



Inside Spain 70

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Foreign Policy

Tensions with Morocco Heightened

Two separate incidents with Morocco intensified tensions between the two countries. Demonstrations by Moroccans at the border with the Spanish enclave of Melilla on the North African coast coupled with sporadic blockades on the movement of goods were followed by the arrest of a group of Spaniards for staging a pro-independence protest in El-Aaiún in the disputed Western Sahara, a former Spanish possession.

The protests at the border were sparked when five Belgian nationals of Moroccan origin tried to enter Melilla and accused the Spanish police of beating them. The police denied it.

The 14 activists involved in the demonstration over the Sahara belong to the Canary Islands Association of Friends of the Sahrawi People. Carmen Roger, one of the activists, appeared on the front page of several Spanish newspapers with dark red bruises and bulges under both eyes. She said she was beaten by plainclothes police, which the Moroccan authorities denied.

The Western Sahara is a mineral-rich area south of Morocco on Africa's north-west coast. Morocco took control of it in 1979, four years after the Spanish pulled out. The Sahrawi people seek independence. A UN-brokered truce has held since 1991 between a rebel group called the Polisario Front and Morocco. The Western Sahara is Africa's longest-running territorial dispute.

'We know that Spanish citizens have been provoking', said Moroccan Information Minister Khalid Naciri, adding that he wonders whether Moroccan citizens could 'demonstrate in the Basque country'.

José María Aznar, the former conservative Prime Minister of the Popular Party (1996-2004) was accused of 'disloyalty' by the Socialist government after he visited Melilla. PP leaders had earlier criticised the Socialists for not responding more vigorously to the protests at the border. José Blanco, the Public Works Minister and number two in the Socialist party, pointed out that Aznar had never visited Melilla when he was Prime Minister.

Relations between Spain and Morocco were so bad under the PP government that Rabat withdrew its Ambassador to Madrid for more than a year, and in 2003 Morocco invaded and briefly held the uninhabited (apart from goats) islet of Perejil, which belongs to Spain but is close to the Moroccan coast.

Morocco resents the existence of the Spanish enclaves of Melilla and Ceuta, which are part of the EU.

Last year Aminatou Haidar, a pro-independence Sahrawi political activist, went on hunger strike in Spain for 32 days after she was expelled from Morocco. She was allowed back into Morocco after gaining widespread sympathy and the intervention of Nicolas Sarkozy, the French President.

The Prime Minister, Jose Luis Rodriguez Zapatero, said maintaining good relations with Morocco was a priority because of shared interests involving security issues and trade. At the last official account, there were almost 750,000 Moroccans living in Spain (13% of the foreign population of 5.7 million).

Deaths Revive Debate on Spanish Troop Presence in Afghanistan

The killing of three men serving with the Spanish peacekeeping forces in Afghanistan in an attack claimed by the Taliban reignited the debate on Spain's participation in the NATO-led security mission against the insurgents.

Those killed were Capt. Jose Maria Galera Cordoba, Lt. Abraham Leoncio Bravo Picallo and their interpreter, Ataollah Taefik Alili, an Iranian-born Spanish citizen.

The two Civil Guard officers were training a group of 47 Afghan police at a base in Qala-i-Naw, the provincial capital, when one of the Spaniards' drivers, a Taliban infiltrator, opened fire with an assault rifle. The attack brought the number of Spaniards killed as a result of serving in Afghanistan to 95 since 2002, 62 of them in a plane crash in Turkey when returning to Spain.

While the conservative Popular Party (PP), which began Spain's mission in Afghanistan during the second government of José María Aznar, supports the military presence, the United Left (*Izquierda Unida*) is calling for a withdrawal and the Catalan CiU nationalist party wants Parliament to debate the deployment.

Spain has trebled the number of personnel in Afghanistan since 2002 to more than 1,500, the 10th largest number (see Figure 1), strengthening its position in the increasingly violent north-western province of Badghis, where it leads a Provincial Reconstruction Team (PRT). Spanish troops, unlike those from the US, the UK and Canada, are not directly engaged in fighting the Taliban as they are under tight rules of engagement.

Figure 1. International Security Assistance Force in Afghanistan (1)

	Number	Withdrawal Date
US	78,430	
UK	9,500	2015
Germany	4,590	
France	3,750	
Italy	3,400	
Canada	2,830	2011
Poland	2,630	2012
Rumania	1,750	
Turkey	1,740	
Spain	1,555	

(1) At 6 August, 2010.

