

## Inside Spain Nr 174

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### Summary

Government setback as Nadia Calviño fails to win Eurogroup presidency.

PP sweeps again in Galician regional election, nationalists hold on to Basque Country.

Regions hit by new outbreaks of COVID-19.

Bank of Spain calls for reform agenda.

Iberdrola in take-over battle for Australia's Infigen.

### Foreign Policy

#### Government setback as Nadia Calviño fails to win Eurogroup presidency

The government was stunned when its candidate to head the influential group of euro-zone Economy Ministers failed to win the post despite the backing of Germany, France and Italy and other countries representing over 80% of the zone's GDP. Nadia Calviño was beaten by Ireland's Paschal Donohoe.

Prime Minister Pedro Sánchez thought Calviño, his Economy Minister and a former Director-General of the European Commission's budget department, had the job in the bag, after securing pledges to support her from 10 of the 19 countries, but one country apparently did not do what it said it would do.

The big countries were defeated by smaller countries. Each country has one vote as votes are not weighted according to population or GDP. The vote is secret so the country that changed its mind cannot be identified.

Donohoe's victory was interpreted in some quarters as a victory for the small low corporate-tax countries and a refusal to tax big tech companies more heavily. Another interpretation was the opposition of 'frugal' countries to the European Commission's recovery fund and the need for some countries, such as Spain and Italy, to be more willing to reform their economies and not just rely on spending their way out of the crisis and store up more problems in the future.<sup>1</sup>

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<sup>1</sup> See the article by Monika Sie Dhian Ho & Charles Powell at <https://euobserver.com/opinion/148958>.

In 2018 Calviño remarked in public that the ‘frugal’ countries (known then as the New Hanseatic League), such as Denmark, Estonia, Finland, Ireland and the Netherlands, were ‘small countries with a small weight’, words that probably came back to haunt her. Spain and these countries disagree about the conditions of the EU’s recovery fund.

In an article in *El Mundo*, Luis Garicano, the head of Ciudadanos’ group of MPs in the European Parliament, attributed Calviño’s failure to get the job to the government’s lack of international credibility, because of the presence in it of the far-left Unidos Podemos.

### EU’s handing of COVID-19 dents Spain’s faith in the bloc

Spaniards’ perception of EU institutions deteriorated because of the bloc’s handling of the coronavirus crisis, with 50% saying their view of them had worsened, the second-highest level after Italy, according to a survey of nine countries by the European Council of Foreign Relations (see Figure 1).

**Figure 1. How has your view of the EU changed during the coronavirus crisis? (%)**

	Improved	Stayed the same	Worsened
Sweden	7	68	25
Bulgaria	12	63	26
Denmark	8	66	26
Portugal	23	49	28
Germany	8	62	30
Poland	16	54	30
France	10	48	41
<b>Spain</b>	<b>8</b>	<b>42</b>	<b>50</b>
Italy	7	35	58

Source: European Council of Foreign Relations.

Fifty-two per cent of Spaniards believe the EU did not rise to the challenge. Only the Italians (63%) and the French (61%) are more critical of the EU’s performance.

Just 8% of Spanish respondents say the EU has been their country’s most useful ally in the pandemic –a tad ahead of China (7%), but well behind the World Health Organisation, at 20% (see Figure 2)–. However, 41% say they expect EU institutions to be Spain’s main supporter during the economic recovery.

**Figure 2. Who has been your country's greatest ally during the coronavirus crisis? (%)**

	No one	China	US	WHO	EU
Italy	28	25	6	10	4
Germany	26	2	1	10	4
France	22	4	1	13	7
<b>Spain</b>	<b>22</b>	<b>7</b>	<b>1</b>	<b>20</b>	<b>8</b>

Source: European Council of Foreign Relations.

Yet disillusionment in a country that is historically Europhile because of the EU's late initial reaction has not caused Spaniards to demand 'less Europe'. A whopping 80% of Spanish respondents said the crisis showed a need for more cooperation at the EU level, the second highest level after Portugal (see Figure 3). Just 9% believe EU integration has gone too far.

