

## Inside Spain 72

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### Foreign Policy

#### *Moroccans Dismantle a Refugee Camp near El Aaiún*

The violent dismantling by Moroccan security forces of a large refugee camp on the outskirts of El Aaiún, the capital of the Western Sahara, the former Spanish colony abandoned in 1975, put Madrid in a difficult and uncomfortable position (see Figure 1).

Figure 1. The Western Sahara



Source: Wikipedia.

Trinidad Jiménez, the Foreign Minister, stopped short of condemning Rabat's action and called for the UN Security Council to intervene and urged the Polisario Front, the military wing of the Sahrawi Arab Democratic Republic (exiled government in Tindouf,

Algeria), and Morocco to resolve their longstanding differences over the disputed territory.

Morocco is a strategically important country for Spain; the government is anxious not to upset relations which are often tense because of illegal immigration, drug trafficking, terrorism linked to al-Qaeda and friction over Spain's enclaves of Ceuta and Melilla on the North African coast. 'The government must put Spain's interests first', said Prime Minister José Luis Rodríguez Zapatero.

The government, however, is under strong public pressure to take a tougher line with Morocco. Tens of thousands of people, including representatives of the two main political parties, demonstrated in Madrid and called for the government to assume a greater responsibility and stop sitting on the fence. There is considerable sympathy for the plight of the Saharwis.

Spain hastily withdrew from the Western Sahara in November 1975, one week before the end of the Franco dictatorship, after King Hassan II –the father of Mohamed VI, the current king– launched a massive 'green march' to invade the territory.

Among the unknown number of people killed when Moroccan forces seized the camp on 8 November was a man born in the Western Sahara with Spanish citizenship. The camp was mounted to protest at Morocco's occupation of most of the territory and at human rights abuses.

Rabat justified its action on the grounds that the camp was in the hands of criminals.

Since a UN-sponsored ceasefire agreement in 1991, which ended the guerrilla war between the Polisario and Morocco, most of the phosphate-rich Western Sahara (including the entire Atlantic coast line) has been controlled by Morocco, backed by France, and the remainder by the Polisario, supported by Algeria. More than 150,000 Saharwis have been living in camps of mud-brick and canvas over the border in southern Algeria for the past 30 years.

As part of the 1991 peace accords, a referendum was to be held among the indigenous people, giving them the option between independence or inclusion in Morocco. It has not been held because of questions over who is eligible to vote.

Spanish journalists were denied entry to El Aaiún and several were expelled from the city.

*Spain Fails to Persuade the EU to Change its Position on Cuba, but Achieves an Opening*

EU Foreign Ministers decided not to heed Spain's call for a change in the common position towards Cuba and instead agreed to explore ways to further dialogue with the communist island.

The position, approved in 1996 on the urging of the then Spanish Prime Minister, José María Aznar, of the conservative Popular Party (PP), restricted high level contacts, imposed soft sanctions and sought to encourage a transition to democracy via constructive engagement with the Cuban government. The crackdown on Cuba's

peaceful opposition as of March 2003, when 75 people were sentenced for up to 28 years following summary trials, made engagement more difficult.

Miguel Ángel Moratinos, Spain's former Foreign Minister, who was replaced by Trinidad Jiménez in a cabinet reshuffle on 20 October, had hoped that July's release of 52 Cuban political prisoners, about one-third of the total, would persuade reluctant EU countries to back a change in the position. Following the release of prisoners, he said there was 'no longer any reason for the EU to maintain its common position toward Cuba'.

As the former colonial power and the largest foreign investor in Cuba, Spain has particularly close links with the island. Moratinos made the change in EU policy one of the goals of Spain's six-month Presidency of the EU, which ended on 30 June, but he received a setback in March when Orlando Zapata died after an 85-day hunger strike in a Cuban prison. His death was roundly condemned by the European Parliament, which this month awarded the prestigious Sakharov Prize to the Cuban dissident Guillermo Fariñas, whose 140-day hunger strike forced the Cuban government to release political prisoners. This was the third time in a decade that the EU prize went to a Cuban – Oswaldo Payá received it in 2002 and the Ladies in White in 2005–.

Trinidad Jiménez portrayed the change as a victory for those seeking to soften Europe's common stance. Sweden's Foreign Minister, Carl Bildt, said the position would last until Europe saw significant changes in human rights. This view is backed by the former communist regimes, which joined the EU in 2004.

