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Foreign Policy

Spain Holds its 11th Position in Elcano's Global Presence Index
Spain remained in 11th position in Elcano's Global Presence Index (IEPG), despite the country's four-year economic crisis (see Figure 1). The index, which measures the international positioning of countries in the globalised world, is based on three categories: economic, military and 'soft' presence.

Figure 1. World Ranking in Elcano's Global Presence Index

2011	2010	2005	2000	1995	1990
1. US	US	US	US	US	US
2. Germany	Germany	Germany	Germany	Germany	Russia
3. UK	UK	UK	France	France	Germany
4. France	France	France	UK	Japan	France
5. China	China	Japan	Japan	UK	UK
6. Japan	Japan	Russia	Russia	Russia	Japan
7. Russia	Russia	China	Canada	Italy	Italy
8. Netherlands	Netherlands	Canada	Italy	Canada	Canada
9. Canada	Canada	Italy	Netherlands	Netherlands	Netherlands
10. Italy	Italy	Netherlands	China	**Spain**	Spain
11. Spain	**Spain**	**Spain**	**Spain**	China	Belgium

Source: www.iepg.es.

The new index, the second since it was first launched last year, covers 55 countries and the methodology has been changed to some extent in order to better facilitate comparisons between countries since 1990 and create a more interactive index (www.iepg.es).[1]

The economic presence is made up of the exports of primary goods, energy, manufactures, services, and outward foreign direct investment. The military presence is measured by the number of troops actually deployed abroad and the equipment that enables their deployment overseas. The 'soft' presence includes immigrant population, tourist arrivals, results in major sport competitions, exports of audiovisual activities, international dissemination of information via the Internet, volume of foreign-oriented patents, international activity of its academic-university system (both in terms of research, through academic publications, and teaching, as measured by the number of foreign students) and development aid.

Spain's has remained in 11th position since 2000. In 1995, it reached the 10th spot. It maintained its global presence mainly as a result of the county's increased economic dimension (from 30% to 46% of the total IEPG between 1990 and 2011). The US remained the leader in most of the indicators (see Figure 2).

[1] See http://www.realinstitutoelcano.org/wps/portal/rielcano/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_es/zonas_es/cooperacion+y+desarrollo/dt9-2012.

Figure 2. The US and Spain in Elcano's Global Presence Index, 2011 (1)

	Spain	US
Economic presence	175.7	918.8
Energy	56.0	332.0
Primary goods	274.0	1251.0
Manufactures	165.0	766.0
Services	250.0	1,098.0
Investments	152.0	1,118.0
Military presence	22.7	935.3
Troops	8.0	876.0
Military equipment	38.0	997.0
Soft presence	160.4	160.4
Migrations	149.0	1,000.0
Tourism	659.0	755.0
Sports	260.0	1,042.0
Culture	57.0	1,055.0
Information	145.0	1,000.0
Technology	22.0	1,000.0
Science	71.0	608.0
Education	78.0	1,058.0
Development cooperation	213.0	1,051.0
IEPG	144.2	930.0

(1) Based on a scale of 0-1000 for each indicator where 1,000 is the maximum (for that indicator, in IEPG 2010).
Source: www.iepg.es.

The gap between a country's position in the IEPG and that which it has in terms of image or renown can be considered, in some cases including probably that of Spain, to be the 'brand' difference. This is an area that the government is beginning to work on. If a country's image is better than its ranking in the index this could be due to the success of its public diplomacy.

Spain Brand High Commissioner Appointed

The government created the post of high commissioner for the Spain brand as part of its economic diplomacy drive. The job has gone to Carlos Espinosa de los Monteros –Deputy Chairman of Inditex, owner of the Zara brand and one of the most successful Spanish multinationals–, with the rank of Secretary of State.

The image and reputation of Spain have been eroded over the past few years, be it in the form of the rise in the risk premium paid by Spanish government bonds or the lack of confidence expressed in international circles and media at the failure to get to grips with the country's problems, particularly in the troubled savings banks.

