

## Inside Spain Nr 170

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### Summary

Government keeps open border with Gibraltar, but closes it with Portugal and France.  
State of emergency over coronavirus extended to 11 April.  
Ciudadanos choose Arrimadas as leader.  
King Felipe renounces inheritance of scandal-hit father.  
Sánchez launches €200 billion aid package for coronavirus crisis.

### Foreign Policy

**Government keeps open border with Gibraltar, but closes it with Portugal and France**  
Spain closed its borders with France and Portugal but kept open the frontier with the British Overseas Territory of Gibraltar. Only those able to prove they live in Spain or vehicles carrying essential goods are able to cross.

The Rock provides employment for some 15,000 people who live in Spain, including over 9,000 Spanish citizens, without whom the territory would be hard pressed to function.

Gibraltar went into a 'total social lockdown' as of 24 March and all but essential retail shops were shut. Cross-border workers, however, are also employed in the health and other public services.

Closing the frontier would be bad news for the region of Andalusia. Gibraltar contributes around 25% of the neighbouring area's GDP.

The Gibraltar protocol to the UK-EU Withdrawal Agreement, four memoranda of understanding and a tax treaty with Spain are in place to enable cooperation to continue. Gibraltar voted 96% in favour of staying in the EU.

Spain's far-right VOX, which has 52 of the 350 seats in parliament, the third-largest number, rejects the treaty because it does not cover Spain's sovereignty claim over Gibraltar. The territory was ceded to Britain under the 1713 Treaty of Utrecht. The treaty has yet to be ratified by both parliaments. VOX's opposition will delay this process when normal political life returns, but cannot scupper it.

## Domestic scene

### State of emergency over coronavirus extended to 11 April

The government extended the state of emergency by two weeks until 11 April, as those infected by coronavirus rose to more than 42,000, the second-highest number in Europe and the fourth in the world (see Figure 1).

'We are at war', said Prime Minister Pedro Sánchez, who called on the EU to launch a public investment programme similar to the Marshall Plan after World War Two. The number of deaths rose by 514 on 23 March, the largest one-day increase in the world, according to recorded figures.

**Figure 1. Coronavirus infected and deaths**

	Confirmed cases	Confirmed per 1mn population	Deaths	Total recovered
China	81,218	56	3,281	73,650
Italy	69,176	1,144	6,820	8,326
US	54,916	166	582	784
<b>Spain</b>	<b>42,058</b>	<b>900</b>	<b>2,991</b>	<b>3,794</b>
Germany	32,991	394	159	3,290
France	22,304	342	1,100	3,281
UK	8,077	119	422	135

Source: Worldometer, <https://www.worldometers.info/coronavirus/>.

The country has been in lockdown since 14 March, with all non-food shops, restaurants, bars, places of entertainment and hotels closed, as well as schools and universities. The population has to stay at home unless the company they work for remains open or they have to go outside. Supermarkets, groceries, fruit shops, pharmacies, petrol stations, post offices, pet shops and newspaper kiosks remain open. People can also walk their dogs but only alone. Reduced public transport also continues, though with hardly any passengers.

The state of emergency gives the government sweeping powers, including using private hospitals for those infected by COVID-19 and converting some hotels into medical facilities. The public health system, particularly in the region of Madrid which accounts for around one-third of total cases and more than half the number of deaths, is stretched to the limit. The giant IFEMA exhibition and congress centre on the outskirts of Madrid has been turned into the country's largest hospital and the city's ice rink (Palacio de Hielo) into a morgue.

Public health workers, the most exposed to the virus and in some hospitals without sufficient protective equipment, have been particularly hard hit: 14% of the total infected (5,400). Healthcare was hit by cuts as a result of Spain's Great recession: spending fell by €3.8 billion between 2009 and 2018 (6%).

Based on an analysis of 18,959 hospitalised cases, 9,068 were over the age of 60 and 1,436 under the age of 30. Soldiers drafted in to tackle the pandemic by disinfecting and running homes for the elderly found a number of old people abandoned and dead in their beds.

High profile cases include: Begoña Gómez, Pedro Sánchez's wife; Irene Montero, the Minister of Equality and partner of Pablo Iglesias, a Deputy Prime Minister; Carolina Darias, Minister of Regional Affairs; Isabel Díaz Ayuso, Premier of the Madrid Regional government; and Quim Torra, Premier of Catalonia.