#### *Rodríguez Zapatero Visits Spanish Troops in Afghanistan*

The Prime Minister, José Luis Rodríguez Zapatero, visited Spain's 1,500 peacekeeping troops in Afghanistan and told them their mission would be 'arduous and take time.' This was his second visit to the country. When he first went there Spain had around 500 troops in the country.

The Netherlands and Canada have announced a withdrawal of their troops this year and Sweden as of 2012. Rodríguez Zapatero told Spain's parliament last month that the troops would stay there as long as needed.

### **Domestic Scene**

#### *Rodríguez Zapatero Goes on the Offensive with Cabinet Reshuffle*

Prime Minister José Luis Rodríguez Zapatero, struggling to put the economy back on its feet, thinned down and reshuffled his cabinet ahead of the general election due by March 2012.

The changes reduced the lead of the Popular Party (PP) over the Socialists in the event that an election was held tomorrow, according to a survey by Metroscopia published in *El País* almost three weeks after the reshuffle. The PP's advantage was reduced from 14.5 points in October, before the reshuffle, to 9.1 points in November (see Figure 2).

**Figure 2. Voter Intention (%)**

	Socialists (PSOE)	Popular Party (PP)
April 2008 general election	43.7	40.1
May 2009	39.6	40.8
May 2010	37.5	41.7
September 2010	32.9	41.8
October 2010	28.5	43.0
November 2010	33.8	42.9

Source: Interior Ministry for April 2008 and Metroscopia for the rest.

Alfredo Pérez Rubalcaba, the Interior Minister, kept this post and also became the government's spokesman, replacing María Teresa Fernández de la Vega, the Deputy Prime Minister since Rodríguez Zapatero came to power in 2004. Pérez Rubalcaba has more power than any other Minister since democracy was restored after the death of General Franco in 1975. This puts him in a strong position to succeed Rodríguez Zapatero if he decides not to run for a third term. Pérez Rubalcaba's approval rating increased from 49% in October to 57% in November. He said the government needed to coordinate and communicate better.

Pérez Rubalcaba, who served in Socialist governments in the 1990s, has had significant success in weakening ETA, the Basque terrorist organisation, which has been fighting for an independent Basque country comprising parts of northern Spain and south-western France for 40 years. Many ETA activists have been arrested and arms caches seized in Spain and France.

Trinidad Jiménez, the Health Minister, was promoted to Foreign Minister. Before becoming Health Minister she was the Secretary of State for Latin America for three years.

Celestino Corbacho, the Labour Minister who drew up the package of reforms that led to last month's not very widely-supported general strike, was replaced by Valeriano Gómez, who took part in the demonstration in Madrid. In another move to appease the left, Rosa Aguilar, a former mayor of Cordoba for the hard-line United Left party (IU), became Environment and Rural Affairs Minister.

Ramón Jauregui, a former Deputy Premier of the Basque Country (1987-91) in the coalition government between the Socialists and the Basque Nationalist Party, became the new Presidency Minister. He will work closely with Pérez Rubalcaba in trying to resolve the ETA problem.

Rodríguez Zapatero said the government was one of 'reform, of the definitive recovery of the economy and of employment', while Mariano Rajoy, the PP leader, said 'Spain doesn't need a change in the government but a change of the government – after an election'.

The number of cabinet posts was reduced from 17 to 15 as the Ministries of Housing and of Equality were abolished.

#### *Popular Party Begins to Spell Out its Policies*

Mariano Rajoy, the leader of the conservative Popular Party (PP), the main opposition to the Socialists, broke a long period of not defining his policies and gave an idea of what could be expected from a future PP government if it wins the next election, due to

be held by March 2012. The PP is currently ahead of the Socialists in voter intention polls.

In a long interview with *El País*, the leading daily, Rajoy expressed admiration for David Cameron, the conservative UK Prime Minister, saying he would do 'something similar for Spain'.

The UK government introduced last month the most drastic budget cuts in living memory including a fall in welfare support and cutting up to 490,000 public-sector jobs by 2014-15. The UK budget deficit of 10% of GDP is similar in size to that of Spain.

