

## Inside Spain Nr 147

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### Summary

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### Foreign Policy

#### Economy Minister Luis de Guindos secures ECB Vice-Presidency

Economy Minister Luis de Guindos will be the new Vice-President of the European Central Bank (ECB) after Irish central-bank Governor Philip Lane, the other candidate, pulled out.

Germany and France, among other countries, backed the candidacy of de Guindos, Economy Minister since 2011 and a former Lehman Brothers banker, although the European Parliament's Committee on Economic and Monetary Affairs came out in favour of Lane as, unlike de Guindos, he has central-bank experience.

De Guindos's ratification will be a formality at the March summit of euro zone heads of state. He had been considered one of the main candidates in 2015 for leading the Eurogroup which brings together euro zone economy and Finance Ministers.

Spain has relatively few top jobs in European institutions. An Italian runs the EU's foreign policy, another is President of the European Parliament and third heads the ECB. The much smaller Portugal holds the current Vice-Presidency of the ECB, as well as Presidency of the Eurogroup.

Spain has an EU Commissioner (there is one for each EU member state), four Directors General at the European central Bank, seven top positions in institutions such as the European Investment Bank and NATO and 13 senior posts at bodies such as the

European Parliament and areas of the EU bureaucracy in Brussels. Some 8% of civil servants in European institutions are Spanish, slightly more, however, than Germany (see Figure 1).

**Figure 1. Officials in European institutions by country**

	Number	% of total
Belgium	5,056	17.1
Italy	3,865	13.1
France	3,078	10.4
<b>Spain</b>	<b>2,352</b>	<b>8.0</b>
Germany	2,125	7.2
Poland	1,428	4.8
Greece	1,286	4.3
Rumania	1,279	4.3

Source: prepared by *El País*.

### Spain retaliates and expels Venezuela's Ambassador

In a tit-for-tat move, the government expelled Venezuela's Ambassador to Madrid, Mario Isea, after Caracas ordered the expulsion of Spain's Ambassador to Caracas, Jesús Silva Fernández.

President Nicolas Maduro accused Spain of interfering in Venezuela's affairs, saying Prime Minister Mariano Rajoy was taking orders from President Donald Trump. He blames Spain and the US for leading 'international economic sabotage' of Venezuela.

The country's inflation rate was more than 2,600% last year and continues to rise. Basic goods and medicines are in very short supply.

The EU, concerned by human rights violations in Venezuela, unanimously imposed last month a travel ban and froze the assets of seven senior Venezuela officials.

Spain has been at the forefront of seeking ways to initiate a dialogue between Maduro's authoritarian government and the opposition. 'We have led in the EU's efforts to identify effective pressure mechanisms to get effective negotiations [between the government and the opposition] under way in Venezuela', said Alfonso Dastis, Spain's Foreign Minister.

Spain is the favoured European destination for Venezuelans fleeing their country. Close to 10,500 Venezuelans emigrated to Spain in the first half of 2017, according to the latest statistics.

The efforts of José Luis Rodríguez Zapatero, Spain's former socialist Prime Minister, along with Dominican President Danilo Medina, to jump-start a dialogue between the government and the opposition broke down after failure to reach a deal on how to organize fair presidential elections in Venezuela (to be held on 22 April). The breakdown augurs a fraudulent election.

Rodríguez Zapatero did play a successful role in the release from a military prison last July of opposition leader Leopoldo López. He was sentenced in 2015 to nearly 14 years in prison for inciting violence during anti-government protests in which three people died and dozens were wounded. He was placed under house arrest.

The Canadian and Brazilian Ambassadors to Caracas were expelled in December, which led these countries to respond in the same way as Spain.

## Domestic scene

### Government digs in over Catalan independence crisis

Two months after the election in Catalonia, which gave another victory, albeit a narrower one, to pro-independence parties there are no signs of a government being formed in the region nor an end to direct rule from Madrid imposed after the Catalan parliament unilaterally declared secession from Spain.

