

## Inside Spain 57

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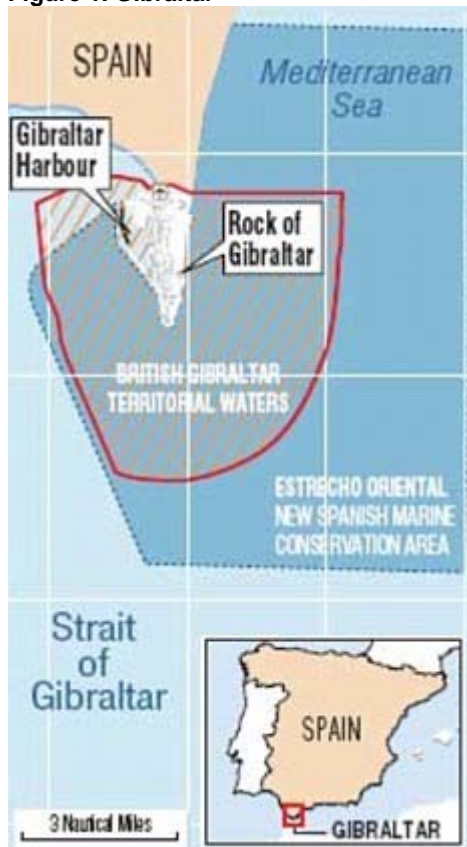
### Foreign Policy

#### *Spanish Move Over Gibraltar Waters Sparks Rebuke from London*

The European Commission's approval of an application to designate part of the waters near to Gibraltar, a UK overseas territory over which Spain claims sovereignty, as a Spanish site under the EU's habitats directive, drew fire from the British government (see Figure 1).

'As the UK is the only member state competent to propose a site covering British Gibraltar Territorial Waters (BGTW), we do not recognise the validity of the adopted site', said the Europe Minister Caroline Flint. 'The UK is deeply concerned that Spain should seek to designate an area of BGTW and that this designation should have been approved'.

Figure 1. Gibraltar



In the past, Spain respected Gibraltar's territorial waters on the median line in the Bay of Gibraltar and the three miles off the coast, including the zone adjacent to the isthmus not covered by the Treaty of Utrecht (1713) under which Gibraltar was ceded by Spain to Great Britain. Madrid's position is that Gibraltar cannot have territorial waters, which were not provided for under the Treaty.

The government of Gibraltar lodged an application in the European Court in Luxembourg to have the new rights reversed. 'Spain has usurped British sovereignty of Gibraltar waters', said Chief Minister Peter Caruana. 'This is clearly wrong and unacceptable. Its actions are not an innocent mistake. There is zero basis in international law for its position'.

The Former Conservative Party Chairman, Lord Tebbit, accused the Foreign Office of 'appalling incompetence' as it did not spot Madrid's move at the end of last year to register the waters. It was first spotted by the Gibraltar Natural History Society.

The sea surrounding the Rock is designated BGTW, but Madrid managed to persuade the European Commission (EC) to include most of it in a new environmental zone, to be maintained by Spain. All but one segment of the British zone –two square miles– has been swallowed up by the *Estrecho Oriental*, a 69-square-mile marine conservation area.

The UK and Gibraltar governments view the EC's decision as tantamount to recognising Spain's possession of British territory.

Tensions between the three sides have also been running high because Spain tried to inspect fishing boats in waters near Gibraltar last month. A Royal Navy ship forced the Spanish launch to retreat.

In 2004 the three sides set up a forum to air issues. The next meeting of the forum, at which the water issue will probably be high on the agenda, is due to be held in Gibraltar later this year. It might be attended by Miguel Ángel Moratinos, Spain's Foreign Minister, making it the first official visit by a Spanish Foreign Minister to the Rock.

Spain, meanwhile, at a meeting earlier this month of the UN's Special Committee on Decolonisation, opposed the attempt to remove the Rock from the list of Non-Self-Governing Territories undergoing decolonisation. While the UK believes Gibraltar's new constitution (approved by the people of Gibraltar in November 2006 in a self-determination referendum) provides for a modern, non-colonial relationship between the Rock and London, Madrid says the arrangement is no more than a sort of 'colonialism by consent'.

