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### Summary

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### Foreign Policy

**EU designation of Gibraltar as a 'colony' angers UK** Content.

The EU's branding of Gibraltar, a British overseas territory long claimed by Spain, as 'a colony of the British Crown' in its draft legislation to cope with a no-deal UK exit from the bloc, sparked a row between Madrid and London.

The words were included at the insistence of Spain in a footnote to a proposed EU law providing visa-free access to UK nationals if Britain leaves without a deal, and were seen as a sign that Spain would pursue its claim more vigorously if Britain succeeds in reopening its Brexit deal, or requests a delay in its 29 March exit date.

'Gibraltar is a full part of the UK family and has a mature and modern constitutional relationship with the UK', Prime Minister Teresa May's official spokesman said. 'This will not change due to our exit from the EU'.

Gibraltar was ceded to Britain in perpetuity under the 1713 Treaty of Utrecht. It became a Crown colony in 1830 and in 1983, along with the remaining former Crown colonies, a dependent overseas territory. In 2002 its status was changed again to British overseas territory. The Rock has its own parliament, but its head of state is the Queen, who is represented by the Governor of Gibraltar, responsible to the UK government for defence, internal security, foreign policy and governance.

The Rock is on a UN list of 'non-self-governing territories... subject to decolonisation'. The footnote adds that 'there is a controversy between Spain and the United Kingdom concerning the sovereignty of Gibraltar, a territory for which a solution has to be reached in light of the relevant resolutions and decisions of the general assembly of the United Nations', the footnote says.

France rejected Madrid's original text as it referred to the UN list, which awkwardly also includes French Polynesia and New Caledonia. The colony reference was a compromise solution.

Madrid also wanted to include the word 'dispute' in the footnote, but this was replaced by the more nebulous 'controversy'. Had it succeeded, the EU would in effect have been recognising Spain's view that a dispute exists over Gibraltar, and that it can only be resolved by decolonisation on Madrid's terms.

A landmark ruling by the Court of Arbitration for Sport in 2016 that cleared the way for Gibraltar's FA to join FIFA said there was no legitimate sovereignty dispute over the Rock, nor any pending legal dispute as a matter of public international law.

The UK demanded that a formal minute rejecting the description as a colony be added to the EU's records and lamented 'that our approaches to Spain to develop more helpful and appropriate language had not been reciprocated'.

The colony reference was another example of Brussels taking on board Spain's interests in the Brexit wrangling. Prime Minister Pedro Sánchez threatened to derail the withdrawal agreement at the Brussels summit last November if it was not made absolutely clear that negotiations on the future UK-EU relationship would not cover Gibraltar without Spain's prior agreement.

The Spanish government received a written guarantee from Sir Timothy Barrow, the British Ambassador to the EU, which limited itself to saying that the WA did not specify the territorial scope of any future deal and London would negotiate a future agreement that worked for all the 'UK family' including Gibraltar. The European Commission said agreements between the EU and the UK in respect of Gibraltar after Britain left the bloc would require Spain's prior agreement.

Gibraltarians voted overwhelmingly in 1967 to remain under British sovereignty and in 2002 massively rejected sharing sovereignty with Spain. Only 4% of Gibraltarians voted to leave the EU in the Brexit referendum.

### Spain, the EU country with the most at stake in Venezuela's crisis

No other European country has as much interest as Spain as to what happens in Venezuela, where the embattled President Nicolas Maduro spurned an EU ultimatum to call 'free and fair' elections after opposition leader Juan Guaidó, supported by the US, declared himself the country's legitimate leader. As a result, most Latin American and EU countries recognised Guaidó as interim President.

President Donald Trump has not ruled out military intervention; how much longer Maduro, supported by Russia and Turkey, hangs on depends on whether his top military brass continue to support him.

Tens of thousands of Venezuelans have fled authoritarian rule and hyperinflation to Spain in the last 10 years. The number of Venezuelans officially registered stands at 255,071 according to the latest count, up from 144,593 at the beginning of 2008. Of the 255,071, 141,678 have Spanish nationality. In the third quarter of 2018 there were 3,755 first-time asylum applications in Spain by Venezuelans compared with 130 in France and 240 in Italy.

