Inside Spain 77

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Foreign Policy

Spain Puts Limits on its Contribution to Military Intervention in Libya

Parliament overwhelmingly approved (by 336 to three, with one abstention) Spain's involvement in the NATO-led operation in Libya, but set a one-month limit on the contribution of four F-18 fighters and a B-707 refuelling aircraft.

It also set a three-month limit on the participation of its frigate Méndez Núñez, the submarine Tramontana and the maritime patrol aircraft CN-235 in the naval blockade.

The F-18s are authorised to enforce the no-fly zone, but not 'to adopt all necessary measures to protect civilians and areas populated by civilians under threat in Libya', as paragraph 4 of UN Resolution 1973 states. France used this clause to destroy tanks that were attacking Benghazi, a move that the Spanish members of the mission, though equipped and trained for it, will not be allowed to make.

Prime Minister José Luis Rodríguez Zapatero did not offer any explanations on 22 March for the time limits. The deadlines can be extended by requesting permission from parliament's Defence Committee rather than at a plenary session.

Rodríguez Zapatero pulled Spain's peacekeeping troops out of Iraq soon after first taking office in April 2004. He said there was no contradiction between this and the support for military action in Libya, as that operation, unlike the invasion of Iraq, had the support of the UN Security Council, as well as that of the Spanish parliament, the Arab League and the African Union.

More Cuban Political Prisoners Arrive in Spain

The government airlifted 37 Cuban political prisoners and 209 members of their families to Madrid, concluding the agreement reached last summer with the government of the Communist-ruled island and the Roman Catholic Church there to release the prisoners. The total number freed and flown to Spain was 115 prisoners and 647 family members.

The deal, struck when Miguel Ángel Moratinos was Foreign Minister, was part of the government's bid, when Spain held the EU Presidency during the first half of 2010, to change the Union's common position towards Cuba. Moratinos was replaced by Trinidad Jiménez last October.

EU Foreign Ministers, however, decided not to heed Spain's call for a change in the position and instead agreed last autumn to explore ways to further dialogue with the island.

The common 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.

Human rights activists said around 50 political prisoners remained in prison.

Domestic Scene

Rodríguez Zapatero will not Seek a Third Term as Prime Minister
José Luis Rodríguez Zapatero, who became Spain's Socialist Prime Minister in 2004, will not seek re-election in early 2012 when, according to all opinion polls, the conservative Popular Party (PP) will win.

His announcement on 2 April followed the two-term precedent set by José María Aznar, his PP predecessor (1996-2004), when he took office. There is no constitutional limit in Spain on the number of terms a Prime Minister can serve.

The Socialist party will choose its next leader after elections on 22 May in 13 regions and in all town halls. The two front-runners, although they have yet to throw their hats into the ring, are Alfredo Pérez Rubalcaba, the Deputy Prime Minister and Interior Minister, and Carme Chacón, the Defence Minister. Rubalcaba (aged 59) served in several governments of Felipe González (1983-96) that made Spain's transition to democracy, while Chacón (40) entered national political life with Rodríguez Zapatero (50) and comes from a much younger generation of politicians.

If Chacón wins the primary election and next year's general election she would become Spain's first female Prime Minister.

Emilio Botín, the Chairman of Santander, Spain's largest bank and the biggest in the euro zone by market capitalisation, had urged Rodríguez Zapatero at a meeting in March of the leaders of the country's 25 main companies to put off any decision on whether to stand again until much nearer the election in 2012 as 'any announcement of this type creates instability'.

Rodríguez Zapatero, however, decided to announce his departure well ahead of the elections. The austerity measures introduced over the last year have made him unpopular with the trade unions and the Socialist premiers of regions, as well as among the electorate at large, which, having been promised full employment, has seen the number of unemployed rise from 2.2 million, when Rodríguez Zapatero took office in 2004, to 4.3 million this month (20.3%, double the EU average). Youth unemployment (under the age of 24) is even higher at 43%.