Source: International Security Assistance Force (ISAF).

NATO is expected to decide in November whether the Afghan government is in a position to begin to assume control of its country. Madrid could then set a date for its withdrawal.

Spain Reverses Decision on Participating in Nato Training Mission in Iraq

The government will not send a contingent of instructors to Iraq to participate in the Nato Training Mission as there is no longer a need, said Prime Minister José Luis Rodríguez Zapatero, flanked by Anders Fogh Rasmussen, the Nato Secretary General, during his visit to Madrid.

The decision to send them was revealed by Joe Biden, the US Vice President, in May when he came to Madrid.

The shortage of funds and the difficulty of justifying such a mission –given Zapatero’s withdrawal of Spanish peacekeeping troops from Iraq in 2004– were understood to have been factors that influenced the change of decision.

US Stops Paying for 1966 Nuclear Accident at Palomares

Forty-four years after the US Air Force accidentally dropped four hydrogen bombs on Spain, Washington has decided to stop the annual payment of €314,000 for plutonium contamination checks and blood tests for residents in the area of Palomares.

A B-52G bomber of the USAF Strategic Air Command collided with a KC-135 tanker in January 1966 during mid-air refuelling at 9,450 metres. Four B28RI type hydrogen bombs fell on the area. The KC-135 was completely destroyed when its fuel load ignited, killing all four crew members. The B-52G broke apart, killing three of the seven crew members aboard.

Three of the bombs were found near Palomares, which currently has some 1,500 inhabitants. The fourth bomb was recovered from the Mediterranean Sea, after an arduous search of more than two months.

The US Department of Energy said the final radiological survey was completed in 2009 and received a positive review by the International Atomic Energy Agency and plans for final remediation were being prepared.

Domestic Scene

Government Dismisses ETA’s Ceasefire as Insufficient

The government dismissed the ceasefire announced by the Basque separatist group ETA, which has killed more than 820 people in 42 years, as a ploy to regroup. The organisation has been severely weakened by the arrest of military leaders in Spain and France.

‘Eta is stopping because it can’t continue’, said Alfredo Pérez Rubalcaba, Spain’s Interior Minister. ‘It is stopping to regroup, make no mistake. We can’t trust this’.

A hooded ETA female activist, in a video first broadcast by the BBC, defended the campaign of terrorist violence to establish a Basque state in northern Spain and south-west France, but said the group now wanted to achieve its aims by peaceful, democratic means. She was flanked by two other hooded militants.

ETA has been under pressure from nationalists in the Basque Country, most significantly the Batasuna political party, which was barred from last year's regional elections along with other pro-ETA parties. Some of Batasuna's former leaders urged ETA earlier this year to renounce violence. Batasuna wants to take part in next May's local elections, otherwise it runs the risk of being marginalised.

Brian Currin, the South African lawyer who was a mediator in peace processes in Northern Ireland and South Africa and is an advisor to Batasuna, said ETA's declaration was important but fell short of expectations. The group needed to permanently abandon violence.

