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Summary

Tax treaty with Gibraltar comes into force. European Parliament strips Puigdemont of immunity, opening path to extradition. Deputy PM Iglesias to run in snap Madrid regional election. COVID incidence rate plummets, but restrictions remain in place. Unemployment above 4 million, OECD lifts growth forecast. Iberdrola and VW plan electric-car production.

Foreign Policy

Tax treaty with Gibraltar comes into force

The tax treaty with the British Overseas Territory of Gibraltar, long claimed by Madrid, entered into force following its ratification by the parliaments of Spain, the UK and the Rock.

It was signed two years ago and was the first between the UK and Spain regarding Gibraltar explicitly for more than 300 years. Gibraltar was ceded to Great Britain under the 1714 Treaty of Utrecht.

‘This treaty will improve tax co-operation between the tax authorities of Spain and Gibraltar’, the UK’s Foreign, Commonwealth and Development Office said. ‘It provides rules for resolving conflicts over tax residency and enables administrative co-operation, through sharing of information and addressing disputes by means of a Joint Committee’.

Ratification followed last December’s agreement in principle between the Spanish and British governments on continued free movement between Spain and Gibraltar after the UK left the EU. Some 15,000 people cross the border from Spain to work in Gibraltar. More than 95% of Gibraltarians voted to remain in the EU in the 2016 Brexit referendum.

Gibraltar joined the OECD white list of territories committed to tax transparency in 2009 but remained on Spain’s list of tax havens. Spain is now expected to remove Gibraltar from its list.

‘This is an important step forward in tax cooperation with our neighbours and I trust it will be seen as undeniable evidence of Gibraltar’s commitment to transparency, which is widely recognised internationally’, said Chief Minister Fabian Picardo.

He said the treaty allowed Gibraltar's source-based taxation system to co-exist with Spain's residency-based system.

Domestic Scene

European Parliament strips Puigdemont of immunity, opening path to extradition

The European Parliament voted to lift the immunity of Carles Puigdemont, a former premier of Catalonia, and two other Catalan separatist MEPs, charged by Spain with sedition, increasing the chances of extraditing them from their self-imposed exile.

MEPs voted by 400 to 248 to remove Puigdemont's parliamentary immunity and by similar majorities for two other Catalan separatist lawmakers, Toni Comín and Clara Ponsatí. The three fled Spain in October 2017 after organising an unconstitutional independence referendum. Puigdemont and Comín live in Belgium and Ponsatí in Scotland.

Nine of their colleagues are serving jail sentences after they were found guilty of sedition by the Supreme Court in October 2019.

The vote was broadly supported by conservatives, socialists and liberals, the main forces in the Parliament. MEPs affiliated with Unidas Podemos, the junior partner in Spain's Socialist-led minority coalition, voted against lifting the immunity.

The government welcomed the vote. Arancha González, the Foreign Minister, said it showed MEPs' respect for the rule of law in Spain. 'The problems of Catalonia will not be solved in Europe by Europe; they have to be solved in Spain', she said.

It is far from certain, however, that Spain will succeed in extraditing the three, two of whom were elected to the Parliament in 2019 and one in 2020 to fill a vacant seat when Britain left the EU.

Meritxell Serret, a former Catalan Minister who also fled Spain in 2017, returned voluntarily earlier this month and presented herself to the Supreme Court in Madrid, which revoked the arrest order for her. She was allowed to go to Catalonia without precautionary measures and told to report to the court on 8 April.

The Spanish justice authorities have had a hard time trying to make extradition requests stick. A German court rejected a request in April 2018 when Puigdemont was in that country and detained. The court said he could only be extradited on the lesser charge of misuse of funds and not for rebellion. It said the rebellion charge for organising the referendum was not a criminal offence in Germany, and the violence component needed to justify a high treason charge was lacking.

Belgian courts followed Germany's line also in 2018 when the extradition of Puigdemont and Comín was sought. An extradition request in January this year for another Catalan official, Lluís Puig, was also refused.

The national government has won support for crucial laws, including the 2021 budget, thanks to the backing of Catalan Republican Left's 13 MPs. It plans to review the crime of sedition and is considering possible pardons for the nine jailed Catalans. A judge ordered seven of them, who were granted semi-liberty before the Catalan election on 14 February so they could part in the campaign, back to prison earlier this month. He said the decision to release them with certain conditions was premature and they had not accepted they had committed a crime.