**Figure 3. How has the coronavirus changed your attitudes towards the EU? (%)**

	Showned need for greater cooperation	Showned that EU integration had gone too far	Don't know
Portugal	91	4	5
<b>Spain</b>	<b>80</b>	<b>12</b>	<b>9</b>
Italy	77	9	14
EU average	63	20	18
Germany	55	22	23
France	52	26	22

Source: European Council of Foreign Relations.

### Government worried over attacks on Hispanic statues in US

Statues of historic Spanish figures associated with the discovery of the Americas and colonialism, such as Christopher Columbus, have been attacked or removed in the US, and not just those of US citizens linked to slavery, following the protests against the killing of George Floyd by a policeman.

Foreign Minister Arancha González Laya said she had expressed concern, 'given the importance we attach to this shared history with the US, as shared as it is unknown'.

The deep Hispanic legacy can be seen in American symbols. Out of the 50 states that comprise the US, six make a reference to Spain in their flags. Juan Ponce de León

landed in 1513 on the east coast of what is today the state of Florida and claimed it for the Spanish Crown. In 1526 Lucas Vázquez de Ayllón explored the coast of Georgia and South Carolina, and in 1539 Hernando de Soto landed on the west coast of Florida with a large company, becoming the first white men to see the Mississippi River. In 1565 Pedro Menéndez de Avilés founded St Augustine in Florida, the oldest continuously inhabited city in what is now the US. When the English ship, the *Mayflower*, arrived in Plymouth, Massachusetts, in 1620, the Spanish empire was already well established.<sup>2</sup>

Had it not been for France and Spain, the US, as we know it today, might never have existed. At the time of the American Revolution (1775-83), part of the modern-day US west of the Mississippi River up to Canada as well as what is now called Mexico (then known as New Spain) were territories governed or claimed by Spain. Spain was an ally of France and an economic competitor of Great Britain. They took the side of the American rebels, more out of hatred for Britain, their old rival, than for any enthusiasm for the cause of independence. It was feared the latter would spread to the Spanish colonies in Latin America, as it eventually did (to Great Britain's benefit, it must be said).

## Domestic scene

### PP sweeps again in Galician regional election, nationalists hold on to Basque Country

Alberto Núñez Feijóo, the Popular Party (PP) Premier of Galicia, won his fourth consecutive absolute majority in the territory's election, but the PP performed badly in the Basque election where nationalist and pro-independence parties increased their seats in the region's parliament.

The PP won 42 of the 75 seats in Galicia, one more than in 2016, on a slightly increased share of the vote, while the leftist Galician Nationalist Bloc (BNG) tripled its number to 19 and overtook the socialists (see Figure 4). Galicia has been the PP's fiefdom since 1981 when the election was won by the Francoist Alianza Popular, the PP's precursor.

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<sup>2</sup> The relations between Spain and the US are explored in my 2005 book available in English at <https://www.files.ethz.ch/isn/31948/Spain%20and%20the%20US%20-%20Quest%20for%20Mutual%20Rediscovery.pdf> and in Spanish in an Elcano report published last month, coordinated by Carlota García Encina & Charles Powell and available at [http://www.realinstitutoelcano.org/wps/portal/rielcano\\_es/publicacion?WCM\\_GLOBAL\\_CONTEXTE=/elcano/elcano\\_es/publicaciones/informe-elcano-27-relaciones-espana-estados-unidos](http://www.realinstitutoelcano.org/wps/portal/rielcano_es/publicacion?WCM_GLOBAL_CONTEXTE=/elcano/elcano_es/publicaciones/informe-elcano-27-relaciones-espana-estados-unidos).

**Figure 4. Results of Galician elections, 2020 and 2016, seats and % of votes**

	2020 seats	2020 % of votes	2016 seats	2016 % of votes
Popular Party	42	50.0	41	47.5
BNG	19	23.8	6	8.3
Socialists	14	19.4	14	17.9
Galicia en Común	–	3.9	14	19.1

(1) In 2016, En Marea.

Source: Galician government.