Alberto Virella, Spain's representative before the Committee, reminded its members that Gibraltar is the only non-autonomous territory that a European country maintains in the territory of another European country, even though both Spain and the UK are EU members and NATO allies.

## Domestic Scene

### *Popular Party Wins European Election, Rajoy's Position Strengthened*

The right-wing Popular Party (PP) won the European election, enhancing the position of its leader, Mariano Rajoy, and tightening the right's grip on the European Parliament. The PP's victory was not a resounding one: it won 42.2% of the votes and 23 of Spain's 50 seats, while the ruling Socialists, despite the country's recession and more than 4 million unemployed, gained 38.5% and 21, respectively (see Figure 2). Voter turnout was 46%, slightly higher than the all-time low of 45.1% in 2004 but above the EU-27 average (43.4%).

**Figure 2. Results of European Elections**

	2009 Seats	2009 Votes	2009 % of votes	2004 Seats	2004 Votes	2004 % of votes
Popular Party	23	6,615,015	42.2	24	6,393,192	41.2
Socialists	21	6,032,500	38.5	25	6,741,112	43.4
CE (1)	2	802,225	5.1	–	798,816	5.1
IU-ICV	2	583,708	3.7	2	643,136	4.1
UPyD	1	449,499	2.9	–	–	–
EP (2)	1	391,962	2.5	1	380,709	2.4
Galeusca (3)	–	–	–	2	798,816	5.1
Turnout (%)	46.0	–	–	45.1	–	–
Total seats	50	–	–	54	–	–

(1) Coalición Europea (Catalan, Basque, Galician and other nationalist parties).

(2) Europa de los Pueblos (left-wing nationalist parties).

(3) Galeusca was formed in 2004 by Catalan, Basque and Galician nationalist parties.

Source: Interior Ministry.

If one adds the votes of the United Left (IU) and those of Union Progress and Democracy (UPyD), a new party led by Rosa Díez, a former Socialist, the non-nationalist left wing parties (i.e. country-wide and not confined to a particular region) won 450,692 more votes than the PP.

The PP's widely-expected victory, with 582,515 more votes than the Socialists, followed that in the Galician regional elections in March and its victory in the 2007 municipal elections. Rajoy, who lost the 2004 and 2008 general elections and whose position as leader was under scrutiny by the party's barons, campaigned all around Spain as if he was fighting the next general election, which is not due until 2012 (see Figure 3). In Valencia, one of the party's strongholds, where the region's premier, Francisco Camps, is under investigation for corruption the PP's share of the vote was almost 15 points higher than that of the Socialists.

**Figure 3. General and European Election Results of the Socialists and the Popular Party (% of the vote)**

	1989	1993	1994	1996	1999	2000	2004	2008	2009
Socialists General	39.6	38.8	–	37.6	–	34.2	42.6	43.8	–
Socialists European	–	–	30.8	–	35.3	–	43.4	–	38.5
Popular Party General	25.8	34.8	–	38.8	–	44.5	37.7	39.9	–
Popular Party European	–	–	40.1	–	39.7	–	41.2	–	42.2

Source: Interior Ministry.

The Socialists, expecting a worse result, contented themselves with the best results of a European socialist party. The UK Labour Party, Germany's Social Democrats and France's Socialist Party suffered historic defeats.

The Prime Minister, José Luis Rodríguez Zapatero, played on fears that a PP victory would lead, if translated into one at the next general election, to cuts in social services and reducing the cost of firing workers. The elections were the first opportunity for Spaniards, since the country plunged into recession last year, to express their view of the government.

*Population Moves Closer to 47 Million, Foreigners Reach 12% of Total*

Spain's population increased by half a million in 2008 to 46.6 million, 12% of whom are foreigners, according to provisional figures from the National Statistics Office (see Figure 4).