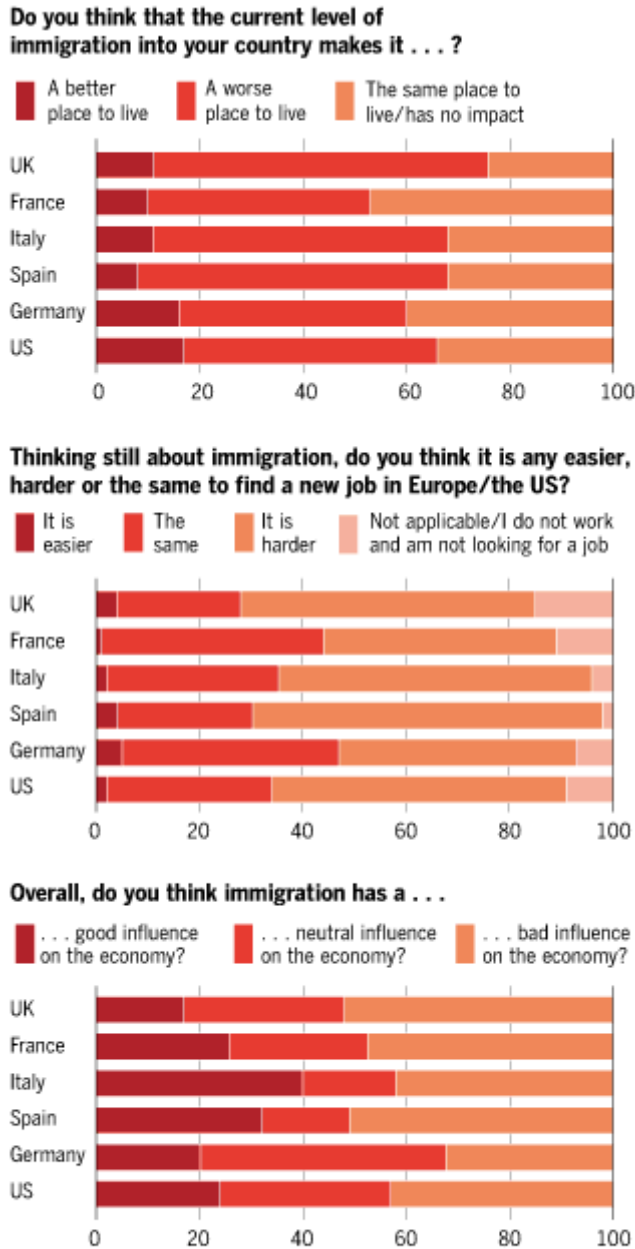
Previous ETA ceasefires have collapsed or been broken. In December 2006, a car bomb in a car park at Madrid airport killed two people during what was supposed to be a permanent ceasefire. Since then the government has been particularly wary of ETA.

Spaniards Uneasy about Immigration

Spain, with the EU's highest unemployment rate, and the UK are the western European countries where antipathy to immigrants is the highest, according to a Harris poll for the Financial Times (see Figure 2).

Some 67% of Spanish respondents said immigration to their country was making it harder to find a job, well above those of other states. Almost one-third of Spaniards thought they were being paid less as a result of the number of immigrants entering the labour market, also a higher proportion than in other states.

Figure 2. Acceptance of immigration



Source: This FT/Harris Poll was conducted online by Harris Interactive among a total of 6,098 adults aged 16-64 within France, Germany, UK, Spain, US and adults aged 18-64 in Italy from Aug 18 - 25 2010

Greenpeace Denounces Destruction of the Spanish Coast

More than seven hectares of coastline, equivalent to eight football pitches, disappear under concrete every day in Spain, according to the environmental organisation Greenpeace.

Its study said that between 1987 and 2005, construction was done on a total of 50,504 hectares of coast land. While the country’s population grew 5% between 1990 and 2000, urbanisation of the coast increased by 25.4% in the same period. The organisation said 44% of the population live on or near to the coast, occupying just 7% of Spain’s surface area.

Greenpeace's figures are based on 2005 data from the Observatory of Sustainability, a mixed public and private sector body. The situation had deteriorated further since then, Greenpeace said.

The Economy

Market confidence in the Spanish economy improved, but the country is still mired in very high unemployment, hardly any growth, low consumption and the government faces the prospect of an early general election if its budget for 2011 is not approved by the end of the year.

Spanish 10-year bond yields, which have an inverse relationship with prices, eased to 4.16% on 13 September from 4.85% in June. The spread over German bonds – a key indicator of market confidence – dropped from 278 bp in the middle of June – the highest since the advent of the euro in January 1999 – to 173 bp on 13 September (see Figure 3). It has to be borne in mind, however, that the yield on 10-year German bonds is very low.

Figure 3. 10-year Government Bond Spreads Over Bunds (pp)

	Spread versus Bund	
	July 12	September 13
France	+0.35	+0.27
Greece	+7.82	+9.15
Ireland	+2.75	+3.41
Italy	+1.46	+1.42
Portugal	+2.83	+3.34
Spain	+1.98	+1.73
UK	+0.74	+0.69

Source: ThomsonReuters.

Other signs of increased confidence were the use by domestic and international banks of a record amount of Spanish government bonds as collateral to borrow money in the markets, lessening Spain's reliance on the European Central Bank for loans. And the main listed commercial banks, such as Santander and BBVA, have returned in force to wholesale finance markets, after being squeezed out in May. The Madrid stock market picked up (see Figure 4).

