

## **Inside Spain Nr 142**

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**William Chislett**

### **Summary**

North-Korean diplomat expelled.

Government ramps up pressure against illegal Catalan independence referendum.

UN refugee agency says Spain lacks the capacity to handle migration crisis.

Growth to be upgraded, underpinned by stronger consumption and exports.

Ferrovial enters US airport market.

### **Foreign Policy**

#### **North-Korean diplomat expelled**

The Spanish government responded to the North Korean missile tests by expelling the country's Ambassador assigned to Madrid.

The Foreign Ministry summoned Kim Hyok-chol, who became North Korea's first Ambassador to Spain when the country opened an embassy in Madrid in 2014, and gave him until the end of the month to leave.

Mexico, Peru and Kuwait have taken similar steps.

The move followed UN Security Council resolution number 2321, passed at the end of 2016, which required member states to reduce the number of staff at North Korean diplomatic missions and consular posts and limit the number of bank accounts to one per diplomatic mission and one per diplomat.

### **Domestic Scene**

#### **Government ramps up pressure against the illegal Catalan independence referendum**

The authorities stepped up the pressure against the Catalan regional government's plan to hold an illegal referendum on independence on 1 October, with a battery of measures.

No sooner had the Catalan parliament fast-tracked a law that paved the way for the referendum than the Constitutional Court suspended it. Only the central government has the power to call such a vote.

Separately, the public prosecutor launched criminal actions against the entire Catalan cabinet and regional lawmakers involved in the referendum bill.

The central government is doing everything within its power to stop the referendum, which clearly violates Spanish and international law, short of using the military and activating Article 155 of the constitution that would allow it to impose direct rule.<sup>1</sup>

The latter is something Madrid wants to avoid as it would give the pro-independence movement a chance to protest even more vociferously as victims of political repression.

Other measures were also taken:

- Prosecutors summoned for questioning 712 mayors (two-thirds of the total) after they said they would defy the courts and allow the referendum to take place in their municipal spaces.
- The police shut down the Referendum.cat website.
- The paramilitary Civil Guard (a national body) searched print-shops for ballot papers and raided places suspected of hiding ballot boxes. It seized 1.3 million referendum posters.
- *Correos*, the national postal service, warned its offices in Catalonia not to conduct any activities related to the referendum, such as distributing material.
- Madrid warned the Catalan government against empowering a regional tax agency, saying it could lead to sanctions and criminal proceedings for companies.
- In response to Madrid demanding that the Catalan government prove it is not using public money to promote the referendum, Barcelona said it would stop sending weekly financial accounts to the central government. Madrid reacted by announcing it would make the Catalan government's payments itself. The region could lose access to some funds if it is found to be using state money to organise the vote.
- The public accounts watchdog ruled that former Catalan regional Premier Artur Mas and nine of his colleagues must repay €5 million of public money spent on a non-binding independence vote held in 2014.

Close to 50% of respondents in a poll by the Catalan government in July rejected independence (see Figure 1). Support among the two pro-independence parties that control the regional parliament since 2015 –the centre-right / leftist alliance of nationalists Junts pel Sí and the anti-capitalist CUP– is very high. These two groups have 72 of the parliament's 135 seats (48% of the vote).

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<sup>1</sup> See [https://elpais.com/elpais/2017/09/06/inenglish/1504696098\\_919491.html](https://elpais.com/elpais/2017/09/06/inenglish/1504696098_919491.html), by Xavier Vidal-Folch which sets out why the referendum is blatantly illegal.

**Figure 1. Do you want Catalonia to become an independent state? (% of respondents by political party)**

	Yes	No	Don't know
Junts pel Sí	89.3	7.5	3.2
CUP	82.9	8.6	8.6
Catalunya Sí que es Pot (Podemos)	24.2	65.6	10.2
Catalan Socialist Party (PSC)	5.6	83.8	10.6
Popular Party of Catalonia (PP)	3.8	92.5	3.8
Ciudadanos	3.1	96.9	-
<b>Total</b>	<b>43.1</b>	<b>48.4</b>	<b>8.5</b>

Source: CEO of Catalan government, July 2017.