**Figure 4. Spain's Population and Foreigners' Share, 2000-09**

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Population (million)	41.1	41.8	42.7	43.2	44.1	44.7	45.2	46.1	46.6
Foreigners' share (%)	3.3	4.7	6.2	7.0	8.4	9.3	10.0	11.4	12.0

Note: the figures at 1 January of each year are based on those registered with local town halls. Foreigners have an incentive to do this as it entitles them to public health care and education, although not everyone does so.  
Source: INE (National Statistics Office).

The number of foreigners registering in their local town hall was almost 330,000, much lower than in previous years and reflecting the slowdown in the arrival of immigrants as a result of Spain's recession. The total number of foreigners was 5.6 million, 6.3% more than a year earlier.

The EU-27 accounted for 40.5% of foreigners, followed by South America (28.1%), Africa (17.8%), Asia (5.2%), the rest of Europe (3.9%) and Central America and the Caribbean (3.4%). Rumanians continued to be the largest country bloc. Their number rose by more than 64,000 to 796,576, 14.2% of the total (see Figure 5). The number of Ecuadoreans, Bolivians and Argentines declined by 36,293, suggesting that the government's plan to encourage non-EU immigrants to return to their country of origin was beginning to have an impact.

**Figure 5. Foreign Population by Main Countries of Origin**

	1 January 2009	% of total
Rumania	796,576	14.2
Morocco	710,401	12.7
Ecuador	413,715	7.4
UK	374,600	6.7
Colombia	292,971	5.2
Bolivia	227,145	4.1
Germany	190,584	3.4
Italy	174,912	3.1
Bulgaria	164,353	2.9
China	145,425	2.6
Total	5,598,691	100.0

Source: INE.

One in five of babies born in 2008 has a foreign mother, a substantially higher proportion than the share of foreign mothers in the female population of fertile age (see Figure 6). Moroccan women accounted for almost one-quarter of the 107,475 births of foreign mothers.

**Figure 6. Births to Foreign Mothers**

	<b>Births to foreign mothers</b>
Total	107,475
EU-27	25,660
Rest of Europe	3,667
Africa	32,099
North America	995
Central America and Caribbean	3,907
South America	34,332
Asia	6,770
Rest	45

Source: INE.

The average number of children per woman rose from 1.40 in 2007 to 1.46, the highest since 1990. In 1976, it was 2.8. Spain's fertility rate is higher than Germany's and lower than France's (see Figure 7).

**Figure 7. Fertility Rates of Selected EU Countries**

	<b>1998</b>	<b>2007</b>
Ireland	1.93	2.01
France	1.81	1.98
Sweden	1.50	1.88
Netherlands	1.63	1.72
<b>Spain</b>	<b>1.16</b>	<b>1.40</b>
Germany	1.36	1.37
UK	1.71	1.84 (1)
Hungary	1.32	1.32

(1) 2006.  
Source: INE.

#### *Council of Europe Presses Spain to Ratify Criminal Law Convention on Corruption*

The Council of Europe's Group of States against Corruption (GRECO) urged the government to get tougher and ratify the Criminal Law Convention on Corruption and its Additional Protocol. Spain has been a member of GRECO since 1999, but has yet to make this move.

In its latest report, GRECO focuses on the criminalisation of corruption and the transparency of party funding, pointing out 'important shortcomings'.<sup>1</sup> With respect to bribery in the public sector, GRECO says the complex legal framework is deficient in its international dimension, bribery in the private sector is not criminalised at all and some of the penal sanctions are too weak.

As regards the lack of transparency over party funding, it said the public should be granted access to meaningful and timely information on political party accounts, including financial information on local branches and political foundations.

