

## Inside Spain Nr 163

19 June - 26 July 2019

William Chislett

### Summary

Josep Borrell, nominated for EU foreign policy chief, faces tough agenda.  
Fresh elections on the cards in the autumn.  
Catalan Premier faces trial for displaying pro-secession symbols.  
Council of Europe approves anti-corruption measures, removes Spain from 'black list'.  
OECD urges Spain to improve efficiency of tax system.

### Foreign Policy

#### Borrell, nominated for EU foreign policy chief, faces tough agenda

Acting Foreign Minister Josep Borrell faces a host of thorny problems if he succeeds in becoming the EU's next chief diplomat in the autumn. If he does, he will be the second Spaniard after Javier Solana to hold the post (1999-2009).

The 72-year-old Socialist Borrell, a former President of the European Parliament (2004-07), is best known in Spain for his vociferous and at times outspoken opposition to an independent Catalonia, his home region. He is the pet bête noire for Catalan secessionists, who held an illegal referendum in 2017 followed by a short-lived unilateral declaration of independence in the region's parliament.

His ability to be neutral would be particularly tested over the issue of Kosovo where Spain, moved by the Catalan separatism debate and to a lesser extent the Basque Country, is one of five EU states that does not recognise the former Serbian province's independence. He would be responsible for mediating Kosovo's fraught relations with Serbia and seeking a lasting settlement, 20 years after the territory broke away in a war and more than 10 since it declared independence with the backing of major Western powers.

Not only does Madrid not recognise Kosovo, but it has also refused to engage with Pristina in any way. Even unofficial contacts between Kosovo and Spain, such as between civil society organisations, have been extremely limited.

Other issues are Iran, where the EU wants to salvage the international nuclear accord after the US pulled out and re-imposed sanctions, Venezuela (Spain and some 50 other countries back President Nicolás Maduro's rival Juan Guaidó as interim leader and Madrid gave him temporary sanctuary in the residency of its Ambassador in Caracas last May), China and smoothing relations with the US.

## Domestic scene

### Fresh elections on the cards in the autumn

Spain was plunged into uncertainty and exasperation when Pedro Sánchez, the acting Prime Minister, failed to win enough votes in parliament to form a coalition government, raising the prospect of another general election in the autumn, the fourth in as many years.

Sánchez's Socialists gained 123 of the 350 seats in April's election, well short of a majority (176), and to carry on needed the backing of the far-left Unidos Podemos (UP) with 42 MPs, which was expected to happen until the collapse of last-ditch talks, and the votes of a couple of small parties.

Sánchez was rejected in the first vote, when an absolute majority was required, by 170 votes to 124, meaning only one other MP supported the Socialists, and in the second vote (requiring a simple majority of those who vote) by 155 to 124. There were 52 and 67 abstentions, respectively.

There is now a two-month window for Sánchez or another party leader to try to garner enough parliamentary support. If that does not happen, fresh elections would be held, probably in November. The three parties on the right –the Popular Party (PP), Ciudadanos (Cs) and the far-right VOX– have 147 MPs between them and even with support from small parties would not be able to form a government.

Had the coalition government been formed, it would have been Spain's first since the Second Republic (1931-39), before the Franco dictatorship, and would have left Malta as the only EU country without such a government in the last 40 years. Now Spain looks politically more unstable than Italy, the EU country with the most elections in the last 40 years but only two since 2013.

Sánchez spent three months negotiating on and off with Pablo Iglesias, Podemos's leader, though the talks did not begin in earnest until after May's municipal and regional elections, which saw the Socialists building on their victory in the general election.

Sánchez had pushed early on for another minority government, along the lines of the leftist government in Portugal. Governing alone would give the Socialists more flexibility to forge ad hoc alliances to approve legislation, as the party occupies the central policy position. But in the face of repeated calls by Iglesias for a formal coalition (backed by 70% of the party's members in a vote) Sánchez offered him an ill-defined 'government of co-operation', which was also rejected. When Iglesias renounced being a minister in a coalition government just three days before the first parliamentary vote, the negotiations, which Sánchez had said were off, were revived at a frenetic pace, and more so between the first and second confidence votes. The bargaining even carried on in public during the debate before the second vote.