Many of those fleeing to Spain are descendants of Spaniards who emigrated to Venezuela during and after Spain's 1936-39 Civil War, and so have Spanish nationality or have no difficulty getting it.

Spain is the fourth-biggest destination after Colombia, Peru and the US for the 3 million Venezuelans that the United Nations says have voted with their feet in recent years. There are also some significant Spanish investments in Venezuela, particularly the energy giant Repsol and the telecoms group Telefónica. The stock of direct investment in Venezuela was €1.38 billion in 2016 (latest figure), down from €5.74 in 2013. Spain's exports to Venezuela plummeted from €540 million in 2014 to €110 million in 2017.

In a worrying sign of the risks facing Spanish companies, the Venezuelan government confiscated the pharmaceutical firm SM Pharma, founded and run by a family that came from Spain.

Despite Spain's economic and cultural ties, Prime Minister Pedro Sánchez was slower than some EU leaders, notably French President Emmanuel Macron, in recognising Guaidó, the speaker of Venezuela's National Assembly. The US Administration contacted the Spanish government before Guaidó proclaimed himself the interim President and, according to Foreign Minister Josep Borrell, urged Madrid to recognise Guaidó and break all dialogue with Maduro. 'We are under a lot of pressure –I won't tell you from whom but you can figure it out– to vote against the creation of this group', said Borrell, referring to an EU-sponsored and not yet implemented international contact group meant to foster dialogue in Venezuela.

Spanish and Venezuelan governments have had an uneasy relationship since at least 2002 when Hugo Chávez, Maduro's predecessor, accused the Popular Party (PP) Prime Minister José María Aznar of involvement in the botched 2002 coup that briefly removed Chávez from power. When Chávez called Aznar a 'fascist' at the 2017 Ibero-American summit and ranted, Spain's then King Juan Carlos, rounded on him, saying 'Why don't you shut up?'.

In 2015, Aznar's successor, Mariano Rajoy, received in Madrid the former Caracas Mayor Antonio Ledezma after he escaped from house arrest on charges of sedition. Rajoy was at the forefront in 2017 of pushing for EU sanctions against Maduro's government. Venezuela expelled the Spanish Ambassador in January 2018, a move reciprocated by Madrid.

Spain's former socialist Prime Minister José Luis Rodríguez Zapatero tried between 2016 and 2018 to mediate between Maduro and the opposition, but achieved very little. Zapatero was widely criticised, even within his own party, for being far too soft on the Venezuelan government.<sup>1</sup> He tried to convince opposition leaders after they abandoned negotiations in early 2018 to accept Maduro's conditions for competing in the presidential elections, which gave Maduro a second term. The 14-nation Lima group of Latin American countries plus Canada did not recognise the legitimacy of the election, widely viewed as fraudulent.

Luis Almagro, the Secretary General of the Organisation of American States, called Zapatero an 'imbecile' for his actions in Venezuela and labeled him 'the foreign minister of the Venezuelan dictatorship'.

The Venezuelan crisis plays into Spanish politics. The PP and Ciudadanos take a tougher and more vociferous stance against Maduro than the Socialists, while the far left Podemos, which supports the minority government of Pedro Sánchez, has ideological and, in some cases personal, links with the political movement started by Chávez.

A group of Euro-MPs, headed by Spain's Esteban González Pons of the Popular Party and invited to Caracas by the Venezuelan National Assembly, was expelled from the country before it could meet Guaidó.

## Domestic scene

### Sánchez calls snap election for 28 April

Prime Minister Pedro Sánchez called a snap general election for 28 April after parliament rejected the minority Socialist government's budget for 2019. The election in a very fragmented and polarised scene will be the third since December 2015 and 14 months ahead of the 26 July 2020 due date. Sánchez's government is by far the shortest-lived since the restoration of democracy after the death of General Franco in 1975.