The new Catalan Premier is likely to be Pere Aragonès, the leader of Catalan Republican Left (ERC), which together with two other pro-independence parties won 74 of the seats in the 135-strong Catalan parliament in last month's election, four more than in 2017. The first investiture vote (with a qualified majority) is on 26 March and the second (simple majority) on 28 March, if required.

Aragonès, the former Deputy Premier, became the interim Premier in 2020 after Quim Torra, the leader of Together for Catalonia (JxCat), had to step down after he was barred from public office for 18 months for disobeying election campaign rules. This time round ERC, which is less confrontational than JxCat, won more seats (33) than JxCat (32) and will be at the helm of the divided independence movement (see Figure 1). The Popular Unity Candidacy (CUP), the other party in favour of independence, doubled its seats to nine and became the kingmaker.

Figure 1. Elections to the Catalan parliament, 2021 and 2017 results (number of seats and % of votes)

	2021	% of votes	2017	% of votes
Catalan Socialist Party (PSC)	33	23.0	17	13.9
Catalan Republican Left (ERC)	33	21.3	32	21.4
Together for Catalonia (JxCat)	32	20.1	34	21.6
VOX	11	7.7	—	—
Popular Unity Candidacy (CUP)	9	6.7	4	4.5
<i>Catalunya en Comú-Podem</i>	8	6.9	8	7.5
<i>Ciudadanos (Cs)</i>	6	5.6	36	25.3
Popular Party (PP)	3	3.8	4	4.2
Voter turnout		53.6		79.1

Source: Catalan Government.

Laura Borràs, a JxCat deputy and under investigation for administrative fraud and embezzlement of public funds, was elected President of the Catalan parliament. She vowed to continue the struggle for independence and the work of Carme Forcadell, her predecessor in the post, who is one of the nine separatists jailed for sedition.

The secessionist parties electoral victory is far from a clear mandate for a break with Spain.

The largest block of the electorate (46.5%) did not vote and of those who did 27.2% voted for secessionist parties and 25.2% for other parties, very different from 2017 when the abstention rate was 20.9% and independence parties got 37.6% of votes and others 40.3%. Political disaffection and fatigue after a decade of the independence conflict and not just the impact of the pandemic kept voters at home.

Much is being made of the secessionists capturing more than 50% of the vote for the first time (50.7% vs 45.7% in 2017), but ERC and JxCat (including PDeCAT, which split from it and won no seats on its own) lost 35.6% and 32% of their votes, respectively, compared with 2017. A total of 2.8 million people voted, down from 4.7 million in 2017.

Surveys show the higher the income of a voter and the more Catalan their family background the more likely they are to vote for pro-independence parties: 87% of voters earning more than €4,000 a month and with four Catalan grandparents want secession from Spain compared with only 16% of those earning less than €900 and born in another region (see Figure 2).

Figure 2. People by group of origin and income who want independence for Catalonia (%)

	Under €900	€900- €1,200	1,200- €1,800	€1,800- €2,400	€2,400- €4,000	Over €4,000
Four Catalan grandparents	64	68	78	78	84	87
Two Catalan parents	63	57	59	64	68	68
One parent born in Catalonia	45	49	49	51	61	59
Catalan, with parents born elsewhere	31	30	33	32	40	31
Born abroad	28	25	26	29	33	27
Born in another Spanish region	16	15	18	20	25	26

Source: CEO/El País.

The hard-right VOX, which entered the Catalan parliament for the first time with 11 seats, two more than the Popular Party and the liberal Ciudadanos combined, won the largest share of votes (25%) in low-income areas compared with 17% for ERC and 13% for JxCat (see Figure 3). These two parties captured 29% and 36%, respectively, of votes in high income areas.

Figure 3. Votes in Catalonia by party (%) in low, medium-low, medium-high and high income neighbourhoods (1)

	Low (%)	Medium-low (%)	Medium-high (%)	High (%)
VOX	25	25	24	26
Popular Party	19	20	22	39
Ciudadanos	21	23	25	31
Socialists	23	25	26	26
En Comú Podem (ECP)	18	23	28	31
Republican Left of Catalonia (ERC)	17	24	30	29
Catalan European Democratic Party (PDeCAT)	13	19	26	43
Together for Catalonia (JxCat)	13	22	30	36
Popular Unity Candidacy (CUP)	14	23	31	32

(1) Small areas with around 1,000 inhabitants.

Source: Catalan government and INE/El País.

Deputy PM Iglesias to run in snap Madrid regional election

What began as a power play in Murcia's regional government has ended up triggering a snap election in the Madrid region and the departure from the minority Socialist-led central government of Deputy Prime Minister Pablo Iglesias of the hard-left Unidas Podemos to run in it on 4 May.