Figure 4. Stock Market Indices (% change)

Index	% change	
	1 January-12 July	1 January-13 September
Ibex-35 Spain)	-15.7	-9.8
Dax (Frankfurt)	+2.0	+5.1
FTSE 100 (London)	-4.5	+2.8
Euro Stoxx 50	-9.4	-5.4
Dow Jones	-2.0	+1.1
Nikkei (Tokyo)	-9.4	-11.6

Source: Markets.

However, Spain's seasonally-adjusted unemployment rate of 20.3% at the end of July (4.6 million people), double the euro zone average, was the highest figure in a euro zone country since the single currency was introduced, according to the latest comparative figures (see Figures 5 and 6). The youth unemployment rate (under the age of 24) is 41.5% and among the foreign population 30%.

Figure 5. EU Unemployment Rates (%) (1)

	Unemployment rate (%)
Spain	20.3
Latvia	20.1
Ireland	13.6
Portugal	10.8
Euro zone	10.0
France	10.0
Poland	9.4
Italy	8.4
UK (June)	7.8
Germany	6.9
Austria	3.8

(1) July 2010.

Source: Eurostat.

Figure 6. Jobless by Sectors (1)

	2Q10	Change over 2Q09
Agriculture	235,600	+41,100
Industry	266,900	-127,500
Construction	527,600	-174,200
Services	1,442,800	-22,800
More than one year unemployed	1,810,800	+716,200
First-time job seekers	361,800	+75,200

(1) July 2010.

Source: National Statistics Institute (INE).

GDP growth in the second quarter (2Q) over the first quarter (1Q) was a mere 0.2%, although it was positive for the second quarter running.

The government rolled over for the second time for six months the €426 a month payment for the unemployed whose benefit had run out, but tightened conditions. Now, those aged between 30 and 45 who do not have families to support are excluded (an estimated 70,000 fewer beneficiaries). The government wants to abolish this payment next year.

Parliament approved the government's mild package of labour reforms (see *Inside Spain*, Newsletter 69, 14 July 2010) but with only the vote of the Socialists. Trade unions are due to stage a general strike on 29 September. Prime Minister José Luis Rodríguez Zapatero said he would go ahead with the reforms, aimed at enhancing, among other things, the labour market's capacity to create sustained jobs, even if the strike was successful. Opinion polls showed low support among workers for the strike.

Car sales, a key yardstick of consumer confidence, in August were at their lowest level for that month since 1989. The number of vehicles sold was 45,574, 24% lower than a year earlier. Two important factors behind this were the ending of the government's scrappage scheme and the rise in VAT from 16% to 18%.

The central government's budget deficit for the first seven months was 2.4% of GDP, putting it well on track to meet the target for the whole year of 5.9% (9.3% including regional and local governments and the social security system, down from 11.2% in 2009). Spending cuts and the rise in VAT are beginning to have an impact.

The lower than forecast cost of servicing the public debt made it possible, according to officials, to restore €700 million cut from the state infrastructure investment budget for 2011. The reduction is now €5.7 billion instead of €6.4 billion.

David Taguas, head of Seopan, the organisation representing construction companies, said the sector faced a 'very hard end of year.' He said firms could not be expected to pay their suppliers in 60 days, while their clients, particularly town halls, were taking on average more than 200 days to pay them. The finances of some town halls are extremely parlous.

Elena Salgado, the Finance Minister, said only those local governments whose debt is less than 75% of their current revenues would be allowed to continue to increase their indebtedness next year. This was an easing of her previous tougher policy, as a result of protests from mayors.

The Socialist government does not have a majority of seats in the national parliament and is relying on the Basque Nationalist Party (PNV), with six seats, to get its budget for 2011 approved. All other parties, particularly the conservative Popular Party (PP), are likely to vote against the budget. The price will be more self-government for the Basque Country, currently ruled by the Socialists (tacitly supported by the PP) as the nationalists lost their majority in the Basque parliament in the 2009 election for the first time in 29 years.

The PP shows no sign of easing up its relentless campaign for early elections as the solution to Spain's problems (it is eight percentage points ahead of the Socialists in polls). If the budget is not approved, an early general election would be on the cards.

An opinion poll showed that Spaniards have little confidence in either of the leaders of the two main parties (between them they represent in parliament 83% of votes). Three out of every four respondents in a poll by Metroscopia said neither Zapatero nor Mariano Rajoy, the PP leader, should be candidates at the next general election, an unprecedented situation (77% in the first case and 84% in the second).