In the Basque Country, the PP, on a joint ticket with the liberal Ciudadanos (Cs), won six seats, three fewer than when the PP ran on its own in 2016 and Cs won no seats (see Figure 5). The far-right VOX entered the Basque parliament for the first time with one seat, but failed in Galicia, as did Cs.

**Figure 5. Results of Basque elections, 2016 and 2020, seats and % of votes**

	2020 seats	2020 % of votes	2016 seats	2016 % of votes
Basque Nationalist Party	31	39.1	28	37.6
EH Bildu	21	27.8	18	21.2
Socialists	10	13.6	9	11.9
Elk. Podemos	6	8.0	11	14.8
Popular Party-Cs	6	6.8	–	–
Popular Party	–	–	9	12.2
Ciudadanos	–	–	0	2.0
VOX	1	1.9	–	0.07

Source: Basque government.

Núñez Feijóo is on the PP's moderate wing. Carlos Iturgáiz, the PP's candidate in the Basque Country, was imposed by the leadership in Madrid and adopted its more strident discourse. Some of the PP's regional 'barons' said the party should learn from the more moderate Feijóo.

The radical left *Galicia en Común* alliance, riven by infighting and led by Podemos, the junior partner in the minority national coalition government with the Socialists, lost all 14

of the seats it won in 2016. In the Basque Country, Podemos suffered another big defeat, dropping from 11 to six seats. Podemos now has no representatives in the regional parliaments of Galicia, Castilla-La Mancha and Cantabria.

The Basque Nationalist Party (PNV) secured 41 seats, seven seats short of an absolute majority (10 in 2016) and its best result in 36 years. Its leader Iñigo Urkullu, the region's Premier since 2012, will continue to rely on the Socialists for support, rather than the pro-independence EH Bildu, the political heirs of the violent separatist group ETA, which won three more seats. Two of Bildu's MPs served prison sentences for their links with ETA.

Both the PNV and EH Bildu supported the formation of Pedro Sánchez's minority government. An opinion poll published by the state-funded CIS before the Galician and Basque elections showed the Socialists in a stronger position to win a general election, despite the opposition's vociferous criticism of their handling of the pandemic (see Figure 6).

**Figure 6. Voting intention estimates (% of votes)**

	June 2020	Results of November 2019 election
Socialists	31.2	28.0
Popular Party	20.0	20.8
VOX	12.5	15.1
Unidas Podemos	11.4	12.8
Ciudadanos	9.4	6.8
Republican Left of Catalonia	2.6	3.6
Basque Nationalist Party	1.4	1.6
Más País	1.3	2.4
Junts per Catalunya	1.2	2.2

Source: CIS.

### Regions hit by new outbreaks of COVID-19

Spain is struggling under its 'new normal' to contain more than 200 localised outbreaks of COVID-19, following the ending of its state of emergency and confinement a month ago. Health Minister Salvador Illa said another state of emergency could not be ruled out if the situation deteriorated further.