Sánchez came to power in June 2018 as a result of the backing he received from an unwieldy alliance of the far-left Unidos Podemos (UP), Basque nationalists and Catalan secessionists for a no-confidence vote he won against the minority conservative Popular Party (PP) government of Mariano Rajoy, elected in June 2016, over a corruption scandal. But the Socialists only have 84 of the 350 seats in Congress (24%). The parties made common cause against Rajoy, but have very little in common.

The snap election was triggered by the decision of the 17 Catalan MPs to join with the PP and the liberal Ciudadanos (Cs) and reject the 2019 budget (see item below). The Catalans made their support of the budget conditional on Sánchez agreeing a

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<sup>1</sup> Among the critics was Felipe González, the former Socialist Prime Minister between 1982 and 1996. He set out his position on Maduro in the following article published in the International New York Times: <https://www.nytimes.com/2019/02/14/opinion/felipe-gonzalez-venezuelan.html>.

referendum on independence for the region, long ago ruled out by the Socialists, the PP and Cs.

The election comes at a time of heightened political tension and aggressive discourse, with the start of the oral phase of the trial of 12 Catalan separatists for organising the unconstitutional referendum in 2017, followed by the Catalan parliament's unilateral declaration of independence and the whipping up of anti-Socialist sentiment by the PP, Cs and the far-right nationalist VOX in a demonstration in Madrid. Many of the estimated 45,000 demonstrators waved the Spanish flag under the slogan 'For a united Spain – elections now'.

The final straw for these three parties was Sánchez's agreement to appoint a facilitator in talks between pro-independence and pro-unity political parties, which was perceived as a concession to the secessionists. Pablo Casado, who replaced Rajoy as the PP's leader, called Sánchez a 'traitor', 'liar' and 'felon'. Sánchez backed down and broke off talks with the secessionist Catalan government.

A poll of polls at this early stage, compiled by Kiko Llaneras at *El País*, shows the three mainstream parties close to one another, with the Socialists at 24% of the vote, the PP at 21%, Cs at 18% and VOX at 11%. The far-left Unidos Podemos, which backed the Socialists in the outgoing parliament, is at 15%.

The new political element since the last election in June 2016 (see Figure 1) and the one that has intensified the fragmentation is VOX, which stunned the political establishment last December when it entered the political area and won 12 seats in Andalucía's regional election. The PP and Cs overturned 36 years of Socialist rule in Andalucía and rule in a coalition government with parliamentary support from VOX, a formula that could be repeated at the national level if VOX succeeds in winning seats in Congress, as seems likely, and is the kingmaker for a PP and Cs government. In a move that reinforced C's rightward shift, Alberto Rivera, the party's leader, ruled out a pact with the Socialists whatever the results of the election. The Socialists need to mobilise their supporters: a low voter turnout, as they discovered in the Andalusian election, tends to benefit the right.

**Figure 1. Results of general elections, June 2016 (seats, millions of votes and % of votes)**

	Seats	Votes (mn)	% of votes
Popular Party	137	7.90	33.0
Socialists	85	5.42	22.6
Unidos Podemos (1)	71	5.04	21.1
Ciudadanos	32	3.12	13.0
Catalan Republican Left	9	0.62	2.6
Convergència Democràtica	8	0.48	2.0
Basque Nationalist Party	5	0.28	1.2
EH Bildu	2	0.18	0.8
Canarian Coalition	1	0.07	0.3

(1) Unidos Podemos won 45 seats and its allies in Catalonia, Valencia and Galicia 26.

Source: Interior Ministry.

Together with Malta, Spain is the only EU country in the last 40 years that has not had a coalition government at the national level.

A PP, Cs and VOX government would suit the Catalan secessionists as it would take a harder line against them (the PP's Rajoy imposed direct rule on Catalonia) and enable them to play the victim card more strongly than they were able to do under the Socialists.

### Televised trial of 12 Catalan separatists begins

Twelve Catalan separatists, nine of whom have been in prison for up to 15 months, went on trial before the Supreme Court on charges including rebellion and sedition, which carry sentences of up to 25 years if found guilty.