Rajoy, however, would not be drawn on exactly how he would reduce the deficit other than to support a rise in the legal retirement age and in the number of years used to calculate a pension, rule out higher taxes and propose the privatisation of the management of some basic services such as health and education. He criticised the government for freezing pension payments, which was only done in order to 'give a good image to the markets'.

On non-economic issues, he was more specific. He said he would reform the Socialists' abortion law, which allows girls over 16 to have a termination without parental consent and abortion on demand during the first 14 weeks of pregnancy.

He also opposed the same-sex marriage law, objecting to the word 'marriage'. Both these laws are vehemently opposed by the Roman Catholic Church. The Constitutional Court, at the PP's request, is studying the term 'marriage'. Rajoy said that even if the court backed the word, he would still seek to change the law.

#### *Pope Benedict XVI Criticises Antichurch Sentiment in Spain*

The Pope lashed out at 'aggressive laicism' during his visit to Spain in what was interpreted as veiled criticism of laws allowing same-sex marriage, fast-track divorce and an easing of restrictions on abortion, all of them opposed by the Roman Catholic Church and to some extent by the conservative Popular Party (PP).

On his way to Santiago de Compostela, whose cathedral is said to hold the remains of St. James the Apostle, he told reporters that the anticlericalism in Spain today reminded him of the 1930s when the church suffered persecution under the Republic and during the Civil War. According to historians, 6,832 members of the clergy were killed during this period (13% of diocesan priests and 23% of the male clergy), far more than during the French Revolution or any other upheaval.

The Church took the side of General Franco, calling his uprising against the democratically-elected government a 'crusade'. It was rewarded with a privileged situation during his dictatorship (1939-75), elements of which remain today such as financing via the tax system (the only faith to benefit from this) and considerable influence over the education system.

Spain's religious configuration has changed considerably in the past 35 years. For example, there are estimated to be 1.4 million Muslims in the country and one million Protestants and last year civil marriages outnumbered those in churches.

Under the 1979 concordat between Spain and the Holy See, the Church said it would seek ways to achieve self-financing, but it has done nothing about this.

Elena Valenciano, the Socialists' foreign policy secretary, said the Pope was 'seriously mistaken' in his remarks.

The PP criticised Prime Minister José Luis Rodríguez Zapatero for not meeting the Pope as he was in Afghanistan. Esteban González Pons, the PP spokesman, said Rodríguez Zapatero was able to cross the Atlantic and take part in the National Prayer Breakfast with President Barrack Obama (which he did in February) but unable to go to Santiago to pray with Galicians or to Barcelona and pray with Catalans.

The Pope's visits to Santiago and Barcelona were not as well attended as expected.

In a separate development, but one involving the Church, the Bank of Spain said the bad debts of Cajasur, a small savings bank controlled by the Church and taken over by the central bank in May, were much more than previously announced. Its bad loans amounted to €1,828 million (13.24% of total loans) and not €1,377 million (9.98%).

#### *Spain Holds its Score in Corruption Index Ranking...*

Spain was ranked 30<sup>th</sup> out of 178 countries in the latest annual Corruption Perceptions Index, published by the Berlin-based Transparency International, compared with 32nd out of 180 countries in 2009, and its score remained unchanged at 6.1 (see Figure 3). The closer to 10, the cleaner the country.

**Figure 3. Corruption Perceptions Index, Selected Countries (1)**

<b>Country ranking</b>	<b>Score</b>
1 = Denmark, New Zealand and Singapore	9.3
6. Canada	8.9
15. Germany	7.9
20. UK	7.6
25. France	6.8
<b>30. Spain</b>	<b>6.1</b>
67. Italy	3.9

(1) The closer to 10, the cleaner the country and ranking out of 178 nations.

Source: Transparency International.

Spain's score has steadily declined since 2004 when it was 7.1. The index measures the perceived levels of corruption in the public sector, drawing on 13 different expert and business surveys.

#### *And is Ranked 20<sup>th</sup> in the Human Development Index*

Spain was ranked 20<sup>th</sup> out of 169 countries in the United Nations' latest Human Development Index (HDI), based on four indicators - life expectancy, mean and expected years of schooling and per capita income in purchasing power parity terms (see Figure 4).