Higher Taxes for the Rich Mooted

Spain's tax structure is sufficient to enable the government to meet its immediate budget deficit reduction targets, but there could be a 'small adjustment' to tax rates for the wealth, according to Elena Salgado, the Finance Minister.

The standard VAT rate was increased from 16% to 18% in July, the €400 tax rebate for all tax payers has been withdrawn, taxes on savings, tobacco and alcohol raised and the tax deduction for home purchases ends this year. Spain's maximum corporate tax rate of 30% is the fifth highest in the EU and well above the average rate of 23%, while the maximum personal income tax rate of 43% is also above the average of 37.8%.

Nevertheless, Spain's tax burden has dropped sharply from 37% in 2007 to 33% in 2008, according to the latest international figures, and probably closer to 30% in 2009. The tax burden has been hit by the recession and not by a reduction in tax rates: negative growth and high unemployment have produced lower revenues for the state's coffers.

Salgado has not spelled out what she means by 'the rich'. In 2008, there were 95,397 tax declarations of more than €150,000, 0.5% of the 19.3 million tax payers. Their payments amounted to €9.4 billion, 14.9% of the total collected (see Figure 7).

Figure 7. Income Tax Returns (1)

Tranches of declared income	Number of declarations (2)	Amount (€)	% of total received
Negative or zero	26	77,984	0
Up to €1,500	521	310,987	0
€1,500-6,000	127,294	4,140,751	0.01
€6,000-12,000	1,954,079	785,218,938	1.23
€12,000-21,000	4,756,217	6,672,866,432	10.5
€21,000-30,000	2,991,272	10,181,118,512	16.0
€30,000-60,000	2,868,838	21,442,422,568	33.7
€60,000-150,000	677,242	15,047,385,541	23.6
€150,000-601,000	87,291	6,354,945,798	10.0
More than €601,000	8,057	3,096,833,273	4.9
Total	13,470,837	63,585,320,783	100.0

(1) 2008 (latest published year).

(2) After eliminating deduction for double taxation and compensation for homes.

Source: Tax Agency, Spain.

The government could also combat tax fraud and the unofficial economy (which has grown as a result of the recession) more firmly. According to a recent report by Friedrich Schneider of the University of Linz, Austria, Spain's unofficial economy represents 20% of GDP (see Figure 8).

Figure 8. Spain's Unofficial Economy



Spanish Banks Do Well in Stress Test

Spain did well overall in the stress test conducted on 91 banks in the EU. Banca March emerged as the safest bank and the five savings banks that failed (out of a total of seven) account for an insignificant part of the country's banking system (see Figures 9 and 10). Santander, the euro zone's biggest bank by market value, was also rated one of the most solvent, and BBVA, the other large Spanish commercial bank, also fared well.

Figure 9. Top 10 Safest Banks

	Country	Tier 1 capital ratio 31/XII/2009 (%)	Stressed Tier 1 Capital Ratio 31/XII/2011 (%)
Banca March	Spain	19.7	19.0
OTP Bank	Hungary	13.8	16.2
Powszechna Kasa	Poland	13.3	15.4
Bilbao Bizkaia Kutxa	Spain	14.6	14.1
Barclays	UK	13.0	13.7
Sybbank	Denmark	13.1	13.2
Jyske Bank	Denmark	13.5	12.5
Rabobank	Netherlands	14.1	12.5
OP-Pohjola Group	Finland	12.6	12.3
Banque et Caisse d'Épargne de l'État	Luxembourg	11.4	11.3

Source: CEBS.

Figure 10. Top 10 World Banks Ranked by Tier 1 Capital (1)

	Country	Tier 1 capital ratio 31/XII/2009 (%)	Stressed Tier 1 Capital Ratio 31/XII/2011 (%)	Required Capital Injection (€ mn)
Diada	Spain	6.6	3.9	1,032
CajaSur	Spain	1.8	4.3	208
ATE	Greece	9.4	4.4	243
Unnim	Spain	7.2	4.5	270
Hypo Real Estate	Germany	9.4	4.7	1,245
Banca Cívica	Spain	9.6	4.7	406
Espiga	Spain	8.6	5.6	127

Source: CEBS.

It came as no surprise that some of Spain's ailing savings banks did badly in the stress test (see the next item).