The trial of the 12, including Oriol Junqueras, the former Deputy Premier of Catalonia and leader of Esquerra Republicana, a pro-independence party, stems from the unconstitutional referendum held in the region in October 2017 (declared illegal by the Constitutional Court and the national government), which was followed by the Catalan parliament unilaterally declaring independence. Only 43% of the Catalan electorate voted in the referendum and 90% in favour of independence. The count was not independently ratified.

Not in the dock is Carles Puigdemont, the former Catalan Premier at the time of the referendum, who has virulently denounced the trial from his self-imposed exile in Belgium. He would be arrested if he returned to Spain.

The conflict between Madrid and Catalonia goes back centuries but most recently can be dated to 2006 (see Figure 2).

**Figure 2. Timeline of the collision between the Catalan and central governments**

Date	Events
2006 August	Catalan Parliament votes new autonomy statute, approved in a referendum in the region and ratified by the Congress and Senate in Madrid
2010 June	Constitutional Court rules there is no legal basis to recognise Catalonia as a nation and that the Catalan language should not take precedence over Castilian Spanish. This followed a challenge by the Popular Party, the ombudsman and five regional governments
2010 July	Massive demonstration in Catalonia against the Constitutional Court's ruling
2012 September	Catalan Premier Artur Mas meets Prime Minister Mariano Rajoy in a bid to obtain a fiscal pact. Fails and calls an early election in the region
2012 November	Artur Mas's CiU party wins the election but with 12 fewer seats in Parliament. He remains Premier thanks to the support of the openly pro-independence ERC, which captures 11 more seats
2014 November	Artur Mas defies the Constitutional Court and holds an informal, non-binding referendum on secession. More than 80% in favour but only 2 million out of an estimated 5.4 million eligible voters took part. The public prosecutor brings charges against Mas and two of his Ministers for holding the referendum
2015 September	Pro-independence alliance Junts pel Sí headed by Artur Mas wins Catalan election and teams up with anti-capitalist CUP to form a government. But CUP refuses to retain Mas as President. Pro-independence parties win 48% of the vote (72 seats) and anti-independence parties 39% (52)
2015 November	Catalan Parliament approves declaration of sovereignty and the right to decide
2015 December	Constitutional Court annuls the declaration of sovereignty and right to decide
2016 January	Carles Puigdemont becomes new Catalan Premier with the goal of calling a legally-binding referendum on independence
2016 August	Constitutional Court suspends independence roadmap approved by the Catalan Parliament
2016 September	Carles Puigdemont announces an independence referendum in September 2017 with or without Madrid's permission
2016 October	Public prosecutor brings charges of disobedience against Carme Forcadell, President of the Catalan Parliament, for allowing the pro-independence roadmap to be put to a vote in July
2016 December	Constitutional Court blocks plans to hold an independence referendum



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Date	Events
2017 March	Artur Mas, former Premier of Catalonia, and three of his Ministers banned from public office over the 2014 non-binding informal vote
2017 September	Catalan parliament fast-tracks a referendum law and the regional government formally calls a referendum on secession from Spain. Catalan government officials arrested over the unconstitutional referendum
2017 October	Catalan officials said that almost 2.3 million people voted in the referendum (40% of voters eligible for the plebiscite), with 2 million voting 'Yes', a similar turnout to the informal consultation in 2014. Carles Puigdemont declares independence and the central government imposes direct rule. Puigdemont flees Spain to avoid arrest on charges of rebellion and misappropriation of public funds
2017 December	Pro-independence parties win a slim majority in the Catalan election, called by the Spanish government. The anti-independence Ciudadanos is the largest single party in the regional parliament
2018 April	In a preliminary decision, a German court rules against extraditing Carles Puigdemont on rebellion charges
2018 May	Pro-independence parties change the law to enable fugitive Carles Puigdemont to be re-elected Premier, but it is struck down by the courts. The ultra-nationalist Quim Torra is elected new Catalan Premier thanks to the abstention of MPs from the anti-capitalist CUP
2018 June	Madrid ends direct rule after the new Catalan government is sworn in
2018 July	A German court decides that Puigdemont can be extradited on a charge of misuse of public funds for organising the illegal referendum but not for the much more serious charge of rebellion. Pedro Sánchez, Spain's new Prime Minister, meets the Catalan Premier Quim Torra for the first time
2019 February	Twelve Catalan independence leaders go on trial, nine of whom have been in prison for up to 15 months, and face charges including rebellion, which carries a jail sentence of up to 25 years. Sánchez breaks off talks with the Catalan government

Source: the author.