More than 50% of respondents in a Metroscopia poll said the referendum is not sufficiently legal (see Figure 2).

**Figure 2. The climate in Catalonia**

	Yes	No	Don't know or no answer
Do you believe the referendum meets all the conditions to be fully legal and valid internationally?	38%	56%	6%
Do you agree or disagree on how the Catalan parliament handled the referendum law?	41%	44%	15%
As things stand, the best thing for the Catalan government would be:			
To continue the current secession process	38%		
Opt for a negotiating strategy with the central government along the lines of Basque Country's autonomy	56%		
Has the Rajoy government's approach strengthened the independence process instead of weakening it?	82%	16%	2%

Source: Metroscopia.

The determination of the conservative Popular-Party government to block the referendum is backed by the opposition Socialists and the centrist Ciudadanos. The far-left Unidos Podemos supports a referendum if it is held throughout Spain and not just in Catalonia.

A key issue on 1 October will be the stance of the Mossos d'Esquadra, the region's police force, and whether it enforces Spain's law. Josep Lluís Trapero, the force's head, said the referendum's illegality was 'beyond all doubt'.

Catalan civil servants are in a bind as to whether to be involved in the referendum and risk criminal actions or obey Madrid.

At the heart of the stand-off, the most serious challenge to Spain's constitutional order since the attempted coup in 1981, is the primacy of Spanish law over laws passed by the Catalan parliament.

'We will not hesitate in doing what we have to do, always within the law', said Soraya Sáenz de Santamaría, the Deputy Prime Minister.

Carles Puigdemont, the Catalan regional President, said only the Catalan parliament can bar him from office and he was willing to go to prison to uphold the vote.

### Terrorist attack in Catalonia raises awareness of imams

The Muslim community is to conduct a census of imams following twin terrorist attacks in Catalonia last month that killed 16 people and injured more than 100. Police shot dead five terror suspects, and one of the two people who died in an explosion in a house used by the terrorists was an imam.

The Islamic Commission (IC), which represents the close to 2 million Muslims in Spain (see Figure 3), wants to determine the exact number of imams and their background.

**Figure 3. Muslims in Spain by 10 main nationalities**

Nationality	Number
<b>Spain</b>	<b>804,017</b>
Morocco	753,425
Pakistan	78,071
Senegal	62,489
Algeria	61,987
Nigeria	41,486
Mali	22,232
Gambia	19,186
Bangladesh	13,350
Guinea	10,497

Source: Unión de Comunidades Islámicas de España and INE.

Abdelbaki Es Satty, the imam killed in the explosion, ran the mosque in Ripoll, a town which was home to several of the people involved in the attacks. All the terrorists were the sons of Moroccans who had emigrated to Spain. The imam is believed to have radicalised them.

Es Satty had served a prison sentence for drug trafficking before becoming an imam. Riay Tatory, the President of the IC, denied there was no control of mosques, but admitted there was not a sufficient number of imams to cover the community.

The number of Muslims in Spain has risen tenfold since the early 1990s to 2 million, 187,296 of whom were granted Spanish citizenship between 2008 and 2015. The arrival of Muslims was part of a much broader influx of immigrants.

To Spain's credit, the arrival of around 5 million immigrants has not produced any relevant xenophobic, far-right, populist parties, and violent attacks on immigrants have been rare. According to the British think-tank Demos, Spain is the most tolerant EU country towards immigrants.

Catalonia is home to around 500,000 Muslims, 7% of the region's population. Between 2004 and 2012, 37.5% of those jailed for Jihadi terrorism in Spain were based in Catalonia, which has 16% of Spain's population. Since 2015, more than 40% of arrests of Islamist militants have occurred in Catalonia.

A study by West Point's Combating Terrorism Centre of the 720 people detained in Spain since 2004 found that 87% were men, 75% were between 18 and 38 years old, 50% were second-generation children of immigrants, 70% attended secondary school, 50% were unemployed, 25% had a previous record as petty criminals and 90% were radicalised while inside Spain.

The attacks in Catalonia sparked a debate on integration and whether the terrorists became so because they felt marginalised. Carmen González Enríquez, the Elcano Royal Institute's migration expert, said problems of integration did not lie behind the Basque terrorist group Eta and nor did they explain the violence of Islamic radicals in Spain who, she said, 'had a cause which gave meaning to their lives'.