Sánchez offered three ministries and a deputy-prime-ministership for Irene Montero, the Podemos number two and Iglesias's partner. Iglesias accused the Socialists of only offering 'decorative' roles and wanted five ministries. 'We're not here to be a Chinese vase', said Podemos's spokeswoman Ione Belarra.

At the heart of the stand-off is a lack of trust on major issues such as Catalonia, where Iglesias backs a referendum on independence, which the Socialists, supported by all the parties on the right, reject. Podemos' economic policies are also viewed as fantasy.

Another problem hindering the formation of governments is the body politic's failure to adjust to the new political realities. As the Italian Marxist philosopher Antonio Gramsci famously said, 'The crisis consists precisely in the fact that the old is dying and the new cannot be born' or has yet to be born.

Until 2015, Spain had a stable two-party system, with the PP and the Socialists alternating in power. This has since ended with the addition of three new parties – Podemos, Cs and VOX–. The PP and PSOE between them won 46% of the votes in April, down from a peak of 84% in 2008. As a result, forming a minority government, not to mention a coalition one, is very difficult in a fragmented and polarised parliament. Furthermore, Cs is competing with PP for hegemony on the right and Podemos with the Socialists for the left. Before 2015, Socialist and PP minority governments were able to rely on Basque or Catalan nationalist parties for support.

Sánchez also failed to persuade the PP or Cs to allow him to carry on by abstaining in the second vote when more 'yes' than 'no' votes were needed. The Socialists regarded the arguments for not blocking the investiture of Sánchez as being the same as those for not preventing the PP's Mariano Rajoy in 2016 from continuing in power, as PP then, like the Socialists now, was the most voted party and the only one capable in a fragmented parliament of forming a government.

The Socialists abstained in the second investiture vote in October 2016, but only after Sánchez had been ousted as party leader for refusing to do this. He had led the Socialists to their worst-ever election result in December 2015, and then lost even worse in June 2016 when political deadlock produced another inconclusive vote. In June 2017 he came back and won the primaries to lead his party again.

The simplest way to have formed a new government would have been for the Socialists and Cs to have agreed a programme, as they did in February 2016 but which failed to prosper because of the 'no' votes of the PP and Podemos. This time round such a government would have been guaranteed success, as between them the two parties have 180 of the 350 seats, compared with 130 in 2015.

But Cs' leader, Albert Rivera, has moved the party to the right under its strategy to overtake the PP. That has caused divisions and led Toni Roldán, its economic spokesman, to quit last month and renounce his seat in parliament over the party's veto on facilitating Sánchez's investiture by abstaining.

‘How are we going to move past the clash of red and blue –which is what we came to do– if we ourselves turn into blues?’, said Roldán. ‘How are we going to build a liberal project in Spain if we can’t confront the far right... I am not going because I’ve changed but because Ciudadanos has changed’.

A coalition between the Socialists and Cs would leave the PP as the main opposition party, a position Rivera wants.

Roldán’s departure followed that of Manuel Valls, the former French Prime Minister (with dual French and Spanish citizenship) whose candidacy for Mayor of Barcelona Cs backed in the May municipal elections. The latest high-profile Cs member to leave is Francesc de Carreras, a professor of constitutional law and one of the party’s founders.

Carreras bemoaned Rivera’s contradiction between its belligerent stance towards Catalan independence parties (Cs was initially created to stand up against the secessionist movement before it went national) and the ease with which it has formed regional and municipal governments with the far-right VOX (for example in Andalusia).

The fractious political situation is now the second most worrying problem for Spaniards after unemployment, according to a CIS poll. Another poll by the same institute shows the Socialists winning a fresh election, with a much increased share of the vote –39.5%, up from 28.7% in the April election–.

Meanwhile, not only is there no new national government but the new Madrid regional government is also blocked as a result of the far-right VOX not supporting PP and Cs – the three parties together won more votes than the left–. There could also be fresh regional elections in Madrid.

### Catalan Premier faces trial for displaying pro-secession symbols

A judge ruled that Quim Torra, the regional Premier of Catalonia, will face trial on charges of disobeying the electoral board for not removing symbols during the campaign for April’s general election that demanded freedom for the jailed Catalan politicians.