The national government reacted to the referendum by sending in thousands of National Police to prevent people from voting, in some cases violently, imposing direct rule from Madrid and calling a snap election that backfired and produced another majority for the pro-independence parties, albeit a very slim one.

Two narratives are on trial, slated to last at least three months. The one promoted by the secessionists is summed up by their international campaign titled 'Democracy in the dock' (*Juicio a la Democracia*), which pushes the idea that Spain's democracy, in particular its justice system, is deeply flawed and Catalonia should not be denied the



right of self-determination. The strategy of the defence lawyers is to discredit what they view as a political trial.

The other narrative is embodied by the government's video, 'This is the real Spain', in which a parade of Spanish and international celebrities venerate a 'great democracy'.

Madrid cites as proof of judicial independence the recent trials and jailings of King Felipe's brother-in-law, Iñaki Urdangarín, and of Rodrigo Rato, a former Deputy Prime Minister, and the Gürtel corruption trial of Popular Party (PP) politicians and business associates that led last June to parliament's vote of no-confidence in the PP Prime Minister Mariano Rajoy and his replacement by the Socialist Pedro Sánchez.

Sánchez has been much more active in countering the secessionists' discourse than Rajoy. Sánchez went to Strasbourg to counter the disinformation and made the case before the Council of Europe that Spain is a 'full democracy'.<sup>2</sup>

Josep Borrell, the Foreign Minister and a Catalan, accused the secessionists of creating a 'new Black Legend', a popular and much-abused allusion to propaganda disseminated centuries ago by Spain's enemies that demonised the country and its people as unusually cruel and bloodthirsty.

Spain's judiciary rejected the secessionists' calls for international observers at the trial. Frans Timmermans, the first Vice-president of the European Commission, said the commission had 'no criticism' of the functioning of the rule of law, democracy or human rights in Spain.

For the pre-independence movement, the nine separatists in pre-trial detention are 'political prisoners' (*presos políticos*), while for the other side they are 'politicians in prison' (*políticos presos*).

The length of their imprisonment before the trial, and whether it was necessary, has not sat well in some circles, and the government is uncomfortable with it.

The Spanish judiciary justifies it on the grounds of the seriousness of the charges and the fact that seven of the jailed secessionists' colleagues fled Spain, including Puigdemont.

### Spain inches up Transparency International's Corruption Index...

Spain rose from 42<sup>nd</sup> to 41<sup>st</sup> position out of 180 countries in Transparency International's 2018 corruption perception index, and on a marginally higher score of 58 out of 100 (the nearer to 100 the cleaner the country), but it remains near the bottom of the 28 EU countries (Figure 3).

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<sup>2</sup> See my Working Paper on Spain's democracy over the last 40 years at [http://www.realinstitutoelcano.org/wps/portal/rielcano\\_en/contenido?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_in/zonas\\_in/wp1-2018-chislett-forty-years-democratic-spain](http://www.realinstitutoelcano.org/wps/portal/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/wp1-2018-chislett-forty-years-democratic-spain).

**Figure 3. Corruption Perceptions Indexes, 2010-16, main EU countries (1)**

2018 rank	2018 score	2017 score	2016 score	2015 score	2012 score
1. Denmark	88	88	90	91	90
11. Germany	80	81	81	81	79
11.UK	80	82	81	81	74
21. France	72	70	69	70	71
22. US	71	75	74	76	74
41. Spain	58	57	58	58	65
53. Italy	52	50	47	44	42

(1) On a scale of 0 (highly corrupt) to 100 (very clean). In 2018, 180 countries were ranked and in 2014 174.

Source: Transparency International.

The index measures the perception of corruption in the public sector.

