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Summary

Spain close to ratifying tax treaty with Gibraltar to fury of the right.
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Foreign Policy

Spain close to ratifying tax treaty with Gibraltar to fury of the right

Congress approved the tax treaty with Gibraltar, the British Overseas Territory, in the face of furious opposition from the conservative Popular Party and the far-right VOX whose amendments to the treaty were rejected by 201 votes to 138 with seven abstentions.

The treaty, part of Gibraltar's post-Brexit armoury, now goes to the parliament's Foreign Affairs Committee and then returns to Congress for a final vote. After that, it goes to the Senate, where the minority leftist coalition government can count on sufficient votes, for the same procedure. This process is expected to be over in October.

While the right thundered against the government for giving up on Spain's longstanding sovereignty claim on Gibraltar (ceded to Britain under the 1713 Treaty of Utrecht), and called the Rock a 'parasite' on the Spanish economy, the left spoke of 'an outstretched hand' as Brexit looms. Gibraltar voted 96% in favour of remaining in the EU.

'After 30 years with Gibraltar on Spain's list of tax havens, thanks to this treaty [Gibraltar] becomes an ally in the fight against tax evasion through transparency and cooperation…', said Alfonso Gómez de Celis, spokesman for the Socialist Group in parliament. Gibraltar denies it is a tax haven.

The PP's Valentina Martínez Ferro said Spain had missed 'a historic opportunity' presented by Brexit to push its sovereignty aspirations over the Rock and had instead demonstrated 'enormous weakness'.
Gibraltar was placed by the UK on the list of places that the controversial United Nations Special Committee on Decolonisation deems to be 'non self-governing' and subject to decolonisation.
Spanish Foreign Minister Arancha González Laya said Spain had not renounced its sovereignty aspirations, adding that the treaty –the first signed by Spain with the UK

regarding Gibraltar since the Treaty of Utrecht– safeguarded the UK and Spain's respective traditional positions.

Gibraltar's Chief Minister, Fabian Picardo, hailed the treaty last year when it was agreed as 'massively significant' as 'Spain recognises, for the first time in history, the existence of registered Gibraltarians and of the Gibraltarian Status Act'.

The treaty resolves the tax status for people and companies who live or are based in one jurisdiction but work or generate revenue in the other, and it cuts both ways. Some 15,000 workers cross every day from Spain into Gibraltar, which has a much lower tax regime than its neighbour, mainly Spaniards. The treaty has similar provisions to those in a double-taxation treaty, and provides for Gibraltar to keep legislation equivalent with EU law on matters related to transparency, cooperation, harmful tax practices and anti-money laundering.

The tax treaty and the four memorandums of understanding (MoUs), signed in 2018 between Gibraltar, the UK and Spain, and the Gibraltar protocol in the UK's withdrawal agreement, which underpins Gibraltar's position during the transition period, represent a starting point for discussion about a future relationship with Spain.

The MoUs cover citizens' rights, environmental matters, cooperation in police and customs matters and tobacco and other products. They ensure the Rock's orderly withdrawal from the EU and set out a time-limited framework for cooperation with Spain and were conditional on the UK achieving a negotiated exit from the EU, which took place on 31 January 2020.
As for the future free-trade agreement between the UK and the EU, to be signed by 31 December 2020, the end of the transition period, Gibraltar has made it clear that it must be part of the negotiation process related to the Rock, and it would walk away if any deal had sovereignty implications as the price for inclusion.

Gibraltar, the UK and Spain held their first round of talks on the Rock's post-Brexit relations with Spain on 9 June. No details were released.

Domestic scene

Edging towards the 'new normal'

The state of emergency imposed on 14 March because of the outbreak of COVID-19 is set to end on 21 June when the country will enter the 'new normal'.

Most of the country was in Phase 3 as of 15 June, the last step before the 'new normal,' except for the region of Madrid, the city of Barcelona and its metropolitan area, part of Lleida and the provinces of Salamanca, Ávila, Segovia and Soria (see Figure 1). These areas account for 30% of the 47 million population. Under Phase 3, regional governments, not the central government, decide matters related to the coronavirus including movement between these regions.
The north-western region of Galicia went straight into 'new normal' this week. This restored freedom of movement within the territory, but with certain safety norms in place

such as social distancing and hygiene measures.

Figure 1. Spain: phase 2 in yellow and phase 3 in green

Source: *El País*.

When the whole country is in this situation, face masks will remain compulsory in closed spaces or when it is not possible to keep a distance of 1.5 metres between people. Citizens will be able to move freely across the whole of Spain.