Espinosa de Monteros said his mission was 'to recover Spain's image and return it to a position of prominence'.

Despite the fall from grace, the perception of Spain is out of sync with the country's reality and potential, despite all its problems. For example, there are around 20 Spanish multinationals with leading positions in the global economy and last year 60% of the revenues of the companies that comprise the Ibex-35, the blue chip index of the Madrid stock exchange, were generated abroad.[2]

[2] See the author's paper at http://www.realinstitutoelcano.org/wps/portal/rielcano_eng/Content?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/image+of+spain/chislett_rise_spain_international_presence and http://www.realinstitutoelcano.org/wps/portal/rielcano_eng/Content?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/image+of+spain/chislett_ft_spain_2012.

Spain's Regions Reduce their Representative Offices Abroad
The spending cuts demanded of Spain's 17 regional governments produced a fall in the number of their representative offices abroad from 192 in 2010 to 166 in March of this year.

These mainly commercial and tourism offices to promote a region's particular interests are widely regarded as not worth the money they cost and offer a confusing image of the country and the Spain brand. According to an unofficial estimate, the total cost of these offices at their height was at least €150 million.

The region of Castilla y León, for example, which is one of Spain's least economically important regions, had until recently an office in Brussels that cost up to €250,000 a year to maintain. The staff in it have transferred to the Spanish embassy in the city. This region also had agents in 14 cities around the world including São Paulo, Shanghai, New York and Stockholm.

José Manuel García-Margallo, the Foreign Minister, called on the regions in January to cut back their international presence and combine forces with Spain's embassies and consulates in order to save costs and strengthen synergies.

Catalonia is one region that insists on maintaining its own presence. It had at one stage 48 'embassies'.

Domestic Scene

Constitutional Court Narrowly Overturns Supreme Court's Ban on Radical Basque Party Sortu
The Constitutional Court legalised the Basque party Sortu, which was banned by the Supreme Court in March 2011 on the grounds that it was linked to the terrorist group ETA and was the successor to the outlawed Batasuna. Six judges voted in favour of reversing the ban and five against.

Leading members of the ruling conservative Popular Party, including Alberto Ruíz-Gallardón, the Justice Minister, and Jorge Fernández Díaz, the Interior Minister, condemned the lifting of the ban.

The ban prevented Sortu from contesting last year's local elections in the Basque Country. Its supporters joined Bildu, a coalition of various *izquierda abertzale* ('patriotic left') parties in favour of independence for the region, which was formed in response to the ban on Sortu.

Bildu won 26% of the votes in the elections, the second-largest number after the centre-right Basque Nationalist Party.

Sortu called for the release of Arnaldo Otegi, a leading figure in the separatist movement, and four other people who are serving a 10-year sentence for attempting to re-launch Batasuna.

Two ETA activists were arrested in London, one of whom, Antonio Troitiño, was convicted for 22 killings. Troitiño was freed in 2011 after serving 24 years. The court ruled that the six years Troitiño had spent on remand could count as part of his sentence, which could not exceed more than 30 years under Spanish law at the time. The decision was reversed and an arrest warrant issued for him.

ETA, responsible for more than 800 deaths since 1968, declared a "permanent" ceasefire in October 2011 but has yet to hand in its weapons. It said the latest arrests were hindering an end to the conflict and denounced an 'agenda against peace' by 'the intelligence services, the armed forces and various judges'.

In another development, the European Court of Human Rights demanded the speedy release of an ETA activist jailed for terrorist attacks and sanctioned Spain for extending her jail term by 10 years. Inés del Rio Prada is s serving several jail sentences for roles in the attacks.

The government said it would lodge an appeal.

Chief Justice Resigns over Accusations of Misusing Public Money

Carlos Dívar, the head of the Supreme Court and of the General Council of the Judiciary, which administers the justice system, quit after a fellow judge accused him of falsely using expenses.