Roger Torrent, the parliament's new speaker, insists that Carles Puigdemont, the fugitive Catalan Premier, deposed by the national government after the independence vote last October who then fled to Belgium, should return to office as his Together for Catalonia alliance won the most seats (34) of the three pro-independence parties (70 out of a total of 135) in December's regional election. The liberal and anti-independence Ciudadanos won the most seats (36), giving the opposing camp 57 seats. Torrent postponed the investiture indefinitely.

There is no way Spain's ruling Popular Party, supported by Ciudadanos and the Socialists, will let Puigdemont to return to power. He is wanted on charges of sedition, rebellion and misuse of public funds and would be arrested the moment he sets foot in Spain. Furthermore, he is still set on a pro-independence course.

Having campaigned in the election from afar, Puigdemont wants to return to effective power while still in what he claims is a self-imposed exile and allow someone who does not face legal action to be a 'symbolic' Premier of Catalonia.

The government and the Constitutional Court will not allow him to be sworn in from abroad. This had led some of his allies to say that Puigdemont should stand down and make way for someone else, as this might force Madrid to end direct rule and return Catalonia's devolved powers.

In a sign that he is beginning to realise that the game is up, Puigdemont wrote to a colleague in text messages that were caught on camera by a Spanish broadcaster. 'Our side has sacrificed us; me, at least'.

The pro-independence camp is far from united on the strategy to adopt. Moreover, those secessionists summoned to declare before a court have not told the same story. Contradicting others under investigation, Mireia Boya, the former head of the parliamentary group of the anti-capitalist anarchists CUP, said last October's declaration of independence was real and not symbolic.

Puigdemont's presence abroad is completing the attempts of three jailed Catalan separatists to be released on bail, as the judge believes they might follow his path.

Former Catalan Vice-President Oriol Junqueras, and activists Jordi Sánchez and Jordi Cuixart face possible sedition charges. Junqueras is also under investigation for alleged rebellion and embezzlement, punishable with decades in prison.

Anna Gabriel, a former member of the Catalan parliament for CUP and under investigation, refused to appear before the Supreme Court and remained in Switzerland.

Lawyers representing them have lodged a case with the United Nations Working Group on Arbitrary Detention over their 'unlawful' imprisonment. Amnesty International said the Supreme Court's decision not to release Sánchez was an 'excessive and disproportionate restriction on his right to freedom of expression and peaceful assembly'.

The failure to form a new Catalan government means that the central government is having to study decisions that need to be taken in areas such as the region's education, health and employment in the public sector.

It is also reportedly looking at changes to the language policy in state schools. All classes are taught in Catalan (Spanish is taught as a separate subject and for few hours a week). Successive Catalan governments have refused to implement the 2010 Constitutional Court ruling that those parents who want their children to be taught in Castilian have that right, as it is the common language of Spain, and postponed its implementation through legal manoeuvres. The Court ordered that 25% of instruction should be given in Spanish when the student or parents asked.

Ciudadanos, in a separate move, proposed ending the Catalan language requirement for those who want to work for the civil service in the region.

### Spain barely remains a 'full democracy', drops in EIU ranking

Spain dropped in the latest Economist Intelligence Unit's Democracy Index to 19<sup>th</sup> place out of 167 countries from 17<sup>th</sup>, because of the government's handling of the Catalan independence issue, and only just remained a 'full democracy'.

The EIU said 'the national government's attempt to stop by force Catalonia's illegal referendum on independence on October 1st and its repressive treatment of pro-independence politicians have put it at risk of becoming a flawed democracy'.

The index is based on five categories: electoral process and pluralism; civil liberties; the functioning of government; political participation; and political culture (see Figure 2). 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'.

