

Inside Spain 53

William Chislett

Foreign Policy

Spanish Judge's War Crimes Move Against Israeli Officials Angers Tel Aviv

The decision by a Spanish judge, Fernando Andreu, to open a criminal case against seven current and former senior Israeli officials for their alleged involvement in 'crimes against humanity' in connection with the 2002 bombing in Gaza that killed a top Hamas official and 14 other people provoked the wrath of the Israeli government.

Ehud Barak, the Defence Minister, called the probe 'hallucinatory' and said: 'Whoever calls the assassination of a terrorist a 'crime against humanity' is living in an upside-down world'. He said he would take all necessary action to defend the officials from the charges and to have them annulled. The story made the front page of the *Jerusalem Post*.

Miguel Ángel Moratinos, Spain's Foreign Minister, told Tzipi Livni, then Israel's Foreign Minister, that the government would seek to change its legislation in connection with universal jurisdiction. 'Legal systems around the world have been exploited by cynics whose sole purpose is to hurt Israel', Livni said. 'It's good that Spain decided to put an end to this phenomenon'.

The judge is acting under a doctrine that allows prosecution in Spain of such an offence or crimes like terrorism or genocide, even if they are alleged to have been committed in another country.

Official Development Assistance Reaches Germany's Level in GDP Terms

Spain's Official Development Assistance (ODA) continued to rise and reached 0.37% of GDP in 2007, the same level as Germany and slightly over half the 0.7% target set by the United Nations for wealthy countries, according to the latest figures issued by the OECD's Development Assistance Committee (see Figure 1).

Figure 1. Net Official Development Assistance as % of GDP and in billions of euros, 2007

Country	% of GDP	€billion
Norway	0.95	2.7
Sweden	0.93	3.1
Ireland	0.54	0.8
UK	0.36	7.2
France	0.39	7.6
Switzerland	0.37	1.2
Germany	0.37	8.9
Spain	0.37	3.7
UK	0.36	7.2
Australia	0.30	1.8
Italy	0.19	2.8

Source: OECD.

Spain's ODA rose by 23.6% in 2007 and in absolute terms was more than double the amount in 2003. ODA is a key element of the Socialist government's foreign policy, together with peace-keeping missions. Despite the severe downturn in the Spanish economy, Prime Minister José Luis Rodríguez Zapatero said he was still planning to reach the target of 0.7% in 2012, making Spain the first of the large EU countries to do so.

Latin American countries received close to 50% of the disbursement by continents, Africa 34%, Asia 15% and Europe 2%.

The 2009-12 Cooperation Plan, approved by the government this month, creates two new funds, one for development promotion (known as Fonprode) and the other to help the internationalisation of companies (Fiem), which replace the former system. Fonprode is managed by the Foreign Ministry and Fiem by the Industry, Tourism and Commerce Ministry.

Domestic Scene

ETA Detonates Car Bomb after Supreme Court Bans Two Political Parties Close to it
The Basque terrorist group ETA responded to a Supreme Court ruling banning two political parties close to it – Democracia 3 Millones and Askatasuna – from next month's regional elections by detonating a car bomb in Madrid.

The bomb, the first in the Spanish capital since the one in December 2006 which killed two people at Barajas airport (accidentally in ETA's view), exploded near the headquarters of Ferrovial which is involved in the high-speed train project for the Basque Country. This time there were no serious injuries.

The Supreme Court banned the two parties on the grounds that they were fronts for ETA. Its decision was endorsed by the Constitutional Court. As a result, the election in March in the Basque Country will be the first one in which the *abertzale* parties (leftist radicals) will not be fielding candidates. Every time one of these parties has been banned, another has appeared with a different name but the same allegiance to ETA.

The group ended a 15-month truce in June 2007. It has killed more than 820 people in its 40-year campaign for an independent Basque Country.

According to an opinion poll by the central government's Centre of Sociological Research (CIS), the Basque government headed by the Basque Nationalist Party (PNV) and two parties supporting it will not win a majority at the 1 March election. The Basque Socialist Party (PSE) is hoping it will win enough votes to form a government. The Socialists did well in the Basque Country in the March 2008 general election but it is by no means certain it will repeat this success in the regional election.

Supreme Court Ruling Enforces Controversial Civics Course

The Supreme Court put an end to the long-running battle between the Socialist government and the country's conservative forces and ruled that parents could not withdraw their children from the course on civics on the grounds of conscientious objection.

