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Foreign Policy

Spain Extends its Military Mission in Libya for Two Months

Spain carried on participating in the NATO-led mission in Libya after the one-month period approved by parliament expired and was renewed for two more months.

This time the approval was given by the Defence Commission of the Congress of Deputies. The 37-1 vote came on 19 April. The United Left (IU) opposed the extension.

Spain has contributed four F-18 fighter jets, a B-707 refuelling aircraft, a frigate, a submarine and a maritime patrol aircraft to help enforce the no-fly zone and the arms embargo against Libya.

Carme Chacón, the Defence Minister, said a Hercules C-130 plane had been added to the contingent and the Spanish mission would be involved in humanitarian aid missions. She put the cost of the three-month mission at €43 million.

On the diplomatic front, the government sent José Riera to the rebel-held city of Benghazi to represent its interests. Spain's embassy in Tripoli, the capital of Libya, is also still open. The full-time presence of a diplomat in Benghazi, however, does not mean that Spain has formally recognised the rebels' National Transition Council (NTC) as the sole legitimate representative of the Libyan people.

Hamad Bin Jalifa al Thani, the Emir of Qatar, asked the Spanish government during his visit to Madrid last month to recognise the NTC as Libya's legitimate government as his state, France and Italy had done. The Spanish government responded by saying that the NTC was a 'legitimate interlocutor' but not the only one.

Domestic Scene

Constitutional Court Lifts Ban on Basque Coalition

The Constitutional Court overturned the ruling of the Supreme Court, which banned Bildu, the pro-independence Basque left coalition, from taking part in the local elections on 22 May, because some of its candidates were identified with Batasuna, outlawed since 2003 for its links to the terrorist group Eta.

Eta has been engaged in a terrorist campaign for an independent Basque Country for more than 40 years and has assassinated more than 800 people.

Bildu was formed after the Supreme Court ruled in March that Sortu, a new Basque party, could not field candidates in the elections. The coalition consists of two legal parties, Eusko Alkartasuna and Alternatiba, and various independent groups.

The Constitutional Court gave the green light to Bildu by a narrow margin of six votes to five and criticised the Supreme Court's decision for being based on insufficient evidence linking Bildu with Batasuna.

Alfredo Pérez Rubalcaba, the Deputy Prime Minister and Interior Minister, said the decision to allow Bildu could speed up the end of Eta, by incorporating it into democracy, while Mariano Rajoy, the leader of the conservative Popular Party (PP), called it a 'step backwards'.

The Constitutional Court's decision averted a crisis between the Socialists and the Basque Nationalist Party (PNV) which said it would withdraw its support for the minority government in key national parliament votes unless Bildu was allowed to contest the elections. The Socialists have 169 of the 350 seats in parliament and the PNV six.

In a separate development, the release of an Eta gunman sentenced for killing 22 people provoked outrage across the political spectrum and led to an order to detain and return him to prison.

Antonio Troitiño was released on 13 April after serving 24 years of a 2,232-year sentence. Under the then Spanish law, the maximum time to be served in prison was 30 years. Troitiño's lawyers convinced a three-judge panel of the High Court to release him early on the basis of a legal loophole that allowed their client to include in his prison time the years spent in preventive custody while awaiting trial.

The Supreme Court had rejected in late March a petition for early release, but its decision was only made public two weeks later, by which time the High Court had agreed to free Troitiño.

As a result of protests by victims' families and sniping between both political parties, the High Court, at the request of the state attorney, then revoked the initial decision, and issued an international warrant for the arrest of Troitiño. He is believed to be in hiding.

Constitutional Court Rules against Church's Sacking of Religious Education Teacher
The Constitutional Court, in a historic decision, ruled that the Catholic Church could not sack a teacher of religious education for disobeying Vatican rules on marriage.

Resurrección Galera lost her job in 2011 after teaching for seven years at a state school in Los Llanos de la Cañada, in south-eastern Spain, after marrying a divorcee.

The court said her marriage bore 'no relation to the plaintiff's work as a teacher' and overturned the decision of lower courts, which backed the Church.

