

Inside Spain 73

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Foreign Policy

Morocco Calls for Reassessment of Relations with Spain

The Spanish government's hopes of keeping relations with Morocco on an even keel, after public outrage at the dismantling last month 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–, were dashed by the Spanish parliament's motion on 2 December urging the government to 'condemn the violent incidents'. The text was similar to one passed by the European Parliament

The Moroccan parliament responded the next day by calling for the 'recovery' of the Spanish enclaves of Ceuta and Melilla on the North African coast (see Figure 1). The MPs also asked their government to 'reassess as soon as possible Moroccan-Spanish relations'. Khalid Naciri, the Moroccan Minister of Communication, said 'the present moment requires a comprehensive reassessment of relations with Spain in all areas'.

Figure 1. Spanish cities in North Africa



Source: BBC.

Madrid stopped short of condemning the dismantling of the camp, as a result of which 13 people, including a man born in the Western Sahara with Spanish citizenship, were killed, according to the Moroccan government. The Polisario Front, the military wing of the Sahrawi Arab Democratic Republic (the exiled government based in Tindouf, Algeria) reported 'dozens of deaths'.

Because Morocco is a strategically important country for Spain the government is anxious not to upset relations. They are prone to being tense because of illegal immigration, drug trafficking, terrorism linked to al-Qaeda and friction over the enclaves. Prime Minister José Luis Rodríguez Zapatero said 'the government must put Spain's interests first'. The Socialists agreed, however, to support the motion in the parliament on the condition that it did not directly blame Rabat for the violence.

Tens of thousands of people, including representatives from the ruling Socialist party (PSOE) and the opposition Popular Party (PP), demonstrated last month in Madrid and called for the government to take a tougher line.

The plight of the Sahrawis evokes considerable sympathy among Spaniards. 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.

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 coastline) has been controlled by Morocco, backed by France, and the remainder by the Polisario, supported by Algeria. A wall built by Morocco divides the two areas.

More than 150,000 Sahrawis 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 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. Many Moroccan settlers live in the disputed territory.

Madrid backs the Moroccan idea of converting the Western Sahara into an autonomous region under Moroccan sovereignty, according to confidential cables from the US Embassy in Madrid passed to the whistle-blowing website WikiLeaks.

Domestic Scene

Catalan Conservatives Return to Power

The centre-right Catalan nationalist party *Convergència i Unió* (CiU) ejected the Socialists and returned to power in Catalonia after seven years in opposition, but without an absolute majority in the regional parliament.

The CiU won 62 of the 135 seats and 38.5% of the vote, up from 48 and 31.5% in the 2006 election (see Figure 2).

Figure 2. Results of the Elections in Catalonia (1)

Party	Seats	% of Votes
<i>Convergència i Unió</i> (CiU)	62 (48)	38.5 (31.5)
Socialists (PSC)	28(37)	18.3(26.8)
Popular Party (PP)	18 (14)	12.3 (10.6)
Greens-United Left (ICV-EUiA)	10 (12)	7.4 (9.5)
Republican Left (ERC)	10 (21)	7.0 (14.0)
<i>Solidaritat Catalana</i> (SI)	4 (-)	3.3 (-)
<i>Ciutadans</i>	3 (3)	3.4 (3.0)

(1) The results of the 2006 election are in brackets.
Source: Government of Catalonia.

The Socialists, who led a three-party governing coalition, suffered their worst-ever result in a Catalan election, dropping from 37 seats to 28 and gaining only 18.3% of the vote (26.8% in 2006). The two other parties in the coalition government –the pro-independence Republican Left (ERC) and the ICV-EUiA of leftists and ecologists– lost 11 and two seats, respectively.

The conservative Popular Party gained four seats to 18 and became the third political force, dislodging the ERC. *Solidaritat Catalana*, a new separatist party, led by Joan Laporta, the former Barcelona Football Club Chairman, won four seats. Voter turnout was almost 60%, slightly higher than in 2006.