Isabel Díaz Ayuso, Madrid's Popular Party (PP) Premier in a coalition with Ciudadanos (Cs), called the election after Cs lawmakers in Murcia switched sides and joined the Socialists in backing a vote of no confidence against the region's PP-led government. She feared the same thing would happen on Madrid and sacked leading officials from Cs.

The issue went to the courts as the Socialists and the small Más Madrid party registered non-confidence motions against Díaz Ayuso to try to stop the snap election (not due until 2023). Madrid's High Court ruled in her favour.

In a further twist, three of the six Cs deputies in Murcia changed their minds and joined the PP, making it unlikely the PP will be ousted unless hard-right VOX lawmakers (themselves divided) support the vote of no confidence next week.

The Madrid election will be a key test for Cs and could have national implications. The party did badly in last month's election in Catalonia, losing 30 of their 36 seats, and in

the November 2019 general election when its seats in the national parliament dropped from 57 to 10.

Cs has been unable to forge a clear identity under the centrist Inés Arrimadas since moving rightwards under her predecessor Albert Rivera after more than doubling its seats to 57 in the April 2019 election, a shift that backfired. The PP and VOX will be fighting for its votes in the Madrid election.

Both Díaz Ayuso and Iglesias are polarising and abrasive figures. She sees the election in simplistic terms as a fight between 'freedom or communism'.

Iglesias hoped to join forces with Más Madrid, the party founded by Iñigo Errejón after he split from UP. It won 20 seats in the Madrid regional parliament in the 2019 election, 13 more than UP.

The Socialists have 37 seats, the largest number, but they could not form a government because the PP and Cs formed a coalition that is now dead.

Former King Juan Carlos settles €4.4 million in back taxes, his second such payment

King Juan Carlos, who abdicated in favour of his son Felipe in 2014 and left the country for Abu Dhabi last August under a cloud of scandals, made a voluntary tax settlement of €4.4 million including interest payments and fines, related to private jet travel and other expenses paid by a Liechtenstein-based foundation from which he benefited.

Last December he paid €678,393 to clear tax debts relating to gifts from a Mexican-British businessman. Payments-in-kind in Spain are subject to taxes.

The former King is also under investigation over whether he received kickbacks from a high-speed train contract won by a Spanish consortium in 2011.

He was constitutionally immune from prosecution until he stepped down and Spain's statute of limitations applies to transactions that took place five to 10 years ago.

By making the voluntary payments before charges are brought, he cannot be prosecuted for the tax offences.

The latest move gave more ammunition to those political parties, including the hard-left Unidas Podemos, the junior partner in the Socialist-led minority coalition government, and parties pushing for independence in Catalonia, who want the monarchy to be replaced by a republic.

Prime Minister Pedro Sánchez rejected the former King's 'uncivil conduct' and defended Felipe VI as 'exemplary'. 'We are not questioning institutions but the conduct of one person'. Deputy Prime Minister Carmen Calvo said Juan Carlos's regularisation of his tax affairs showed Spain is 'a country that demands that everyone is accountable'.

COVID incidence rate plummets, but restrictions remain in place

The 14-day cumulative count of COVID-19 cases per 100,000 residents came down sharply over the last month from 417 to below 150 (the threshold at which the government considers the country should be put on high alert), but mobility restrictions will not be eased in the run up to and during Easter Week, as they wrongly were during Christmas and the New Year, for fear of sparking a fourth wave of infections (see Figure 4).

Figure 4. Coronavirus (COVID-19) cases per 100,000 people in past 14 days by regions

	18 January 2021	15 February 2021	15 March
Andalucía	628	498	122
Aragón	615	434	140
Asturias	318	416	178
Balearic Islands	680	187	43
Basque Country	350	406	174
Canary Islands	175	133	120
Cantabria	352	223	95
Castilla y León	911	508	108
Castilla-La Mancha	1,007	399	72
Catalonia	631	325	166
Extremadura	1,384	241	55
Galicia	484	374	77
Madrid	790	559	223
Murcia	1,082	287	66
Navarre	386	280	127
La Rioja	921	405	77
Valencia	896	506	45
Spain (1)	689	417	129

(1) Including the North African enclaves of Ceuta and Melilla.

Source: Health Ministry.

The roll-out of vaccinations has also picked up, leading to a 95% fall in infections in old people's homes between 24 January and 21 February, the hardest hit segment of the population (around 30,000 of the 72,000 deaths). Two out of every three people who

died from the coronavirus over the last 12 months were over the age of 80 compared to fewer than 10% of those under 59.

