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Foreign Policy

Spain Deepens Security Relationship with US and Hosts NATO Missile Defence Ships

US anti-missile warships will be based at Rota as part of a NATO-wide missile defence system in Europe.

The agreement was announced on 5 October at NATO headquarters in Brussels by José Luis Rodríguez Zapatero, the outgoing Spanish Prime Minister, Leon Panetta, the US Defence Secretary, and NATO Secretary General Anders Fogh Rasmussen.

The system is expected to start operating in 2012 and become fully operational in 2018. It is designed to protect European NATO states and the US from missile attack from countries such as Iran and North Korea, which are developing longer-range missiles. Ground-based systems were recently concluded with Rumania, Poland and Turkey.

The US has used the naval station at Rota since the 1953 military agreements between Washington and Madrid signed during the Franco regime. It is strategically located near the straits of Gibraltar at the gateway to the Mediterranean.

Four Aegis destroyers will be stationed at Rota. Rodríguez Zapatero said this would generate about 1,000 jobs. The US studied alternative sites in Italy and Greece.

Panetta said Spain's agreement to provide the base was 'critical' for the project and showed the continued US commitment to Europe despite massive defence budget cuts in the US.

The Popular Party, which won the 20 November general election, welcomed the Socialists' decision.

Spanish Soldier Killed in Afghanistan

Staff Sergeant Joaquin Moya Espejo became the first Spanish soldier killed by a sniper's bullet in Afghanistan since Spain's armed forces began serving with the NATO-led International Security Force in January 2002.

He died on 6 November in the north-western province of Badghis in an attack by Taliban militants. His death brought the death toll for Spanish soldiers in Afghanistan to 97, 79 of them in air accidents.

Spain plans to begin gradually withdrawing its 1,500 troops in 2012 and will complete the withdrawal by 2014.

Domestic Scene

Popular Party Sweeps to Power, Socialists Suffer their Heaviest Defeat

The conservative Popular Party (PP) of Mariano Rajoy won a sweeping victory in the 20 November elections, scoring its best-ever result, and trounced the socialists under Alfredo Pérez Rubalcaba, whose results were the worst since the return to democracy after the death of General Franco in 1975. José Luis Rodríguez Zapatero, the outgoing Prime Minister, did not run for a third term.

The PP increased its number of seats in the lower house of parliament from 154 in 2008 to 186, giving it an absolute majority in the 350-seat Congress, while the socialists dropped from 169 to 110 (see Figure 1). Voter turnout was 71.7%, down from 73.8% in 2008.

The Socialists lost more than 4 million votes, but the PP gained less than 600,000. Voters deserted the socialists mainly for the hard-line United Left, which increased its number of seats from two to 11, and the Progress and Democracy Union (UPyD), which won five seats, four more than in 2008. They even lost to the PP in their fiefdom of Andalucía for the first time in 34 years. The region's government, however, is still run by the socialists.

The other winner was Amaiur, a Basque left-wing coalition in favour of independence, which entered parliament with seven seats, two more than the more moderate Basque Nationalist Party (PNV).

Figure 1. Results of General Elections, 2011 and 2008 (seats, millions of votes and %)

	2011			2008		
	Seats	Votes	%	Seats	Votes	%
Popular Party	**186**	**10.83**	**44.6**	**154**	**10.27**	**39.9**
Socialists	110	6.97	28.7	169	11.28	43.8
Convergence & Union (Catalan)	16	1.01	4.1	10	0.77	3.0
United Left	11	1.68	6.9	2	0.96	3.8
Amaiur (1)	7	0.33	1.3	–	–	–
Progress and Democracy Union (UPyD)	5	1.14	4.7	1	0.30	1.2
Basque Nationalist Party	5	0.32	1.3	6	0.30	1.2
Catalan Republican Left	3	0.25	1.0	3	0.29	1.16
Galician National Bloc	2	0.18	0.7	2	0.21	0.83
CC-PNC (Canary Islands)	2	0.14	0.6	2	0.17	0.65
Compromís	1	0.12	0.5	–	–	–
FAC	1	0.09	0.4	–	–	–
Geroa Bai (Navarra)	1	0.04	0.2	1 (Na Bai)	0.06	0.24

(1) Basque leftist coalition in favour of independence.
Source: Interior Ministry.