**Figure 4. UN Human Development Index (HDI) for Selected Countries**

Ranking <sup>1</sup>	Human Development Index Value	Life Expectancy at Birth (2010)	Mean Years of Schooling (2010)	GDP per Capita (PPP US\$) 2008
1. Norway	0.938	81.0	12.6	58,810
4. US	0.937	79.6	12.4	47,094
9. Sweden	0.885	81.3	11.6	36,936
10. Germany	0.885	80.2	12.2	35,308
14. France	0.872	81.6	10.4	34,341
<b>20. Spain</b>	<b>0.863</b>	<b>81.3</b>	<b>10.4</b>	<b>29,661</b>
23. Italy	0.854	81.4	9.7	29,619
26. UK	0.849	79.8	9.5	35,087
41. Poland	0.795	76.0	10.0	17,083

(1) Out of 169 countries.

Source: United Nations Human Development Report, 2010.

Between 1980, when the annual index first began to be issued, and 2010 Spain's HDI value rose from 0.680 to 0.863 (see Figure 5). Its average annual HDI growth rate of 0.79% was the highest among developed countries after South Korea (1.18%), Bahrain (0.88%) and the United Arab Emirates (0.87%).

**Figure 5. Human Development Index (HDI) Value and Improvement Rank, 1980-2010**

Country	HDI Value 1980	HDI Value 2010	Average annual HDI Growth Rate, 1980-2010
1. Norway	0.788	0.938	0.58
4. US	0.810	0.902	0.36
9. Sweden	0.773	0.885	0.45
10. Germany	0.782(1)	0.885	0.62 (1)
14. France	0.711	0.872	0.68
<b>20. Spain</b>	<b>0.680</b>	<b>0.866</b>	<b>0.79</b>
23. Italy	0.703	0.854	0.65
26. UK	0.737	0.849	0.47
41. Poland	0.683 (1)	0.795	0.76 (1)

(1) No figures for 1980 when Germany was divided in two and Poland was communist. The figures are for 1990 and 1990-2010.

Source: United Nations Human Development Report, 2010

### *Government Report Marks 10<sup>th</sup> Anniversary of Digging up the Past*

Only 231 of the 2,052 common graves identified over the last 10 years as containing the bodies of the victims of Spain's Civil War (1936-39) and of the regime of General Franco, particularly during the repressive aftermath in the 1940s, have been opened, according to a government report. A total of 5,277 bodies were recovered from the 231 graves.

The first person to open one of these graves was Emilio Silva in October 2000. He recovered the remains of his grandfather, shot along with 12 other people by Franco's supporters in 1936 in Priaranza del Bierzo in the province of León. Silva then established the Association for the Recovery of Historical Memory, which has been at the forefront of the civic movement to identify common graves and recover the remains of victims in them.

The government began to grant funds for the digging up of graves, the building of monuments, exhibitions and other initiatives in 2006, one year before parliament approved the law of historical memory. A total of €19.4 million has so far been granted and 93,344 people, mainly living in Latin America, have been given Spanish nationality. They are the children or grandchildren of Spaniards who went into exile between 1936 and 1955, the cut-off point.

## **The Economy**

### *Unemployment Rate Falls for the First Time since 2007, to Below 20%*

Spain's jobless rate inched down to 19.8% at the end of September from 20.09% at the end of June, but only because the size of the working population remained virtually unchanged and not because of the creation of a significant number of jobs.

The labour force survey, regarded as the most accurate picture of unemployment, for the third quarter showed that 69,900 net jobs were created and the drop in the number of unemployed (70,800 to a total of 4.5 million) was almost the same. As the working population remained at 23.1 million, the unemployment rate fell slightly. It was still, however, double the EU-27 average.

José Manuel Campa, the Secretary of State for the Economy, was cautious and said the unemployment rate would remain this year and next at around 20%. In 2007, Spain's last year of buoyant growth, the rate was just under 8%.

The public sector created 90,300 jobs in the third quarter, mainly regional and local governments as the central government is trimming its payroll, and the private sector 20,400.

Employment in the services sector rose by 144,000, mainly because of the summer season and with temporary contracts, and all other sectors destroyed jobs. The number of workers with permanent contracts declined by 34,900. One of the aims of the recent package of labour market reforms is to reduce the proportion of workers on temporary contracts. It was 25.5% at the end of September, down from a peak of 32% in 2007. This reduction was almost entirely due to the fact that workers on temporary contracts have borne the brunt of job cuts.