If found guilty, he could be barred from holding public office for a certain period of time.

Yellow ribbons, in support of the jailed leaders of the secessionist movement, 12 of whom are awaiting the outcome of their trial at the Supreme Court in Madrid for organising an illegal referendum on independence, were displayed on the façade of the Catalan government’s headquarters in Barcelona, in defiance of the board.

The board called the ribbons ‘tools of political propaganda’ that violated campaign laws.

In a separate development, the EU General Court barred Carles Puigdemont, the former Premier of Catalonia, and Antoni Comin from taking up their seats in the European Parliament when it met for the first time earlier this month.

Puigdemont and Comin, elected in May's European elections, are both in self-imposed exile in Belgium. They failed to appear in Madrid last month to declare allegiance to the Spanish Constitution, as required of Spanish MEPs. Puigdemont faces arrest if he returns to Spain for his role in the attempted secession.

The Court said there was 'no scope for the Parliament to accord to the applicants, on a provisional basis, a seat in Parliament until their credentials had been verified'. A final judgement on the case will come at a later date.

As regards the trial, José Luis Rodríguez Zapatero, the former Socialist Prime Minister (2004-11), said the government should consider a pardon for the 12 if they are found guilty and request it.

Rodríguez Zapatero also hoped the Supreme Court would issue sentences that 'did not compromise dialogue'. Talks between the central government and the Catalan government have so far been a dialogue of the deaf. The remarks caused outrage in the Popular Party and Ciudadanos as it was construed as political interference in the justice system.

#### Births fall 29% over the past 10 years, but population at highest level in a decade

The number of births declined 29% over the past decade and deaths in 2018 (426,053) outstripped births (369,302) for the fourth year running, underscoring the ageing of the population.

Yet the population increased to 46.9 million, 276,186 higher than in 2017 and the largest rise since 2008 because of the influx of immigrants and returning Spaniards. The growth reflected to some extent the country's economic recovery and improved job prospects. The economy has been expanding faster than the eurozone average since 2015. That said, the pre-crisis GDP (2008) was not regained until 2017.

The fertility rate dropped to 1.25 last year, one of the world's lowest, and average life expectancy inched up to 83.2 years, among the highest (see Figure 1).

**Figure 1. Fertility rate and life expectancy, 2008-18**

	Fertility rate	Life expectancy
2008	1.44	81.3
2009	1.38	81.7
2010	1.37	82.1
2011	1.34	82.3
2012	1.32	82.3
2013	1.27	82.8
2014	1.32	82.9
2015	1.33	82.7
2016	1.34	83.1
2017	1.31	83.1
2018 (1)	1.25	83.2

(1) Provisional.

Source: INE.

One in five of the births in 2018 were to a foreign mother. The fertility rate of foreigners is 1.63 compared with 1.19 for Spanish women. The average age of Spaniards having their first and usually only child is 32.7 years, three years more than that for foreign women.

The number of foreigners (those registered) rose by 285,554 to 4.8 million. The largest increases came from Venezuela (+42,803) and Colombia (+39,977), the former fleeing the economic chaos of the authoritarian government (see Figure 2). The Venezuelan community is now the ninth-largest foreign community.

**Figure 2. Foreign residents by nationality, top 10 countries**

	1 January 2019 (1)	1 January 2018	1 January 2012
Morocco	714,239	682,022	771,632
Romania	671,233	673,592	798,970
UK	287,292	284,987	312,959
Italy	244,148	221,368	178,225
Colombia	199,540	159,563	245,835
China	190,624	183,491	170,839
Germany	138,642	138,777	153,568
Ecuador	135,268	139,441	309,777
Venezuela	133,934	91,131	59,322
Bulgaria	123,618	125,005	15,475
Total of all countries	4,848,516	4,562,962	5,236,030

(1) Provisional figures.

Source: INE.

Net migration (the difference between the number of immigrants and emigrants) was 333,672 in 2018, the highest level since 2008. This was the result of 643,037 people coming to Spain to reside, 20.8% more than in 2017, and 309,365 leaving (-16.1%). The main country sending immigrants was Morocco (60,926) and the largest exodus from Spain was of Romanians (38,087).