The Socialists won 1.68 million votes in Catalonia in the 2008 general election (45.4% of the total votes cast in the region) compared with 570,361 votes in the Catalan regional election (18.3%). The party's strong results in 2008 played a significant part in enabling it to remain in power at the national level for a second term of office. The drop of 1.12 million votes between the general election and the regional election was the largest fall ever for a party between two such elections and cannot be solely attributed to the fact that in the 2008 general election voter turnout in Catalonia was much higher than in the Catalan regional election and so more people voted.

Something similar, though on a smaller scale, happened to the PP. It won 384,019 votes in Catalonia compared with 610,473 votes in that region in the 2008 general election (see Figure 3).

Figure 3. Party Results in Catalonia (% of the vote)

	Socialists	CiU	Popular Party
2004 general election	39.5	20.8	15.6
2006 regional election	26.8	31.5	10.6
2008 general election	45.4	20.9	16.4
2010 regional election	18.3	38.5	12.3

Source: Government of Catalonia.

Although the ERC lost 200,000 votes, the parties in favour of greater autonomy for Catalonia increased their total number of votes. The ERC, the CiU and *Solidaritat Catalana* won between them 1.51 million votes (48.7%), up from 1.35 million (45.8%) in 2006, and their number of seats rose from 69 to 76 (just under half the total in the Catalan parliament). As a result, however, of the decline of the ERC, the supporters of greater autonomy are less radical and more conservative.

The new government, led by Artur Mas, the CiU leader, is expected to push for more control of its own finances. 'We don't want the *fiesta* which has been enjoyed for so long in the rest of the country to be paid for any more with cash from the Catalans', Mas said during his campaign.

Nationalist politicians feel that Catalonia, one of Spain's richest regions, is contributing a disproportionate share of the wealth it produces to the central government in Madrid. Poorer regions, such as Andalusia and Extremadura, controlled by the Socialists, accuse these politicians of a lack of solidarity.

The CiU is six seats short of an outright majority in the Catalan parliament, but has more than enough votes to form a government on its own and negotiate deals in parliament when needed to approve legislation.

The PP's lead over the Socialists in the event that a general election was held tomorrow doubled between November and December to 18.8 points (see Figure 4).

Figure 4. Voter Intention (%)

	Socialists	Popular Party
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
December 2010	24.3	43.1

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

Spain Continues to Perform Poorly in PISA Education Assessment

Spain's poor showing in the Programme for International Student Assessment (PISA) underscored the depth of the problems in the education system, a key issue which needs to be resolved for a successful transition to an economic model based more on knowledge and less on a construction sector that has been in the doldrums for the last two years.

PISA, an internationally-standardised assessment of literacy in reading, maths and science skills of 15-year-olds in schools, is conducted every three years. The latest results cover 2009. Spain remained below the OECD average in all three categories (see Figure 5).

Figure 5. PISA Report Assessing Competencies in Reading, Maths and Science, Selected Countries (1)

Reading	Maths	Science
1. Shanghai, China (556)	1. Shanghai, China (600)	1. Shanghai, China (575)
2. S. Korea (539)	2. Singapore (562)	2. Finland (554)
3. Finland (536)	4. S. Korea (546)	6. S. Korea (538)
15. Poland (500)	6. Finland (541)	13. Germany (520)
17. US (500)	16. Germany (513)	16. UK (514)
20. Germany (497)	22. France (497)	19. Poland (508)
22. France (496)	OECD average (496)	23. US (502)
25. UK (494)	25. Poland (495)	OECD average (501)
OECD average (493)	28. UK (492)	27. France (498)
27. Portugal (489)	31. US (487)	32. Portugal (493)
29. Italy (486)	33. Portugal (487)	35. Italy (489)
33. Spain (481)	34. Spain (483)	36. Spain (488)

(1) Ranking of countries. Scores in brackets.