A particularly sociable people who spend a lot of time outdoors, and the great majority of whom live in flats, Spaniards have knuckled down and heeded the government's instructions. Social distancing and self-isolation are not part of Spaniards' DNA.

They were quick to criticise groups of Britons on the coasts, who continued to gather together and carouse. The police have filed 5,789 complaints against people disobeying the rules, making them liable to fines, and arrested 107.

Spaniards are also known for their 'solidarity' (the country is the world's leading organ donor measured on the basis of donors per million population). Every evening at 8pm on the dot people take to their balconies, windows or front doors to clap in support of health workers.

The government's extra powers enabled it to centralise decisions regarding health care, temporarily revoking the decentralising to the 17 regional governments under the country's system of autonomy. Most regions have gone along with this, but not, predictably, Torra's separatist government, which called for more support, not more centralisation. 'When we in Catalonia were taking drastic measures not to let the disease propagate, in Spain they were not'. He was widely criticised.

Regional elections in the Basque Country and Galicia, scheduled for 5 April, were postponed.

### Ciudadanos choose Arrimadas as leader

Inés Arrimadas became the first woman to head a main political party since the restoration of democracy more than 40 years ago, and reportedly in the country's history, when Ciudadanos (Cs) chose her as their new leader in place of Albert Rivera, who quit after leading the party to collapse in last November's election.

The 38-year-old Arrimadas, who is expecting her first child in May, won 77% of the vote and faces an uphill struggle in restoring the party's electoral fortunes: it lost 47 of its 57 seats. She defeated Francisco Igea, who represents the so called 'critical' wing of the party, which wants Cs to return to its roots as a centrist liberal and reformist party rather than cosying up to the conservative Popular Party (PP).

Rivera shifted the party to the right after winning 57 seats in the April 2019 election (25 more and only nine fewer than the PP), believing it would overtake the PP in the November election. This strategy lost it a lot of support and was widely predicted to do so. The insurgent far-right VOX was the party that gained the most in the November election, more than doubling its number of seats to 52.

Arrimadas shot to national fame in 2017 when she led Cs to first place in the Catalan regional elections, but was unable to oust the pro-independence parties from government as they maintained a slim majority.

Cs, born in Catalonia, was initially created to counter the region's burgeoning movement to secede from Spain and then went national.

The party had agreed to run a joint list with the PP in the Basque elections due on 5 April and postponed indefinitely because of COVID-19. A similar deal for the Galician elections, also scheduled for 5 April and cancelled, did not prosper.

### Education reforms continue to divide the political class

Yet again political parties have failed to agree on how to improve the education system whose defects include a still high early school-leaving rate. The eighth education bill in 40 years, approved by the minority coalition government, has been rejected by the Popular Party and Ciudadanos, and probably by the far-right VOX, and will need the support of Basque and Catalan parties in order to become law whenever Congress returns to normal life.

The bill is basically the same as that approved by the previous Socialist government when Pedro Sánchez was acting Prime Minister, and was not approved by parliament because of the snap election last April. It gets rid of some aspects of the Popular Party's LOMCE law. It aims to make the system less rigid in order to reduce the drop-out rate (19% in 2018) by allowing in some circumstances 12 to 16-year-olds who fail more than two subjects not to have to repeat the course. Changes are also made at the primary school level.

Repeating school years tended to demotivate students who then left school when they reached 16. Close to 30% of 15-year-old students in 2018 repeated a course, compared with an EU average of 13%. Only around 5% of students are classified as 'excellent' in the Programme for International Student Assessment (PISA) compared with countries such as Belgium (20%) and South Korea (33%), with similar per capita income levels.

The proposed law also eliminates the *reválidas* –tests at the end of courses for lower and upper secondary students in order to obtain the corresponding titles–, replacing them with assessments which do not count towards obtaining the school leaving certificates. This was one of the most controversial points of the LOMCE.

Religion classes, long a contentious issue between the left and the right, are to be downgraded as the grades would no longer count towards gaining a university place or obtaining state funding. Students who do not opt for these classes would no longer have to take the ethics course. A civics course would be obligatory.

The government also wants to tighten the conditions of the *concertado* schools, which are technically state schools because they are funded by the government, but are privately run and managed and are not totally free, as they charge for certain things, a questionable practice. Many are in the hands of the Roman Catholic Church; religion classes are more prevalent in these schools.

Education is run by regional governments and not the central administration. The new law wants to give the state a greater say in the contents of the school curriculum in order to make it more uniform across the country.