After a 20-hour debate, the Court agreed by 22 votes to seven that the civics course, introduced in 2007 to teach values consistent with a modern, diverse democracy, did not violate the rights of parents for their children to receive a religious and moral education in accordance with their convictions, or the right of ideological and religious freedom, both of which are established in the constitution. At the end of 2008, more than 6,600 students were boycotting the class on conscientious objection grounds.

The course has been virulently opposed by the Popular Party (PP), the ultra conservative hierarchy of Spain's Catholic Church and the Forum of the Family. All three said they would continue to combat what they regard as the 'indoctrination' of children and urged dissenting parents to appeal the decision.

PP controlled regional governments refused to give the course –common in many European countries– or in the case of Valencia to do so only in English. The Valencian government could not find enough English teachers so the course was given with simultaneous translation. When only two students passed the exam last autumn –both from English families– and teachers led massive demonstrations, the Valencian government said it would fall into line.

During the regime of General Franco (1939-75) the Church held sway in education. It has been very much on the offensive against the reforms of Prime Minister José Luis Rodríguez Zapatero allowing same sex marriage, fast-track divorce and more flexibility in stem-cell research.

Cardinal Tarcisio Bertone, the Vatican's Secretary of State, met Zapatero in Madrid ahead of the government's reform to make the abortion law more flexible, another issue of conflict with the Church. Zapatero invited the Pope to visit Spain next year.

Fewer Births and Immigrant Arrivals Slow Population Growth

Spain's population will increase by an average of around 380,000 a year over the next 10 years compared with 720,000 between 2002 and 2008, because of fewer births and reduced inflows of immigrants, according to the National Statistics Office (INE). The population is forecast to rise from 46 million to 49 million in 2018.

One of the main factors behind the slower pace of growth in the population –from an annual rate of 1.8% in 2007 to 0.7% as of 2010– is the downturn in Spain's economy, which is expected to be prolonged, and the rapid rise in unemployment. Between 2002 and 2007, when the economy was booming, immigrants accounted for between 84% and 93% of the annual population growth. Spain's fertility rate of 1.39 children per woman is one of the lowest in Europe.

The net balance of immigrants between 2008 and 2017 (entries less exits) is estimated at 2.93 million compared with 2.5 million between 2004 and 2007 (see Figure 2). INE's forecasts are based on those who register and stop being registered with their local town halls.

Figure 2. Net Balance of Immigrants, 2008-17

Year	Immigrants	Emigrants	Balance
2008	739,875	279,616	460,259
2009	516,000	244,607	271,394
2010	442,755	214,942	227,813
2011	445,698	198,036	247,662
2012	450,385	188,696	261,689
2013	456,818	183,993	272,825
2014	464,996	182,232	282,763
2015	474,919	182,414	292,505
2016	486,587	183,938	302,649
2017	500,000	186,470	313,530

Source: INE, short-term population projection.

As a result of a still low birth rate and rising life expectancy, the population will continue to age and the dependency rate –the proportion of people not working, such as those under the age of 16 or over the age of 64, sustained by the working population–rise. The population over the age of 64 will increase by 1.4 million (+19%) over the next 10 years, those under 15 by 921,000 (+13%) and those between 16 and 64 by 1.4 million (+4.7%). The dependency rate, defined as the relation between the population under 16 and older than 64 and that between 16 and 64, is forecast to increase from 47% to around 53%.

This is the first time INE has made a short-term (10-year) projection of the population. The figures will be revised each year. This projection complements the one made every three years which takes a 60-year time span.

Judiciary Defies Government and Threatens to go on Strike

As we go to press, judges, magistrates and staff in courts planned to go ahead with their strike on February 18, defying the government which said their move, the first of its kind ever, would be illegal.

Among the demands are that the number of judges per 100,000 inhabitants moves closer to the EU average of 16. Spain has 10 compared with Germany's 24 (see Figure 3). The judicial system has been steadily deteriorating over the years: the computer systems of different parts of the judiciary in many regions are still not interconnected, making paperwork voluminous and time-consuming. The backlog of cases reached a record 2.5 million at the end of 2008.

Figure 3. Number of Judges per 100,000 Inhabitants

Belgium	14.9
France	11.9
Germany	24.5
Ireland	3.1
Italy	11.0
Netherlands	12.7
Poland	25.8
Spain	10.1
EU-25 average	19.8

Note: figures for 2006.