More Spaniards returned to their country last year (83,728) than left (80,253) for the first time since 2008 (see Figure 3).

**Figure 3. Net migration of Spaniards, 2011-18**

	2011	2012	2013	2014	2015	2016	2017	2018 (1)
Immigrants	35,442	31,565	32,422	40,968	52,109	62,573	78,182	83,728
Emigrants	55,472	57,267	73,329	80,441	94,645	89,825	86,827	80,253
Balance	-20,030	-25,702	-40,908	-39,472	-42,536	-27,252	-8,645	+3,475

(1) Provisional.

Source: INE.

### Council of Europe approves anti-corruption measures, removes Spain from 'black list'

The Council of Europe's Group of States against Corruption (GRECO) endorsed Spain's anti-corruption measures and said the country was now in full or part compliance with most of GRECO's recommendations. As a result, the 'globally unsatisfactory' rating given in 2016 was withdrawn.

Much of the progress comes from the reform of the Organic Law of the Judiciary, approved by Parliament last December. Due to the reform, two of the GRECO's recommendations have been 'satisfactorily implemented'.

The first is the creation of a code of conduct for judges that is easily accessible to citizens, complemented by advisory services on conflicts of interest and other aspects relating to the integrity of judges and magistrates. The second is the extension of the expiry date of disciplinary proceedings in the General Council of the Judiciary from six months to one year.

Two other recommendations have been 'partly implemented'. The first is the establishment of objective evaluation criteria for high ranking appointments in the judiciary. These positions must be publicly advertised and evaluation criteria be based on merit.

At the parliamentary level, GRECO said four of its recommendations were now 'partly implemented'. The first concerns the approval in each chamber of a code of conduct for deputies and senators (the one for Congress was ratified in February and the one for the Senate is currently being drafted). The second relates to regulation of the relationship of MPs with lobbying groups. Lastly, the increase in detailed declarations of assets and income of deputies and senators has been positively assessed (see Figure 4 for a summary of the improvements).



Figure 4. Improvements in corruption prevention



Source: España Global, <https://espanaglobal.gob.es/en/current-news/society/council-europe-endorses-spains-anti-corruption-measures>.

### Judge orders the new Madrid Town Hall to restore the city's low emissions zone

The conservative Madrid council received a slap in the face when a judge ordered it to restore the city's low-emissions zone that it began to roll back as soon as the former leftist council was ousted in May's municipal election.

Drivers of non-exempt vehicles began to be fined €90 again as of 8 July if they entered the zone in the city's centre known as Madrid Central, a scheme introduced last November by the city's then mayor, Manuela Carmena.

The new council is led by the Popular Party (PP) and Ciudadanos (Cs), backed by the far-right VOX.

The ending of Madrid Central triggered protests and an appeal by Greenpeace, Ecologists in Action and other environmental groups.

In April, before the right regained control of the city council, nitrogen dioxide levels in the centre were 48% lower year-on-year.

### Spain, fourth-best country for expats to work and live in

Spain has shot from 13<sup>th</sup> to 4<sup>th</sup> position in the HSBC ranking of the best countries for expats to work and live in (see Figure 5).

**Figure 5. Best countries for expats, 2018-19**

	2019 ranking	2018 ranking
Switzerland	1	8
Singapore	2	1
Canada	3	4
<b>Spain</b>	<b>4</b>	<b>13</b>
New Zealand	5	2
Australia	6	6
Turkey	7	22
Germany	8	3
United Arab Emirates	9	9
Vietnam	10	10

Source: HSBC Expat Explorer Survey.

The three main reasons cited for Spain as a top destination in the survey of 18,059 people were personal safety, the weather and quality of life. Sixty one percent of respondents said they felt more protected in Spain than in their home country, the good weather was described as a major determining factor by 39% of respondents and 56% said the quality of life was the main reason for choosing Spain.

The weak point is the lack of career advancement and relatively low salaries. The average annual salary of respondents living in Spain is €36,000, around half of the global average of €67,300.