**Figure 2. The Economist Intelligence Unit's Democracy Index, 2017**

	Rank	Overall score	Electoral process & pluralism	Functioning of government	Political participation	Political culture	Civil liberties
Full democracies							
Norway	1	9.87	10.00	9.64	10.00	10.00	9.71
Iceland	2	9.58	10.00	9.29	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	9.22	10.00	9.29	8.33	9.38	9.12
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
Australia	8	9.09	10.00	8.93	7.78	8.75	10.00
Finland	=9	9.03	10.00	8.93	7.78	8.75	9.71
Switzerland	=9	9.03	9.58	9.29	7.78	9.38	9.12
Netherlands	11	8.89	9.58	9.29	8.33	8.13	9.12
Luxembourg	12	8.81	10.00	8.93	6.67	8.75	9.71
Germany	13	8.61	9.58	8.21	8.33	7.50	9.41
UK	14	8.53	9.58	7.50	8.33	8.13	9.12
Austria	15	8.42	9.58	8.21	8.33	6.88	9.12
Mauritius	16	8.22	9.17	8.21	5.56	8.75	9.41
Malta	17	8.15	9.17	8.21	6.11	8.75	8.53
Uruguay	18	8.12	10.00	8.93	4.44	7.50	9.71
<b>Spain</b>	<b>19</b>	<b>8.08</b>	<b>9.17</b>	<b>7.14</b>	<b>7.78</b>	<b>7.50</b>	<b>8.82</b>
Flawed democracies							
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 11 years, but at 8.08, it is now just above the threshold for full democracies. The US, Italy and France are classified as 'flawed democracies' (see Figure 3).

**Figure 3. The Economist Intelligence Unit's Democracy Index, 2006-17, main EU countries, total score out of 10**

Country	2017	2016	2015	2014	2013	2012	2011	2010	2006
France	7.80	7.92	7.92	8.04	7.92	7.88	7.77	7.77	8.07
Germany	8.61	8.63	8.64	8.64	8.31	8.34	8.34	8.38	8.82
Italy	7.98	7.98	7.98	7.85	7.85	7.74	7.74	7.83	7.73
Spain	8.08	8.30	8.30	8.05	8.02	8.02	8.02	8.16	8.34
UK	8.53	8.36	8.31	8.31	8.31	8.21	8.16	8.16	8.08

Source: The Economist Intelligence Unit.

Spain's score in the category of electoral process and pluralism, since the index was launched in 2006, remained steady at 9.58 until the latest ranking when it dropped to 9.17 (see Figure 4). In functioning government it fell from 7.86 to 7.14, rose in political participation (from 6.11 to 7.78) and declined in political culture (from 8.75 to 7.50) and also in civil liberties (from 9.41 to 8.82).

**Figure 4. The Economist Intelligence Unit's Democracy Index 2006-17, by category for Spain, scores out of 10**

Category	2017	2016	2015	2014	2013	2012	2011	2006
Electoral process & pluralism	9.17	9.58	9.58	9.58	9.58	9.58	9.58	9.58
Functioning of government	7.14	7.14	7.14	7.14	7.50	7.50	7.50	7.86
Political participation	7.78	7.22	7.22	7.22	6.11	6.11	6.11	6.11
Political culture	7.50	8.13	8.13	6.88	7.50	7.50	7.50	8.75
Civil liberties	8.82	9.41	9.41	9.41	9.41	8.53	9.41	9.41
Overall score	8.08	8.30	8.30	8.05	8.02	8.02	8.02	8.34
Rank	19 <sup>th</sup>	17 <sup>th</sup>	17 <sup>th</sup>	22 <sup>nd</sup>	25 <sup>th</sup>	25 <sup>th</sup>	25 <sup>th</sup>	16 <sup>th</sup>

Source: The Economist Intelligence Unit.

### Ciudadanos secures its lead over all other parties

The liberal Ciudadanos ('Citizens') is increasingly emerging as the party that would win the next general election and it is doing so by taking votes away from both the conservative Popular Party (PP) and the Socialists, according to Metroscopia polls.

Founded in 2006 in Catalonia to stand up more resolutely than the PP and the Socialists had done against the region's independence movement, Ciudadanos (C's) would win 28% of the vote, more than double the share it obtained in 2016, if an election were held today (see Figure 5).

**Figure 5. Voter intention (% of valid votes)**

	26/VI/16 election	11/XI/16	4/VI/17	12/XI/17	12/I/18	9/2/18
PP	33.0	35.7	25.9	26.1	23.2	21.9
Socialists	22.7	17.9	22.8	22.7	21.6	20.1
Unidos Podemos	21.1	23.1	19.2	14.7	15.1	16.8
Ciudadanos	13.0	13.0	18.7	22.7	27.1	28.3

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

Source: Metroscopia.