This was the third time Rajoy led the PP into an election. His victory reflected the massive discontent at the socialists' handling of the country's three-year economic crisis, with the unemployment rate at 22.6%, the economy virtually stagnant and the focus of an increasing lack of confidence in the international markets.

Interest rates on Spain's sovereign debt reached euro-era highs shortly before the election. The Treasury paid an annual yield of nearly 7% for 10-year debt and the extra premium paid over Germany reached close to 500 basis points, up from around 350 bp a month earlier.

Rajoy pleaded with the markets on the last day of election campaigning to grant his government 'more than half an hour' in which to turn around the economy. He has promised to tighten the budgetary austerity started by the socialists, and liberalise the firing end of the rigid labour market for workers on permanent contracts, reform collective bargaining by giving companies more power to negotiate their own agreements with employees and provide tax breaks for small companies to foster job creation.

Spain is the industrialised country with the lowest relation between salaries and productivity, according to the World Economic Forum. On a scale of one to seven, where seven is the closest relation between the two, Spain scores 3.1.

The PP is now firmly in control of Spain at the central, regional and local government levels, as it also won a resounding victory in May's municipal and regional elections.

Rajoy has an overwhelming mandate to instigate change (his electoral slogan was 'Join the change') and will have to move quickly in his first 100 days in office, as of 13 December. 'Hard times lie ahead', Rajoy said. 'We are going to govern in the most delicate situation Spain has faced in 30 years'.

One of the first items on Rajoy's agenda after winning the election was a telephone conversation with Angela Merkel, the German Chancellor, in a bid to convince her of his seriousness in getting to grips with the problems. Rajoy's aspiration is to turn Spain into the 'Germany of the South'.[1]

ETA Renounces its Terrorist Armed Struggle and Ends More than 50 Years of Violence
The incoming Popular Party government faces two key issues in the Basque Country, as a result of the historic announcement last month by the Basque terrorist group ETA to end its 50-year conflict for an independent Basque nation at the western end of the Pyrenees.

They are how to treat the 699 *etarras* held in Spanish and French jails and ensure that ETA lays down its arms. ETA called on the Spanish and French governments to 'open a process of direct dialogue' to resolve the consequences of the conflict.

The group, founded in 1959, has killed more than 829 people, most of them since the advent of democracy after the death of General Franco in 1975. Among its most spectacular attacks was the assassination in 1973 of Franco's Prime Minister, Admiral Luis Carrero Blanco.

[1] See José Ignacio Torreblanca & Mark Leonard (2011), 'Spain After the Elections: The "Germany of the South"?', European Council on Foreign Relations, http://www.ecfr.eu/page/-/Spain_after_the_elections_Torreblanca.pdf.

ETA's political sympathisers committed themselves to pursue independence through the democratic process months before the group eschewed violence.

Emigration Overtakes Immigration, Spain's Population Set to Fall

Spain's population, in a striking turnaround, will decline over the next decade, largely because of the arrival of fewer immigrants and greater emigration, according to the latest forecasts by the National Statistics Office (INE).

The population is projected to fall from 46.1 million at the beginning of this year to 45.6 million in 2021, ending a decade-long rise (see Figure 2).

Figure 2. The Rise and Fall of Spain's Population

Year	Millions
2002	40.9
2004	42.3
2006	43.7
2008	45.2
2011	46.1
2015	45.9
2018	45.8
2021	45.6

Source: INE.

INE put the number of residents of Spain who would leave the country this year at 580,850, more than double the number in 2008 (266,460) when the economic downturn began, 90% of whom are foreigners. This would make 2011 the first year in decades when emigration outstripped immigration.

In the first six months of this year, 224,382 people came to live in Spain and 295,141 left the country.

The number of people emigrating would exceed those arriving in Spain by an annual average of more than 100,000 until 2014 and then drop below that figure until 2020.

The new forecasts are very different from those made only three years ago when INE estimated Spain's population would continue to grow and reach 49 million in 2018.

Eight Spanish Universities in World Ranking of the Times Higher Education…

Eight universities are in the latest world-ranking of the top 400 institutions produced every year by the London-based *Times Higher Education (THE)*, up from six in last year's classification, but only one is in the top 200, Barcelona's Pompeu Fabra at 186th position, compared with two in 2010.