Source: Council of Europe and Consejo General del Poder Judicial.

The Economy

Unemployment Rises Inexorably, Zapatero Warns the Crisis has not Bottomed Out

Almost 200,000 more people joined the dole queue in January, bringing the total number of unemployed to 3.3 million and the registered jobless rate to more than 14% (double the euro-zone rate). A figure of 4 million unemployed by the end of the year is now openly mentioned in government circles.

José Luis Rodríguez Zapatero, the Prime Minister, told parliament the crisis had not bottomed out. The economy is officially forecast to shrink 1.6% this year (it grew 1.1% in 2008 compared with 3.7% in 2007). Private sector economists say the recession will be deeper. Its magnitude could be worse than previous ones (see Figure 4).

Figure 4. Comparison of Spain's Previous Recessions

	1Q75- 3Q75	3Q78- 2Q79	1Q81- 4Q81	4Q92- 3Q93
Duration (1)	3	4	4	4
% GDP change/total (3)	-0.2	-0.3	-0.3	-0.4
%GDP change/worst quarter (2)	-2.0	-0.6	-2.2	-3.7
% change in private consumption/worst quarter (2)	-0.5	-0.3	-1.5	-4.0
% change FBCF/worst quarter (2)	-8.1	-6.7	-8.1	-21.5
Contribution of foreign sector to GDP growth as % (3)	0.3	-0.5	0.2	0.3
Increase in number of unemployed (3) (5)	–	170	284	625
Maximum unemployment rate (4)	–	9.1	13.6	19.3
% change in industrial production (3)	–	0.9	-1.7	-4.0
% change in car registrations (3)	8.9	-8.9	-16.9	-14.1

(1) Number of quarters.

(2) Quarterly change annualised.

(3) From previous period to final period of recession.

(4) From previous period to maximum reached (even one year following recession).

(5) Thousands.

Source: OECD, INE, Bank of Spain and calculations of La Caixa. Compiled by La Caixa.

Long-term unemployment has risen sharply: around 700,000 people have already spent more than a year seeking a job and 300,000 two years (these people no longer receive unemployment benefits). At the end of 2008, all members of more than 800,000 households were unemployed, almost double the number in 2007. Spending on these benefits in 2008 was 36% higher than budgeted and was one factor behind the dramatic change in the general government accounts (from a surplus of 2.2% of GDP in 2007 to a deficit of 3.4% in 2008). This year's officially forecast deficit of more than 6% of GDP will be well above the estimated deficit for the euro zone as a whole of 4%. The government approved an emergency €1.5 billion budget cut, spread across most ministries, to help finance the rising cost of unemployment.

It also unveiled a €1 billion assistance plan for the motor industry whose sales were 42% lower in January than in the same month in 2008. The industry employs around 300,000 people, generates 6% of GDP and accounts for a fifth of exports. All cars produced in Spain are manufactured by foreign companies, but the assembly and component sectors are mainly in Spanish hands. Miguel Sebastián, the Industry, Tourism and Commerce Minister, said state aid would be denied to companies that cut their workforces without trade union agreement.

He said the Spanish support plan would cost €26,062 per affected worker, compared with the UK's €16,216 and Germany's €2,307. Only France had done more, with €33,406 per worker.

The number of companies and individuals that filed for bankruptcy proceedings almost trebled in 2008 to 2,864 and affected all sectors, according to PriceWaterhouseCoopers (see Figure 5).

Figure 5. Number of Bankruptcy Proceedings by Economic Sector

	2007	2008
Motor industry	28	50
Industry	203	381
Agriculture	31	73
Food	62	84
Construction	182	692
Financial	2	13
Real estate	74	387
Individuals	118	417
Health	7	8
Services	214	515
Textiles	62	128
Transport	25	81
Other	7	35
Total	1,015	2,864

Source: PriceWaterhouseCoopers.

Zapatero and Bank of Spain Governor Disagree on Labour Market Reforms

Prime Minister José Luis Rodríguez Zapatero rejected the call by Miguel Ángel Fernández Ordoñez, governor of the Bank of Spain, for labour market reforms to enable the economy to be more productive and continue to grow at a faster pace than the EU average (as it had done every year between 1985 and 2007 except for 1992 and 1993) once it emerges from recession.

Fernández Ordoñez, appointed by the Socialist government in 2006, said Spain's labour market, particularly the system of severance payments for those on permanent contracts and collective bargaining, was inefficient and out of step with the rest of Europe. Zapatero said the cost of dismissals would not be reduced. Employers are clamouring for such a move.