José Manuel Gómez Benítez blew the whistle on Divar's trips to the jet-setting resort of Marbella in southern Spain. Newspapers then investigated and unearthed more than 30 trips, for which Divar claimed about €28,000 in business expenses.

Dívar refused to explain the purpose of the trips and denied any wrongdoing. The expenses code of the General Council is loosely interpreted.

The scandal came at a time when Spaniards are increasingly vociferous about the misuse of public funds, the abuse of privileges and the lack of transparency in public accounts.

Political Parties, the Least-Approved Institution

Politicians, the judiciary and banks are the most poorly rated institutions by Spaniards and doctors, scientists and school teachers the most highly rated social groups, according to a survey by Metroscopia (see Figure 3).

Figure 3. Approval Ratings of Institutions and Social Groups (% approval)

Institution/Social Group	Approval	Institution/Social Group	Approval
Doctors	93	Lawyers	45
Scientists	90	Television	44
State school teachers	88	Judges	44
Small and medium-sized firms	87	Catholic Church	38
Police	83	Large Spanish companies	36
NGOs	79	Courts	36
Charity works of Church (Cáritas)	75	Constitutional Court	29
Civil Guard	74	Multinationals	27
Universities	74	Supreme Court	27
Public health	74	Town Halls	27
Civil servants	65	Trade unions	27
Armed Forces	61	Government of the nation	23
Prince of Asturias	63	Employers	21
King	56	Bishops	16
Newspapers	54	Parliament	16
Ombudsman	52	Banks	11
Priests	49	Political parties	9

Source: Metroscopia.

Overall, two-thirds of respondents said Spain's main institutions were not up to the task they were created for. Political parties attained a 9% approval rating compared with 93% for doctors. The political class, particularly the Socialists and the Popular Party, are under fire because of a growing number of corruption scandals and mishandling of the economy. Other surveys show that politicians are viewed as part of the country's problems.

Banks, not surprisingly given the woes they have caused, are the second to most disapproved institution after political parties. Many savings banks (unlisted institutions) are in crisis because of poor management subordinated to political interests.

Prince Felipe, the heir to the Spanish throne, achieved for the first time a higher rating than his father, King Juan Carlos, whose popularity has been dented by the public outrage over his trip to Botswana earlier this year to shoot elephants at a time when most of his countrymen are having to tighten their belts.

The Catholic Church did not win a high level of approval, although priests are rated much higher than bishops.

In a separate development, the anti-corruption prosecutor's office is examining the wealth accumulated by José Luis Baltar, the former head of the provincial council of Ourense in Galicia for 22 years who stepped down in January in favour of his son. Baltar is a stalwart of the Popular Party. His patrimony includes a collection of 100 vintage cars.

Spain's Early School Leaving Rate Improves, but Still the Second Highest in the EU

Spain's high early school leaving rate, a serious problem that hampers efforts to create a more knowledge-based economic model, dropped from 31.0% in 2007 to 26.5% in 2011, but was still twice the European average and the second-highest level (see Figure 4) after Malta.

The proportion of young people aged between 18 and 24 who left school after receiving their compulsory education (which ends at 16) dropped from 31.0% in 2007 to 26.5% in

2011. The sharpest fall was recorded by Portugal: from 36.9% to 23.2%.

Figure 4. Early School Leavers (% of those aged between 18 and 24 who left school after their compulsory education)

	2007	2011
Malta	38.3	33.5
Spain	**31.0**	**26.5**
Portugal	36.9	23.2
Italy	19.7	18.2
EU-27	15.1	13.5
France	12.6	12.0
Germany	12.5	11.5
Slovenia	4.1	4.2

Source: Eurostat..

The significant reduction was due to young people having no option but to carry on studying beyond the age of 16 as youth unemployment (those under the age of 25) in Spain is more than 50%.

Young people increasingly left school early during Spain's economic boom between 2001 and 2008 to work in sectors such as construction and tourism. The bursting of the real-estate bubble since then left many young workers unemployed and with low skills.