Source: OECD.

Shanghai (China) topped all three categories and Portugal made the biggest overall improvement in reading, maths and scientific skills from 2006 to 2009 compared to students from other developed countries. Portugal was close to the bottom of the table in previous reports and now it is close to the average for OECD countries.

In reading, Spain's score of 481 was better than in 2006 (461) but lower than in 2000 (493). The maths score of 483 was a little higher than in 2006 (480) but lower than in 2003 (485), while in science the score of 488 was just above that in 2006 (487) but lower than in 2000 (491). The results varied considerably by region; some, such as Castilla y León, were well above the OECD average.

One of the reasons for the overall mediocre results, and the lack of any significant improvement, according to Mario Bedera, the Secretary of State for Education, is that Spain has had to cope with a very large influx of immigrants over the past decade. The total number of foreigners, mainly from Latin America and North Africa, accounted for a mere 2% of the overall population in 2000 compared with 12.2% at present.

Other factors are a curriculum regarded as antiquated, the rote system of learning, the quality of teachers and the large number of students who have to repeat a year. The tests are performed by 15-year-olds, whether they are in the course that corresponds to that age group or not (in Spain's case the fourth year of what is known as ESO). More than one-third (36%) of these students in Spain were repeating, one of the highest levels among OECD countries (5% in Finland). These students perform particularly badly in reading literacy.

The level of government spending on education is not one of the reasons for Spain's poor results. Finland, for example, spends US\$71,385 per student, less than Spain (US\$74,119) and yet its PISA results are among the very best (see Figure 4). Furthermore, Finland, unlike Spain, has hardly any private secondary education schools.

Spain also has a serious problem of early school leavers. In 2008 (the latest year), 32% of those between the age of 18 and 24, double the EU-27 average, had only completed their compulsory education (ESO) and were not in further studies or vocational training. During Spain's economic boom, which ended in 2007, many students left school early or dropped out without completing their basic education as it was easy to find a rudimentary job, particularly in the construction and tourism sectors.

Government to Introduce Right to Die Law

The government plans to introduce a law next year enabling the families of terminally-ill patients and doctors to decide whether to administer drugs that alleviate pain, allowing the person to die.

The Deputy Prime Minister, Alfredo Pérez Rubalcaba, said this did not mean that euthanasia would be legalised, something that the ruling Socialists proposed in their 2004 platform but which has since been shelved in the face of belligerent opposition from the Roman Catholic Church.

The parliament of Andalusia, one of Spain's 17 regions, introduced a measure to regulate the right to die last March.

The Economy

Further Measures to Cut the Budget Deficit and Win Markets' Confidence

The government announced another package of austerity measures and said it would cut its sovereign debt issuance by privatising a chunk of the state lottery system and of Aena, the airports authority.

Meanwhile, the rating agency Moody's on 15 December put Spain's Aa1 sovereign credit rating on review for a possible downgrade, citing concerns over the country's mounting debt and its funding needs in 2011.

The measures followed a defiant assertion by Prime Minister José Luis Rodríguez Zapatero who said he 'absolutely' ruled out any need for a bail-out along the lines of Greece or Ireland. His remark on 26 November came after Spain's borrowing costs hit record highs and heightened speculation that the country would be a victim of the euro zone crisis. 'I should warn those investors who are short-selling Spain that they are going to be wrong and will go against their own interests', he said.

According to an opinion poll conducted by Metroscopia and published in *El País* on 5 December, 52% of respondents believe Spain will have to be rescued.

The new austerity measures include an increase in tobacco tax, abolition next year of a €426 monthly payment for the long-term unemployed who no longer qualify for social security payments after more than two years on benefits, a cut in wind-power subsidies and a commitment to bring forward reform of the state pension system. The government also agreed to cut corporation tax for small firms and make it quicker and cheaper to set up companies.