### Draft law on strengthening rape convictions approved

The government approved a bill that defines all non-consensual sex as rape, which if approved by parliament would make Spain the first country to implement in a single bill all the recommendations of the 2014 Istanbul convention on preventing and fighting violence against women.

The bill, expected to be approved when Congress returns to normality, followed public outrage at the convictions in the 2016 'wolf pack' trial, in which five men were jailed for sexual abuse, but not rape, after gang-raping a woman, because she was not deemed to have objected. The woman froze with fear. The Supreme Court, after an appeal, ruled she had been raped.

The bill also seeks the creation of specialised courts for sexual offences. Nine other European countries already have laws that define rape by the absence of consent, rather than by other measures. The number of reported crimes against sexual freedom rose from 8,923 in 2013 to 15,338 last year.

### King Felipe renounces inheritance of scandal-hit father

King Felipe VI distanced himself from his father, embroiled in allegations of financial impropriety, renouncing any inheritance from King Juan Carlos and cutting him off from receiving his allowance via the state budget.

The government welcomed the move, calling it a 'declaration of confidence in the institutions', and said Spaniards had a right to be informed of what had happened. Juan Carlos is being investigated by the Swiss financial authorities.

Felipe's swift action was in response to media reports saying his father had allegedly received US\$100 million from Saudi Arabia's late King. He later gave US\$65 million to Corinna zu Sayn-Wittgenstein, with whom he had a close relationship. Felipe is named as a beneficiary of two funds and had told his father he did not want this and was unaware of the other one.

Juan Carlos abdicated in 2014 on the grounds of poor health and following a series of scandals which tarnished the monarchy. Since then the 82-year-old Juan Carlos received an annual stipend of €194,000.

In a statement from the royal household, Felipe also renounced his right to any shares, investments or financial vehicles that 'may be inconsistent with the law or the standards of honesty and integrity which govern his institutional and private activities and should inform the activities of the Crown'.

In the almost six years of his reign Felipe has restored dignity to the monarchy and raised its popularity among the public. By European standards, the Spanish monarchy is an austere one and has become more transparent under Felipe. The Royal Family's yearly budget is less than €8 million, compared with €90 million for the British Royal Family under a system known as the Sovereign Grant.

Radical-left supporters, calling for the abolition of the monarchy and the restoration of the republic (defeated in the 1936-39 Civil War), banged pots and pans from their balconies in Madrid when Felipe addressed the nation on television about the impact of COVID-19, calling for Juan Carlos to donate the fund to the hard-pressed public health system.

## The economy

### Sánchez launches €200 billion aid package for coronavirus crisis

Prime Minister Pedro Sánchez unleashed a series of measures worth around €200 billion to cope with the devastating impact of the coronavirus (COVID-19) disease pandemic, including cheap loans, credit guarantees, benefits and direct aid.

The package accounts for about 20% of GDP, with €117 billion coming from the public sector and the rest from the private.

Before the arrival of the disease, the economy was forecast to grow 1.6% this year, down from 2% in 2019. Goldman Sachs forecast the economy would shrink almost 10% this year. The tourism sector, a cornerstone of the economy (more than 12% of GDP and over 2 million jobs), is on its knees after the suspension/cancellation of flights to Spain and the closure of hotels. Easter Week is traditionally one of tourism's high points. The unemployment rate, still high at 14% before the crisis, will rise dramatically.

The measures include:

- €600 million for social services, with particular attention to the elderly and those dependent on care.
- Supplies of electricity, water and gas cannot be cut off for those regarded as 'vulnerable consumers' or 'consumers at risk of social exclusion'.
- Mortgage holiday for those facing difficulties in making payments, but only for the primary residence, and who have lost their jobs because of the crisis or whose income has been reduced.
- Those hit by temporary employment regulation procedures (ERTEs) will benefit from unemployment benefit. Companies that make ERTes will not have to keep on paying social security in order to avoid laying off workers permanently. Iberia, the flagship airline and the leading carrier between Europe and Latin America, presented one covering 14,000 employees.
- Easier access to loans by the self-employed who have to close their businesses or suspend their services.
- €100 billion of public guarantees in order to facilitate liquidity for companies.
- Protection for listed Spanish companies in strategic sectors against being bought by non-EU firms.