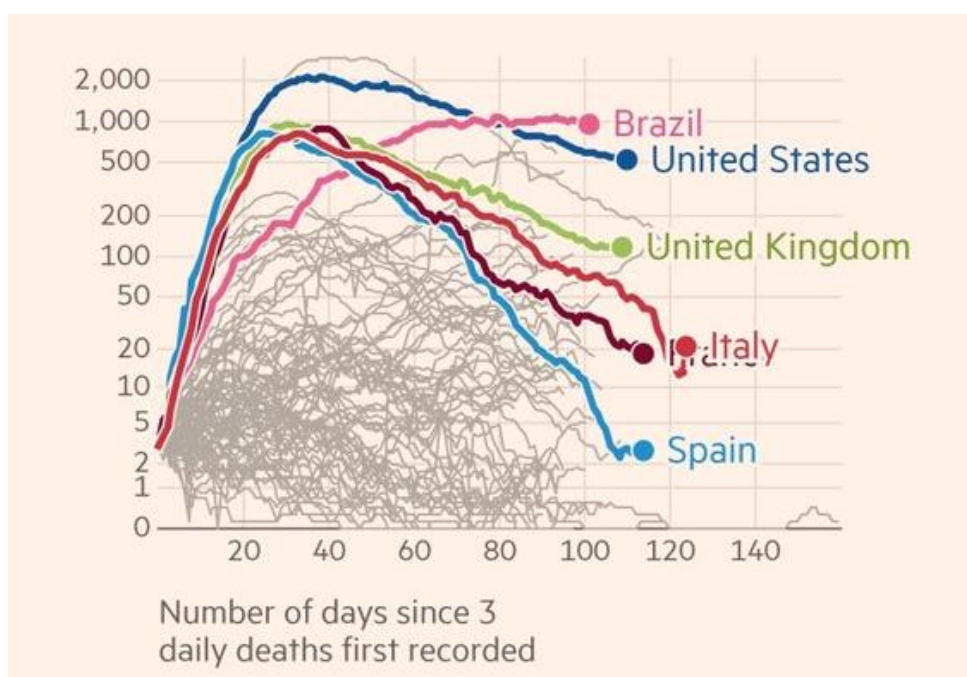
The number of new cases reported on 18 July (628) over the preceding 24 hours was the highest since 8 May, more than a month before the state of emergency was ended. The spikes were largely due to young adults gathering in enclosed spaces, in particular, and not respecting social distancing or wearing masks. Total confirmed cases reached

307,335 and the death toll 28,420, respectively the ninth and seventh largest numbers in the world.

Fifteen of the 17 regional governments made the wearing of face masks mandatory in all public spaces and imposed a lockdown in the worst areas. New restrictions were due to come into force in Barcelona and its metropolitan area affecting around 4 million people, told to stay at home unless really necessary.

Spain's seven-day rolling average of new deaths from Covid-19 at 2 July was the lowest out of Brazil, US, UK, Italy and France (see Figure 7).

**Figure 7. New deaths attributed to COVID-19 in the US, Brazil, the UK, Spain, France and Italy (seven-day rolling average of new deaths, by number of days since three average deaths recorded)**



Source: Financial Times analysis of data from the European Centre for Disease Prevention and Control, the Covid Tracking Project, the UK Dept. of Health & Social Care and the Spanish Ministry of Health; data updated 2/VII/2020, 2:35pm BST.

The government is making available an extra €16 billion to help the regions cover the pandemic's costs.

In Mallorca, a popular holiday destiny, the authorities responded to drunken and maskless tourists crowding together (mainly Britonss and some Germans) in Magaluf by shutting down food, drink and entertainment venues in the notorious Punta Ballena strip.

The final round of a study showed that just 5.2% of people have developed antibodies to COVID-19, way below the numbers needed for herd immunity.

### Former Catalan Premier and family to be charged for amassing a fortune through crime

A seven-and-a-half-year investigation into former Catalan Premier Jordi Pujol and his family ended with a judge announcing they would be charged with forming a criminal organization to amass a 'disproportionate fortune'.

José de la Mata said Pujol, his wife Marta Ferrusola, their seven children and 18 other people linked to the family used their 'highly privileged position in Catalan political, social and economic life to accumulate huge wealth through corrupt activities'.

Some of their alleged crimes including money laundering, tax fraud and false documentation took place between 1980 and 2003, after Catalonia was given a large measure of autonomy and Pujol was in office. Companies won contracts in return for kickbacks.

Pujol, head of the CiU party, acted as the kingmaker for both minority Popular Party and Socialist governments, wringing concessions for the region for his support.

In a separate development, Roger Torrent, the Speaker of the Catalan parliament, and Ernest Maragall, an MP, said they would file a lawsuit against Félix Sanz Roldan, the former head of the National Intelligence Centre, for allegedly targeting their mobile phones last year with spyware.

Both Torrent and Maragall are leading figures in Catalonia's independence movement. An illegal referendum on secession was held in 2017, followed by the region's parliament unilaterally declaring independence.

Last year, the Spanish Court found nine separatist leaders guilty of sedition and misuse of public funds for organising the referendum and making the declaration and handed down prison sentences of up to 13 years.