Spain has a dual labour market, with those on permanent contracts enjoying considerably more protection than the one-third of jobholders (double the EU average) on temporary contracts. The former are eligible for up to 45 days salary per year worked up to a certain ceiling while the latter only receive eight days pay per year worked. Fernández Ordoñez said the solution was not simply to reduce dismissal costs but to also find other ways to increase the productivity of companies.

Spain's unemployment rate is rising at the fastest pace in the EU after having created jobs the most quickly during the country's economic boom. The structure of the labour market makes it very vulnerable to an economic crisis. Without reforms in the labour market, and also in others sectors such as education, Fernández Ordoñez said Spain's economy would probably only grow at the same pace as the EU average or lower.

Tourism Falls in 2008 for the First Time since 1995

Spain received 57.4 million tourists in 2008, 2.6% fewer than in 2007 and the first fall since the current series of statistics began to be drawn up in 1995 (see Figure 6). The sector, which generates 11% of GDP and provides employment for around one in every 10 people with a job, was used to notching up a record number of visitors every year.

The sharpest monthly decline in 2008 was in December (-13.8% over the same month of 2007).

Figure 6. Tourism Arrivals (millions)

	1995	2000	2002	2003	2004	2005	2006	2007	2008
Arrivals	34.9	46.4	50.3	50.8	52.4	55.9	58.1	59.1	57.4

Source: Instituto de Estudios Turísticos.

Santander and BBVA Buck Global Trend and Boost Profits

Santander and BBVA, Spain's two biggest banks, increased their profits in 2008, defying the global financial crisis. Santander's attributable profit rose 9.4% on a like-for-like basis, to €8.9 billion and dropped 2% if capital gains are included, while BBVA's profit inched up 0.2% to €5.4 billion (excluding exceptionals).

Santander's profit was the fourth-largest in the world and BBVA's the sixth, according to published figures so far and the estimates of Bloomberg (see Figure 7). In 2007, Santander's profit was the fifth-largest and BBVA was not among the top 10. Sixteen of the 20 main world banks eliminated or cut their dividend and three others decided to pay their dividend in the form of shares. Santander was the only bank in this group that maintained its dividend in 2008 and paid it in cash.

Figure 7. Top-10 Banking Profits, 2008

	€billion
ICBC China	11.7
CCB China	10.2
HSBC	9.8
Santander	8.9
Bank of China	7.1
BBVA	5.4
Barclays	5.3
Intesa	4.7
Unicre	4.6
JP Morgan	3.8

Source: actual results or Bloomberg estimates.

Santander had hoped to meet its forecast, made more than a year ago, of €10 billion but it did not do so partly because of a €500 million charge to the accounts for losses related to the Madoff scandal. Santander's total exposure to Madoff of €2.3 billion was the largest of any bank.

Under a deal, which excludes institutional investors and does not cover the profits private clients thought they had, Santander proposed to compensate individual clients with preference shares if they agreed not to take legal action on the issue, maintain their level of business with Santander and treat the bank as a 'preferential business partner'. Victims consulted by the press expressed dissatisfaction with the deal and expected Santander to sweeten the offer, the first by a bank whose customers invested in Madoff. A class action lawsuit has been launched against Santander in the US.

Santander sought regulatory permission to freeze payouts from its main real-estate fund after investors sought to withdraw 80% of the vehicle's capital at once. In a filing the bank said that the Santander Banif Inmobiliario FII fund, the country's biggest, 'currently lacks the necessary liquidity' to meet redemption demands worth €2.62 billion. The bursting of Spain's property bubble (total sales of homes plummeted 26% in December over the same period of 2007) triggered a run on the fund.

The profits of Santander and BBVA, which between them account for around one-third of Spain's financial system, underscored the Spanish financial system's relative health compared with other major European economies and the US.

Thanks to heavy 'counter-cyclical' bad-debt provisioning in previous years, on the instructions of the Bank of Spain, the country's banking system is not saddled with an exorbitant level of non-performing loans. Nevertheless, the non-performing loan ratio at the end of 2008 was 3.38% compared with less than 1% a year earlier. The property market slump is hitting the accounts of banks as mortgage arrears mount and real estate developers go bankrupt.