GRECO said the 2007 law on the financing of political parties had not resolved the shortcomings. It pointed out that the Court of Auditors had systematically criticised a 'significant number of irregularities and bad practices'. Corruption has mainly flourished in the once booming construction sector.<sup>1</sup>

<sup>1</sup> [www.coe.int/t/dghl/monitoring/greco/evaluations/round3/GrecoEval3\(2008\)3\\_Spain\\_One\\_EN.pdf](http://www.coe.int/t/dghl/monitoring/greco/evaluations/round3/GrecoEval3(2008)3_Spain_One_EN.pdf)

## The Economy

### *Government Admits Economy will Also Shrink in 2010, Raises Some Taxes*

The government admitted for the first time that GDP growth would also be negative in 2010, putting back recovery until 2011. The economy is estimated to shrink by 0.3% in 2010 and by 3.6% in 2009. The previous forecasts were positive growth of 1.2% in 2010 and negative of 1.6% this year. The budget deficit will reach 9.5% of GDP (-5.8% previously), almost three times higher than the EU limit of 3%. As a result of the sharp fall in tax receipts, taxes on petrol and tobacco were raised. The new figures are broadly in line with those of international institutions such as the IMF and OECD.

The number of unemployed registered in INEM's offices, however, declined in May for the first time in 13 months, raising hopes that Spain's recession had touched bottom. The total number of people on the dole was 3.62 million, 24,741 fewer than in April.

While the government trumpeted the decline as proof that its fiscal stimulus packages and other policies were beginning to bear fruit, particularly the Plan E to create short-term jobs and modernise the economy, private-sector economists said it was too soon to talk of a change in the trend. May is traditionally a month for hiring people in hotels and restaurants, ahead of the tourism season: the number of new social security contributors in the hostelry sector rose by 36,000.

The government revised its macroeconomic picture for this year and the next, bringing its forecasts into line with those of international institutions such as the IMF and the OECD. The economy is now estimated to shrink by 3.6% in 2009 (-1.6% previously) and the budget deficit will reach close to 10% (-5.8% previously). As a result of the sharp fall in tax receipts, the government raised taxes on petrol and tobacco.

Of the 3.62 million jobless, 1.17 million are no longer receiving unemployment benefits or other subsidies. The services sector accounts for the largest number of unemployed (just over 2 million), followed by construction (712,621), industry (494,991), first-time job seekers (245,997) and agriculture (92,920).

The seasonally adjusted jobless rate was 18.1% in April, double the EU average, according to the latest comparative figures from Eurostat, the statistical office of the European Communities (see Figure 8). Spain's youth unemployment rate of 36.2% is also by far the highest in the EU (see Figure 9).

**Figure 8. Seasonally-Adjusted Unemployment Rates in Selected EU Countries (%)**

	April 2009	April 2008
<b>Spain</b>	<b>18.1</b>	<b>10.0</b>
Latvia	17.4	6.1
Lithuania	16.8	4.3
Hungary	9.6	7.6
France	8.9	7.6
Poland	7.8	7.3
Germany	7.7	7.4
EU-27	8.6	6.8
Euro zone	9.2	7.3

Source: Eurostat.

**Figure 9. Seasonally Adjusted Youth Unemployment (under 25s)**

	April 2009	April 2008
<b>Spain</b>	<b>36.2</b>	<b>22.4</b>
France	22.0	18.1
Hungary	24.5	19.4
Poland	21.3	17.5
Germany	11.0	9.8
EU-27	18.7	14.7
Euro zone	18.5	14.7

Source: Eurostat.

Spain's fiscal stimulus, at US\$56.7bn, is the second biggest in absolute terms in Europe after Germany, according to the OECD's recent report *Policy Responses to the Economic Crisis* (see Figure 10). The calculation based on information at the end of April covers tax cuts, spending on public works and other stimulus measures to raise employment rates, liquidity to credit-strapped companies (especially SMEs) and households (families, in particular), special help to the automobile sector and modernising of basic industries such as transport, energy, services and telecommunications, and modernisation of the civil service.

**Figure 10. Fiscal Packages (revenues and spending measures), 2008-10**

	US\$ billion
US	804,070
Germany	107,789
Japan	99,992
Canada	61,551
<b>Spain</b>	<b>56,754</b>
UK	38,003
France	18,568

Source: OECD.