The government's target of reducing the fiscal deficit to 1.8% of GDP this year, announced before the crisis, has gone out the window. Goldman Sachs forecasts a deficit of close to 10%. Spain was finally released last June from the European Commission's excessive deficit procedure, as the 2018 deficit came in, for the first time in a decade, at below the EU threshold of 3% of GDP. The deficit had peaked at a whopping 11% in 2009. Last year's deficit was in line with that of 2018 (that year's budget was rolled over in 2019 because of the lack of a new one), much higher than the 1.3% agreed by the previous Popular Party government with Brussels.

**Figure 2. Spain's budget balance, 2007-20 (% of GDP)**

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
-4.42	-11.02	-9.45	-9.31	-6.79	-6.67	-5.84	-5.23	-4.29	-3.07	-2.5	-2.5	-4.9*

(\*) S&P forecast.

Source: Eurostat.

Spain's risk premium –the spread between 10-year Spanish government bonds and the benchmark German equivalent (*bunds*)– stood at 119 basis points on 24 March, below Italy which is harder hit by the virus and has an even higher level of public debt than Spain (see Figure 3).

**Figure 3. Ten-year government bond spreads**

	Spread vs bund in basis points
France	+50
Italy	+205
<b>Spain</b>	<b>+119</b>
UK	+81

Source: Financial Times.

The only relief for Spain, a country heavily dependent on imported energy, in an otherwise gloomy scenario comes from the collapse of oil prices. Oil accounts for close to 50% of total energy consumption (see Figure 4).



**Figure 4. Energy consumption, 2018 (% of total)**

	Spain	Germany	France	Italy
Oil	47.1	35.0	32.5	39.4
Gas	19.2	23.4	15.1	38.5
Nuclear	8.9	5.3	38.5	0.0
Coal	7.9	20.5	3.5	5.8
Hydroelectric	5.7	1.2	6.0	6.7
Renewable	11.3	14.6	4.4	9.6

Source: Oxford Economics/BP Statistical Review.

#### Limited progress on European Commission's recommendations

Spain has not made much progress in implementing the Commission's recommendations, particularly in the field of public finances, according to the latest report on the country<sup>1</sup> issued before the devastating impact on the economy of COVID-19.

Limited, little or no progress (see Figure 5), against a backdrop of a slowing economy, a high level of public debt and stubbornly high unemployment, has been made in the following areas:

- The institutional framework governing the management of public finances has not been strengthened.
- The newly created governance structure for public procurement is not yet fully operational. The adoption of the nation-wide public procurement strategy envisaged for 2018 is delayed.
- Efforts to reduce the use of temporary contracts in the private sector are showing limited success. Action has focused on fighting abuse and not on the drivers of the widespread use of temporary contracts.
- The government has not yet taken action to simplify the system of national unemployment assistance. Coverage and adequacy of regional minimum income schemes remain low in many regions. Measures taken in 2019 to improve support for families are positive, but can have very limited impact on poverty reduction.
- There has been limited progress on fostering innovation, resource and energy efficiency and on developing rail freight infrastructure. Improvements in the funding and governance.
- The Law on Market Unity remains an important tool to promote better regulation and overcome market fragmentation, but its implementation is proceeding slowly.

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<sup>1</sup> Available at [https://ec.europa.eu/info/sites/info/files/2020-european\\_semester\\_country-report-spain\\_en\\_0.pdf](https://ec.europa.eu/info/sites/info/files/2020-european_semester_country-report-spain_en_0.pdf).



**Figure 5. Progress with the recommendations for Spain**

	Progress
Financial sector	Banks enjoy high liquidity and adequate capitalisation. Profitability under pressure from low interest rates.
Fiscal governance, little progress.	The new governance structure for public procurement is still not fully functioning, almost two years after the entry into force of the law on public sector contracts. Drawing up the National Public Procurement Strategy scheduled for 2018 is delayed. There have been no other steps to strengthen the fiscal framework. If the departures from the 2013 pension reform are made permanent without adequate compensatory measures, pension expenditure will increase significantly and worsen inter-generational equity in the medium to long term.
Labour market policies, some improvement but limited effectiveness.	The share of temporary contracts in total employment remains high at above 26% in 3Q19. In the public sector, the use of temporary contracts increased further in 2019, despite the pledge to reduce it. Measures to reduce temporary contracts have focused on fighting abuse. Efforts to strengthen the public employment services continue in some regions. The implementation of the new Action Plan for Youth Unemployment and the ReincorporaT Plan for the long-term unemployed is on track, but hiring subsidies still absorb about 40% of the budget for active labour market policies and do not seem to be very effective.
Skills mismatches and early school leaving, on-going initiatives.	Medium to high-level technical skills, and especially ICT specialists, are in short supply. The new Strategic Plan for Vocational Education and training (VET) may play a role in reducing skills mismatches and early school leaving, once fully implemented. The business sector's role in the design of qualifications is being reinforced, and work is underway on a Digital Skills National Strategy.
Support for families and effectiveness of social assistance, limited progress.	The 2019 increase in the amount of the means-tested child allowance can only have a very limited impact on poverty reduction. National unemployment assistance schemes remain fragmented and the coverage of regional income guarantee schemes remains very limited in many regions, with the number of beneficiaries not even reaching 20% of the potential beneficiaries on average in the country.