During this period, Rodríguez Zapatero's rating in the regular opinion poll conducted by the state-run Centre of Sociological Research (CIS) dropped from 6.6 (out of 10) to 3.3. Mariano Rajoy, the PP leader who lost the last two general elections, is equally unpopular among voters, although opinion polls give the PP a clear margin of victory were elections to be held tomorrow (see Figure 1).

Figure 1. Voter Intention (%)

	Socialist Party	Popular Party
April 2008 general election	43.7	40.1
May 2009	39.6	40.8
May 2010	37.5	41.7
December 2010	24.3	43.1
April 2011	28.3	44.1

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

By announcing his decision early, Rodríguez Zapatero has deprived the PP of the possibility of focusing attention on him during its campaign and gives his successor time to prepare for the general election.

The PP stepped up its relentless campaign calling for early elections.

Supreme Court Bars New Basque Party from May's Municipal Elections
The Supreme Court decided not to legalise Sortu, the new Basque party in favour of independence, and so barred it from taking part in the municipal elections on 22 May.

The government, with the support of the conservative Popular Party, had asked the court to ban Sortu on the grounds that it was a continuation of Batasuna, the political ally of the terrorist group ETA, which was outlawed in 2003 by the same court.

The court said 'ETA gestated, promoted and supervised a strategy (conceived) by Batasuna to create a new party and its set-up, including that of formally rejecting violence'.

Sortu was formed in February and in its statutes, in order to comply with the law of political parties, rejected the use of violence, but this did not satisfy the court sufficiently.

Manuel Rivero, the state lawyer presenting the government's case, said that between 1977 and 2003 when Batasuna and its successor parties were legal, ETA assassinated 676 people and none of these deaths were condemned (as they were by all other parties).

The government does not trust Sortu and wants ETA to lay down its arms and disband before allowing it to take part in institutional life. ETA declared a 'permanent' ceasefire in January. This was not the first time; other ceasefires have been broken.

Iñigo Iruin, the lawyer for Sortu, said the new party was an 'essential instrument for peace'.

Before Batasuna was outlawed, it took between 10% and 15% of the vote in local elections. In 2002 it controlled 62 town councils and it had seven seats in the 75-seat regional parliament.

Sortu's candidates for the May local elections are expected to join the coalition formed by Eusko Alkartasuna and Alternatiba, two nationalist left-wing parties, as independents.

Spain Improves in Migrant Integration Policy Index, Foreign Population Falls for First Time

Spain, which has become a country of immigration more quickly than almost any other nation, increased its score in the latest Migrant Integration Policy Index (MIPEX) published by the British Council and the Migration Policy Group. It was ranked eighth out of 31 countries, ahead of the US and behind Norway.

Its overall score was 65% (the maximum is 100%), up from 62% in 2007. It is based on seven elements, one of which, education, is not included in the overall mark.

Spain has the largest number of non-EU immigrants in Europe (3.37 million in 2009) after Germany. It scored particularly well in labour-market mobility and family reunion (see Figure 2).

Figure 2. Spain's Scores in Migrant Integration Policy Index

	2010	2007
Labour market mobility	84	79
Family reunion	85	76
Political participation	56	56
Long-term residence	78	72
Access to nationality	39	39
Anti-discrimination	49	49
Overall score	65	62

Source: www.mipex.eu.

The key findings of the report were:

- Spain leads new immigration countries on economic integration and family life.
- Like most countries, Spain only goes halfway to address the economic crisis' disproportionate impact on foreign residents.
- More equal opportunities for non-EU spouses/partners, adult children.
- The crisis has brought new limits on reunion with parents and grandparents.
- New strengths on access to schools, and education for citizenship and human rights.
- Voting rights remain ineffective for all non-EU residents.
- Worst path to citizenship for all newcomers and descendants of all major countries of immigration, unlike reforming countries Greece and Portugal.
- Anti-discrimination laws below European average because of nationality discrimination and weak equality body.