The legal age of retirement age is set to be raised from 65 to 67 and the period of years used to calculate a pension is likely to be raised. Valeriano Gómez, the Labour Minister, wants an all-party consensus on reforms by 28 January.

Jean-Claude Trichet, the President of the European Central Bank, praised Rodríguez Zapatero for 'taking the bull by the horns' and urged him to deepen labour market reforms.

The latest package came on top of a 5% average cut in the salaries of civil servants, a freeze on state pension payments, elimination of the €2,500 childbirth allowance and withdrawal of the €400 tax rebate for all taxpayers regardless of their income level. On the revenue side, the standard VAT rate has already been raised from 16% to 18% and the top marginal rate for those earning more than €120,000 was increased from 43% to 44% and to 45% for those earning more than €175,000.

Elena Salgado, the Finance Minister, said the state lottery system, which made a net profit in 2009 of close to €3 billion, was conservatively valued at €15 billion to €20 billion. Around 30% would be sold in 2011 and could rise to €5 billion. The government also plans to sell 49% of Aena. As a result, the Treasury would need to issue around €30-31 billion of new debt next year, down from the €45 billion initially envisaged, and be able to reduce the stock of debt. The Treasury has to pay off about €150 billion of existing debt that matures next year.

Eurostat, the EU's statistics office, forecasts Spain's stock of public debt at 69.7% of GDP in 2011, four points less than that predicted a year ago and 17 points below the envisaged EU average (86.5%). And Spain's labour costs dropped a little in the third quarter (by 0.6%) for the first time since the National Statistics Office began to produce these figures in the year 2000. The main reason for this was the cut in civil servants' salaries.

Rodríguez Zapatero sought to allay the fears of Spain's captains of industry by hosting a meeting of 37 bosses of companies (whose turnover represented 40% of Spain's GDP) to demonstrate a joint commitment to reform. Business leaders, largely in private, have criticised Zapatero's handling of the economy and now seem happier as a result of the new measures taken except in the labour market where they want deeper reforms than those approved earlier this year.

The spread on 10-year Spanish bonds over German yields –a key indicator of market confidence– reached a record 2.98 pp on 30 November, the highest since the launch of the euro, and after the latest package of measures fell back to 2.54 pp on 14 December

(see Figure 6). The 10-year yield was 5.57%, the highest since September 2000, compared with Germany's 3.03%, heightening concerns that the country could yet be forced to seek an emergency bail-out.

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

	February 15	September 13	October 18	November 16	December 14
Greece	+2.75	+9.15	+6.57	+9.11	8.84
Ireland	+1.38	+3.41	+3.68	+5.82	5.45
Italy	+0.80	+1.42	+1.35	+1.59	1.62
Portugal	+1.19	+3.34	+3.19	+4.21	3.51
Spain	+0.79	+1.73	+1.63	+2.00	2.54

Source: ThomsonReuters.

Government Halts Wildcat Strike by Air Traffic Controllers with State of Emergency

The government, for the first time since democracy was restored after the death of General Franco in 1975, imposed a 15-day state of emergency on 4 December to end a wildcat strike of almost two days by air traffic controllers that wrought heavy losses on the economy. The measure allowed the army to take over air control towers and threaten striking workers with jail.

The 2,300 controllers left their posts by claiming sick leave just as Spaniards were beginning a long weekend holiday. Their stoppage followed cabinet approval of changes to rules on the number of hours they can work per year and of a law allowing the army to take over air space in times of emergency.

The controllers said understaffing forced them to work more than the 1,200 hours a year they considered safe. This was not the first time they had caused disruption; the conflict with the government had been brewing for almost a year. The public views them as overpaid and privileged; the government's move was very popular.

Giovanni Bisignani, the Chief Executive of the International Association of Air Transport (IATA), said Spain's controllers were the least productive and the best paid in Europe. Their average salary was €200,000, 50% more than the European average.