### UN refugee agency says Spain lacks the capacity to handle the migration crisis

Spain has again become a favoured country for refugees and migrants fleeing Africa from Morocco across the Mediterranean in search of a better life, but it does not have enough resources and capacity to cope, the UNHCR warned.

Almost 600 people were rescued last month in a single day from 15 paddle boats, including 35 children, the highest number since August 2014 when around 1,300 people landed on the Spanish coast over the course of 24 hours. The total number of those rescued by early September was 11,043 compared with 10,389 in the whole of 2016, according to the Red Cross.

The authorities are strengthening the border fences at the North African enclave of Ceuta, one of two Spanish cities that border Morocco, as a result of a surge in land arrivals. Close to 9,000 people, mostly from sub-Saharan Africa, tried to enter Ceuta in the first eight months, up from 613 in the same period of 2016 (see Figure 4).

**Figure 4. Ceuta and surroundings**



Source: The Times.

Ceuta and the other Spanish enclave of Melilla are the EU's only land border with Africa.

Juan Ignacio Zoido, the Interior Minister, said the government would spend around €13 million on the new defences.

Spain pledged to take in 17,300 refugees by 26 September under a EU deal, but so far has received fewer than 2,000.

Separately, around 800 Venezuelans fled the political and economic crisis at home and applied for asylum in Spain in the first half of 2017, more than the number from Syria at the peak of the crisis in that country.

### Worst drought in decades

Spain's reservoirs are at little more than 40% of their total capacity, the lowest level in decades, according to the Agriculture Ministry, because of a severe drought. Even the

springs in north-western Galicia, famous for its rain, have dried up, and some reservoirs, such as the vast one at Buendía, are at 10% of their capacity.

The year 2017 is the third driest on record, behind 1981 and 2005: at this time of the year reservoirs are normally at around 60% of their capacity.

As well as water rationing in some areas, the drought has increased emissions of greenhouse gases. The lack of water has reduced hydroelectric power by around 50% and this has been replaced by the coal-fired generation of electricity.

The electricity industry produced 41.2 million tonnes of CO2 into the atmosphere in the first seven months, 17.2 million tonnes more than in the same period of 2016.

**Spain has 29 universities in the THE ranking of the top 1,000 and 11 in Shanghai's top 500**

Twenty-nine Spanish universities are in the latest *Times Higher Education World University Rankings*, but only one in the top 150, Pompeu Fabra in Barcelona (see Figure 5).

**Figure 5. Top Spanish universities in the THE world ranking**

Rank	Number of FTE students	Student / staff ratio	International students (%)	Female / male ratio
140 Pompeu Fabra	11,172	20.8	12	59:41
=147 Autonomous Barcelona	32,309	12.9	16	59:41
201-250 University of Barcelona	47,458	12.4	10	61:39
301-350 University of Navarra	10,827	14.9	19	53:47
351-400 Autonomous Madrid	29,305	13.4	13	60:40

Source: Times Higher Education.

In the ShanghaiRanking Consultancy, Spain has 11 universities in the top 500, but none in the top 200.

### Low share of young adults in vocational education

Spain has a low share of young adults enrolled in vocational education and training programmes compared to other OECD countries (12% versus 25%), despite the fact that those with a vocational qualification have an employment rate of 74%, compared with 63% for those with a general qualification (see Figure 6).

**Figure 6. Students aged 15 to 19 enrolled in vocational education and training programmes, 2015 (% of total)**

Country	%
Czech Republic	52
Italy	42
Poland	34
OECD	25
France	23
UK	22
Germany	17
<b>Spain</b>	<b>12</b>

Source: Education at a Glance, 2017, OECD.

## The Economy

### Government to upgrade growth, underpinned by stronger consumption and exports

The government is to upgrade its GDP growth forecast for the year to a little over 3% thanks to the pick-up in consumption, sustained exports and yet another record year for tourism.

Exports of goods were a record €140.87 billion in the first half, 10% higher year-on-year, but the trade deficit was up 40.7% at €11.08 billion because of an 11.8% rise in imports.