Last year the University of Barcelona was also in the top 200 (142nd). Pompeu Fabra was ranked 155th in 2010. Only the top 200 are ranked as the rest are placed in four bands of 25 and two of 50 because of diminishing differentials and in order to avoid unfair comparisons (see Figure 3).

Figure 3. Spain's Position in the Times Higher Education Ranking of the World's Top 400 Universities

Ranking	Name of the institution
186	Pompeu Fabra University
201-225	Autonomous University of Barcelona
201-225	University of Barcelona
276-300	Autonomous University of Madrid
301-350	University of Valencia
351-400	Polytechnic of Catalonia
351-400	Polytechnic of Valencia
351-400	University of Zaragoza

Source: Times Higher Education.

Spain's eight universities in the ranking, the same as France, compare with 123 for the US, 52 for the UK, 22 for Germany, 14 for Italy and 11 for China.

The rankings are based on 13 different performance indicators that are separated into the following five categories: teaching, research, citations, industry income and international outlook.

… Scientific Publications Grow, but do not have a Commensurate Impact

Spain produced the world's ninth-largest volume of scientific publications between 1996 and 2010, but they did not have a corresponding impact, according to the latest international figures.

While Spain was ranked 9th in the number of publications, it was in 19th place in the ranking by the number of times the articles were cited in other publications, regarded as an indication of their importance and impact (see Figure x).

Figure 4. Ranking of Scientific Publications and of their Impact, Selected Countries, 1996-2010

Country	Publications	Impact (1)
1. US	5,285,514	3.19.1
3. UK	1,522,264	8.16.4
5. Germany	1,390,547	14.14.9
6. France	1,014,578	16.14.2
8. Italy	758,912	18.13.6
9. Spain	**579,773**	**19.12.3**

(1) The number of times an article is cited. The ranking in this category in brackets.
Source: SCImago, Scopus, ISI and Thomson Reuters.

Spain Ranked 23rd in the UN's Expanded Human Development Index

Spain was ranked 23rd out of 187 countries in the United Nations' latest Human Development Index (HDI), compared to 20th place (out of 169) in 2010. The HDI is based on four indicators: life expectancy, mean and expected years of schooling and per capita income in purchasing power parity terms (see Figure 5).

Figure 5. UN Human Development Index (HDI) for Selected Countries

Ranking (1)	Human Development Index Value	Life Expectancy at Birth (2011)	Mean and Expected Years of Schooling[2] (2011)	GDP per Capita (constant 2005 PPP US$)
1. Norway	0.943	81.1	12.6 (17.3)	47,557
4. US	0.910	78.5	12.4 (16.0)	43,017
9. Germany	0.905	80.4	12.2 (15.9)	38,854
20. France	0.884	81.5	10.4 (16.1)	30,462
23. Spain	**0.878**	**81.4**	**10.4 (16.6)**	**26,508**
24. Italy	0.874	81.9	10.1 (16.3)	26,484
28. UK	0.863	80.2	9.3 (16.1)	33,296
39. Poland	0.813	76.1	10.0 (15.3)	17,451

(1) Out of 187 countries.
(2) Expected years in brackets.
Source: United Nations Human Development Report, 2011.

Spain's HDI value continued to rise (from 0.863 to 0.878 where one is the maximum). Between 1980 and 2011, this value rose from 0.691 to 0.878, an average annual growth of 0.77% and the highest among the large EU economies as Spain started from a much lower base (see Figure 6).

Figure 6. Average Annual Growth in the Human Development Index, 1980-2011 (%)

	%
France	0.66
Germany	0.69
Italy	0.64
Spain	**0.77**
UK	0.48
US	0.27

Source: United Nations Human Development Report 2011.

The Economy

Jobless Rate Hits 22%, Highest Level in 15 years, Despite Bumper Tourism Season
The seasonally-adjusted unemployment rate of 22.6% is the same as it was when the Popular Party last took power in 1996 and more than double the rate (10.4%) when the outgoing Socialist Prime Minister, José Luis Rodríguez Zapatero, first took office in 2004.