Figure 5. COVID-19 vaccination doses administered per 100 people (1)

	Doses per 100 people
UK	37.9
US	31.6
Spain	11.4
Italy	10.9
Germany	10.7
France	10.6

(1) This is counted as a single dose, and may not equal the total number of people vaccinated, depending on the specific dose regime (eg, people receive multiple doses).

Source: <https://ourworldindata.org/covid-vaccinations?country=ESP~FRA~DEU~ITA~GBR~USA>.

The Canary and Balearic Islands, with incidence rates of 120 and 43 on 15 February, respectively, is allowing people to leave and enter and 14 others remain closed. Madrid, whose Popular Party-led government has consistently gone its own way, appealed against the Health Ministry's decision. Madrid's incidence rate was 223.

Madrid's greater freedom, with restaurants open until 11pm compared with 5pm in Catalonia, has encouraged young French people to descend on the capital at weekends.

Spain drops in Global Freedom and V-Dem democracy indices

Spain fell from 30th to 40th position out of 210 countries and territories in Freedom House's latest Global Freedom Index on a lower score (90 out of 100, down from 92 in 2020) and equal with Italy and France (see Figure 6).

Figure 6. Global Freedom, 2021 (1)

	Score
1= Finland	100
14= Portugal	96
19= Germany	94
27= UK	93
40= Spain	90
40= Italy	90
40= France	90
60= US	83

(1) Out of 210 countries and territories.

Source: Freedom House.

The score is based on 10 political rights indicators and 15 for civil liberties. Political rights are grouped into three subcategories: electoral process, political pluralism and participation, and functioning of government. Civil liberties are grouped into four subcategories: freedom of expression and belief, associational and organisational rights, rule of law, and personal autonomy and individual rights. Countries are then divided into three groups: free, partly free and not free.

Spain also slipped in the V-Dem liberal democracy index from 9th to 13th place out of 179 countries (see Figure 7) on a very slightly lower score (0.80, the same as France and the UK, against 0.81). The index is based on a wide range of indicators including free and fair elections, property rights, media bias, freedom of religion and lower court independence.

Figure 7. Liberal Democracy Index, 2020

Rank out of 179 countries	Score out of 1
1. Denmark	0.88
4. Costa Rica	0.85
8. Germany	0.83
13. Spain	0.80
14. UK	0.80
15. France	0.80
21. Italy	0.78

Source: V-Dem.

Spain was ranked 9th in the electoral democracy index, 10th in the egalitarian component index, 26th in the participatory index and 28th in the deliberative component index.

Spain, healthiest place to live

Spain has the healthiest lifestyle among 20 countries ranked by *money.co.uk* on the basis of obesity and pollution rates, food prices, life expectancy and sunlight hours (see Figure 8).

Figure 8. Top 20 healthiest places to live

Rank	Country
1=	Spain
2=	Portugal
6=	Italy
9=	Singapore
12=	Finland
14=	France
18=	Germany
20=	England

Source: Money.co.uk

The Economy

Unemployment above 4 million, OECD lifts growth forecast

The number of those registered as unemployed surpassed four million in February for the first time in almost five years, and the number (4,008,789) excluded a rise of 91,511 in furloughed workers to an average of 909,661.

Almost half those on the government's job retention scheme (ERTEs) work in the tourism and hospitality sectors.

There was better news, however, on economic growth this year. The OECD increased its GDP forecast to 5.7% from 5% in December (see Figure 9), but this was below the government's optimistic 7.2%. A lot will depend on the extent to which the vital tourism sector, which in a normal year generates more than 12% of GDP, recovers and this, in turn, depends on the evolution of the pandemic and the roll out of vaccines before the mass tourism season begins in the summer.

Figure 9. OECD GDP growth forecasts, 2021 (%)

	2021	2020
France	5.9	-8.2
Germany	3.0	-5.3
Italy	4.1	-8.9
Spain	5.7	-11.0
Euro zone	3.9	-6.8

Source: OECD.

The government announced €7 billion in direct aid to small and medium-sized companies. The total aid package is €11 billion and includes €3 billion for voluntary debt restructurings of state-backed loans granted by banks to companies impacted by the pandemic and €1 billion in the form of capital injections.

It also set in motion legislation that classifies food delivery riders as employees of the digital platforms they work for, not self-employed. This followed a ruling by Spain's Supreme Court last September in a case brought by a former rider for Glovo and one by Britain's top court that said Uber drivers should be classed as workers and not self-employed.