Santander, on the other hand, is able to withstand an adverse scenario very well and in such an event would keep intact its Tier 1 ratio of 10%, well above the 6% reference. According to CEBS, Santander is the European bank which would obtain the highest pre-tax profit, have the best return on risk-weighted assets and on Tier I capital among the 25 largest banks analysed. Santander was classified ninth by Tier 1 capital in the annual ranking by *The Banker* magazine (see Figure 11).

Figure 11. Top 10 World Banks Ranked by Tier 1 Capital (1)

	Tier 1 Capital (US\$ mn)	BIS Total Capital Ratio (%)	Non-performing Loans (%)
1. Bank of America	160,388	14.7	7.6
2. JP Morgan Chase	132,971	14.8	8.1
3. Citigroup	127,034	15.3	7.6
4. Royal Bank of Scotland	123,859	16.1	N.A.
5. HSBC Holdings	122,157	13.7	N.A.
6. Wells Fargo	93,795	13.3	8.3
7. Industrial Commercial Bank of China	91,111	12.4	1.5
8. BNP Paribas	90,648	14.2	0
9. Banco Santander	81,578	14.2	3.2
10. Barclays	80,448	16.6	0

(1) Figures at the end of 2009.

Source: *The Banker*.

BBVA's Tier 1 capital ratio would also remain intact at more than 9%.

The Bank of Spain's adverse macroeconomic scenario used for the stress test on Spanish banks was more severe than that of international institutions such as the IMF. On top of the 3.6% shrinkage in the Spanish economy in 2009, it used a further contraction of 2.6% for 2010 and 2011.

Rescued Savings Bank Sold to Basque Bank

CajaSur, the savings bank run by the Roman Catholic Church which collapsed in May, has been sold by Spain's Fund for Orderly Bank Restructuring (Frob) to Bilbao Bizkaia Kutxa (BBK), a Basque savings bank.

Although CajaSur only accounted for 0.6% of the assets of the Spanish banking system, its collapse sent shock waves through financial markets and sapped confidence in Spain. It was overexposed to the property sector and heavily hit when the housing bubble burst.

The Frob will provide financing of up to €392 million to cover bad property loans. It is authorised to deploy up to €99 billion for the restructuring of commercial and savings banks. The number of savings banks is expected to fall from 45 to 19.

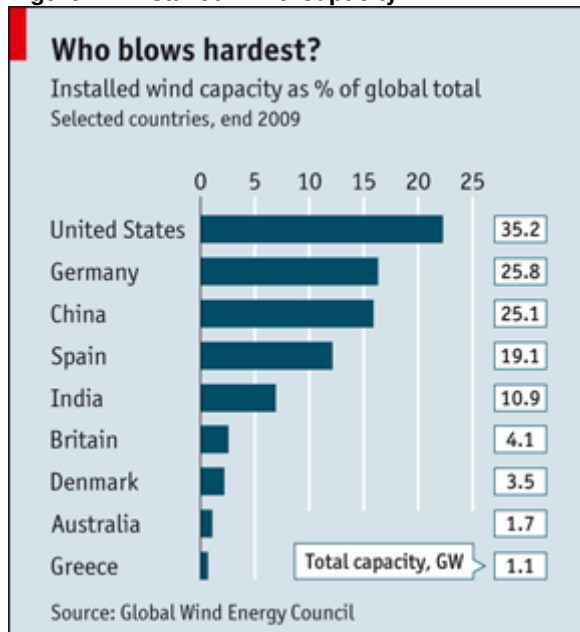
CajaSur failed the stress test conducted on 91 EU banks by the Committee of European Banking Supervisors (CEBS). The results were released on 23 July. Its stressed Tier 1 capital ratio was 4.3%, below the 6% pass-mark. BBK, on the other hand, was one of the 10 safest banks, with a stressed Tier 1 capital ratio of 14.1%.

Government Cuts Subsidies for Solar Power Plants

The subsidised electricity prices paid to new photovoltaic solar power plants will be reduced by up to 45%, in a bid to cut government spending and reduce the electricity sector's €18 billion accumulated deficit. This followed an earlier agreement to cut subsidies for wind and thermosolar plants.

The subsidies policy has helped Spain become one of Europe's main producers and consumers of alternative energy (see Figure 12).

Figure 12. Installed Wind Capacity



Source: *The Economist*.

The Photovoltaic Business Association criticised the government's cuts and for not taking into account its proposals.