The number of unemployed reached almost 5 million, despite a very good tourist season in the summer. A total of 20.8 million tourists came to Spain in the third quarter, 8.5% more than in the same period of 2010 and the third best summer ever on record. This brought the number of tourists for the first nine months of the year to 45.8 million. The country has benefited from the 'Arab spring' revolutions as tourists cancelled holiday plans in these countries and switched to Spain.

The jobless rate at the end of September, based on quarterly surveys of households as opposed to the unemployed registering monthly in the INEM offices, is now more than double the EU-27 rate. Germany, with a population of 82 million, has 2.73 million people unemployed, 2.2 million fewer than Spain (pop. 44 million). Analysts say it will continue to rise as more jobs are shed, particularly in the public administrations at central, local and regional levels (see Figure 7).

Figure 7. Seasonally-adjusted Unemployment Rates in the Euro Zone (% of work force)

	%
France	9.9
Germany	5.9
Italy	8.3
Spain	**22.6**
EU-27	9.7

Source: Eurostat.

The number of unemployed increased by 144,700 in the third quarter, double that of the same period of 2010, and 147,700 jobs were destroyed, a daily average of 1,631 and the largest quarterly number in 25 years.

There are now 1.42 million households where no one has a job. By sectors, 252,000 are unemployed in agriculture, 217,000 in industry, 455,000 in construction, 1.47 million in services and 2.57 million people have been without work for more than a year. The unemployment rate for those aged between 16 and 24 is 48%.

The unemployment rates vary considerably by region. The highest rate is in Andalucía (30.9%) in the south of the country and the lowest in Navarra (11.7%) in the north. There is a growing north-south divide in unemployment.

The two main employers' organisations, CEOE and Cepyme, urged the PP to quickly and substantially reduce severance payments for workers on permanent contracts.

They proposed a payment of 20 days for every year worked, with a maximum of 12 months' salary. This would cut by more than half the current compensation. Employers also want collective bargaining agreements to be made at the level of companies and not sector wide regardless of the health of firms.

Spain's labour market, in the words of the International Monetary Fund, is 'dysfunctional' and a major factor, along with an economic model, excessively based on construction, for the country's very high unemployment rate.

The country's labour market is ranked one of the most inefficient in the world, according to the latest competitiveness report by the World Economic Forum (see Figure 8).

Figure 8. International Ranking of Labour Market Efficiency (1)

Ranking	Country
1.	Switzerland
4.	US
7.	UK
64.	Germany
68.	France
119	**Spain**
123	Italy

(1) Out of 140 countries.
Source: Global Competitiveness Report, 2011-2012, World Economic Forum.

Both employers and trade unions, for very different reasons, regard the labour market reforms of June 2010 as having failed. They were pushed through parliament unilaterally by the government because of a lack of consensus between the two sides and led to a muted general strike (see Inside Spain 69, Newsletter, 14 July 2010).

Economy Grounds to a Halt, Growth Forecast Revised Downward
The economy stalled in the third quarter with flat growth after expanding by 0.2% in the second quarter, according to the National Statistics Office (INE). As a result, the outgoing government cut its forecast for the whole year from 1.3% to 0.8%.

Meanwhile, the European Commission projects growth of 0.7% in 2012 (one-third of the government's forecast).

But for the growth in exports of goods and services, the economy would already be in recession again. Spain's exports grew 13.5% in 2010 and an estimated 8.3% this year, well above the average rates for the EU-27.

Car sales, widely considered as a key indicator of consumption, dropped 6.7% year-on-year in October to 57,278, the lowest figure for that month since 1989. Total sales for the first 10 months were 681,205, 19.7% lower than in the same period of 2010.

The net profits of the companies that comprise the Ibex 35, the benchmark index of the Madrid stock exchange, were 50% lower in the third quarter than in the same period of 2010 and fell 22.3% in the first nine months year-on-year.

Privatisation Programme Cancelled
The government scrapped plans last month to privatise 30% of Loterías y Apuestas del Estado, which runs the El Gordo Christmas draw, the world's biggest by pay-out, and also cancelled the sale of the country's two largest airports.

The privatisation of the gaming operator through an initial public offering (IPO) did not go ahead in October because of the depressed and volatile stock market, while the plans to auction off concessions to run Barajas airport in Madrid and El Prat in Barcelona were postponed because bidders asked for more time to arrange financing.