### Parliament rejects probe into former PM's alleged links to death squads

The ruling Socialists supported by the conservative Popular Party and the far-right VOX blocked a bid by Basque and Catalan parties to open a parliamentary investigation into whether former Socialist Prime Minister Felipe González knew about or authorised the killing of 27 people by death squads operating in the mid-1980s against the Basque terrorist organisation ETA.

The move followed the declassification of a CIA report dated January 1984 which named González. 'The government appears determined to adopt an unorthodox strategy in dealing with ETA'. It continues: '[...] González has agreed to the formation of a group of mercenaries, controlled by the Army, to combat the terrorists outside the law'.

José Barrionuevo, González's former Interior Minister, and Rafael Vera, his former Secretary of State for Security, were jailed in 1998 for their involvement in the Anti-Terrorist Freedom Groups (GAL).



There have long been questions regarding who was the mastermind behind GAL, commonly referred to as 'Mr X'.

ETA killed more than 800 people during a four-decade campaign for Basque independence. It disbanded in 2018.

## The economy

### Bank of Spain calls for reform agenda

The Bank of Spain urged the government to look beyond the policies needed to soften the initial economic impact of the coronavirus pandemic and define a reform agenda to redress public finances in the medium term.

'Otherwise, persistently high public debt/GDP ratios will leave us chronically vulnerable ahead of any adverse macrofinancial shocks in the future', warned Pablo Hernández de Cos, the Bank's Governor.

Debt is forecast to surge from just under 100% of GDP to around 120% this year, depending on the extent of the economic recovery, and the fiscal deficit from 2.8% of GDP to as much as 14%.

Many of the challenges –the high levels of debt and deficit, the ailing pensions system, low productivity, high unemployment and an insufficient education system– were clearly evident before the health crisis and are now even more pressing.

The Governor supported the government's extension of short-time work arrangements (ERTEs) until the end of September but said some of the support instruments for the most vulnerable households should be retained.

The number of furloughed workers dropped from 3.3 million at the end of April to 1.8 million at the end of June, as companies took back employees.

Boosting productivity requires increasing public and private investment in human and technological capital, reviewing the educational model, and promoting business growth and dynamism, the Governor said.

The labour market duality (insiders on permanent contracts and outsiders on temporary contracts) and the very high structural unemployment rate are not only limiting growth capacity, but also increasing inequality.

The prospects for reforms among the bickering parties are not good, however, and even less so for reforms that last for more than one legislature, as the Governor said was needed.

The conservative Popular Party (PP), the main opposition, agreed to back the leftist coalition government on reinforcing the health system, hard hit by the pandemic, but not

on future economic measures. One of the sticking points is tax rises, particularly for the wealthy.

The government approved more measures to mitigate the current impact of the pandemic. These include:

- A €50 billion corporate aid package to boost companies' solvency, including €10 billion to bail out companies in sectors regarded as strategic and considered viable. The state will be able to take stakes in these companies via the industrial holding company SEPI.
- €1.8 billion to support transport companies, €1 billion of it for the state-owned rail operator Renfe. This aid is on top of the €1.8 billion lent to airlines.
- The leasing of public land to private companies and the waiving of royalty fees on condition of a commitment to build and manage social housing during the lease. Spain has a low supply of affordable housing –2.5% of the stock compared with an EU average of over 5%–.

### Exports plummet 17% in first five months

The impact on foreign trade of COVID-19 was dramatically seen in the 17.2% slump in exports of goods in the first five months and the sharper fall of 18.5% in imports.

Exports amounted to €101.4 billion and imports €110.5 billion, leaving a deficit of €9.1 billion, 31.3% lower than a year earlier. Exports covered 91.8% of imports.

The hardest hit sector was the motor industry (12.5% of total exports) whose sales were down 34.2%.

Exports to the EU (60% of the total) fell 16.7%, to the Americas 19.1%, to Africa 24.7% and to Asia 9.8%.