Among the 31 EU and Western European countries assessed, Spain was ranked 22<sup>nd</sup>, below Cyprus and the Czech Republic, and its score was eight points below the average of 66.

Transparency International (TI) said corruption remained a ‘serious problem’ in Spain and that together with Hungary and Cyprus, Spain was the country whose score had fallen the most since 2012. Italy, ranked well below Spain, had improved its score by 10 points. TI said an economy like Spain’s, which is one of the world’s 15<sup>th</sup> largest, should not be below 70 points in the TI index.

‘After more than seven months in power, the government has made no substantial changes in anti-corruption policy. The promised regeneration of democracy does not seem to be among its priorities’.

TI said it understood the weakness of the minority Socialist government, with only 84 of parliament’s 250 seats, and the serious problems it faced regarding winning approval for its 2019 budget and the upcoming trial of the leaders of independence for Catalonia but this ‘should not prevent it from seeking a big pact and begin to draw up a holistic strategy to prevent and combat corruption’.

... In 20<sup>th</sup> place in Freedom House democracy ranking, ahead of France and UK

Spain is ranked 20<sup>th</sup> out of 195 countries in Freedom House's latest democracy ranking, with an unchanged score of 94 out of 100 (see Figure 4).

**Figure 4. Freedom House democracy ranking**

Ranking out of 195 countries and 14 territories	Aggregate score out of 100
1. Finland	100
5. Netherlands	99
13. Portugal	96
15. Chile	94
18. Germany	94
<b>20. Spain</b>	<b>94</b>
23. UK	93
27. France	90
28. Italy	89
33. US	86

Source: Freedom in the World 2019, Freedom House.

Each country and territory is assigned between 0 and 4 points on a series of 25 indicators, for an aggregate score of up to 100. These scores are used to determine two numerical ratings, for political rights and civil liberties, with a rating of 1 representing the most free conditions and 7 the least free. A country or territory's political rights and civil liberties ratings then determine whether it has an overall status of Free, Partly Free, or Not Free.

Spain's position in the Freedom House ranking is very much in line with the index of the Economist Intelligence Unit, which is less narrow as it is based on more than political rights and civil liberties. The EIU index is based on five categories: (1) electoral process and pluralism; (2) functioning of government; (3) political participation; (4) political culture; and (5) civil liberties. In that index, Spain is also ranked above France and the US but below the UK.

European Commission takes Spain to Court for failing to protect Doñana Wetlands

Spain's failure to protect the groundwater bodies that feed the Doñana Wetlands, among the largest in Europe, has led the European Commission to refer it to the Court of Justice.

Doñana is mainly fed by the estuary of the Guadalquivir river and by a large aquifer (groundwater body). Large amounts of water are being diverted for agriculture and tourist

needs, and, as a result, the water table is sinking. Also, the water-dependent habitats in Natura 2000 sites have become very vulnerable to periodic dry periods, and they continue to deteriorate.

The EU's Water Framework Directive requires groundwater bodies to achieve 'good quantitative status' (ie, that they have enough water to sustain the ecosystems they rely on).

Doñana, in the south-west corner of Spain near the border with Portugal, has a great diversity of ecosystems and is home to a considerable array of fauna and flora, including critically endangered species such as the Imperial eagle, Iberian lynx and the Spur-thighed tortoise. It is also part of the migratory route of millions of birds each year.

### Spain again favourite country for Erasmus students

Spain received more than 48,000 Erasmus students in 2017 (15% of the total), 14,000 more than Germany, the second favourite country, according to the latest figures (see Figure 5).

**Figure 5. Top 10 destinations of Erasmus students 2016/2017**

Country	Students
<b>Spain</b>	<b>48,595</b>
Germany	34,497
UK	31,727
France	28,722
Italy	26,294
Poland	16,908
Portugal	14,306
Netherlands	14,145
Belgium	10,712
Czech Republic	19,534
Sweden	10,521

Source: European Commission.

### Spain rejects three out of every four asylum requests

Spain received 54,065 asylum requests in 2018, the fourth largest number in the EU (see Figure 6), and rejected three out of every four, according to the Spanish Commission for Refugee Assistance (CEAR).