More than Half a Million Illegal Foreign Workers in Spain

Spain's economic crisis has greatly reduced the inflow of foreigners and increased the number of those returning home and Spaniards emigrating. Nevertheless, there were still an estimated 600,000 illegal foreigner workers in Spain in mid-2011, accounting for one-quarter of employed foreigners, according to the latest OECD report of international migration.

The migration inflow was around 430,000 in 2010, down from 470,000 in 2009 and 690,000 in 2008 when the economic boom began to peter out. Preliminary figures for 2011 put the migration inflow at 415,500 (see Figure 5).

Figure 5. Migration Inflows in 2011 and 2011

	2010	2011	Period covered
Germany	314,000	381,000	January-June
Italy	340,100	289,400	January-September
Spain	**430,400**	**415,500**	**January-December**
UK	487,000	505,000	January-June
US	1,042,600	1,062,000	January-December

Source: OECD Migration Outlook 2012.

Migration outflows increased from 290,000 in 2009 to almost 340,000 in 2010, making the net inflow in 2010 of less than 95,000 around half the 2009 level.

By mid-2011, foreigners with a permanent residence permit (under the non-EU regime) accounted for 65% of the total, up from 43% at the end of 2009. This rise was due to the fact that the beneficiaries of the 2005 regularisation acquired the five years residence required to obtain the permanent permit.

The stock of foreigners with residence permits stood at 5.25 million at the end of 2011.

The Economy

More Austerity Measures in Return for Budget Deficit Target Extension

The government announced €56 billion worth of tax increases and public spending cuts spread over two and a half years after the EU agreed to give it an extra year to meet demanding budget deficit targets and ironed out the conditions for a loan of up to €100 billion to recapitalise ailing banks.

Unemployment benefits will be reduced, the general VAT rate increased as of September from 18% to 21%, civil servants will lose their extra pay at Christmas, the tax break on home purchases is to be eliminated and cuts made to local government and to the state funds received by political parties and trade unions.

In return, 2012's budget deficit target of 5.3% was raised to 6.3% and the government was given until 2014 to meet the 3% EU agreed limit.

The severity of the largely EU-imposed measures, some of which went against the ruling Popular Party's electoral programme of last November, underscored the desperate situation. Having proclaimed in June that the loan to rescue banks was a 'victory', Prime Minister Mariano Rajoy was much more cautious about the austerity package.

The VAT rise was the most controversial policy U-turn. Rajoy criticised the Socialist government in 2010 when he was head of the opposition for raising VAT from 16% to 18%. 'I said I would reduce taxes and I am increasing them… the circumstances have changed and I have to adapt myself to them', he told parliament.

Among the changed circumstances are a shortfall in fiscal receipts, a failure to cut public spending sufficiently, particularly among regional governments, and 10-year government bond yields that have been persistently above euro-era highs of 7%, considered a level that cannot be sustained for very long. The yield eased slightly after the government's new measures (see Figure 6).

Figure 6. 10-Year Government Bond Yields (%) and Spreads over Germany's Bunds (pp) (1)

	Yield (%)	Spread (pp)
Germany	1.21	
Greece	25.09	+23.87
Italy	6.14	+4.93
Portugal	10.61	+9.40
Spain	**6.80**	**+5.59**

(1) 16 July.
Source: Thomson Reuters.

It is hoped that this austerity package, the fourth since Rajoy took office last December, and the loan to rescue banks will finally convince the markets that the government has bitten the bullet. The piecemeal approach over the last six months has unnerved the markets.

The economy is in a double-dip recession whose depth will most likely be greater this year and next than the government's forecast of GDP shrinkage of 1.7% (see Figure 7). The VAT rise, which the IMF, among others, urged the government to so several months ago, will depress consumption even more. The IMF downgraded Spain's growth in 2013 to -0.6%, a forecast made before the VAT rise.