The jobless rate of immigrants is 29.3% compared to 18% for Spaniards.

The number of households where all members are unemployed dropped by 15,900 to 1.29 million. This was the first fall since 2007.

Regional unemployment rates varied between 9.98% in the Basque Country and 28.6% in the Canary Islands (heavily dependent on construction, which has collapsed, and tourism).

Unemployment remains stubbornly high because the economic model, based excessively on the construction sector, is exhausted and nothing has yet taken its place, and the economy is still hardly growing. Year-on-year growth in the third quarter was 0.2%, the first such rise in two years.

The spread on 10-year Spanish bonds over German yields –a key indicator of market confidence– which had declined since the summer rose during the last month, as Spanish debt was hit by market nervousness over a possible EU bail-out for Ireland (see Figure 6). The 10 year Spanish yield was 4.60% compared to Germany's 2.61%.



**Figure 6. 10-year Government Bond Spreads Over Bunds (pp)**

	July 12	September 13	October 18	November 16
France	+0.35	+0.27	+0.33	+0.44
Greece	+7.82	+9.15	+6.57	+9.11
Ireland	+2.75	+3.41	+3.68	+5.82
Italy	+1.46	+1.42	+1.35	+1.59
Portugal	+2.83	+3.34	+3.19	+4.21
<b>Spain</b>	<b>+1.98</b>	<b>+1.73</b>	<b>+1.63</b>	<b>+2.00</b>
UK	+0.74	+0.69	+0.58	+0.70

Source: ThomsonReuters.

The stock market also lost the gains it had made (see Figure 7).

**Figure 7. Stock Market Indices (% change) (1)**

Index	% change
<b>Ibex-35 Spain)</b>	-15.45
Dax (Frankfurt)	+11.85
FTSE 100 (London)	+4.97
Euro Stoxx 50	-0.25
Dow Jones	+5.71
Nikkei (Tokyo)	-7.10

(1) 1 January to 16 November.

Source: Markets.

#### *Government Moves Against Wealthy Tax Dodgers*

More than 300 of 659 wealthy Spaniards under investigation for tax dodging had voluntarily paid €260 million into the state's coffers by the end of September. They did so when they learned that the Finance Ministry had begun to investigate them.

Carlos Ocaña, the Secretary of State for Finance, said this tax regularisation was the largest voluntary one on record.

The moves against the 659 were sparked by the discovery of 3,000 accounts in the Swiss subsidiary of HSBC (an average of €4.5 million in each account). French authorities provided the list of account holders to the Spanish Tax Agency.

The total amount of money defrauded could be as high as €6 billion, according to some estimates. The Finance Ministry may bring some of the account holders before the courts as defrauding the tax authorities of more than €120,000 constitutes a crime.

#### *BBVA to Acquire Stake in Turkish Bank*

BBVA, Spain's second-biggest bank, agreed to acquire 24.9% of Turkey's Garanti Bank for €4.2 billion and may take full control in five years. It will finance the deal through a €5 billion rights issue.

Like Santander, BBVA is expanding abroad to reduce its dependence on a domestic market that is still in recession. BBVA earned close to 40% of its profits in Spain and Portugal in the first nine months of 2010, proportionately much more than that of Santander (see Figures 8 and 11).

**Figure 8. Net Attributable Profit of BBVA by Business Areas (% of total) (1)**

	2004	2010 (2)
Spain & Portugal	50.3	38.8
Global businesses	12.0	15.9
Mexico and US	30.0	32.1
South America	7.7	15.2

(1) Figures rounded up and the calculations made without including the losses in corporate activities.

(2) First nine months.

Source: BBVA.

Both banks have weathered the international banking crisis relatively well, thanks, to a significant extent, to their geographic diversification, among other factors. Santander took a controlling stake in Poland's Bank Zachodni WBK in the summer.

Francisco González, the Chairman of BBVA, said Spain might only generate 10% of profits in five years time.

Turkey, which began to negotiate full EU entry in 2005, is growing at the fastest pace in Europe.

BBVA will jointly manage Garanti with the Dogus group, Turkey's third-largest conglomerate. BBVA will buy 18.6% of Garanti from General Electric (GE) and 6.3% from Dogus. This will give BBVA and Dogus identical stakes in Garanti and each will have four directors on the board. After five years BBVA will be able to take a controlling stake. BBVA made control of Garanti one of its conditions.