The IPO and the airport concessions were expected to earn around €13 billion and would have been used to reduce the public sector debt.

The conservative Popular Party (PP) was against both privatisations from the start.

Commercial banks were also unhappy with the lottery privatisation as they feared it would spark an outflow of deposits by customers to buy shares as a time when the banks are seeking all the liquidity they can get.

Austerity Measures at Regional and Local Governments Begin to Bite
The impact of the measures taken by regional and local governments to reduce their budget deficits are beginning to be felt, causing cuts in health and education services and protests in some parts of the country.

The central government's cap on the combined deficit of the regions, which account for one-third of public spending, is 1.3% of GDP this year. By June it had already reached 1.2%. The deficit of Castilla-La Mancha, ruled by the Popular Party (PP) since May when it ousted the Socialists in regional elections, has been revised upward to 9% of the region's GDP from 6.1%.

The central government deficit was 3.4% of GDP in the first nine months, on line to meet the target of 4.8%, although it could be knocked off course by plummeting tax receipts. The total general government deficit target is 6% of GDP, down from 9.2% in 2010. The European Commission's latest forecast puts the overall deficit at 6.6% of GDP.

The rating agency Fitch downgraded in October the credit of three more regional governments in September (Madrid, Asturias and Cantabria). This followed July's downgrading of Catalonia, Andalusia, Valencia, Murcia and the Canary Islands. Moody's downgraded the credit of 10 regional governments and cut the rating of Castilla-La Mancha five levels to junk (from A3 to Ba2).

In Catalonia, whose economy is the size of Portugal's, some public hospitals are restricting admissions because of spending cuts. Waiting lists for operations in the region have increased to levels last seen in 2004, according to the latest statistics. The number of people waiting for operations in the region increased 23% between the end of 2010, when the nationalist CiU assumed power, and June to 69,967.

The government of Catalonia is tapping its citizens again for cash by issuing bonds as it is locked out of capital markets.

The PP regional government in Madrid increased the number of hours for current teachers from 18 to 20 a week, resulting in close to 1,000 supply teachers not being hired for the new academic year. Teachers, students and parents joined protests against the move.

The government of Valencia, also controlled by the PP, said it would cut the salaries of around 15,000 civil servants by 10% in 2012.

The Finance Ministry of the outgoing Socialist central government in Madrid blocked the transfer of funds to more than 1,000 of the 8,114 town halls because they did not comply with obligations to present their 2010 accounts by the end of September.

Some town halls like Parla, on the outskirts of Madrid, shed employees in order to save money needed to pay for essential services. It reportedly owes €80 million to a cleaning firm. The total debt of town halls stands at more than €37 billion.

Regional governments are finding it difficult to pay money owed to people who have been classified as incapacitated under the dependency law. According to the latest official figures, 305,674 people are on a waiting list for these benefits.

The 13 regional TV stations are also feeling the pinch. Their total debt is estimated at €1.5 billion and they cost taxpayers around €2 billion a year. The government of Asturias cut off funding to the region's TV station in October.

Bank Rescue Fund Nationalises Three More Savings Banks and Intervenes in another Bank

The Fund for Orderly Bank Restructuring (Frob) nationalised three more unlisted savings banks (*cajas*), after they failed to meet a 30 September deadline to make themselves more solvent, and gave two other *cajas* more time to find relatively small amounts of private capital to reach the minimum 'principal capital' ratio of 10% of risk-weighted assets.

Frob also seized on 21 November Banco de Valencia, the seventh lender to fall victim to a property crash that has piled up €176 billion of soured assets on the books of Spanish banks.

Frob spent €4.75 billion on nationalising NovaCaixaGalicia (NCG), Catalunyacaixa and Unnin. They account for around 7% of Spain's banking system.

All three were valued much lower than the initial expectations. Unnim was valued at zero and was fully acquired by the Frob for a nominal price of €1. NCG was valued at 0.12 times book value, giving the Frob a 93% stake, and Catalunyacaixa was valued at 0.09 times and is now 90% in the hands of the state.

Unnim and Catalunyacaixa were two of the European banks that failed the stress tests in July.

The two *caja* groups given more time are Liberbank and Banco Mare Nostrum. Liberbank absorbed Caja Castilla La Mancha (CCM), one of three *cajas* which the authorities have seized control of since 2009. The other two are CajaSur and Banco CAM, formerly Caja Mediterráneo.