The public debt level, however, is well below the EU average (see Figure 11), giving the government comparatively more leeway to finance its way out of recession. It was close to 40% of GDP at the end of 2008, well below the Maastricht benchmark of 60%. Nevertheless, public debt is rising quickly and is forecast to reach close to 50% by the end of the year and around 60% in 2010.

**Figure 11. Public Debt (% of GDP)**

	2008	2007
Italy	105.8	103.5
France	68.0	63.8
Germany	65.9	65.1
EU-27	61.5	58.7
UK	52.0	44.2
<b>Spain</b>	<b>39.5</b>	<b>36.2</b>
Finland	33.4	35.1

Source: Eurostat.

Consumer prices fell 0.9% year-on-year in May, the third consecutive month of negative inflation. Spain was the first euro-zone country to suffer negative inflation when its consumer prices fell in March for the first time since 1952 due to the statistical effects of high year-ago oil prices.

The Economy and Finance Minister, Elena Salgado, denied there was a danger of deflation in Spain. She told the radio station *Cadena Ser*: 'Absolutely not, because this is solely and fundamentally due to the fall in oil prices'. The government sees positive inflation for the year as a whole.

### *Government Plans €9 billion Rescue Fund for Banks*

The government is preparing for the likelihood of some banks requiring funds to stave off collapse. Elena Salgado said legislation was being drawn up under which an ailing bank would be able to draw on a €9 billion emergency fund.

The announcement of the fund came ahead of the downgrading of 30 commercial and savings banks (known as *cajas*) by Moody's, the credit rating agency because of the deteriorating quality of their loans.

So far the only financial institution to require help is Caja Castilla-La Mancha, a small savings and loans bank, which was taken over by the Bank of Spain in April after it made available an immediate €9 billion of liquidity. This was Spain's first rescue since Banesto's in 1993.

Spain's banking system is relatively strong by current international standards, largely thanks to firm oversight by the Bank of Spain and its introduction of anti-cyclical generic provisions long before the current global crisis, but some banks are overexposed to the property sector, which has collapsed, and all of them are feeling the pinch from the country's recession.

The weakest part of the system are the 45 unlisted *cajas* controlled by regional politicians. They account for around half of total banking assets. The non-performing loan rate at the most exposed *cajas* is more than 6%, compared with an average for the whole banking sector of 4.2% in March (latest figure). The emergency fund is essentially aimed at them. It would be able to leverage itself 10-fold with the help of state guarantees and deploy up to €90 billion for rescue operations.

A report by Credit Suisse in May said the listed (commercial) banks had acquired €5.5 billion worth of property in the last 15 months, and the *cajas* probably even more. Hard-pressed property developers have swapped equity and assets for bank debt. This is not a long-term solution, however. The credit rating agency Moody's said properties bought from distressed borrowers 'should be considered as non-earnings assets subject to future impairment'.

Elena Salgado said the fund would only be used if mergers or other refinancing attempts failed. In the event of a bank rescue by the government, the Bank of Spain would acquire a controlling stake with voting rights.

### *Chávez Nationalises Santander's Bank in Venezuela*

Santander, Spain's largest bank, and the Venezuelan government reached agreement on the price for the nationalisation of Santander's subsidiary in the country almost a year after President Hugo Chávez announced the move.

The government agreed to pay Santander €755 million in cash and notes for Banco de Venezuela, the country's third-largest bank and the product of two banks bought by Santander in 1997 and 2000, respectively, and then merged. The bank has 285 branches and more than 3 million customers and generated a profit of €317 million in 2008.

The sale followed Santander's exit from Cepsa, the Spanish oil company, in April after it sold its 32% stake to International Petroleum Investment Company of Abu Dhabi.



The disposals will help to strengthen Santander's capital ratios.

The price is €10 million less than that agreed with private investors before Chávez announced the nationalisation.

*Spain's High-tech Exports Among the Lowest in the EU...*

The high-tech exports of Spain, which the government wants to boost as part of its efforts to make the economy more knowledge-based and less dependent on construction, represented less than 5% of total exports, one of the lowest levels in the EU, according to the latest figures (see Figure 12).