The increase in imports underscored stronger consumption, with the economy growing at more than 3% for the third year running, the fastest growth of the largest EU economies. The pre-crisis GDP, however, was not recovered in real terms until the second quarter of this year.

Domestic demand has replaced external demand as the main engine of growth, but exports continue to cover more than 90% of imports (see Figure 7).



**Figure 7. Merchandise exports' value, as a percentage of GDP and coverage, 2007-17 (€ billion and %)**

	Exports (€ bn)	% of GDP	Coverage (%) (1)
2007	185.0	17.6	64.7
2008	189.2	17.3	66.8
2009	159.9	15.2	77.6
2010	186.8	17.7	77.8
2011	215.2	20.2	81.8
2012	226.1	21.5	87.7
2013	235.8	22.8	93.4
2014	240.6	22.9	90.6
2015	249.8	23.3	90.9
2016	254.5	22.8	93.1
2017 (2)	140.8	NA	92.7

(1) Exports as a percentage of imports.

(2) First half.

Source: Ministry of Economy and Competitiveness.

The sales of El Corte Inglés, Spain's biggest department store and a good barometer of consumption, were the highest last year (€15.5 billion) in five years, and this year will be closer to the peak of €17.3 billion in 2007 at the height of the boom period.

House prices were 5.6% higher on average in the second quarter than in the same period of 2016. They still have a long way to go, however, to recover the level of 2007 (see Figure 8).

**Figure 8. House prices index (2015 = 100)**

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
150.6	142.5	136.3	133.7	118.8	103.6	95.5	97.2	101.3	2015.8	110.4

Note: the 2017 figure is for the second quarter.

Source: INE.

The number of tourists this year is forecast at 84 million, close to 10 million more than in 2016.

Today's growth, furthermore, is more balanced than it was in the decade before the bursting of a massive, debt-fuelled property bubble, which, among other things, generated a huge current account deficit of 10% of GDP.

The current account has been in surplus for the last four years and inflation is low. The surplus in the first five months of this year was due to the very positive tourism balance: without this the current account would have been in the red.

The unemployment rate is down to 17.2% from 27.1% in 2013, but is still stubbornly high. Luis de Guindos, the Economy Minister, says that not until 1.5 million more jobs are created, and with it Spain returns to the 20.7 million jobholders it had in 2007, can the country said to have really come out of its crisis (see Figure 9).<sup>2</sup>

**Figure 9. Employment in Spain by sectors, 2007-2017 (million jobs) (1)**

	2007	2010	2011	2012	2014	2015	2016	2017(2)
Services	13.66	13.40	13.19	12.71	13.23	13.57	13.97	14.07
Industry	3.29	2.62	2.52	2.38	2.38	2.48	2.52	2.60
Construction	2.70	1.57	1.27	1.07	0.99	1.07	1.07	1.11
Agriculture	0.93	0.80	0.80	0.78	0.74	0.74	0.77	0.85
<b>Total jobs</b>	<b>20.58</b>	<b>18.40</b>	<b>17.80</b>	<b>16.95</b>	<b>17.34</b>	<b>17.86</b>	<b>18.34</b>	<b>18.63</b>

(1) Average figures for each year.

(2) Average figures for January-June.

Source: INE, based on labour-force survey.

Jobs are being created at a faster pace than before, partly because of the government's 2012 labour reforms, but very many of them are seasonal and hence temporary, particularly in the tourism industry. For example, 172,900 of the 375,000 jobs created in the second quarter of this year (46% of the total) were in the tourism and hotel and catering trade. Including the 52,200 new jobs in construction and the 20,900 in commerce, 73% of the new jobholders were on precarious temporary contracts and hence unlikely to be sustained or subject to roll overs. Last year, 12.5% of the total contracts of almost 20 million signed were for waiters, just over half of which were for less than seven days.