Responding to the criticism by the government that the banks in general were not lending enough and were intensifying Spain's recession by cutting off the flow of credit to companies, Emilio Botín, Santander's Chairman, said the banks would not be doing the economy a favour if they increased lending irresponsibly and put at risk the financial system's solvency as had happened in other countries. Demand for loans had fallen, he said, and the crisis was bound to make banks more prudent.

Earlier, Miguel Sebastián, the Industry, Commerce and Tourism Minister, had said the government was 'losing patience with the banks'. Pedro Solbes, the Economy and Finance Minister, and José Blanco, Vice Secretary General and spokesman for the Socialists, refuted Sebastián's remarks.

Foreign Direct Investment Rises in Spain

Despite the sharp economic downturn, Spain recorded the highest increase in foreign direct investment (FDI) inflows in 2008 among the big EU economies, according to projections made by the United Nations Conference on Trade and Development (UNCTAD). It rose 7.3% to US\$57.3 billion (see Figure 8).

Figure 8. Foreign Direct Investment Inflows, 2007-08

US\$ billion	2007	2008 (1)
France	158.0	114.3
Germany	50.9	26.0
Italy	40.2	2.3
Poland	17.6	16.2
Spain	53.4	57.3
UK	224.0	109.4

(1) Projection.

Source: UNCTAD.

Spain's inward FDI was the sixth largest in the world and the third in the EU (eighth and fourth, respectively, in 2007).

A significant part of the FDI in 2008 was due to two mega purchases of Spanish companies: the acquisition by Germany's E.ON of Endesa and Altadis by the UK's Imperial Tobacco. These two purchases amounted to €19.7 billion (US\$25.8 billion).

Repsol Discovers More Gas in Algeria and More Oil in the Gulf of Mexico

Repsol, the oil and gas conglomerate, made three new gas finds in Algeria's Sahara desert: one in the Reggane basin, where the company has already had a number of successes, another in the Ahnet Basin and a third in the Berkine Basin. Initial production tests showed an output of 1 million cubic metres/day (the equivalent of 1% of gas consumption in Spain).

The new wells confirm the significance for Repsol of the Reggane Basin, where the company's discoveries add up to total net reserves of 145 million barrels of oil equivalent, and consolidate the region as one of potentially great growth.

Repsol has a 33.75% stake in the consortium which made the discoveries. Algeria's state-owned Sonatrach controls 25%, Germany's RWE Dea 22.5% and Italy's Edison 18.75%.

In the Gulf of Mexico, Repsol made a significant new oil find in the deepwater area in US waters. The discovery was made in the Buckskin well in Keathley Canyon, 300 kilometres off Houston.

Repsol is the operator of the exploratory work on this new find. The consortium, in which Repsol has a 12.5% stake, is made up of Chevron (55%), Maersk Oil America (20%) and Samson Offshore Company (12.5%).

Spain Lags in Innovation Scoreboard

Spain's innovation performance and the rate of improvement are below that of the EU-27, according to the latest scoreboard published by the European Commission. It was ranked 20th out of 33 countries (the list includes some non-EU nations) and is among the group classified as 'moderate innovators'.

The scoreboard is based on 30 indicators in three categories (human resources, firm activities and outputs), a selection of which is shown in Figure 9.

Figure 9. European Innovation Scoreboard 2008, Selected Indicators

	France	Germany	Italy	Spain	UK	EU-27
Tertiary education per 100 population aged 25-64	22.0	26.8	13.6	29.0	31.9	23.5
Public R&D expenditure (% of GDP)	0.74	0.41	0.52	0.55	0.64	0.65
Venture capital (% of GDP)	0.099	0.008	0.050	0.123	0.483	0.107
Business R&D spending (% of GDP)	1.31	0.15	0.55	0.66	1.08	1.17
European Patent Office patents per million population	119.2	6.5	76.1	29.3	91.4	105.7
Technology balance of payments flows (% of GDP)	0.42	0.15	0.16	0.28	0.99	1.07
Employment in medium-high & high-tech manufacturing (% of workforce)	6.35	2.38	7.59	4.47	5.4	6.69

Note: The data for most of the indicators are for 2006 and 2007.
Source: European Commission.

Rises in Economic Freedom Index

Spain was ranked 29th out of 179 countries in the latest Economic Freedom Index produced by Heritage Foundation and the *Wall Street Journal* and its slightly higher score moved the country from the 'moderately free' category to the 'mostly free' category. Among European countries, it was ranked 16th. The index, based on 10 elements, was led by Hong Kong.