Figure 7. Fiscal Tightening and GDP Growth in EU Countries, 2009-14

	Fiscal tightening (%) (1)	GDP growth (%)
France	3.3	+6.6
Germany	0.6	+10.3
Greece	17.1	-12.2
Italy	4.7	+0.5
Portugal	9.7	-1.0
Spain	**8.0**	**+0.1**
UK	7.3	+8.4

(1) Cumulative change in general government cyclically adjusted primary balance (% points of potential GDP).
Source: IMF.

The measures provoked an angry response from trade unions. Their announcement coincided with the arrival in Madrid of thousands of miners protesting against cuts to coal subsidies. The government plans to reduce subsidies to the coal sector by 60% in 2013, reversing the previous Socialist government's cut of just 10%. The miners, joined in the city by other anti-austerity protestors, had marched nearly 300 miles from the region of Asturias.

The measures have seriously dented the PP's credibility. The Socialists, however, are equally discredited for the dire economic legacy they left the PP last November and are not benefiting electorally. The July opinion poll by Metroscopia put the PP 14 pp ahead of the Socialists if an election was called (37.0% against 23.1%).

Banks Need a Maximum of €62 Billion of New Capital

Commercial and savings banks (known as *cajas*) hit by massive bad property loans need between €16 billion and €62 billion of new capital, according to the stress tests conducted independently by two consultancies.

This is below the credit line of as much as €100 billion which the EU agreed to provide to rescue the ailing financial system.

The results of the tests carried out by Oliver Wyman[3] and Roland Berger[4] on the basis of two scenarios enabled Luis de Guindos, the Economy Minister, to formally request the loan (see Figures 8 and 9). The first tranche of US$30 billion was due to arrive by the end of July and comes with various conditions including the setting up of a bad bank for toxic property assets, a review of the woefully inadequate supervisory system which failed to spot the crisis and regular updates on ailing banks to the European Commission, the European Central Bank and the IMF.

[3] See http://www.bde.es/webbde/en/secciones/prensa/info_interes/informe_oliverwymane.pdf.

[4] See http://www.bde.es/webbde/en/secciones/prensa/info_interes/informe_rolandbergere.pdf.

Figure 8. Macroeconomic Scenarios Used to Establish Bank's Capital Needs

	Base scenario			Adverse scenario		
	2012	2013	2014	2012	2013	2014
Real GDP growth (%)	-1.7	-0.3	0.3	-4.1	-2.1	-0.3
Unemployment rate (%)	23.8	23.5	23.4	25.0	26.8	27.2
House prices	-5.6	-2.8	-1.5	-19.9	-4.5	-2.0
Land prices	-25.0	-12.5	-5.0	-50.0	-16.0	-6.0
Ibex-35 stock market index	-1.3	-0.4	0.0	-51.3	-5.0	0.0
Lending to households	-3.8	-3.1	-2.7	-6.8	-6.8	-4.0
Lending to companies	-5.3	-4.3	-2.7	-6.4	-5.3	-4.0

Source: Bank of Spain.

Figure 9. Results of Stress Tests by Oliver Wyman and Roland Berger Consultancies (€ bn)

	Wyman		Berger	
	Base	Adverse	Base	Adverse
Real estate developers	65-70	100-110	37.7	55.5
Retail mortgages	11-15	22-25	23.9	45.4
Large corporates	18-24	30-35	17.5	20.6
SMEs	22-30	35-40	21.0	24.9
Public works	4-6	8-10	5.6	8.9
Retail other	6-10	10-15	13.4	14.5
Total	170-192	252-268	119.1	169.8
Cushion to absorb losses	NG	NG		118.0
Capital needs	16-25	51-62	25.6	51.8

Source: Oliver Wyman and Roland Berger.

The actual amounts needed by each bank will not be known until after four accounting firms complete an analysis of loan portfolios by the end of July and the Bank of Spain conducts a more detailed stress test by the end of September.

The tests using Bank of Spain data showed that the three biggest banks –Santander, BBVA and Caixabank– do not need new capital, even in the most adverse scenario. The weakest banks are the savings banks.