#### Progress

Investment to foster innovation, resource and energy efficiency and to complete rail freight infrastructure and electricity interconnections. Limited progress.

The draft National Climate and Energy Plan is ambitious in scope, but it relies to a large extent on mobilising private investments, which have not materialised yet. There has been some progress on the ongoing development of electricity interconnections with France and with Portugal. Some steps were taken to support sustainable mobility but, overall, there was limited progress in fostering resource efficiency. Investments in rail infrastructure for freight did not increase in 2019. Spending on R&D remains low. Coordination of research and innovation policies across government levels remains a challenge and the evaluation of research programmes and policies is not systematic.

Source: European Commission.

Even before the crisis Spain was far from reaching the Europe 2020 targets, the EU's agenda for growth and jobs, based on five goals for employment, R&D, climate change, education and poverty and social exclusion (see Figure 6).

**Figure 6. Europe 2020: national targets and Spain's progress**

Europe 2020 targets	Spain's position
Employment rate target: 74%	The rate for the 20-64 age group was 68% in September 2019.
R&D target: 2% of GDP	With R&D spending at 1.24%, reaching the 2% target in 2020 remains practically unattainable.
National greenhouse gas emissions target: -10% in 2020 compared with 2005 (in sectors not included in the EU emissions trading scheme)	Emissions from sectors not covered by the EU Emission trading scheme were reduced by 14% between 2005 and 2018, above Spain's 2020 target of -10% compared to 2005. Based on the latest national projections taking into account existing measures, the 2020 target is expected to be exceeded by a margin of 4 pp. However, Spain is expected to miss the 2030 target of -26% by 10 pp.
2020 renewable energy target: 20%	With a renewable energy share of 17.4% (2018), Spain is above its indicative trajectory to reach the 2020 target, despite a slight decrease compared with 2017, which will make the increase to meet its 2020 target, steeper.
Early school/training leaving target: 15%	The rate of early school leaving (18-24 years old) decreased by 0.4 pp in 2018 to 17.9%, but is still the highest in the EU and almost 3 pp above the target. The indicator varies greatly across regions and it is especially high for students with disabilities and non-EU born background.
Tertiary education target: 44% of population aged 30-34	In 2018, the proportion of 30-34 year-old tertiary graduates increased to 42.4%. It is above the EU average (40.7%) and not far from the target.
Target for reducing the number of people at risk of poverty or social exclusion, expressed as an absolute number: -1.4 million compared with 2008	Although the number of people at risk of poverty or social exclusion is decreasing since 2014, in 2018 it was still 1,261,000 more than in 2008. The 2020 target is far from reach.

Source: European Commission.

### Rise in Spanish patent applications for fifth year running

The number of patent applications registered in 2019 with the European Patent Office (EPO) rose 6% in 2019, the fifth successive increase.

A total of 1,887 requests were made by companies and researchers, 34 of them by the Spanish National Research Council (CSIC), 26 by the Tecnalia Research and Innovation Foundation and 23 by Telefónica.

Spain, however, remains far behind its peers in R&D spending (1.2% of GDP, well below the Europe 2020 target of 2% and miles behind leading countries such as Sweden, with more than 3%). On the basis of the number of patent applications per one million inhabitants, the EPO ranks Spain 25<sup>th</sup> out of 50 countries (see Figure 7).

**Figure 7. Patent applications**

	Per one million inhabitants
1. Switzerland	988.1
5. Germany	338.8
13. France	150.3
14. US	139.9
16. UK	94.1
19. Italy	71.5
<b>25. Spain</b>	<b>38.0</b>

Source: European Patent Office.