The unemployment rate among foreigners in Spain of more than 30% is some 12 pp higher than that for Spaniards.

Spain's foreign population declined a little in 2010, while the overall population rose 0.3% to 47.1 million, according to provisional figures from the National Statistics Office (INE).

The number of foreigners on 1 January 2011 was 5,730,667, 17,067 fewer than a year earlier, and accounted for 12.2% of the total population (see Figure 3). The decline was believed to reflect fewer arrivals of foreigners, particularly non-EU immigrants, and more non-EU citizens taking Spanish nationality.

Figure 3. Spain's Population and Foreigners' Share, 2000-11

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Population (million)	41.8	42.7	43.2	44.1	44.7	45.2	46.1	46.6	46.9	47.1
Foreigners' share (%)	4.7	6.2	7.0	8.4	9.3	10.0	11.4	12.0	12.2	12.2

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. Failure to register leaves individuals with no legal recourse and no access to state services or aid.
Source: INE (National Statistics Office).

At 1 January 2011 there were 2.39 million EU citizens in Spain and 3.33 million non-EU. The largest number of foreigners comes from Rumania (864,278), followed by Morocco (769,920).

Study Takes the Pulse of Spain, Reveals Discontent with All Politicians
Three out of every four Spaniards, the highest level in 20 years, are fed up with the political situation and an unprecedented nine out of 10 see no tangible improvement in the economy.

These are some of the results of wide-ranging surveys conducted by Metroscopia over a long period and published in a study, *Pulso de España 2010*, by Biblioteca Nueva with the co-operation of the Ortega-Marañón Foundation and the sponsorship of Telefónica.

The study also shows that:

- Seven out of 10 Spaniards believe that youth unemployment is the most serious result of the economic crisis and it will mark those affected forever. More than 40% of those under the age of 24 are currently unemployed.
- Just over half of the respondents (56%) blamed the leaders of political parties for the negative political situation of constant bickering and failure to pull together and agree measures. Nine out of 10 respondents said the parties were more interested in what might benefit them electorally than in measures for the good of the country as a whole, and eight out of 10 said that due to the way the parties were run it is very difficult to attract better prepared people into politics.
- Despite the very low opinion of the political class, 72% of respondents said that the period of democracy since the end of the Franco dictatorship in 1975 was the best in Spain's history.
- Three-quarters of respondents said the monarchy, restored under King Juan Carlos, was firmly consolidated and 65% said it contributed stability and serenity to political life.
- Thirty years after the failed military coup against the government, 84% of respondents positively viewed the armed forces.
- The Roman Catholic Church, which played a significant role in the transition to democracy and in national reconciliation, is increasingly discredited. Three out of every four respondents said the Church had not adapted to the new social reality, half of whom said they were practising Roman Catholics.

Spain's Home Ownership Highest Among EU-15
More than 80% of Spaniards own their homes, the highest rate in the former EU-15 (before the enlargement to the EU-27), according to the latest figures from Eurostat, the Union's statistics office (see Figure 4). The seven leading home-owner countries are all nations that joined the EU in 2004.

Figure 4. Home Ownership in the EU (% of total) (1)

Country	% of total
Rumania	96.5
Hungary	89.8
Spain	**83.2**
EU-27	73.5
Italy	72.5
UK	69.9
Poland	68.7
France	63.0

Source: Eurostat, "Housing Conditions in Europe 2009".

The Economy

Spain Decouples from Sovereign Debt Crisis

Spain's reforms and austerity measures are beginning to have some success in distancing the country from the sovereign debt crisis in Greece, Ireland and now Portugal, the latest euro zone country to request an emergency bail-out.