## **The economy**

### **OECD urges Spain to improve efficiency of tax system**

Spain's taxation is tilted towards labour income and needs to be broadened by narrowing income tax exemptions and deductions, abolish reduced value-added tax rates and increase taxation of fuels to better reflect CO2 emissions and other pollutants, the Organisation for Economic Cooperation and Development (OECD) recommends in its latest Going for Growth report.

Spain's exposure to particle pollution is lower than that of other advanced economies and its quality of air is better, but the country obtains less revenue from green taxes than the OECD average (see Figure 6).

**Figure 6. Revenue from environmental taxes, 2016 (% of total tax revenue)**

	%
Latvia	12.6
Italy	8.3
Portugal	7.5
UK	7.4
<b>Spain</b>	<b>5.5</b>
Germany	5.0
France	4.9
US	2.6

Source: Going for Growth, 2019, OECD.

Pedro Sánchez, the acting Socialist Prime Minister, wants to align tax rates for petrol and diesel (except for hauliers), but parliament rejected his draft 2019 budget.

The OECD also proposes education reforms. The early school leaving rate has come down from 30% in 2006 to 18% last year, but is still almost the highest in the EU. The quality of teaching needs to be improved through better university and on-the-job training, and vocational education and training, particularly for those who drop out of school at 16, leaves a lot to be desired.

The slow implementation of the 2013 Market Unity Law is hindering the growth of companies and productivity as there are still barriers across regions.

### One-quarter of graduates unemployed four years after getting their degrees

The number of jobholders (based on the 19.51 million Social Security contributors) was higher in June than the pre-crisis level for the first time.

The unemployment rate, however, is still close to 14%, the second-highest in the EU after Greece, and Spain has the largest proportion (22%) of 20 to 64-year-old workers in temporary jobs. Also, 27.7% of university students were jobless in 2018 four years after graduating. And those that do find employment are often overqualified for the job.

The degree of employment varies considerably: 91% of those with a degree in medicine had a job in 2018 compared to 56% of lawyers (see Figure 7).

**Figure 7. University degree with the most and least employability, 2015-18**

	Graduates (2013-14)	% affiliation to Social Security			
		2015	2016	2017	2018
Medicine	5,571	4.8	77.3	88.7	91.0
Chiropody	433	73.7	81.3	84.8	88.9
Electrical engineering	1,686	65.3	75.3	82.0	85.0
Computer science	6,672	76.7	82.4	83.8	84.6
Speech therapy	631	51.5	69.9	83.5	84.5
Mechanical engineering	3,861	60.5	72.7	81.7	84.1
Humanities	640	36.7	43.3	53.4	58.3
Philosophy	809	27.3	35.7	46.5	56.1
Law	15,958	32.6	43.1	51.4	55.8
History	2,853	26.6	35.7	47.6	55.6

Source: the author with data from the Education Ministry.

The authors of the report presented by the Education Ministry hope the data will help to orientate students when deciding what career path to follow at university as it will give them some idea of their job prospects.

The most popular degree course is law, but of the almost 16,000 graduates in 2014, 8,900 of them were still unemployed last year.

Universities are not providing what the economy needs: employers in some sectors are beginning to complain again, as they did at the peak of the last boom period, that they cannot fill some posts.

Spain's employment rate (80%) for those aged 20-34 with a tertiary level education is one of the lowest in the EU (see Figure 8).

**Figure 8. Employment rates of recent tertiary graduates, aged 20-34, not in education and training, 2018 (%)**

	%
Germany	94.3
UK	88.4
EU-28	85.5
France	84.4
<b>Spain</b>	<b>77.9</b>
Italy	62.8

Source: Eurostat.

Meanwhile, 185,173 people took the competitive exam last month for 30,562 teaching jobs, most of them in primary or nursery schools. It was the largest number in a decade.

### Spain rises in Sustainable Development Goals index

Spain is ranked 21<sup>st</sup> out of 162 countries in the latest SDG Index with a score of 77.8 out of 100, up from 25<sup>th</sup> place and 75.4 in 2018 (see Figure 9).