With more than 240,000 confirmed cases (almost 52,000 of them health workers) and over 27,000 deaths (19,400 of them in old people's homes from COVID-19 or compatible symptoms and 98 health workers), the sixth largest numbers in the world, Spain's return to some kind of normality has been a long haul (see Figure 2). Of all Spain's mistakes in tackling coronavirus, the epidemic in care homes is the most shocking. They were under-resourced and totally unprepared. The police have issued more than one million fines for breaking the rules.

Figure 2. COVID-19 confirmed cases and deaths (1)

	France	**Spain**	Italy	Germany	Austria	Greece
Deaths	29,053	**27,134**	33,774	8,646	672	179
Deaths per-100,000 inhabitants	43	**58**	56	10	8	2
Confirmed cases	149,495	**240,978**	234,531	183,678	16,803	2,937
Cases per-100,000 inhabitants	223	**516**	421	222	19	27

1) As of 7/VI/2020.

Source: WHO and Eurostat.

The state of emergency, which gives the central government sweeping powers, has been accompanied by the ugly spectacle of squabbling politicians and vitriolic debates in parliament (little more than a litany of insults).

A particularly heated issue was the decision to allow an international women's day demonstration in Madrid in March, as infections continued to rise. The conservative Popular Party and the far-right VOX accused the leftist minority coalition government of criminality. The magistrate Carmen Rodríguez-Medel shelved the case brought against the government's delegate in the Madrid region, the Socialist José Manuel Franco, for authorising the event that may have helped spread the coronavirus, on the grounds that there was insufficient evidence of criminal action.

King Juan Carlos under investigation over Saudi rail deal

Juan Carlos, the former King who abdicated six years ago in favour of his son Felipe, faces questions from the Supreme Court over the role he played in a deal which won a Spanish consortium a €6.7 billion contract to build a high-speed rail line in Saudi Arabia.

The Court launched an investigation following press reports that revealed he and his son were beneficiaries of an offshore account in Panama, named as the Lucum Foundation, opened in 2008 with a US$100 million gift from the late King Abdullah of Saudi Arabia.

King Felipe issued a statement in March saying he had become aware of claims that he was the beneficiary of the account and had renounced any benefit from it. He also renounced his personal inheritance from his father and ended the €195,000 annual allowance paid to him.

The investigation is focusing on possible criminal implications, including kickbacks, money laundering and tax evasion, after King Juan Carlos abdicated in June 2014, at which point he lost his constitutional protection from prosecution as the head of state.

Swiss prosecutors are also investigating an account operated by King Juan Carlos to which money was allegedly transferred by King Abdullah.

Eight of the 16 parties represented in parliament called for the body to set up a commission to investigate Juan Carlos, a move opposed by the ruling Socialists and the conservative Popular Party, the main opposition, which between them have 209 of the 350 seats.

Government approves draft law against child abuse

The Cabinet approved a draft bill to protect children and teenagers which includes protocols to be followed by schools as well as sports and leisure centres where minors are present, makes changes to judicial procedures and extends the statute of limitations on the most serious crimes.

In 2018, 38,000 minors were the victims of some kind of criminal act, according to Deputy Prime Minister Pablo Iglesias, the leader of Podemos, the junior partner in the Socialist-led minority coalition government.

Population rise largest since 2008, due to migrants, fertility rate lowest since 2000

The resident population rose to a record 47.3 million at the start of 2020 after registering the largest growth (+392,921) since the series began in 2008 and entirely due to migrants from abroad, according to the National Statistics Office (see Figure 3).

The net rise in migrants of 451,391 (748,759 immigrants and 297,368 emigrants) was also the highest since 2008 and substantially offset the fall of 57,146 in the natural growth of the population in Spain (357,924 births and 415,070 deaths).

Figure 3. Change in Spain's population 2012-2019

Year	2012	2013	2014	2015	2016	2017	2018	2019(1)
Change	-90,326	-215,691	-62,634	-9,466	+86,940	+131,408	+278,613	+392,921

(1) Includes statistical correction of -1,324.

Source: INE.

The number of foreign residents (excluding nationalised Spaniards) was up 395,168 in the year to 1 January 2020 at 5.23 million (11% of the population, see Figure 4). The largest increases were in Colombians (+62,355) and Venezuelans (+53,288).

Figure 4. Foreign residents by nationality, top 10 countries

	1 January 2020 (1)	1 January 2019	1 January 2013
Morocco	761,122	713,776	759,273
Romania	666,936	670,186	769,608
UK	300,987	286,753	316,362
Italy	268,151	243,748	181,046
Colombia	261,537	199,182	223,140
China	197,390	190,600	169,645
Venezuela	187,268	133,980	56,338
Germany	139,250	138,321	153,432
Ecuador	133,084	134,853	269,346
Bulgaria	122,946	123,335	147,310
Total of all countries	5,235,375	4,840,207	5,072,680

(1) Provisional figures.