Its victory would end Spain's two-party system. Albert Rivera, C's leader, sees himself in the mould of France's Emmanuel Macron, Italy's Matteo Renzi and Canada's Justin Trudeau who upturned the political status quo in their countries.

The PP and the Socialists have alternated in power since 1982. The combined share of their votes was rarely below 70% (it peaked at 80% in 2004) until 2015 when it was just over 50%, as a result of the arrival of two insurgent parties, C's and the far left Podemos (see Figure 6).

**Figure 6. The rise and fall of the Socialists and the PP, 1982-June 2016 (% of votes in general elections)**

	1982	1986	1989 (1)	1993	1996	2000	2004	2008	2011	2015	2016
PSOE	48.1	44.1	39.6	38.8	37.6	34.2	42.6	43.9	28.8	22.0	33.0
PP	26.4	26.0	25.8	34.8	38.8	44.5	37.7	39.9	44.6	28.7	22.7
Total	74.5	70.1	65.4	73.6	76.4	78.7	80.3	83.8	73.4	50.7	52.7

(1) Alianza Popular (AP) became the Popular Party (PP) in 1989.

Source: Interior Ministry.



Both these parties, when they did not enjoy an absolute majority in parliament, conceded greater autonomy to Catalonia and more money in return for the then CiU nationalist party, the dominant force in the region, supporting their minority governments.

C's, which supports the current minority PP government but has not joined it, is having more success than a previous centrist party, Union, Progress and Democracy (UPyD), founded in 2007. It won 1.2% of the vote in the 2008 general election (one seat), 4.7% in 2011 (five seats) and no seats in the 2015 and 2016 elections (0.2%).

C's success in winning the most seats in last December's Catalan election, called after the PP imposed direct rule on the region following a unilateral declaration of independence by Carles Puigdemont, brought it national attention. The three pro-independence parties, however, won the most seats in the Catalan parliament.

The PP under Mariano Rajoy, in power since 2011, can claim credit for turning around the economy, which went into a deep recession after the bursting of a massive property bubble in 2008, and for reducing unemployment from a peak of 27% in 2012 to a still high 16.5%. But it is embroiled in a series of corruption scandals that are in the courts where some leading regional and repentant PP figures are making embarrassing revelations about the PP.

There is also a sense that the PP has run out of ideas and has become ossified, in stark contrast to C's which is brimful of projects to deal with, for example, education (the dropout rate is high) and on how to reduce the gulf between those on permanent and temporary contracts.

The party is also more youthful (most PP voters are over 55). Rajoy, who has led his party for 14 years, is 62. Rivera is 38. Close to two-thirds of PP voters (62%) say Rajoy should step down (85% across all parties). The debate on who should succeed Rajoy within the PP is so far only a timid one.

The Socialists are also under siege from C's, though to a lesser extent than the PP. Metroscopia says 900,000 of its voters would go over to C's if an election was held tomorrow and only 300,000 would switch from the far-left Unidos Podemos to the Socialists.

The next general election is not due until June 2020, but the investiture pact between the PP and C's enabling the former to govern is under increasing strain. José Manuel Villegas, C's secretary general, says the pact, which includes anti-corruption measures, is 'frozen' and that 'it is not blank check and the PP has to fulfil it'.

### ECHR orders Spain to compensate ETA bombers for ill treatment

The European Court of Human Rights (ECHR) ordered the government to compensate two members of the Basque terrorist group ETA convicted of the 2006 bombing of Madrid airport for the 'inhuman and degrading treatment' they received while in police custody.

The ECHR did not uphold the claims by Igor Portu and Martín Sarasola, who are serving life sentences for the bombing which killed two people and injured 50, that they had been tortured.

Portu was hospitalised for five days with injuries. Sarasola also suffered injuries. A Spanish court in 2010 convicted four members of the paramilitary Civil Guard of torture but the Supreme Court overturned the verdict a year later.