The trade deficit last year came in at its lowest level in a decade (€13.4 billion), due to a 10% drop in exports and a 14.7% fall in imports (see Figure 10).

Figure 10. Exports and imports of goods, 2011-2020 (€ billion) (1)

	Exports	Imports	Deficit	Exports as a % of imports
2011	215.2	263.1	47.9	81.8
2012	226.1	257.9	31.8	87.7
2013	235.8	252.3	16.5	93.4
2014	240.6	265.5	24.9	90.6
2015	249.8	274.8	25.0	90.9
2016	256.4	273.8	17.4	93.6
2017	276.1	302.4	26.3	91.3
2018	285.3	319.7	34.4	89.2
2019	290.9	322.4	31.5	90.2
2020	261.2	274.6	13.4	95.1

(1) Provisional figures for 2020.

Source: Ministry of Industry, Commerce and Tourism.

Exports held up relatively well against a backdrop of a fall in global trade because of the impact of the pandemic on demand. Germany's exports declined 9.3%, France's 16.3%, the UK's 14.6% and Italy's 9.7%, all from much higher levels than Spain. The number of regular exporters (four years or more) rose from 52,956 to 55,133, a new record which should enable trade to continue to grow when markets pick up. Exports played a significant role in recovering from the previous crisis.

The big fall in imports, the largest since 2012 during the country's last recession, reflected the depth of the GDP shrinkage last year (-11.1%).

Capital goods continued to be the main exports and imports (see Figure 11).

Figure 11. Exports and imports by sectors, 2020 (% of total and change over 2019) (1)

Sector	Exports		Imports	
	% of total	% change	% of total	% change
Food, drink and tobacco	19.6	5.5	12.4	-4.8
Energy products	4.8	-40.9	9.8	-39.1
Raw materials	2.3	-14.4	3.1	-16.6
Non-chemical semi-manufactures	10.1	-10.4	7.0	-16.7
Chemical products	15.5	-3.6	18.0	-3.2
Capital goods	19.8	-12.8	22.6	-9.7
Automotive industry	14.8	-12.9	11.1	-24.7
Consumer durables	1.7	-2.7	2.9	-5.0
Consumer manufactures	9.5	-15.1	12.6	-10.6
Other goods	1.8	9.2	0.5	-6.6

(1) Provisional figures for 2020.

Source: Ministry of Industry, Commerce and Tourism.

Exports fell to almost all countries, except, most notably, to China (+20.1%), spurred by sales of pork as the Asian giant suffered a bout of swine fever.

Spain shoots up B2C E-commerce index

Spain rose from 34th position to 17th in UNCTAD's index, which measures an economy's preparedness to support online shopping, one of the largest rises among 152 countries (see Figure 12).

Figure 12. UNCTAD B2C E-commerce index, 2020 (1)

2020 rank	% of population using the Internet	2020 Index value out of 100	2019 rank
1. Switzerland	97	95.9	2
4. Singapore	89	94.4	3
5. UK	96	93.6	4
6. Germany	93	93.4	9
12. US	87	91.0	13
17. France	89	90.0	16
24. Spain	91	84.9	34
29. Italy	76	81.8	36

(1) Ranking out of 152 countries.

Source: UNCTAD.

The index is based on four indicators and 2019 data: account ownership at a financial institution or with a mobile-money-service provider; individuals using the Internet (% of population); postal Reliability Index and secure Internet servers (per 1 million people).

While Spain has a high share of the population using Internet (91%), only 58% are Internet shoppers (see Figure 13).

Figure 13. Internet shoppers as a share of Internet users and of population (%)

	As a % of Internet users	As a % of population
UK	91	87.4
Germany	84	78.1
Switzerland	83	80.5
US	80	71.2
France	77	68.5
Singapore	66	87.4
Spain	64	58.2
Italy	49	37.2

Source: UNCTAD.

Corporate Scene

Iberdrola and VW plan electric-car production

The government intends to hopes to use some of the EU's pandemic recovery funds to create a public-private consortium with automaker SEAT (part of the Volkswagen Group) and power company Iberdrola to build Spain's first factory for electric cars.

As Europe's second-largest car manufacturer, Spain as the potential to become an electric car hub with production of electric batteries. SEAT-branded electric cars are currently produced in Germany and Slovakia.

Spain's automotive sector (including components) generates 8.5% of GDP in a normal year and almost 20% of merchandise exports, and employs around two million people.

Herbert Diess, VW's chief executive, said the project would require an EU commitment over and above using recovery funds.