Source: INE.

Data for the resident population began to be produced as of 2013, and is different from that based on those registered in their local town hall (*empadronados*), as this includes those whose usual residency is not in Spain, such as Britons with holiday homes.

Of the 748,759 immigrants, 16.3% more than in 2018, 664,557 were foreign and 84,202 Spaniards (51,669 of whom had been born abroad).

The fertility rate in 2019 at 1.23 children per woman was the lowest since 2000. The natural growth of the population was negative for the third year running.

Between 2009 and 2019 the fertility rate dropped from 1.38 to 1.23. Close to one-quarter of births last year (22.3%) were to foreign mothers (20.8% in 2018). The fertility rate of foreign mothers was 1.59 and 1.17 for Spanish ones.

The average age of women giving birth to their first child was 32.9 years in 2019. Almost 10% of babies born last year were to mothers over the age of 40 (4.2% in 2008).

The high rate of unemployment for those aged 25 to 35 and the precariousness of many labour contracts are the main reasons for the low and declining birth rate, something that will be accentuated this year because of the impact of coronavirus.

Support for Basque independence continues to fall

Only 14% are in favour of independence for the Basque Country compared with 16%, according to the latest poll by the University of Deusto. Just over one-third backed more autonomy for the region (see Figure 5).

Figure 5. Preferences for the Basque Country's territorial model (% of replies)

	% of replies
No autonomy	2.1
Less autonomy than now	3.3
The same degree of autonomy as now	32.9
Don't know	13.2
More autonomy than now	34.6
Independence	14.0

Source: Deustobarómetro Social, University of Deusto.

The Basque terrorist group ETA laid down its arms in 2017 after a 50-year struggle for independence and opted for a political path. It murdered 829 people in bombings and shootings. Its last killing was in 2010.

ETA's political heirs, EH Bildu, have five MPs at the national level and the more moderate Basque Nationalist Party (EAJ/PNV) seven.

Record number of 'golden' visas

A total of 8,061 'golden' visas were granted in 2019, 22.6% more than the previous year and a record number for the seventh year running. These visas, under a law approved at the end of 2013, enable non-EU citizens to obtain residency permits in return for investing certain amounts or buying a property for more than €500,000.

Figure 6. Golden visas granted for buying property

	2013	2014	2015	2016	2017	2018	2019
Golden visas	2	489	658	661	575	599	681

The economy

Government launches minimum living income scheme

Around 850,000 of the poorest households (some 2.3 million people) are expected to benefit from the government's targeted minimum living wage scheme aimed at providing a better social safety net.
Only the far-right VOX opposed it on the tenuous grounds it would have a 'call effect' on illegal immigrants. Foreigners, however, need to live legally in Spain for at least a year in order to be eligible. Nevertheless, the party abstained in the parliamentary vote.

The plan, part of the agreement last November between the Socialists and Unidos Podemos to form their minority coalition government and costing around €3 billion a year (0.24% of GDP), sets a minimum monthly income depending on the number of children in a household (see Figure 7).

The basic amount for an adult without children is €462, close to half the legal minimum wage, and the maximum €1,015. Claimants have to be under 65, as over that age there are non-contributory pensions that pay out a minimum of €462 a month.

Figure 7. Monthly minimum income in euros by family composition

	€
One adult	462
One adult and one child	700(1)
One adult and two children	838(1)
One adult and three or more children	977(1)
Two adults	600
Two adults and one child	738
Two adults and two children	877
Two adults and three or more children	1,015
Three adults	738
Three adults and one child	877
Three adults and two children	1,015
Four adults	877
Four adults and one child	1,015
Other families	1,015

(1) Includes €100 more for single parent families.

Source: Social Security Ministry.

The programme hopes to lift around 1.6 million people out of extreme poverty, a group that accounts for 12.4% of the population, compared with the EU average of 6.9%. And 26.1% of the population is at risk of poverty, meaning they are living on less than 60% of the average income, or €8,871 a year.

UN special rapporteur Philip Aston denounced Spain's poverty rate, one of the highest in the EU, in a report earlier this year. The coronavirus crisis is accentuating it.

Social expenditure is highly oriented in Spain towards the elderly. Spain has the lowest average family benefits per child in the EU, and tax deductions are of limited advantage.

The scheme is compatible with having a salary up to a certain amount. Many people in Spain earn a tiny amount, which is not sufficient for the barest needs.