The strike affected around 650,000 passengers and the revenue lost by airlines was estimated at US\$100 million. The direct losses for the economy –the tourism sector generates 11% of GDP– were put at several hundred million euros.

Banks to be More Transparent on their Real Estate Loans

The Bank of Spain, in a bid to bolster international confidence in the banking system, is to oblige banks as of next year to provide more detailed and transparent information on their loans to the troubled property sector.

Market nervousness about the true state of Spain's banks is one factor behind the sharp rise in yields on Spain's sovereign debt over the last few months. According to Moody's, the credit rating agency, Spain's commercial banks and unlisted savings and loan institutions (known as *cajas*), need about €17 billion in extra capital to cope with unrealised losses in their domestic operations, largely as a result of the collapse of the property market bubble.

The banks have been asked to include in their results for the whole of 2010 (to be announced in February) much greater detail on the state of their loans to the property

sector including substandard ones (those being serviced but which could become non-performing), write-offs, foreclosures, loans with and without mortgage guarantees, loans to property developers and their value in relation to the current market value of the property. This information would also be provided every quarter.

The results of the stress tests conducted in July on Spain's banks showed they are relatively strong. Santander, the euro zone's largest bank by market value, and BBVA, the other large commercial bank, did particularly well in the tests, while the five *cajas* that failed account for an insignificant part of the country's total banking system.

The results, however, did not dampen speculation that some banks have not recognised the full extent of the hole in their balance sheets caused by their exposure to the now depressed property sector.

As a result of the drying up of wholesale finance for Spanish banks, after the bail-out of Greece in the summer, and more recently and acutely after the Irish bail-out, Spanish banks and *cajas* have been among those availing themselves of liquidity support from the European Central Bank. They have remained solvent except for two small *cajas* intervened by the central bank. The *cajas*, hit by the bursting of Spain's property bubble, are very much the weak part of the banking system; their number is being reduced from 45 to 17 through mergers and loose tie-ups due to be completed by 24 December.

Spain Still Ranked Low in Broadband Penetration

Spain had 22.2 fixed broadband subscriptions per 100 inhabitants in June, still below the OECD average and much lower than the leading countries (see Figure 7).

Figure 7. Fixed Broadband Subscriptions per 100 Inhabitants, June 2010, Selected Countries

Country	Second Quarter 2002	Second Quarter 2010
Finland	3.5	26.3
France	1.6	31.4
Germany	3.1	31.2
Italy	1.0	21.3
Korea	20.8	34.4
Netherlands	4.9	37.7
Spain	2.1	22.2
UK	1.3	30.5
US	5.4	26.9
OECD	3.7	24.1

Source: OECD.

The average monthly cost of Spain's broadband remained among the most expensive, at US\$55.6 (see Figure 8).

Figure 8. Average Monthly Cost of Fixed Broadband (\$), October 2010

Country	Cost in US\$
Luxembourg	127.8
Portugal	82.7
Spain	55.6
Finland	49.6
US	49.2
Germany	48.9
France	43.1
UK	32.9

Source: OECD.

Spain's Business Schools in Top-10 of Financial Times Ranking

Spain's three business schools remained in the top-10 of the latest ranking of the *Financial Times* top graduate European business schools, but one of them was ranked lower than in 2009 (see Figure 9).

IE Business School and Esade were ranked 5th and 8th, respectively, the same as in 2009, and Iese Business School 9th (6th in 2009):

Figure 9. The Top-10 Graduate Business Schools in Europe (1)

Business School	Country
1. HEC Paris	France
2. London Business School	UK
3. Insead	France/Singapore
4. IMD	Switzerland
5. IE Business School	Spain
6. Rotterdam School of Management, Erasmus University	Netherlands
7. ESCP Europe	France/UK/Germany/Spain/Italy
8. Esade Business School	Spain
9. Iese Business School	Spain
10. EM Lyon Business School	France

(1) Out of 75.

Source: *Financial Times*.