'The truly important thing is that these men cannot get away with this and treat people as if they were in the age of the inquisition', Galera told *El País* in reference to Spain's bishops.

Under the 1979 concordat between the Spanish state and the Vatican, the Church continues to be responsible for hiring and firing religion teachers. The constitutional court ruled that fundamental rights (in this case the teacher's right to marry whoever she liked) took precedence over the agreements with the Vatican.

Dozens of teachers of religion have reportedly lost their jobs for similar reasons over the last decade. In some cases, the state or the Church has been forced to pay compensation.

Tomás Cano, Vicar General of the diocese in which Galera worked, said the Constitutional Court's ruling did not signify that the Church's action was contrary to law, but ordered the lower court to issue a new sentence taking into account her rights.

COPE, the partly church-owned radio station, said in an editorial that the 'least one can ask of a teacher of the Roman Catholic religion is that she should believe in what she teaches'.

Surge in Emigration of Spaniards, Decline in Immigrants

The number of Spaniards who emigrated in the first quarter of 2011 was 14,108, 30.4% more than in the same period of 2010, according to estimates made by the National Statistics Office (INE). The number was almost double that of Spaniards who returned to their country (7,875).

The main reason for the sharp rise is Spain's high unemployment rate which has not yet stopped rising (see next section).

Germany, whose jobless rate is one-third of Spain's and whose economy is growing briskly again compared to Spain's sluggish growth, is a particular source of attraction for young Spaniards seeking employment. Germany is actively seeking skilled workers for some sectors.

As regards the arrival of immigrants in the first quarter, the balance (the difference between inflows and outflows) was negative for the first time in two years. A total of 101,610 people registered in town halls (the basis for INE's figures) and 121,218 people stopped being registered (a net decline of 19,608).

Council of Europe Corruption Watchdog 'not happy' with Spain's Financing of Political Parties

The Group of States against Corruption (GRECO), a body under the wing of the Council of Europe, said Spain had not achieved sufficient progress in making the financing of political parties more transparent (see [http://www.coe.int/t/dghl/monitoring/greco/evaluations/round3/GrecoRC3\(2011\)5_Spain_EN.pdf](http://www.coe.int/t/dghl/monitoring/greco/evaluations/round3/GrecoRC3(2011)5_Spain_EN.pdf)).

GRECO said that the six recommendations on the transparency of party funding made in 2009 had been not implemented or only partly. The recommendations were:

- To take appropriate measures to ensure that loans granted to political parties are not used to circumvent political financing regulations.

- To take measures to increase the transparency of income and expenditure of (a) political parties at the local level and (b) entities related directly or indirectly to political parties or otherwise under their control.
- To establish a common format for parties' accounts and returns (at both head office and local level) with a view to ensuring that the information made available to the public is consistent and comparable to the greatest extent possible, and that it is disclosed in a timely manner within the deadlines prescribed in Law 8/2007 on Political Parties Funding, thus allowing a meaningful comparison both over time and between parties.
- To take measures to enhance internal auditing of political parties in order to ensure the independence of this type of control.
- To increase the financial and personnel resources dedicated to the Court of Audit so that it is better equipped to perform effectively its monitoring and enforcement tasks concerning political financing, including by ensuring a more substantial supervision of political parties' financial reports.
- To clearly define infringements of political finance rules and to introduce effective, proportionate and dissuasive sanctions for these infringements, in particular by extending the range of penalties available and by enlarging the scope of the sanctioning provisions to cover all persons/entities (including individual donors) upon which Organic Law 8/2007 imposes obligations.

Spaniards Work Longer Days than the Germans, But Much Shorter than the Mexicans
Spaniards work longer days than the Germans and the French, putting in almost eight hours of paid and unpaid work, such as cleaning or cooking at home (see Figure 1).

Figure 1. Who Works the Longest? Total Minutes Worked, Paid and Unpaid, Per Day

Country	Paid work or study	Unpaid work	Total work
Belgium	227	200	427
Germany	232	212	445
France	251	197	448
UK	261	211	473
Italy	259	215	474
Spain	276	198	475
OECD	277	207	484
Mexico	342	253	594

Source: Society at a Glance, 2011, OECD.