The programme is not the first of its kind in Spain. There are some 17 different schemes run by regional governments, but the distribution of the aid is very uneven and only reaches around 300,000 homes.

The minimum income will add a significant and permanent structural cost to Spain's problematic budget and will require a similar structural saving unless there is a big rise in government revenue. The Independent Authority for Fiscal Authority (Airef) forecasts a fiscal deficit this year of as much as 14% of GDP, higher than the government's estimate of 10.3%.

Spain's tax burden is well below the EU average (see Figure 8). Marginal personal tax rates are similar to the bloc's average. The problem lies with the effective rates for individuals and companies because of exemptions, deductions, rebates and loopholes, as well as fraud and evasion.

Figure 8. Tax-to-GDP ratio, 2002, 2007 and 2018 (1)

	2002	2007	2018
France	44.1	44.5	48.4
Italy	39.7	41.5	42.0
Germany	39.6	39.3	41.5
EU	38.6	39.2	40.3
Portugal	33.9	35.0	37.2
Spain	**34.1**	**37.3**	**35.4**
UK	33.2	35.0	35.1
Ireland	29.1	32.1	23.0

(1) The sum of taxes and net social security contributions as a percentage of GDP.

Source: Eurostat.

Spain to be hardest hit under renewed outbreak of COVID-19

The economy would shrink by more than 14% if a second wave of infections hits the country before the end of the year, the largest fall among developed countries, the Paris-based OECD think tank forecast (see Figure 9). If a second virus outbreak is avoided, the fall would be 11%.[1]

Figure 9. GDP growth rate forecasts, 2020

	Single-hit scenario	Double-hit scenario
France	-11.4	-14.4
Germany	-6.6	-8.8
Italy	-11.3	-14.0
Spain	**-11.1**	**-14.4**
UK	-11.5	-14.0
Euro zone	-9.1	-11.5

Source: OECD.

The recovery in growth in 2021would be slower in the double-hit scenario, at 5%, compared with a rebound of 7.5% in single-hit scenario. 'In both scenarios, the fall in domestic demand, due to job destruction and the shutdown of activity, is the key driver of the contraction', the OECD reported. 'The drop in external demand, especially in tourism services, will also weigh very strongly on the economy in 2020'. Tourism at more than 12% of GDP is a cornerstone of the economy.

Under the worst-case scenario, exports of goods and services, one of the engines of Spain's recovery from the 2008 global financial crisis, would plummet almost 20% this year and imports 21%. The unemployment rate, however, would not rise above the already projected 20% (below the peak of 26% in 2013) and general government debt would reach 129% of GDP.

The number of international tourists in March fell by 64% year-on-year and was zero in April because of border closures. Some activity is beginning to pick up as confinement measures are eased. The government said foreign visitors would no longer have to undergo a two-week quarantine from 1 July. An exception was made this week for 10,900 Germans who arrived in the Balearic Islands. They did not have to observe the quarantine because a safe corridor was established.

[1] Report available at https://www.oecd-ilibrary.org//sites/0d1d1e2e-en/1/3/3/42/index.html?itemId=/content/publication/0d1d1e2e-en&_csp_=bfaa0426ac4b641531f10226ccc9a886&itemIGO=oecd&itemContentType=#.

It was not clear whether British holidaymakers, who last year accounted for around one-fifth of the total 83 million tourists, would be able to return to Spain in droves. This will depend on the extent to which the UK, worse hit than Spain, reaches the same epidemiological situation as Spain.

Another problem is that while Spain plans to end its quarantine policy, the UK imposed a 14-day quarantine of its own for arrivals from 8 June, including returning holidaymakers, for an unspecified time. Unless lifted, this would deter people from holidaying in Spain.

The registered unemployed rose by 26,573 to 3.85 million at the end of May, a much smaller rise than the 282,891 in April, the first full month after COVID-19.

The jobless total was 778,285 higher than in May 2019 and excludes the 2.3 million furloughed workers, 387,815 of whom returned to work last month.

The number of social security contributors increased by 97,462 to 18.56 million, indicating a recovery in sectors such as construction and agriculture, as a result of the easing of the lockdown measures.

New foreign direct investment down 72%

FDI flows to Spain fell 72% in 2019 to US$12.4 billion, after three consecutive years of growth (see Figure 10), while outflows were also down at US$24.1 billion (see Figure 11), according to UNCTAD's 2020 World Investment Report.