**Figure 9. 2019 SDG Index**

Ranking out of 162 countries	Score
1. Denmark	85.2
4. France	81.5
6. Germany	81.1
13. UK	79.4
<b>21. Spain</b>	<b>77.8</b>
30. Italy	75.8
35. US	74.5

Source: Sustainable Development Report 2019.

Jointly prepared by the Bertelsmann Stiftung and the Sustainable Development Solutions Network (SDSN), the report measures countries' progress in meeting the 17 SDGs adopted unanimously in 2015 by the 193 member states of the United Nations. These goals include no poverty, good health and well-being, gender equality, clean water and sanitation, responsible consumption and production, life below water and life on land.

Spain's best scores are in clean water and sanitation and affordable and clean energy.

### Central government employees at lowest level in 20 years

The number of central government civil servants stood at 507,830 at the end of 2018, the lowest level in 20 years when it was close to 900,000 and before the transfer of health and education to the 17 regional governments.

The total number of public sector employees (including the armed forces, the police and universities) was 2.57 million (15% of total employment), down from a peak of 2.69 million in 2009 (see Figure 10).

**Figure 10. Public sector employees, 2001-18**

	2001	2004	2009	2014	2018
Central government	563,989	540,868	591,559	536,499	507,830
Regional governments	1,101,999	1,190,607	1,345,892	1,284,026	1,339,111
Local governments	563,989	563,392	657,905	577,164	575,405
Universities	89,360	92,547	100,672	147,115	156,042
Total	2,303,076	2,387,414	2,696,028	2,544,804	2,578,388

The reduction at the central government level (14% since 2009) was achieved by slimming down various areas and replacing fewer of those who retired. The number of regional government employees, however, is only 0.5% less than in 2009 and 11 of the 17 regions have more employees than ever. The Andalusian government has the largest number (241,775).

### Real-estate sector the largest tax debtor

Four out of every 10 companies or people who have tax debts are related to the real-estate sector, whose massive bubble burst in 2008, according to the latest name-and-shame list published by the Tax Agency.

Those with debts of more than €1 million totalled €14.1 billion, down from €15.3 billion a year earlier, €13.4 billion of which is owed by companies. Five of the biggest tax debtors were heavily involved in the real-estate sector including Reyal Urbis, which owes €353.2 million.

Among the individuals with the largest debts is Mario Conde, who gained control of Banesto and was the bank's chairman at the age of 38 during the 80s. The Bank of Spain forced him out of the post in 1993 and the ailing bank was subsequently sold to Banco Santander. He owes €12.4 million.

### Number of millionaires rises

There were more millionaires in Spain in 2018 for the seventh year running, according to the World Wealth Report of Capgemini which tracks high net-worth individuals.

The number of Spaniards with net assets of at least US\$1 million (€865,726), excluding their primary residence and consumables, rose by 100 to 224,300 (see Figure 11).

**Figure 11. Number of rich Spaniards, 2008-18**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number	127,000	143,000	140,000	137,300	145,000	161,000	178,000	192,500	202,100	224,200	224,300

Source: Capgemini, 2019 World Wealth Report.

The number dropped in 2008, 2010 and 2011 following the bursting of a massive property bubble and recession, and rose by 22,100 in 2017, the year that Spain recovered its pre-crisis GDP level.

### Corporate scene

#### Mercadona supermarket in first move abroad, to Portugal

Mercadona marked its international expansion by opening its first supermarket in Oporto, Portugal. Ten more are scheduled to be opened by the end of this year and another 10 during 2020.

#### Nine companies in Fortune Global 500

Banco Santander, the Eurozone's largest bank by market capitalisation, was again the Spanish company that ranked highest in the latest Fortune Global 500 of the world's largest companies based on their revenue, but it was down eight positions at 85<sup>th</sup> (see Figure 12). Repsol rose 60 positions to 200<sup>th</sup>.

**Figure 12. Ranking of Spanish companies in the Fortune Global 500 2019 (US\$ million)**

	US\$ mn
85. Banco Santander	90,531
176. Telefónica	57,465
200. Repsol	53,176
234. BBVA	47,608
272. ACS	43,263
292. Iberdrola	41,395
406. Inditex	30,686
430. Naturgy	28,123
452. Mapfre	27,423

Source: Fortune.