Spain Fares Well in Social Indicators, Despite High Unemployment

Spain generally compares well with the rest of countries in the Organisation for Economic Cooperation and Development (OECD) in social indicators except in unemployment where its level is far higher.

The latest edition of the OECD's Society at a Glance, published every two years, gives an idea of the impact of the crisis on the 34 OECD member states in various fields including income, education, equality, health and social cohesion (see Figure 2). The figures are the latest available on a comparative basis.

Figure 2. Social Indicators, Spain vs. OECD Average

	Spain	OECD average
Unemployment rate (%) (2009)	18.3	8.1
Per capita education spending on compulsory schooling (US\$) (2007,PPP)	7,322	8,070
Income equality (Gini coefficient), late 2000s (1)	0.31	0.31
% of people living with less than 50% of the average equalised household income (late 2000s)	13.7	11.1
% of people finding it difficult or very difficult to live on their current income (2010)	23	24
Number of children per woman (2009)	1.4	1.7
% of population that is foreign born (%), 2008 or latest year available)	14.1	11.7
Number of people of working age (20-64) per person of pension age (65+) (2008)	3.7	4.2
Life expectancy (years) (2008 or latest year available)	81.2	79.3
Health spending (% of GDP) (2008 or latest year available)	9.0	9.0
Community tolerance index of minority groups (%) (2010)	78	61

(1) The closer to zero the better the income equality.

Source: Society at a Glance, 2011, OECD.

The relatively low proportion of people in Spain finding it difficult to live on their current income, given the very high level of unemployment, bears testimony to the extended family network that supports its members, unemployment subsidies and the renewed strength of the unofficial economy. Hungary is the worst country in this category (73% compared with Spain's 23%), although its jobless rate is much lower than Spain's (11.9% to 20.7%).

On 80th Anniversary of the Second Spanish Republic, Spaniards Clearly in Favour of the Monarchy

Eighty years after the proclamation of the Second Spanish Republic on 14 April 1931, against which forces led by General Franco rose in 1936, sparking a three-year civil war, the monarchy under King Juan Carlos, restored in 1975, is viewed as the best form of political system.

Forty eight per cent of respondents opted for a monarchy as the best form of political system compared with 39% in favour of a republic (see Figure 3).

Figure 3. Survey on Spain's Second Republic (1931-39), % of respondents

	Total respondents	Socialist (1)	Popular Party (1)
The Second Republic was a positive period for Spain			
Very/fairly in agreement	45	58	26
Little/Not in agreement	35	25	52
Don't know/No answer	20	17	23
When I hear of the Republic I cannot avoid thinking about the Civil War			
Very/fairly in agreement	53	58	54
Little/Not in agreement	36	35	33
Don't know/No answer	11	8	13
The Republic was proclaimed when our society was not yet prepared for democracy of this type			
Very/fairly in agreement	44	44	43
Little/Not in agreement	38	41	30
Don't know/No answer	18	15	19
What type of political systems seems to you to be the best: a monarchy or a republic?			
Monarchy	48	44	73
Republic	39	45	18
Either of the two	4	2	3
Neither of the two	3	1	3
Don't know/No answer	6	8	3

(1) According to the way the person voted in 2008.

Source: Metroscopia.

Supporters of the conservative PP, however, are much more in favour of a monarchy than those who voted for the Socialists (73% vs. 44%). The PP, founded in 1989, is generally speaking the heir of the civil war victors, while the Socialists, established in 1879, represent the losing side.

The Economy

Government Appeals to the Regions to Cut their Deficits

Elena Salgado, the Finance Minister, urged Spain's 17 regional governments to comply with a budget deficit limit of 1.3% of GDP this year in order to enable the overall deficit to fall from 9.3% in 2010 to 6%.

The 2010 general government deficit only came in on target because the central government performed better than planned. Nine of the regions exceeded their deficit limits last year.

The government of Catalonia, a region with an economy the size of that of Portugal, which recently agreed a €78 billion rescue package with the EU and the International Monetary Fund (IMF), says its deficit this year will be more than 2% of GDP and it has no more leeway to cut spending without endangering basic services.