Yields on 10-year government bonds have stabilised, while those on Portuguese bonds have risen by more than 200 basis points over their Spanish equivalent since January (see Figure 5). The Spanish yield was 5.22% on 11 April, hardly changed from a month earlier, compared with 8.82% for Portugal (7.6% in March).

Figure 5. 10-year Government Bond Spreads Over Bunds (pp)

	December 14	January 14	February 14	March 14	April 11
Greece	8.84	+8.27	+8.25	+9.17	+9.75
Ireland	5.45	+5.49	+5.90	+6.28	+5.88
Italy	1.62	+1.65	+1.53	+1.55	+1.24
Portugal	3.51	+3.84	+4.28	+4.37	+5.33
Spain	**2.54**	**+2.31**	**+2.17**	**+2.05**	**+1.73**

Source: ThomsonReuters.

The improved sentiment towards Spain was also highlighted when Russia took Spain off its bond investment blacklist in March, only four months after removing the country.

'We're already in positive growth, we have stabilised the debt market risks, we're out of danger and we're close to the final issue which is to create jobs', Prime Minister José Luis Rodríguez Zapatero told *El País* and other European newspapers. He added that the possibility of Spain being bailed out was now '99.9% or 100% ruled out'. Dominique Strauss-Kahn, head of the International Monetary Fund (IMF), also said Spain had no need of international financial aid.

However, unemployment remains high and growth sluggish. The government revised upward its forecast for the average jobless rate to 19.8% at the end of the year, half a point higher than its previous forecast, and maintained its GDP growth estimate at 1.3% (regarded by some institutions, such as the International Monetary Fund, as optimistic).

Spanish banks have about €100 billion in exposure to Portugal, a potential source of risk.

Merger of Savings Banks Collapses
The Bank of Spain's restructuring of the ailing savings-bank sector suffered a setback when the plan of Caja Mediterráneo (CAM), a *caja* weighed down by bad property loans, for a merger with three other *cajas* collapsed.

CAM, based in Alicante and which accounts for around 4% of total Spanish financial sector assets, was on the point of merging with smaller savings banks from Asturias, Cantabria and Extremadura, but they pulled out at the last minute.

As a result, CAM moved a step nearer to being nationalised in return for capital from the Fund for Orderly Bank Restructuring (Frob). The other alternative would be to sell it.

Banco Base, which was to have been the name of the new combined bank, had requested before the merger €2.78 billion from the Frob, almost double the €1.45 billion capital shortfall calculated by the Bank of Spain.

In another development, Bankia, comprised of Caja Madrid and six other savings banks, will establish a 'bad bank' for impaired assets to smooth its path for a stock market listing.

Miguel Ángel Fernández Ordóñez, the Governor of the Bank of Spain, told a conference that the 'reform of the governance of the cajas and submitting them to the transparency and discipline of the market' should have been done during Spain's economic boom (ie, before 2008) and not in the middle of the current crisis.

Public Debt Inches Past the EU's Limit for First Time since Joining the Euro in 1999
Spain's total public debt (central, regional and local governments) was 60.1% of GDP in 2010, up from 53.3% in 2009. This was very slightly above the EU's recommended limit of 60% established in its stability pact and which Spain met when it joined the euro in January 1999.

The main reason for the overshoot was the surge in the debt of regional governments; the 17 regions collectively overshot the centrally-imposed budget deficit target of 2.4% of GDP in 2010. However, Spain's overall public debt level is still below that of other large European economies such as France and Germany, although it has risen proportionately more rapidly in the last few years (see Figure 5).

Figure 5. Spain's Public Debt (% of GDP) Year-End Figures, 1999-2010

	1999	2002	2003	2004	2006	2008	2009	2010
Spain	**62.3**	**52.5**	**48.7**	**46.2**	**39.6**	**39.8**	**53.2**	**60.1**
France	58.9	56.8	62.9	64.9	63.7	67.5	78.1	NA
Germany	60.9	60.4	63.9	65.8	67.6	66.3	73.4	NA
Italy	113.7	105.7	104.4	103.9	106.6	106.3	116.0	NA

The central government's debt was 46% of GDP, that of the regional governments 10.9% and local governments 3.3%. Regional government debt rose by 39% to €115.43 billion, the largest percentage increase since Spain's 1993 recession (see Figure 6). The most indebted region in GDP terms is Valencia, run by the conservative Popular Party, and in absolute terms Catalonia (28% of the total regional debt).