Telefónica Wins Struggle to Buy PT's Stake in their Brazilian Joint Venture

Telefónica, the world's third-largest telecom operator by total clients, won its battle to achieve full control of its Brazilian mobile-phone joint-venture after agreeing to pay €7.5 billion for the 50% stake of Portugal Telecom (PT) in Brasilcel, the holding company that controls Vivo.

The price paid was €1.8 billion more than Telefónica's original offer and followed several months of tense negotiations, particularly after the Portuguese government used its 'golden shares' in PT to veto the deal –which had been accepted by 74% of shareholders– on the grounds of national interest.

The European Court of Justice then ruled unlawful Lisbon's use of its 'golden shares' as the move was a restriction on the free movement of capital.

Telefónica sought full control of Vivo in order to merge it with Telesp, its underperforming Brazilian fixed-line operation.

The acquisition made Telefónica the market leader in Brazil, with close to 69 million customers and a 30% share of the mobile telephony market (see Figure 13).

Figure 13. Market Shares in Brazil's Telecommunications Market (%) and Customers (million) (1)

	Fixed telephony	Mobile	Broad band	Pay TV	Customers
Telefónica+Vivo	27	30	24	6	68.4
Oi	51	20	36	4	62.3
Claro+Embratel+Net	15	20	25	51	60.0
TIM	–	24	–	–	42.4
GVT	4	–	6	–	2.3

(1) June 2010.

Source: Portugal Telecom and Telefónica.

Santander Acquires 318 More Branches in the UK and Wins Stake in Polish Bank

Santander greatly enhanced its UK presence by agreeing in August to acquire 318 branches from the majority state-controlled Royal Bank of Scotland (RBS). This will give it a total of 1,641 branches in the UK, the fourth-largest network after Lloyds, RBS and Barclays.

The deal gives Santander an additional 244,000 small and medium-sized business customers, or a 5% market share, to supplement its existing 3%, as well as 1.8 million retail customers.

Santander and RBS established an alliance in 1988 which lasted until 2004 when the Spanish bank Santander acquired Abbey. Santander also owns two smaller banks, Bradford & Bingley and Alliance & Leicester. The UK generated 17% of Santander's attributable profit in the first half of 2010 (see Figure 14). Earnings in the UK were higher than those generated by the Santander Branch Network in Spain.

Figure 14. Geographic Distribution of Santander's Attributable Profit (% of total operating areas)

	2004	2010 (1)
Continental Europe	59	43
Santander branch network	25	15
Banesto	11	7
Santander Consumer Finance	9	7
Portugal	7	4
Latin America	41	37
Brazil	16	22
Mexico	9	5
Chile	6	5
UK	–	17
US (Sovereign)	–	3

(1) First six months.

Source: Santander.

This deal followed Santander's agreement to buy US\$4.3 billion of car loans from HSBC, part of the ending of the UK bank's troubled American consumer finance arm.

In Poland, Santander won the auction for a controlling stake in Bank Zachodni WBK that Allied Irish Bank was forced to sell as a condition for the state aid it had received from the Irish government. It paid US\$3.7 billion for the 70% stake. The Polish bank has a 5.8% market share.

Meanwhile, Santander renewed talks in August with M&T Bank over a merger of its US unit, known as Sovereign, with the regional bank based in Buffalo, New York. Talks had collapsed in May over which bank would control the merged business. M&T has US\$68 billion in assets and 750 branches in New York, Pennsylvania and Maryland. Santander took a 25% stake in Sovereign in 2006 and bought the remainder of the troubled bank in 2008.

Spain's Outward Direct Investment Plunges

Spanish companies invested US\$16.3 billion abroad in 2009, down from US\$74.8 billion in 2008, according to the annual World Investment Report from UNCTAD. All major investor countries reduced their outward investment, mainly due to the global economic crisis (see Figure 15).

Figure 15. Outward Direct Investment Flows, 2008 and 2009 (US\$ bn)

Country	2008	2009
Canada	80.7	38.8
China	52.1	48.0
France	161.0	147.1
Germany	134.5	62.7
Hong Kong China	50.6	52.3
Italy	43.8	43.9
Japan	128.0	74.7
Spain	74.8	16.3
Switzerland	411.3	286.9
UK	161.0	18.4
US	330.5	248.0

Source: World Investment Report 2010, UNCTAD.