The regions' undermining of the central government's fiscal retrenchment is worrying sovereign bond market investors at a time when there are signs that Spain is decoupling from the rest of the troubled euro zone periphery.

José Viñals, the IMF's director of the monetary and capital markets division and a former deputy governor of the Bank of Spain, said Spain was a 'completely different case' from Ireland, Greece and Portugal, the three countries that have been rescued.

The Spanish benchmark 10-year bond yield was 5.33% on 9 May, hardly changed from a month earlier (5.22%) and the spread over Germany's yield, an indicator of international confidence, was 2.22 pp (see Figure 4).

Figure 4. 10-year Government Bond Spreads Over Bunds (pp)

	January 14	February 14	March 14	April 11	May 9
Greece	+8.27	+8.25	+9.17	+9.75	12.77
Ireland	+5.49	+5.90	+6.28	+5.88	7.97
Italy	+1.65	+1.53	+1.55	+1.24	1.67
Portugal	+3.84	+4.28	+4.37	+5.33	6.73
Spain	+2.31	+2.17	+2.05	+1.73	2.22

Source: ThomsonReuters.

Since the end of the Franco dictatorship in 1975, Spain has gone from being one of Europe's most centralised states to one of the most decentralised. Regional and local governments account for around 50% of public spending, one of the highest proportions among OECD countries, compared with around 20% for the central government and 30% for social security.

The IMF's latest global financial stability report shows that Spain is heavily indebted in some areas and compares well in others (see Figure 5).

Figure 5. Indebtedness of Advanced Economies 2010, (% of GDP)

	US	Euro zone	Germany	Portugal	Spain
Gross public debt	100	87	80	91	64
Net public debt	72	67	55	86	53
Primary balance (1)	-9.0	-1.8	-0.3	-1.6	-4.6
Gross debt of households	91	72	62	103	90
Net debt of households	-231	-129	-130	-126	-7.4
Gross debt of non-financial comps.	76	142	69	154	205
Debt/equity of non-fin. comps (%)	105	106	105	145	152
Gross debt of financial institutions	97	148	95	65	113
Bank leverage (2)	13	26	32	17	19
Banking rights in the public sector	8	N.A.	25	16	22
Total gross debt of the economy	144	174	181	293	215
Total net debt of the economy	19	13	-39	106	90
Public debt abroad	32	29	53	57	50

(1) Excluding interest on the debt.

(2) Total assets relative to equity.

Colour code: **very indebted**; **moderate indebtedness**; **low indebtedness**.

Source: IMF.

Unemployment Continues to Climb to Close to 5 Million

One year after introducing austerity measures, the government is achieving success in cutting its budget deficit and decoupling the economy from the three euro zone countries that are being bailed out, but unemployment continues to rise and economic growth is still very weak.

Spain's jobless total reached almost 5 million at the end of March, the highest level in 14 years and underscoring the depth of the bursting of the construction and property bubble, while GDP growth in the first quarter was 0.2% year-on-year, according to the Bank of Spain's first estimate.

The low economic growth raised doubts about whether the government would achieve its forecast of 1.3% growth for the whole year, a figure that no research department of any of the Spanish banks believes will be met. Spain's growth this year will remain the lowest among the large euro zone economies and its inflation is currently the highest (see Figure 6).

Figure 6. GDP Growth, Unemployment and Harmonised Index of Consumer Inflation (%)

	GDP growth in 2011	Seasonally adjusted jobless rate in March	Inflation in March (year-on year)
France	1.7	9.5	2.2
Germany	2.8	6.3	2.3
Italy	1.2	8.3	2.8
Spain	0.6	20.7	3.3
Euro zone	1.6	9.9	2.7

Source: The Economist poll or Economist Intelligence Unit estimate/forecast for GDP growth and Eurostat for unemployment and inflation.

The stated unemployment rate (based on surveys as opposed to the rate recorded in the INEM offices) was 21.3% (4.91 million people), double that of the euro zone and up from 20.3% at the end of 2010, according to the National Statistics Office (INE). The figure is not seasonally adjusted.