Greater job precariousness or flexibility, depending on how you view the reforms, was graphically underscored on 30 June when a record 313,141 jobs were lost as contracts

<sup>2</sup> The conundrum of Spain's recovering economy and still high unemployment is explained in my analysis at [http://www.realinstitutoelcano.org/wps/portal/rielcano\\_en/contenido?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_in/zonas\\_in/ari70-2017-chislett-conundrum-spain-recovering-economy-high-unemployment](http://www.realinstitutoelcano.org/wps/portal/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/ari70-2017-chislett-conundrum-spain-recovering-economy-high-unemployment).

were not rolled over, while on 3 July a record 520,301 contracts were signed, mostly for the tourism industry.

The number of Social Security contributors at the end of August, with the end of the main tourism season, dropped by 179,485 to 18.30 million, down from 18.48 million at the end of July, the highest figure since December 2008.

A major factor behind the high unemployment is Spain's underdeveloped human capital. A World Economic Forum report published this month ranked Spain 44<sup>th</sup> out of 130 countries in its human capital index, one of the lowest in the EU (see Figure 10).

**Figure 10. Global human capital index, 2017**

Country and rank out of 130 countries	Score (0-100)
1. Norway	77.12
2. Finland	77.07
4. US	74.84
6. Germany	74.30
23. UK	71.31
26. France	69.94
35. Italy	67.23
<b>44. Spain</b>	<b>65.60</b>

Source: Global Human Capital Report, World Economic Forum.

The index is based on four elements: capacity (the level of formal education of the present generation of young and old), development (how the next generation is being educated and how the present workforce is being reskilled and upskilled), deployment (how skills are applied) and know-how (the breadth and depth of specialised skills used at work).

### Spain 'will not recover most of the bank rescue aid'

Spain will fail to recover €47.9 billion (4.3% of GDP) of the €61.9 billion injected into ailing banks, the largest amount among EU countries whose banks had to be rescued, according to the latest estimate by the European Commission (see Figure 11).

**Figure 11. EU bank rescue, 2008-2015**

	<b>Amount assumed lost (€ bn)</b>	<b>Total bank aid (€ bn)</b>
<b>Spain</b>	<b>47.9</b>	<b>61.9</b>
Ireland	46.7	62.8
Germany	40.4	64.2
UK	14.0	100.1
Portugal	12.9	15.3
Italy	2.9	11.8

Source: European Commission.

Separately, the Bank of Spain announced that banks' non-performing loans represented 8.43% of their total lending at the end of June, the lowest figure in the last five years.

## Corporate scene

### Ferrovial enters US airport market, winning the upgrade of the main terminal at Denver Airport

A consortium headed by Ferrovial is to modernise the Jeppesen terminal at Denver International Airport, the fifth-largest hub airport in the US, including creating new shopping and food areas, relocating and expanding the TSA screen areas and developing new check-in areas.

It will also manage the airport. The 34-year concession represents an investment of €550 million and is Ferrovial's debut in the US airport market.

The company is the world's largest private-sector airport operator. Since 1998, when it entered the airport business, it has operated 32 airports. It is currently the main shareholder of London's Heathrow.

### OHL wins its first contract in Sweden

OHL has been awarded its first contract in Sweden, a 50% joint venture with NCC, the leading construction and infrastructure company in Northern Europe, to upgrade the rail line between Lund and Malmö. The contract is worth €215 million.

### Santander sells a majority stake in Banco Popular's property portfolio to Blackstone

The US group Blackstone is to take a 51% stake in the property portfolio of the failed lender Banco Popular. Santander bought the bank in June for a nominal €1.

Under the deal, agreed with the euro zone's Single Supervisory Mechanism, Popular's loans were valued at €10 billion, a big discount to their gross book value of €30 billion.

Popular was weighed down by €37 billion of toxic assets and was hit by a run on its deposits which led the European Central Bank to declare that it was 'failing or likely to fail'.

The deal, the largest private-sector real-estate transaction in Spain makes Blackstone one of the biggest investors in the country's real-estate sector.

### Madrid government rejects revised Cordish casino complex plan

The Madrid regional government again rejected the application by Cordish Companies, the US leisure group, to build a €3 billion casino and hotel complex on the city's outskirts.

The first application was turned down in March. The second one added a six-hectare lagoon and artificial beach to satisfy the requirements for more sports and cultural amenities.

It is understood that the project was rejected because too much emphasis is put on gaming activities and the lagoon might put too much pressure on local water use.