**Figure 6. Asylum requests in 2018**

	Number of requests	% accepted
Germany	185,853	50
France	122,743	27
Greece	66,970	49
Spain	54,065	24
Italy	53,500	36
Sweden	21,502	39

Source: CEAR with data from Eurostat and the European Council on Refugees and Exiles.

### Spain and Portugal present joint candidacy for a UNESCO world heritage listing

In a joint initiative, Spain and Portugal want UNESCO to declare the first circumnavigation of the world as World Heritage. The perilous journey began in Sanlúcar de Barrameda in 1519 under the Portuguese sailor Fernando de Magallanes and ended there in 1522 under the Spaniard Juan Sebastián Elcano, after the former's death.

## The Economy

### Parliament's rejection of 2019 budget complicates deficit target

The 2018 budget will continue to be rolled over until a new one is approved by whichever government comes out of the snap election to be held on 28 April.

In a 191 to 158 vote the two Catalan separatist parties with 17 seats in parliament joined the conservative Popular Party and the liberal Ciudadanos in rejecting the budget. The Catalans seem to have shot themselves in the foot as the region will not now receive the extra funds agreed with the central government (an 18.5% increase in public investment). It was the first time since 1995 that parliament had rejected a government's budget.

As a result, the fiscal deficit target of 1.3% of GDP, not the 1.8% that the Socialists wanted, will be very difficult to reach. Finance Minister María Jesús Montero said the deficit could rise to between 2.2% and 2.4%. That would not please the European Commission (EC), which has spent a decade wrestling with Spain's (mostly missed) deficit targets.

The deficit came in at 2.7% last year, finally releasing Spain from the EC's excessive deficit procedure as it was below the 3% limit for the first time since 2007 (see Figure 7).

**Figure 7. Spain's budget balance, 2007-2018 (% of GDP)**

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1.92	-4.42	-11.02	-9.45	-9.31	-6.79	-6.67	-5.84	-5.23	-4.29	-3.07	-2.7

Source: Eurostat.

Spending items for 2019 such as the 1.6% rise in most pension payments, the 22% increase in the legal minimum wage and the 2.25% rise in civil servants' salaries are not affected by the budget rejection as they were approved by decree laws, but revenue items including the introduction of a 15% minimum tax for big companies, the creation of a digital-services tax and a financial-transaction tax, higher personal tax for the wealthy and the increase in the price of diesel will not come into effect. This situation will make it well nigh impossible to meet the deficit target.

The Independent Authority for Fiscal Responsibility, the Bank of Spain and most public and private research centres warned before the budget's rejection that the government's revenue projections for 2019 were inflated.

### EU backs Spain in challenging US duties on olives

The EU filed a complaint at the end of last month against the US at the World Trade Organisation (WTO) for imposing duties on Spanish olives, which it said were unjustified, unwarranted and went against WTO rules.

Spain's exports of olives were worth US\$67.6 million in 2017. Spain is the world's largest producer of olives.

The US Commerce Department said the olives are being sold too cheaply and benefit from unfair subsidies, and last June it imposed anti-subsidy tariffs of between 7.52% and 27.02% on the olives and anti-dumping duties of between 16.88% and 25.50%.

US-EU trade relations are tense as a result of President Trump's decision to impose duties on steel and aluminium imports, countered by tariffs on a range of US products.

The two sides have 60 days to settle the dispute, after which the EU can ask the WTO to adjudicate.

### Job creation in 2018 highest in 12 years, GDP growth slows

Spain created 566,200 jobs in 2018, the largest number since 2006, before the economy went into recession, and the stated unemployment rate dropped to 14.4% (from a peak of 26.7% in 2013), according to the labour force survey.

The number of people without work stood at 3.3 million, 462,000 fewer than in 2017 and down from 5.8 million in 2013.

The number of jobholders was 19.5 million, still far from the 20.7 million in 2007 before the decade-long boom began to peter out following the bursting of a massive property bubble and the global financial crisis.