Germany and Spain began the crisis with roughly the same jobless rates in 2007; today Spain's is almost three times higher than Germany's. In absolute terms, Germany with a population of more than 80 million compared to Spain's 47 million has just over 3 million unemployed and its jobless rate of 6.3% is the lowest since reunification.

The jobless rate varied considerably by region, with Andalusia in the south recording the highest level (29.7%) and the Basque Country in the north the lowest (11.6%).

Cándido Méndez and Ignacio Toxo, the leaders of respectively UGT and Comisiones Obreras (CCOO), the two main unions, said the figure showed there were other economic, fiscal and social solutions different from the austerity measures enacted by the government. In particular, they said the labour market reforms of a year ago had failed.

The number of jobless increased by 214,000 in the first quarter. The construction sector registered the 12th consecutive fall in employment.

Of the 256,500 jobs lost in the first quarter, 90% of them were held by people under the age of 35. Youth unemployment (under 25s) was 45%. The jobless rate for immigrants was 32%, 13 pp higher than that for Spaniards. Among the few sectors to create jobs were the public administrations (17,400).

Valeriano Gómez, the Labour Minister, believes the jobless rate will begin to fall as of the second quarter.

With the unofficial economy estimated at 20% of GDP, the government announced plans to offer incentives to companies to declare their unregistered workers in a bid to boost tax receipts and clamp down on people claiming benefits while being paid for informal work.

Signs of a Bumper Year for Tourism

The tourism industry, a mainstay of the economy, is likely to have a good year due to the unrest in North Africa and the Middle East. Tourists are switching to Spain rather than risk holidays in trouble spots.

More than 56 million tourists are forecast to come to Spain this year compared with 52.6 million in 2010 (see Figure 7).

The Canary Islands is a particular beneficiary as tourists can obtain all-inclusive packages like those for the seaside resorts of Tunisia and Egypt.

Figure 7. Tourist Arrivals, 2000-2011 (million)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 (1)
46.4	48.5	50.3	50.8	52.4	55.9	58.1	58.7	57.2	52.2	52.6	56.2

(1) Forecast.

Source: Institute of Tourism Studies and the Bank of Spain.

Tourism generates around 11% of GDP. The sector has shed 180,000 jobs since the financial crisis began three years ago, some of which will be recovered this year.

Banco Santander and BBVA's Profits Benefit from Geographical Diversification

Banco Santander and BBVA, Spain's two largest banks, reported relatively good results for the first quarter.

Santander, the euro zone's largest bank by market capitalisation, posted a net profit of €2.11 billion, 4.8% less than in the first quarter of 2010, while BBVA's dropped 7.3% to €1.15 billion.

Santander was mainly hit by poor results in the depressed Spanish economy as its international diversification kept profits high though not enough to fully offset the weakness of continental Europe (36% of profits, compared with 59% in 2004, see Figure 8). Something similar happened at BBVA (see Figure 9).

Figure 8. Geographical Distribution of Santander's Attributable Profit (% of total)

	First quarter of 2011
Continental Europe	36
Retail Spain	13
Germany	4
Portugal	3
Other retail Europe	8
Global business Europe	8
Latin America	43
Brazil	25
Mexico	9
Chile	5
UK	17
US (Sovereign)	4

Source: Santander.

Figure 9. Geographical Distribution of BBVA's Attributable Profit (% of total) (1)

	First quarter of 2011
Spain	32.4
Eurasia (2)	13.5
Mexico and US	35.1
South America	19.0

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

(2) Turkey, Portugal and China and retail businesses in other countries such as Switzerland.

Source: BBVA.

Santander's non-performing loan (NPL) ratio was 3.61%, up from 3.34% a year earlier, and its core capital ratio, closely watched by the market and regulators, increased from 8.79% to 9.66%. BBVA's NPL ratio was 4.1%, down from 4.3% a year earlier, and its core capital ratio was 8.9%, up from 8.1% in March 2010 but down from 9.6% at the end of 2010 because of its acquisition of the Turkish bank Garanti.

Both Santander's and BBVA's NPL ratios are lower than the average for commercial and savings banks and credit cooperatives. The overall ratio was 6.19% in February, the fifth consecutive monthly rise and not far from the 6.20% in September 1995, according to the Bank of Spain.