Figure 6. Debt of Regional Governments (% of GDP)

Region	% of GDP	Region	% of GDP
Andalucia	8.5	Catalonia	16.2
Aragon	8.9	Extremadura	9.8
Asturias	7.1	Galicia	11.2
Balearic Islands	15.3	LaRioja	9.2
Basque Country	7.4	Madrid	7.1
Cantabria	6.7	Murcia	7.7
Canary Islands	7.9	Navarra	9.4
Castilla-La Mancha	16.5	Valencia	17.2
Castilla y León	7.6		

Source: Bank of Spain.

While total regional government debt has almost doubled since 2007, that of local governments has hardly changed. The regional governments have responsibilities, particularly health and education, that make it difficult for them to reduce their expenditure without politically unpopular measures such as cutting basic services. They have also yet to substantially cut the size of their bureaucracies.

On the revenue side, regional exchequers have suffered from the collapse of the property sector, a major source of revenue.

… Foreign Debt Falls for First Time since 2002

Spain's foreign debt fell in 2010 for the first time in almost a decade to €1.74 trillion, 1.2% less than in 2009 according to the bank of Spain. In GDP terms it dropped from 166.9% to 164.1%. In 2002 the debt stood at 92.6% of GDP.

Banks' Non-Performing Loans Reach Highest Level Since 1995

The non-performing loan (NPL) ratio of Spain's commercial and savings banks was 6.07% at the end of January, the highest level since October 1995, according to the Bank of Spain's latest figures.

The ratio for commercial banks was 6.27% and for savings banks 5.88%. NPLs are loans that have not been serviced for three months or more.

In a related development, Moody's downgraded the ratings of 30 commercial and savings banks. The two main exceptions were Santander and BBVA, which kept their high Aa2 ratings.

Spain Loses Relative Share in Global Exports

Spain emerged from recession in 2010, thanks to some extent to an 8% nominal rise in merchandise exports, but, despite this, the country's share of global exports declined to 1.6% from 1.7% in 2009, because of the greater share won by emerging countries such as China (see Figure 8).

Figure 8. Leading Exporters, 2010

	Volume (US$ bn)	Growth over 2009 (%)	Global share (%)
1. China	1,578	31	10.4
2. US	1,278	21	8.4
3. Germany	1,269	13	8.3
4. Japan	770	33	5.1
5. Netherlands	572	15	3.8
6. France	521	7	3.4
7. South Korea	466	28	3.1
8. Italy	448	10	2.9
9. Belgium	411	11	2.7
10. UK	405	15	2.7
18. Spain	**245**	**8**	**1.6**

Source: World Trade Organisation.

Housing Starts in 2010 at One-Tenth of the peak in 2006

The depressed state of the home building sector is graphically illustrated by the total number of housing starts in 2010, which, at 123,888 were one-sixth the peak level of 2006, while the number of 'free', as opposed to officially sponsored, housing starts was one-tenth that in 2006 (see Figure 9).

For the second year running, the number of officially sponsored housing starts was higher than the number of 'free' ones.

Figure 9. Housing Starts, 2006-10

	Free	Officially sponsored	Total housing starts
2006	666,959	95,255	762,214
2007	527,277	83,859	611,136
2008	237,959	90,531	328,490
2009	80,229	79,054	159,283
2010	63,090	60,798	123,888

Source: Development Ministry.