BBVA paid Dogus and GE a substantial premium over the closing price for the shares it acquired (24% and 23%, respectively), underscoring its eagerness to enter an attractive market.

#### *Bank Profits Hit by Bank of Spain Tightens Rules for Provisioning of Bad Loans*

The profits of Spanish commercial banks, which have so far weathered the economic crisis better than many of their European rivals, took a knock from the stricter rules for making provisions imposed by the Bank of Spain because of the country's recession and property crash.

The attributable net profits for the first nine months of Santander, the euro zone's largest bank by market capitalisation, fell 9.8% to €6.08 billion and those of BBVA, Spain's other big bank, by 12.2% to €3.6 billion.

The impact on Santander of the shortening of the timetable for making provisions (effective as of 30 September) was an extraordinary €693 million increase in provisions for bad loans and a net impact on the bottom line of €472 million. Excluding this one-off impact, Santander's profits were 2.8% lower. Santander charged the provisions to its profits, so keeping its €6 billion buffer of counter-cyclical provisions intact, while BBVA dipped into its reserves.

Santander, one of whose hallmarks has long been prudent risk management, could have applied the new rules so as to increase its pre-tax profit, but decided to apply them conservatively. As a result, it will not meet its initial profit target for 2010 of being in line with last year's €8.9 billion.

Banks have 12 months to make provisions in all cases as against up to 6 years before (see Figure 9).

**Figure 9. The New Timetable for Provisions**

<b>New Timetable for Non-performing loans</b>	<b>Previous Timetable</b>
Up to 6 months: 25%	Depending on the case, 100% of provisions were reached as follows: Unsecured lending: – 2 years Secured lending: – Finished housing with risk less than 80% of the price appraisal: 6 years – Other: 2 years
6-9 months: 50%	
9-12 months: 75%	
Over 12 months: 100%	
In all cases, 100% of the provisions needed have to be made within 12 months	

Source: Bank of Spain.

The rise in non-performing loans, particularly as a result of the property crash, is depleting the anti-cyclical provisions that banks were required to accumulate over the years at the instances of the Bank of Spain. According to Javier Aríztegui, the Deputy Governor of the Bank of Spain, in the last three years banks have used €40 billion of their profits for asset impairment and used almost €20 billion of their provisions. But for this cushion of provisions, introduced in 2000 when the economy was strong, some banks would probably be in bad shape.

Meanwhile, the Bank of Spain expressed concern at a war to capture deposits. Some banks, particularly weak savings banks that have received public money in return for restructuring, are offering between 4% and 4.75% on one-year time deposits, in order to boost their liquidity, and are lending at lower rates. Alfredo Sáenz, the CEO of Santander, called this ‘maddening’. Something similar happened in 1993 and the Bank of Spain stepped in and stopped it.

#### *Santander Enters Interbrand’s Top 100 Most Valuable Brands*

The fashion retailer Zara is no longer the only Spanish brand in Interbrand’s top 100 brands. Santander entered the ranking for the first time at number 68 (see Figure 10).

**Figure 10. Top 100 Most Valuable Brands, Selected Brands**

<b>Brand</b>	<b>US\$ million</b>
1. Coca Cola	70,452
2. IBM	64,727
3. Microsoft	60,895
4. Google	42,557
<b>48. Zara</b>	<b>7,468</b>
<b>68. Santander</b>	<b>4,846</b>
100. Burberry	3,110

Source: Interbrand.

In order to qualify for the ranking, a company has to generate at least 30% of its revenue from outside its home country and no more than 50% from any one continent. Santander’s further acquisitions including Alliance & Leicester in the UK, Sovereign in the US and SEB in Germany put it in the ranking. It also has the largest financial franchise in Latin America.

In the first nine months of 2010, Spain only accounted for 17% of total attributable profit (see Figure 11).

**Figure 11. Santander's Attributable Profit by Geographic Segments (% of total)**

<b>Segments</b>	<b>%</b>
Retail Spain	17
Brazil	25
UK	18
Global business Europe	9
Mexico	6
Chile	6
Other Latin America	5
Portugal	4
Germany	4
Sovereign (US)	3
Other retail Europe	3

Source: Santander.