More than one-quarter (26.9%) of jobs, however, were still temporary and thus precarious and all members of just over 1 million households had no breadwinner (1.9 million in 2013).

The Balearic and Canary Islands, heavily dependent on tourism, a seasonal industry, were the only regions with lower jobless rates than in 2008 (see Figure 7). Last year was another record year for Spain in tourist arrivals (82.6 million). Nevertheless, the jobless rate in the Canaries was 20%. The unemployment rates in Catalonia and Castilla y León returned to the same levels as in 2008.

**Figure 7. Unemployment by region (%), 2018, 2013 and 2008**

	2018	2013	2008
Andalucía	21.2	36.3	21.8
Aragón	11.1	20.6	9.6
Asturias	12.8	22.2	9.9
Balearic Islands	10.9	22.9	12.3
Basque Country	9.5	15.8	8.3
Canary Islands	20.0	33.2	21.2
Cantabria	9.7	20.1	8.9
Castilla y León	11.2	22.0	11.2
Castilla-La Mancha	16.2	29.2	14.9
Catalonia	11.7	22.3	11.8
Extremadura	23.1	32.3	17.9
Galicia	12.0	22.0	9.7
La Rioja	10.3	20.0	9.7
Madrid	11.5	21.0	10.1
Murcia	15.8	28.9	15.5
Navarre	10.0	16.8	8.1
Valencia	14.3	27.9	14.8
<b>Spain</b>	<b>14.4</b>	<b>26.0</b>	<b>13.9</b>

Source: INE.



The good job news was quickly dashed when January's figures for registered unemployment (in government offices as opposed to the labour force survey) showed that 204,865 jobs were lost, the highest number for that month since January 2013. Only those without work who receive some kind of government subsidy or wish to apply for a service such as a training course are obliged to register.

Economic growth slowed last year to 2.5% from 3.1% in 2017, partly due to the external sector's negative contribution to growth (positive in 2017), but still well above the euro zone's average growth of 1.8%.

### Spain, 7<sup>th</sup> largest recipient of global FDI

Spain received US\$119 billion of capital investment in the 10 years to January 2018, the seventh-largest amount of foreign direct investment (FDI), according to a report by Deloitte (see Figure 8).

**Figure 8. Top 10 destinations for FDI, January 2009-January 2018**

	Number of projects	Jobs created	Capital investment (US\$)
1. US	47,527	4.1 mn	1.698 bn
2. UK	10,965	788,999	426,000 mn
3. China	10,637	2.6 mn	801,000 mn
4. Germany	9,008	377,610	146,000 mn
5. India	7,437	1.97 mn	405,000 mn
6. France	5,125	254,242	115,000 mn
<b>7. Spain</b>	<b>4,477</b>	<b>378,785</b>	<b>119,000 mn</b>
8. Mexico	4,022	1.06 mn	250,000 mn
9. Australia	3,892	354,413	212,000 mn
10. Singapore	3,832	302,883	127,000 mn

Source: fDi Intelligence from the *Financial Times*.

Madrid was the 19<sup>th</sup> most favoured city, with US\$13.2 billion (see Figure 9).

**Figure 9. Top destination cities for FDI globally, January 2009-August 2018**

	Number of projects	Jobs created	Capital investment (US\$ mn)
1. London	4,110	186,959	105,767
2. Singapore	3,832	302,883	126,601
3. New York City	2,854	198,029	74,123
7. Paris	1,852	55,852	31,614
15. Dublin	961	67,983	25,698
<b>19. Madrid</b>	<b>839</b>	<b>43,345</b>	<b>13,247</b>
20. Berlin	819	33,544	11,682

Source: fDi Intelligence from the *Financial Times*.

## Corporate scene

### ACS wins €2 billion UK high-speed train contract

The infrastructure group ACS won the €2 billion contract to turn Euston station in London into a high-speed station, a project described by the UK government as the 'biggest station-building programme since the Victorian era'.

The work will be carried out by Dragados, a subsidiary of ACS, in a joint venture with Mace.

The first phase of the high-speed railway will connect London to Birmingham, the East Midlands, Leeds and Manchester.