Foreign Direct Investment Rises in 2010

Total foreign direct investment in Spain increased by 41.5% in 2010 to €23.4 billion, but after stripping out investment in special purpose entities (their main object is holding the equity of companies located abroad) productive investment in listed and unlisted companies declined 4.9% to €11.6 billion.

The expansion of foreign companies already in Spain accounted for 57.5% of productive investment, the purchase of companies 40.9% and the constitution of new ones 1.6%. The Netherlands, France and the UK accounted for 56% of the investment (see Figure 10).

The transport and storage and real estate sectors took one-third of the investment and 77% of the investment was located in the regions of Madrid and Catalonia.

Figure 10. Gross Productive Foreign Direct Investment, 2010

Country	€ million	% of the total
Netherlands	2,494	21.4
France	2,148	18.5
UK	1,922	16.5
Italy	969	8.3
Luxembourg	865	7.4
US	856	7.4
Germany	471	4.0
Rest	1,913	16.5
Total	11,638	100.0

Source: Investment Registry.

Regional Income Disparities Widen with Economic Crisis

The Basque Country maintained its position as the richest region in GDP per person in 2010 (€31,314) and Extremadura remained the poorest (€16,828). The gap between these two regions widened a little, from €14,402 in 2009 to €14,486 last year (see Figure 11).

Figure 11. Per Capita GDP by Region, 2010 and 2009 (€) (1)

	2010	2009
Andalucía	17,405	17,485
Aragón	24,886	24,639
Asturias	21,882	21,523
Balearic Islands	24,672	24,510
Basque Country	31,314	30,703
Canary Islands	19,746	19,867
Cantabria	23,464	23,343
Castilla-La Mancha	17,621	17,208
Castilla y León	22,974	22,314
Catalonia	27,053	26,831
Ceuta (2)	21,960	22,208
Extremadura	16,828	16,301
Galicia	20,343	19,995
La Rioja	25,020	24,754
Madrid	29,963	30,029
Melilla (2)	20,832	21,250
Murcia	18,654	18,619
Valencia	20,465	20,259
National average	23,063	22,886
EU-27 average (3)	24,486	23,600

(1) Figures for 2009 in brackets.

(2) Spanish enclaves in North Africa.

(3) INE estimate based on Eurostat figures.

Source: National Statistics Office (INE).

Navarre (+1.8%) and the Basque Country, both in the north of Spain, were the fastest growing regions and Andalucia (-0.9%), in the south, and Castile La Mancha, in the middle, were the slowest (see Figure 12).

The per capita income of 11 of the 17 regions and the two North African enclaves was below the national average of €23,063 (94% of the EU-27 average).

Figure 12. GDP Growth of Regions in 2010 (% change over 2009)

Region	Growth	Region	Growth
Andalucia	-0.9	Catalonia	+0.1
Aragon	-0.5	Extremadura	0.0
Asturias	+0.3	Galicia	+0.1
Balearic Islands	-0.3	LaRioja	-0.3
Basque Country	+0.8	Madrid	0.0
Cantabria	+0.2	Murcia	-0.6
Canary Islands	-0.8	Navarra	+1.8
Castilla-La Mancha	-0.9	Valencia	0.6
Castilla y León	+0.8	Spain	-0.1

Source: National Statistics Office (INE).

Inditex Profits Jump 32%, Number of Stores Surpasses 5,000

Inditex, the world's largest clothes group by sales, posted a 32% rise in net profit for the year to the end of January to €1.73 billion.

The retailer, whose Zara fashion chain is one of two Spanish brands in Interbrand's global top 100 most valuable brands, surpassed in 2010 the 5,000-store mark as it continued its relentless expansion in Asia and Europe. A total of 437 stores were opened last year. Of the 5,044 stores at the end of January, 1,925 were in Spain (see Figure 13).

Figure 13. Inditex Stores in the World

	Number of Stores
Europe (1)	4,044
America	395
Asia and rest of world	645

(1) Including Spain.

Source: Inditex.