According to reports, banks that take the rescue aid will have to write off their preferred shares and subordinated bonds, inflicting massive losses on savers who invested in these instruments.

Rajoy Bows to Pressure and Agrees to Parliamentary Hearings on Banking Crisis

The government changed course and agreed to call 24 former and current bankers and politicians to explain before public parliamentary hearings their role in the collapse of various savings banks.

The move followed a court decision to investigate allegations of fraud at Bankia, formerly headed by Rodrigo Rato, the economy supremo in previous Popular Party (PP) governments (see separate story). Until then the PP had resisted the growing calls for an inquiry.

It also coincided with the government's latest austerity package, which might be politically easier to implement if the authorities are seen to be also getting tough with those responsible for the teetering financial system.

Spain was out of line too with the practices in other countries with banking problems. In the US, after the collapse of Lehman Brothers in 2008, and in the UK, after the Liborrigging scandal involving Barclays this month, top executives were quickly summoned to explain themselves before public congressional and parliamentary hearings. The PP had hoped to satisfy public outrage with a closed door parliamentary hearing.

Among those to be called are: Narcís Serra, a former Socialist Deputy Prime Minister and Chairman of Caixa Catalunya; Pedro Solbes, a former Socialist Economy Minister and his successor Elena Salgado; Miguel Ángel Fernández Ordóñez, the Governor of the Bank of Spain who quit in June before his term expired; and Julio Segura, the head of the National Securities Market Commission and a dozen or so bank executives.

Rato and Other Bankia Executives Face Fraud Probe

Rodrigo Rato, Bankia's ousted Chairman and a former Finance Minister in previous Popular Party governments (1996-2004), and 32 other executives are to be investigated on fraud charges.

Rato, a former managing director of the International Monetary Fund, is something of an icon in the PP and credited for presiding over a booming economy. He left Bankia, formed from the merger in 2010 of seven ailing savings banks, shortly before it was nationalised in May at the cost so far to the public purse of €23.4 billion.

The move follows a request for a probe by the Unión Progreso y Democracia party (UPyD), which has five seats in parliament. The *Audiencia Nacional* court agreed to examine the allegations after the anti-corruption prosecutor's office said it believed there was a case to answer. No specific charges have been brought against Rato or other executives.

Some 350,000 retail savers were convinced of the merits of buying shares in Bankia when it was listed last summer. Since then Bankia's share price has fallen by 75%.

Bankia's board resigned en masse at the end of June after the appraisal of the institution by Crédit Agricole and Rothschild sought by the government's Fund for Orderly Bank Restructuring (FROB) showed a €13.6 billion hole in its finances.

The *Audiencia Nacional* also agreed to examine the case brought against five former executives of Novacaixagalicia, a Galician savings bank created from the merger of two *cajas,* for allegedly inflating by €7.8 million the pay offs they received.

In Barcelona, the office of the public prosecutor opened an investigation into the salaries of senior executives of Caixa Catalunya, formed from the merger of three *cajas*.

Registered Unemployment in Best June Fall

A welcome ray of light in Spain's gloomy employment picture emerged in June when the number of jobless registered in the INEM offices fell by 98,853 to 4.6 million, the best decline that month since records were kept. The stated jobless figure, based on household surveys, is higher (5.6 million).

The government and trade unions interpreted the registered figure prudently and largely attributed the fall to the approach of the summer tourism season, which looks like being another good one.

The depressed state of the domestic consumption was graphically illustrated by the car sales figure for the first half of 2012: 8.6% lower year-on-year at 406,070 units, the lowest number since the same period of 1993. Cement consumption is at the level of the 1960s, reflecting the crisis in the property sector.

Outward and Inward Direct Investment Flows Fall

Spain's inflows of foreign direct investment (FDI) dropped 27.6% in 2011 to US$29.4 billion and the outflows were marginally down at US$37.2 billion, according to the 2012 World Investment Report of the United Nations Conference on Trade and Development (UNCTAD).

The FDI inflow in 2011, however, was close to the average of the previous two years.