The stock of Spain's outward investment stood at US\$645.9 billion at the end of 2009 (see Figure 16), compared with a stock of inward investment of US\$670.5 billion.¹ In GDP terms, Spain's stock of outward investment soared from 3.0% in 1990 to 44.2% in 2009, higher than Italy, while that of inward investment over the same period increased from 12.7% to 45.9%. Outflows of FDI have exceeded inward FDI every year since 1997 (with the exception of 2002), although those in 2009 were not much higher.

Figure 16. Outward Stocks of Direct Investment 2009, Selected EU Countries (% of GDP)

	UK	France	Germany	Spain	Italy	EU
Outward stock	76.0	64.9	62.7	44.2	27.4	55.0

Source: World Investment Report 2010, UNCTAD.

The increasing international presence of Spanish companies has enabled them to weather the downturn in their home market much better than otherwise would have been the case. The international revenues of the companies comprising the Ibx 35 index on the Madrid stock market accounted for 53.3% of total revenues in the first half of 2010, up from 23.8% in the whole of 1997 (see Figure 17). Domestic revenues declined 0.88% and international ones rose 10.5%.

Figure 17. Domestic and International Revenues of Ibx 35 Companies, 1H10 (€ million) (1)

Company	Domestic	International	International as % of Total Revenues
Abertis	939.8 (+3.1%)	958.1 (+9.9%)	50.5
Acciona	2,165 (-3.9%)	850.3 (+25.1)	28.1
Acerinox	218.8 (+39.4%)	1,953.4 (+72.1%)	89.9
ACS	5,771.4 (-8.8%)	2,362 (+31.3)	29.0
Arcelor Mittal	NA	NA	—
Banco Popular	1,905.2 (-25.0%)	157.8 (-28.9%)	7.6
Banco Sabadell	1,221.4 (-29.9%)	65.2 (+47.2%)	5.0
Banco Santander	5,611.7 (-34.7%)	19,611.3 (+2.1%)	77.7
Banesto	1,387.8 (+33.9)	64.9 (+53.6%)	4.5
Bankinter	569.6 (-41.1%)	3.4 (-26.5%)	0.6
BBVA	4,494 (-28.7%)	5,962 (-9.6%)	57
BME	163.5 (+11.6%)	—	—
Criteria	2,719.3 (+13.1%)	1.22 (-5.6%)	0.04
Ebro Foods	55.4 (-12.5%)	793.5 (-5.6%)	93.5
Enagás	474.5 (+15.5%)	—	—
Endesa	9,204 (+66.7%)	5,058 (+3.4%)	35.5
FCC	3,210 (-6.1%)	2,505.7 (-3.4%)	67.8
Ferrovial	1,887.7 (-14.1%)	3,878.3 (+4.4%)	67.2
Gamesa	204.4 (59.3%)	824.3 (-33.7%)	80.1
Gas Natural	5,624.5 (+38.4%)	3,806.4 (+61.2%)	40.3
Grifols	119.5 (+2.2%)	368.3 (+4.1%)	75.5
Iberdrola	7,633 (+39.6%)	7,685 (+0.5%)	50.2
Iber. Renovables	515.6 (+31.3%)	607.3 (+9.4%)	54.1
Indra	825.4 (-5.1%)	503.2 (+8.5%)	37.9
Mapfre	4,028.6 (+6.4%)	3,544 (+18.4%)	65.8
OHL	727.6 (-16.7%)	1,385.5 (+27%)	65.5
Red Eléctrica	634.3 (+11.3%)	15.8 (+16.5%)	2.3
Repsol	12,125 (+8.6%)	14,738 (33.4%)	54.8
Sacyr	1,623.7 (-40%)	751.6 (+22.4%)	30.7
Telecinco	438 (+45.8%)	10.7 (+24.3%)	2.2
Telefónica	9,424.1 (-4.0%)	19,628 (+10.6%)	67.5
Total	85,923 (-0.88%)	98,093 (+10.5%)	53.3

(1) First half of 2010 and percentage change over the first half of 2009 in brackets. Figures rounded up to nearest decimal. Four companies (Abengoa, Iberia, Técnicas Reunidas and Inditex) had not published their results at the time when this table was prepared.

Source: National Securities Market Commission.

¹ For a full report on the current state of Spanish direct investment abroad, see the author's working paper at http://www.realinstitutoelcano.org/wps/portal/riecano_eng/Content?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/international+economy/dt29-2010.