The enforced restructuring of the ailing savings bank sector, regionally based and controlled to a significant extent by local politicians, has reduced the number of *cajas* from 45 to 15 and produced the listing of three ex-*caja* operations: Bankia, Caixabank and Banca Civica.

The state is hoping to sell CAM, intervened by the Bank of Spain in July, and its 1,000 branches centred on the Mediterranean coast. Fernández Ordoñez said CAM's situation was 'the worst of the worst' and its management was 'scandalous'. The bank's bad loan ratio stood at 19%, more than double that at the end of 2010, and it made a loss of €1.73 billion in the first nine months of 2011.

In a separate move the €1.1 billion airport at Ciudad Real, the building of which was partly financed by CajaSur and CCM and the previous Socialist regional government, stopped operating commercial flights last month after the only airline using it pulled out. The aptly named Don Quijote airport, which operated for less than two years and has one of Europe's longest runways, filed for bankruptcy.

European Banking Authority Orders More Recapitalisation for Spain's Largest Banks
The European Banking Authority gave the five largest Spanish banks in terms of assets until next June to recapitalise themselves to the tune of €26.1 billion, one-quarter of the total amount in new capital demanded of 70 EU banks, or face restrictions on dividends and bonuses (see Figure 9).

Figure 9. Capital Shortfalls of Euro Zone Countries (€ bn)

Country	€ bn
Greece	30.0
Spain	**26.2**
Italy	14.8
France	8.8
Portugal	7.8
Germany	5.2

Source: European Banking Authority.

The move, designed as protection against exposure to peripheral euro zone sovereign debt, angered bankers at Santander, BBVA, Banco Popular, BFA-Bankia and La Caixa, as they said it unfairly targeted Spanish banks compared to French and German ones with greater exposure to the bonds of crisis-hit Greece, Portugal and Ireland. They said it would further reduce their scope to lend.

The five banks, all of them among the most solvent institutions in the EU, are not expected to ask for state aid or go to the markets to raise the extra capital. Instead, they will generate it internally, using compulsorily convertible bonds, retained profits and other strategies.

Santander and BBVA's Profits Fall, but Remain among the Highest in Europe
Santander, the euro zone's largest bank by market capitalisation, and BBVA, Spain's second largest bank, posted net profits that were 13% and 14.3% lower, respectively, in the first nine months than in the same period of 2010.

Santander's profit was €5.30 billion and BBVA's €4.34 billion, making them, by current depressed international standards, among the most profitable in Europe.

Santander was hit by a second-quarter charge of €620 million to cover potential mis-selling of payment protection insurance in the UK. Both banks continued to suffer from a collapsing property market in Spain and anaemic economic growth.

Santander sought to offload thousands of repossessed homes and plots of land for €3 billion, but met resistance from foreign investors demanding deeper discounts.

Both banks continued to generate more profits in some countries than in Spain, thanks to their geographic diversification. Mexico provided 31% of BBVA's profits compared with 28% from Spain and in the case of Santander Brazil and the UK accounted for 25% and 18%, respectively, of the profits as against 10% for retail business in Spain (see Figures 10 and 11).

Figure 10. Geographical Distribution of Santander's Attributable Profit (% of total) (1)

	First Nine Months of 2011
Continental Europe	32
Retail Spain	10
Germany	5
Portugal	2
Retail Poland	2
Other retail Europe	8
Global business Europe	5
Latin America	45
Brazil	25
Mexico	9
Chile	6
UK	18
US (Sovereign)	5

(1) Before the impact in the second quarter of the charge of €620 million related to payment protection insurance in the UK.
Source: Santander.

Figure 11. Geographical Distribution of BBVA's Attributable Profit (% of total) (1)

	First Nine Months of 2011
Mexico	31
Spain	28
South America	18
Eurasia	17
US	6

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

Santander and BBVA were among the 10 Spanish banks whose credit ratings were cut in October by Standard & Poor's and the outlook kept at negative. Fitch also reduced its ratings for six banks. Both moves followed the downgrading of Spain's sovereign debt by rating agencies, due to sluggish economic growth and the state of the property market (see Figure 12).