The court ordered Spain to pay Portu and Sarasola €30,000 euros and €20,000, respectively, in damages for the infringement of their basic rights.

ETA killed more than 800 people during a four-decade terrorist campaign. It has not killed since 2010 and officially disarmed last year.

The ruling came at an awkward time for the government and gave ammunition to those who question the rule of law in Spain, particularly Catalan secessionists whose cause violates Spain's constitution.

Spain moved up one place in the latest WJP Rule of Law index, released last month, on an unchanged score of 0.70, with 1 indicating the strongest adherence to the rule of law (see Figure 7).

**Figure 7. 2017 WJP Rule of Law Index, global rankings of selected countries by factors, 2017-18**

	Overall	CoGP	AoC	OG	FR	OS	RE	CJ	Cr.J
France	18	17	20	10	24	46	16	22	21
Germany	6	6	13	11	5	17	8	3	7
Italy	31	24	39	30	28	50	35	52	22
<b>Spain</b>	<b>23</b>	<b>23</b>	<b>24</b>	<b>21</b>	<b>19</b>	<b>37</b>	<b>23</b>	<b>27</b>	<b>24</b>
UK	11	9	14	8	12	21	9	14	11

(1) Out of 113 countries. CoGP, Constraints on government powers; AoC, absence of corruption; OG, open government; FR, fundamental rights; OS, order and security; RE, regulatory enforcement; CJ, civil justice; Cr.J, criminal justice.

Source: World Justice Project.

## The Economy

### Exports of goods notch up yet another record

Merchandise exports in 2017 were 9% higher at €277.1 billion, setting yet another record for the eighth year running (see Figure 8).

**Figure 8. Merchandise exports' value, as a % of GDP and coverage, 2007-17 (€ bn 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	256.5	22.8	93.6
2017	277.1	23.8	91.6

(1) Exports as a percentage of imports.

Source: Ministry of Economy and Competitiveness.

The total number of exporters rose from 148,658 in 2016 to 161,454, and regular ones (more than four years running) increased from 49,767 to 50,562 (38,373 in 2012).

Exports are a key driver of Spain's economic recovery (GDP growth of 3% for the last three years) and have helped to turn around a massive current account deficit.

The leading export sectors were capital goods (20.3% of the total and up 9.2%), food, drinks and tobacco (16.5% and 6.3%, respectively) and the motor industry (16.3% and 0.1%).

Exports as a percentage of imports remained at more than 90%. The trade deficit was 31.9% higher at €24.7 billion (in 2008 at the height of the boom it was €94 billion).

**House sales at highest level since 2008...**

A total of 464,423 homes were sold last year, 14.6% more than in 2016 and the largest number since 2008 (552,000), the year when Spain's massive property bubble burst with a devastating impact on the economy.

The property market touched bottom in 2013 with 312,600 transactions (775,300 in 2007) and since then has gradually recovered (see Figure 9).

**Figure 9. Number of properties sold, 2013-17**

	2013	2014	2015	2016	2017
New	143,800	117,500	77,000	75,100	83,300
Second	168,800	201,300	278,600	330,300	381,200
Total	312,600	318,800	355,600	405,400	464,400

Source: INE.

House prices rose on average by 7.6% in 2017 for the fourth year running (+5.7% in 2016), but are still 21% lower than the peak in 2007.

**... Banks' non-performing loans at lowest level since 2011**

The non-performing loans of banks and savings banks accounted for 7.79% of total lending at the end of 2017, the lowest level since 2011, according to the Bank of Spain.

**Move to boost private pension funds**

The government, faced with a social security system that is not sustainable in its current form, approved a measure in a bid to make private pension plans more attractive by allowing contributors to make withdrawals after 10 years.

Spain has a low level of private pension savings, although higher than France and Germany (see Figure 10). These countries, however, do not have such a creaking state pension system. Spain's level of household savings was down to 6.1% of disposable income at the end of 2017 from a peak of 13.4% in 2009.

**Figure 10. Assets in private pension plans (% of GDP), 2016**

	% of GDP
France	9.8
Denmark	209.0
Germany	6.8
Italy	9.4
Mexico	16.7
Spain	14.0
UK	95.3
US	134.9

Source: Pensions at a Glance 2017, OECD.