### Spain moves closer to coal-free power

Seven of the 15 coal-fired power plants still working were closed on 30 June, making Spain virtually coal-free for generating electricity. The plants provided around 1,100 jobs. In 2018, nearly 15% of all electricity consumed in Spain came from coal-fired thermal stations.

The four electricity companies that own them –Naturgy, Endesa, Viesgo and Iberdrola– ceased operations in order to avoid violating an EU environmental directive forcing them to adopt technology to clean up the gases they emit.

Spain has many combined-cycle plants that use gas and can easily replace the coal-powered plants. The country is also strong in solar and wind power energy. Solar energy generated 9.3% of total energy in May, double that of a year earlier.

Spain was the leading European market in solar energy last year and the sixth worldwide, according to the Spanish Photovoltaic Union (UNEF).

### UN rapporteur slams social assistance system as 'broken'

Spain's social assistance system is 'broken, underfunded, impossible to navigate and not reaching the people who need it the most', according to a UN report on extreme poverty and human rights.

In a damning report, UN Special Rapporteur Philip Alston said Spain suffered from widespread poverty, high unemployment, chronic youth unemployment, a housing crisis of stunning proportions, largely inadequate social protection arrangements, a segregated and increasingly anachronistic education system, tax and expenditure policies that provide far more benefits to the wealthy than the poor and a bureaucratic mentality that allows the authorities to shirk responsibility and values formalistic procedures over the well-being of people.

Alston visited Spain at the end of January for 11 days, before the coronavirus pandemic hit the country. Since then the poverty situation has worsened.

Spain ranks close to the bottom in many of the EU's poverty-related indicators: 26.1% of people and 29.5% of children were at risk of poverty or social exclusion in 2018. More than 55% had some degree of difficulty making ends meet and 5.4% experienced severe material deprivation.

'If strategic plans and voluminous reports could solve poverty, Spain would be riding high', said the report. 'But in the absence of a meaningful commitment to uphold people's social rights to housing, education and an adequate standard of living, these grand designs will continue to be as ineffectual as they have been over the past decade'.

The release of the report coincided with one by the NGO Oxfam Intermón, which said Spain's relative poverty rate (those living with less than 60% of the median disposable income) would rise from 21.5% before the pandemic to 23.1%, lifting the number of people in poverty by 700,000 to 10.8 million.<sup>3</sup>

### Number of millionaires rises

There were more millionaires in Spain in 2019 for the eighth 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 5% to 235,400, the 14<sup>th</sup> highest number in the world (see Figure 8).

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<sup>3</sup> See my post on this issue at <https://blog.realinstitutoelcano.org/en/covid-19-ups-spains-income-inequality/>.

**Figure 8. Number of rich Spaniards, 2009-19**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Number	143,000	140,000	137,300	145,000	161,000	178,000	192,500	202,100	224,200	224,300	235,400

Source: Capgemini, 2020 World Wealth Report.

The number dropped in 2008, 2010 and 2011 following the bursting of a massive property bubble and recession, and since then has risen.

### Civil servants at highest number since 2012

The total number of people working for the central, regional and local governments, the armed forces, universities and other personnel employed by public administrations stood at 2.59 million at the beginning of the year, the highest figure since January 2013, but still below the peak of 2.68 million in 2012, as of when cuts were made for austerity reasons (see Figure 9).

**Figure 9. Employees in public administrations**

	Central govt.	Regional govts.	Local govts.	Universities	Total
January 2020	512,767	1,357,761	570,819	156,365	2,597,712
January 2012	581,861	1,351,883	597,212	154,881	2,685,837

Source: Ministry of Territorial Policy.

## Corporate scene

### Iberdrola in take-over battle for Australia's Infigen

Iberdrola, one of the world's largest producers of wind power, is seeking to acquire Infigen in order to strengthen its presence in Australia's fast-growing renewables market.

The company improved its offer in response to the counteroffer made by UAC Energy Holdings, owned by the Philippines group Ayala and the Hong-Kong-based UPC Renewables.

Iberdrola has more than 18 gigawatts of wind capacity in its global portfolio and has been looking to expand into the Australian market, where it is developing a giant wind and solar hybrid park.