distribution Database.

The tax and transfer system could do more to relieve poverty. Total social spending as a percentage of GDP is higher in Spain than the OECD average. However, social benefits are poorly targeted, with relatively well-off households benefiting more than the poor. Cash transfers are particularly low at the bottom 20% of the income distribution, as less than half of the unemployed are covered by unemployment benefits and minimum-income safety nets are weak.

Another problem is that a large number of unemployed people have exhausted their jobless benefits as their unemployment spell gets longer or they are not entitled to them at all. This is particularly the case for those who separate from temporary contracts due to very short contribution periods in the social security system.

The OECD recommends extending the coverage of the standard unemployment benefit by reducing its minimum required contribution period, in line with many other EU countries.

### Stock market index surpasses 10,000 for first time in 15 months

The Ibex-35, the benchmark index of the Madrid stock market, broke through the 10,000 level on 10 March for the first time in 15 months, driven by greater optimism in the economy and improved corporate earnings (see Figure 8). The index, however, was still far from the peak of 15,945 in 2007.

**Figure 8. Stock Market Indices (% change), 1 January-21 March 2017**

Index	
<b>Ibex-35 Spain)</b>	<b>+9.19</b>
Dax (Frankfurt)	+4.19
FTSE 100 (London)	+3.30
Euro Stoxx 50	+4.23
Dow Jones	+4.58
Nikkei (Tokyo)	+1.79

Source: Markets.

### Bank rescue fund orders merger of Bankia and Banco Mare Nostrum

Bankia and Banco Mare Nostrum (BMN), both nationalised and bailed out with EU funds in 2013 after they were badly hit by Spain's property market crash and recession, are to merge.

The Fund for Orderly Bank Restructuring (FROB) said this was the best way to optimise the recovery of public aid.

The merger of the two lenders would bring the Spanish Treasury €401 million more than the individual sale of each bank, the FROB said.

Studies have valued the state's 65% stake in BMN at €690 million. The government also holds a 65.5% stake in Bankia.

The government tried to sell BMN, but only one bidder was interested. Additionally, it has given itself until the end of 2019 to privatise Bankia and a year more for BMN.

The non-performing loans of the whole banking system stood at 9.17% of total lending at the end of January.

### Spain at the bottom of European patent applications' ranking

Spain's efforts to forge a more innovative economy produced a modest increase last year in the number of patent applications filed with the European Patent Office.

The number of patents filed rose 2.6% to 1,558. In terms of applications per million inhabitants, Spain's figure was 32 compared with, for instance, 311 for the much smaller Finland, whose population is eight times smaller (Figure 9).

**Figure 9. European patent applications per million inhabitants, top 30, 2016**

	Applications	Appl.permio.inhabitants
1. Switzerland	7,293	892
5. Finland	1,818	331
6. Germany	25,086	311
10. France	10,486	157
14. US	40,076	124
16. UK	5,142	80
18. Italy	4,166	67
<b>27. Spain</b>	<b>1,558</b>	<b>32</b>

Source: applications filed with the EPO (direct European applications and international (PCT) applications entering the European phase) and US Census Bureau for population figures.

## Corporate scene

### Colombian government orders liquidation of Gas Natural's affiliate

The Colombian government's regulator ordered the liquidation of Gas Natural's subsidiary, citing risks from lack of payment and quality of service.

'The company is not in a position to provide energy service with the quality and continuity that's required', regulator chief José Miguel Mendoza said. 'When the assets of the company are sold, creditors will be paid in the order established by law'.

Gas Natural, which owns 85.38% of Electricaribe, said it would take the case to the World Bank's International Centre for Settlement of Investment Disputes (ICSID).

It said the liquidity problems were due to customers failing to pay and people connecting illegally to the electricity supply.

### Repsol makes big oil discovery in Alaska's North Slope

Repsol, the energy group, announced it had made the biggest onshore oil discovery of its kind in the US for 30 years when it identified a reserve of 1.2 billion barrels in Alaska's North Slope.

Production of 120,000 barrels per day is planned to start as of 2021.

Repsol has been exploring the Nanushuk play since 2008, for the past six years in partnership with Armstrong Energy.

### BBVA ups stake in Turkey's Garanti

BBVA, Spain's second-largest bank, agreed to increase its stake in Garanti, Turkey's largest bank by market capitalisation, by 9.95% to 49.85% at a cost of €859 million.

BBVA first invested in Garanti in 2011 when it acquired a 25% stake from Dogus and General Electric and in 2015 raised it to 39.90%.

The attributable profit generated in Turkey last year was 40.5% higher, at €599 million.

### Inditex profits up 10% in 2016

Inditex, the world's largest clothes retailer and the owner of Zara, posted a 10% rise in net profits for the fiscal year ended 31 January to €3.16 billion.

It opened 279 new stores, bringing its total to 7,292 in 93 countries (see Figure 10). It entered five new markets: New Zealand, Vietnam, Paraguay, Nicaragua and Aruba.

Zara's success is striking compared with Gap, Macy's and most teen retailers.

**Figure 10. Inditex's international presence by brand and number of stores**

<b>Brand</b>	<b>Number of stores</b>
Zara	2,213
Pull & Bear	973
Massimo Dutti	765
Berkshka	1,081
Stradivarius	994
Oysho	636
Zara Home	552
Uterque	78
Total	7,292

Source: Inditex, data at 31/I/2017.