The combination of a fast ageing population and high unemployment (there are still one million fewer social security contributors than in 2007) has put the social security system under tremendous strain. The system ended 2017 with a record deficit of €18.8 billion, up from €18.5 billion in 2016.

The reserve fund created in 2000 and built up during the boom years to help pay pensions, which peaked at €66.8 billion in 2011, has virtually been depleted.

According to UN projections, there will be 76 people in Spain above the age of 65 per 100 people aged 20-64 in 2050 against 30 currently.

Effective retirement ages, measured by the average age of leaving the labour market, were rising before Spain's recession but have been stagnant at about 62 years for both men and women, well below the respective OECD averages of 65 and 64 years, and well below the statutory Spanish retirement age (65.3 years). Meanwhile, life expectancy at age 65 has continued to rise sharply.

Pension reforms were enacted in 2013. Pensions since then have increased by a minimum of 0.25% a year and can only rise further if the state pension fund is in surplus. Payment rises are capped at 0.5% above inflation. As of next year, pensions will be calculated with the help of a new 'sustainability factor' that links payments to life expectancy –and ensures that pensions will actually fall as the average lifespan increases–.

There are still severe disincentives to combine work and a full pension. Spain is one of seven OECD countries that applies limits to the earnings above which combined pension benefits are reduced. The pensions of those who continue working are reduced by 50%, apart from self-employed workers earning less than the minimum wage or hiring at least one worker. Furthermore, workers still in employment and receiving a pension do not

earn additional pension entitlements although they pay a special 'solidarity' contribution of 8%, which does not apply to those continuing to work and deferring the pension.

Despite the problems, pensioners have survived Spain's economic crisis much better than young adults, a significant chunk of whom earn well under €1,000 a month and are on precarious temporary contracts. The average income of pensioners over the last decade was higher than the average national income.

While in the OECD as a whole, 11.5% of the population live below the poverty line and 15.5% of pensioners, in Spain the figures are reversed (15.5% and 5.4%, respectively).

## Corporate scene

### ACS wins €3.3bn contract for Montreal's automatic passenger transport system

A consortium of companies led by ACS Group won the €3.3 billion contract to design and build the automatic passenger transport system for Montreal, the largest infrastructure project in Quebec since Montreal's underground railway was inaugurated in 1966.

It will be the fourth largest transport system in the world after Singapore, Dubai and Vancouver.

The contract includes a new underground network in Montreal interconnected with the existing one, with bus networks and commuter trains, which will connect the city with the outlying districts of Rive Sud, Sainte-Anne-de Bellevue and Deux Montagnes, as well as the Pierre Trudeau International Airport. The new network will have 25 stations.

### Catalan independence crisis causes German company to cancel €6 million laboratory

Germany's Agrolab Group, a European leader in the areas of agricultural, environmental, water, food and feed analysis, cancelled its €6 million investment to build a laboratory in Tarragona, because of Catalonia's unresolved independence wrangle, and will do so in Burgos.

This was the first known such cancellation of a major investment and followed the decision last year by more than 3,200 companies in Catalonia to move their legal domicile out of the region and in many cases their tax base.

In a letter to employees, Peter Wimmer, Agrolab's CEO, said an independent Catalonia would be 'a catastrophe for our business' as it would mean Catalonia no longer formed part of the EU. 'Our decision to build a laboratory in Burgos is based on the last Catalan elections when the separatist parties won the same power as before. The political developments do not allow us to take any other decision'.

### Grifols acquires 51% of US MedKeeper for US\$98 million

Grifols, a global leader in the production of plasma-derived medicines and a research pioneer on alternative therapies, agreed to acquire 51% of the US technology firm MedKeeper for US\$98 million.

The deal strengthens its hospital division and, in particular, its presence in the US. MedKeeper's capabilities complement the line of hospital-pharmacy products that Grifols already markets on a global scale.

Grifols already develops equipment and technology to automate and monitor key hospital-management processes, including those related to the safety of patients and healthcare professionals.