Figure 12. Sovereign Credit Ratings of EU Countries by Agencies

	Moody's	S&P	Fitch
France	Aaa	AAA	AAA
Germany	Aaa	AAA	AAA
Greece	Ca	CC	CCC
Ireland	Ba1	BBB+	BBB+
Italy	A2	A	A+
Spain	**A1**	**AA**	**AA-**
UK	Aaa	AAA	AAA

Colour code: green = optimum; red = questionable; blue = satisfactory; yellow = good; and purple = high/good.
Source: Rating agencies.

S&P and Fitch cut Santander's and BBVA's ratings to double-A-minus from double-A. 'While the purely domestic banks face more significant challenges, the two international banks Santander and BBVA benefit from their geographic diversification which gives them the capacity to make up for the muted results in Spain', Fitch said.

Spanish Consortium Wins High-speed Railway Contract in Saudi Arabia

A dozen companies won a €6.7 billion contract to build and operate a high-speed railway, the largest-ever international deal won by Spanish firms, on the Muslim pilgrim route between Mecca and Medina in Saudi Arabia.

The companies include state rail operator Renfe, train manufacturer Talgo, technology company Indra and rail builders OHL and the Saudi firms Al Shoula and Al Rosan. The consortium beat French rivals.

The high-speed lines will run trains at 320km an hour. Spain is a world leader in high-speed rail networks and has overtaken France to have the largest such system in Europe.

Repsol Boost Reserves with Big Discovery of Shale Oil and Gas in Argentina
YPF, the Argentine subsidiary of Repsol, the Spanish oil multinational, made a very large discovery of shale oil and gas that boosts the group's total recoverable reserves by nearly one billion barrels of oil equivalent or about 50%.

The find is Repsol's largest ever and could be even bigger as only a small part of the area where YPF is working has been explored.

Zara Moves Up the Global Brand Ranking, Reaches 80 Countries where it Operates
The fashion retailer Zara, part of Inditex, moved up the latest Interbrand ranking of the most valuable brands in the world from 48th to 44th position, while the bank Santander, which entered the ranking last year for the first time, remained in 68th place (see Figure 13).

Figure 13. Top 100 Most Valuable Brands, Selected Brands

Brand	US$ mn
1. Coca Cola	71,861
2. IBM	69,905
3. Microsoft	59,087
4. Google	55,317
44. Zara	**8,065**
68. Santander	**5,088**
100.Harley Davidson	3,512

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.

Zara added Taiwan and South Africa in November to the countries where it is present, bringing its total to 80.

Spain's two companies in the premier brand ranking compare with 49 for the US, 10 for Germany, seven for France, five for the UK and three for Italy.

Spanish Companies Dominate the Global Ranking of Transportation Developers
Five of the world's top 10 transportation developers are Spanish and nine are in the top 40, according to the latest ranking by Public Works Financing (see Figure 14).

Figure 14. World's Largest Transportation Developers

	Under Constr./Operating (1)	Of which US	Canada	Home Country	Other
1. ACS Group/Hochtief (Spain)	**72**	**1**	**4**	**24**	**43**
2. Global Via -FCC-Caja Madrid (Spain)	**45**	**0**	**1**	**30**	**14**
3. Abertis (Spain)	**42**	**1**	**1**	**16**	**24**
4. Ferrovial/Cintra (Spain)	**35**	**5**	**1**	**8**	**21**
5. Macquarie Group (Australia)	34	3	3	2	26
6. Vinci/Cofiroute (France)	32	0	2	11	19
7. Hutchison Whampoa (China)	31	0	0	10	21
8. OHL (Spain)	**29**	**0**	**0**	**6**	**23**
9. NWS Holdings (China)	25	0	0	24	1
10. EGIS Projects (France)	23	0	1	4	18
11. Sacyr (Spain)	**22**	**0**	**0**	**15**	**7**
23. Acciona/Nesco (Spain)	**12**	**0**	**0**	**7**	**5**
33. Isolux Corsan (Spain)	**9**	**0**	**0**	**2**	**7**
39. Itinere (Spain)	**6**	**0**	**0**	**6**	**0**

(1) Ranked by number of road, bridge, tunnel, rail, airport concessions over US$50 million in investment value and under construction/operation as of 1 October, 2011.
Source: Public Works Financing.