Figure 10. FDI flows, 2016-19 (US$ billion)

	2016	2017	2018	2019
France	23.1	24.8	38.2	33.9
Germany	15.6	60.3	73.6	36.3
Italy	28.5	24.0	32.9	26.6
Spain	**31.6**	**38.8**	**45.0**	**12.4**
UK	258.7	101.2	65.3	59.1

Source: World Investment Report 2020, UNCTAD.

Figure 11. FDI outflows, 2016-19 (US$ billion)

	2016	2017	2018	2019
France	64.8	35.9	105.6	38.7
Germany	63.7	104.1	78.8	98.7
Italy	16.2	24.5	32.7	24.9
Spain	**43.94**	**52.34**	**27.07**	**24.13**
UK	-37.60(1)	117.54	41.42	31.48

(1) Disinvestments greater than investments.

Source: World Investment Report 2020, UNCTAD.

The stock of inward investment in 2019 stood at US$751.5 billion, up from US$659.0 billion in 2018 (see Figure 12). The big rise reflected the €/US$ exchange rate. Spain's figures are in euros and UNCTAD's in US dollars for all countries.

Figure 12. FDI inward stock, 2000, 2010 and 2019 (US$ billion)

	2000	2010	2019
France	184.2	630.7	868.7
Germany	470.9	955.8	953.3
Italy	122.5	328.0	445.7
Spain	**156.3**	**628.3**	**751.5**
UK	439.4	1,068.1	2,075.3

Source: World Investment Report, 2020, UNCTAD.

The stock of outward direct investment stood at US$606.5 billion, up from US$562.9 billion (see Figure 13).

Figure 13. FDI outward stock, 2000, 2010 and 2019 (US$ billion)

	2000	2010	2018
France	365.8	1,172.9	1,532.8
Germany	483.9	1,364.5	1,719.4
Italy	169.9	491.2	558.4
Spain	**129.2**	**653.2**	**606.5**
UK	940.2	1,686.2	1,949.4

Source: World Investment Report, 2020, UNCTAD.

Spain's banks have EU's lowest solvency level

The banking sector went into the COVID-19 crisis in a stronger position than when the 2008 global financial crisis hit Spain, but the average solvency level is the lowest among European countries, according to the results of the latest transparency exercise by the European Banking Authority (EBA).

Spain's fully loaded CET1 ratio, based on the 12 largest banks, is 11.9% (see Figure 14).

Figure 14. Average fully loaded CET1 ratios of European banks (%)

	%
Iceland	21.8
Finland	17.6
Poland	15.9
EU average	14.8
UK	14.6
France	14.6
Germany	14.6
Italy	13.2
Spain	11.9

Source: European Banking Authority.

Spanish banks justify their traditionally lower solvency ratios as the bulk of their business is retail and thus less volatile, and so needs less equity than investment banking. The Basque Kutxabank has the highest ratio (16.9%) and Santander, one of the euro zone's largest by market capitalisation and a globally systemic bank, the lowest (11.4%).

The EBA asked banks in March not to pay dividends until October in order to boost their capacity to absorb losses and support lending during the pandemic. Santander went further and cancelled its final 2019 dividend.

Corporate scene

Nissan to close Barcelona plant…

Nissan is to close its commercial vehicle factory in Barcelona as of December, with the loss of some 3,000 jobs directly and up to 22,000 indirectly, prompting protests and a blockade of the plant. The Japanese company is part of a three-way alliance with Renault and Mitsubishi, which are also restructuring their global operations.

The plant has been running at about 30% of capacity, far below that needed to make it profitable. In fiscal 2019 it produced 55,000 vehicles, about 10% of total European output. The Catalan regional government offered Nissan €100 million to produce new models, but said it received no response. Over the past 15 years the company has received €25 million in public aid. The central government estimated the closure would cost Nissan as much as €1 billion and investing in the plan would be a cheaper alternative. Renault's plants in Spain are unaffected by the reorganisation.

… and Alcoa its aluminium factory in Lugo

The US aluminium producer Alcoa plans to close its last plant in Spain at San Cibrao in Galicia, with the loss of 534 jobs. The company bought a dozen plants from Inespal when it was privatised in 1998. It cited high electricity prices in Spain as one of the main reasons for its decision.

Inditex records first loss, to close 300 shops in Spain

Inditex, the owner of fashion brands like Zara, Massimo Dutti and Berksha and one of the world's largest fashion retailers, registered its first loss because of the impact of the coronavirus which made it shut most of its shops.

The group booked a loss of €409 million for its first fiscal quarter, as a result of a drop in sales to €3.3 billion from €5.9 billion in the same period last year. But for online sales, which grew 50%, the fall would have been much worse. Up to 1,200 shops worldwide will be closed, around 300 of them in Spain.