At 4.9%, the level of these exports was well below that of the UK, France and Germany, the three largest EU economies, but not that far off Italy's (6.3%). Spain's were at a very similar level to Slovenia, Lithuania and Latvia.

**Figure 12. Exports of High-tech Products (% of total exports), Selected EU Countries (1)**

	<b>% of total exports</b>
UK	26.5
Hungary	20.3
Finland	18.1
France	17.9
EU-27	16.6
Germany	14.1
Sweden	13.4
Italy	6.3
<b>Spain</b>	<b>4.9</b>
Poland	3.1

(1) 2006.

Source: Eurostat.

*... And Still Below the Averages in R&D Spending and Broadband*

Spain's spending on R&D has been rising at a quicker pace in the last few years but at 1.27% of GDP is still below the EU average (see Figure 13).

**Figure 13. R&D Spending (% of GDP) (1), Selected EU Countries**

	<b>% of GDP</b>
Sweden	3.64
Germany	2.56
France	2.08
UE-27	1.83
UK (2)	1.76
Netherlands	1.70
Czech Republic	1.54
<b>Spain</b>	<b>1.27</b>
Italy (2)	1.14
Hungary	0.97

(1) 2007 estimates or provisional figures.

(2) 2006.

Source: Eurostat.

In 2008, Spain had close to 21 broadband subscribers per 100 inhabitants, putting it in 20<sup>th</sup> place in the latest OECD ranking. Despite an increase of almost 3 subscribers per 100 inhabitants during last year, it is still below the OECD average (see Figure 14).

**Figure 14. Broadband Ranking, Selected Countries**

<b>Subscribers per 100 inhabitants, December 2008</b>	
1. Denmark	37.2
2. Netherlands	35.8
11. UK	28.5
13. France	28.0
14. Germany	27.4
15. US	26.7
<b>20. Spain</b>	<b>20.8</b>
22. Italy	19.2
OECD average	22.6

Source: OECD.

*Spain Fields 13 Companies in FT Global 500*

Thirteen Spanish companies made it into the FT Global 500 ranking of the world's biggest companies, one less than in 2008. The one that dropped out was Banco Popular (see Figure 15).

**Figure 15. Spanish Companies in the FT Global 500 Ranking (US\$ million)**

<b>Company and rank (1)</b>	<b>Market value</b>	<b>Net income</b>	<b>Total assets</b>	<b>Sector</b>
32 (35). Telefónica	93,828	9,983	131,357	Telecoms
62. (40) Santander	56,198	11,671	1,380,206	Banks
111. (83) Iberdrola	35,067	3,761	112,870	Electricity
132. (78) BBVA	30,404	6,601	713,553	Banks
180. (244) Inditex	24,290	1,648	10,225	General retailers
203. (460) U. Fenosa	9,453	1,570	25,442	Electricity
213. (193) Repsol YPF	21,121	3,564	64,996	Oil & gas producers
282. (306) Iberdrola Ren.	17,498	513	26,583	Electricity
354. (471) ACS	13,911	2,373	67,585	Construction
413. (324) Gas Natural	12,235	1,389	24,674	Gas, water, utilities
445. (300) Cepsa	11,276	361	12,690	Oil & gas producers
458. (399) Criteria Caixa	10,849	1,392	57,201	Financial services
480. (448) Abertis	10,475	812	29,219	Industrial transportation

(1) 2008 ranking in brackets.

Source: *Financial Times*.

Spain has the 10<sup>th</sup> largest number of countries in the ranking, three more than Italy and 10 fewer than France (see Figure 16).

**Figure 16. FT Global 500 2009, Market Value by Country**

<b>Country</b>	<b>Number of companies</b>	<b>Market value (US\$ mn)</b>
US	181	6,154,034
China	27	1,367,880
UK	32	1,160,225
Japan	49	1,110,743
France	23	796,714
Germany	20	617,515
Canada	27	526,459
Switzerland	10	515,635
Hong Kong	16	439,192
<b>Spain</b>	<b>13</b>	<b>359,000</b>

Source: *Financial Times*.