The stock of Spain's inward investment stood at US$634.5 billion at the end of 2011 compared with a stock of outward investment of US$640.3 billion, higher than Italy's (see Figures 10-13). In GDP terms, Spain's stock of inward investment increased from 12.5% in 1990 to 42.1%, while that of outward investment soared over the same period from 3.0% to 42.5%.

Figure 10. Inward Flows of Foreign Direct Investment 2012, Selected EU Countries

	UK	France	Germany	Spain	Italy
US$ mn	53,949	40,945	40,402	**37,258**	47,210

Source: World Investment Report 2012, UNCTAD.

Figure 11. Inward Stocks of Foreign Direct Investment 2012, Selected EU Countries

	UK	France	Germany	Spain	Italy
US$ mn	1,198,870	963,792	713,706	**634,532**	243,484
% of GDP	49.8	34.7	20.0	**42.1**	15.2

Source: World Investment Report 2012, UNCTAD.

Figure 12. Outward Flows of Foreign Direct Investment 2011, Selected EU Countries (US$ million)

	UK	France	Germany	Spain	Italy
US$ mn	107,086	90,146	54,368	**47,2103**	37,258

Source: World Investment Report, 2012, UNCTAD.

Figure 13. Outward Stocks of Foreign Direct Investment 2011, Selected EU Countries

	UK	France	Germany	Spain	Italy
US$ mn	1,731,095	1,441,611	1,372,676	**640,312**	512,201
% of GDP	71.9	49.4	40.4	**42.5**	23.4

Source: World Investment Report 2012, UNCTAD.

Spain's net cross-border sales in 2011 amounted to US$17.3 billion, double those in 2010, and net purchases were US$11.6 billion, eight times higher than in 2010.

Spain's Per Capita Income Below EU Average for First Time in a Decade

Spain's economic crisis caused the country's per capita income to dip below the EU-27 average in 2011 for the first time since 2001, according to preliminary figures from Eurostat.

GDP per capita was 99% of the EU average in purchasing power standards, down from a peak of 105% in 2007 at the height of Spain's construction-fuelled economic boom (see Figures 14 and 15). Actual individual consumption (AIC) per capita was also below the EU average at 94% (97% in 2001). AIC, an alternative welfare indicator, reflects the situation of households better than per capita income.

Figure 14. GDP and Actual Individual Consumption per Capita in Purchasing Power Standards, 2011 (EU-27 = 100)

	Per capita income	AIC per capita
Luxembourg	274	150
Germany	120	119
UK	108	118
France	107	112
Italy	101	102
Spain	**99**	**94**
Bulgaria	45	44

Source: Eurostat.

Figure 15. Per Capita GDP in Purchasing Power Standards of the Largest EU Economies, 2007-2011 (EU-27=100)

	2007	2008	2009	2010	2011
France	108	107	108	108	107
Germany	116	116	116	118	120
Italy	104	104	104	100	101
Spain	**105**	**101**	**103**	**100**	**99**
UK	116	112	111	112	108

Source: Eurostat.

Number of Wealthy Spaniards Continues to Fall

The number of Spaniards with net assets of at least US$1 million, excluding their primary residence and consumables, dropped 2% in 2011 to 137,300, according to the World Wealth Report issued by RBC Wealth Management and Capgemini (see Figure 16).

Figure 16. Number of Rich Spaniards, 2002-10

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Number	110,000	129,000	141,000	148,000	157,000	161,000	127,000	143,000	140,000	137,300

Source: RBC Wealth Management and Capgemini, 2012 World Wealth Report.

This was the second consecutive fall since 2009. The number was 14.7% below the peak of 161,000 in 2007. Among the reasons for the decline were the performance of the Madrid Stock Market, one of the worst in the world, and the fall in property prices. Spain has the 13th largest number of millionaires (see Figure 17).

Figure 17. High Net-Worth Individuals by Country (in thousands), 2010-11

	2010	2011
US	3,104	3,068
Japan	1,739	1,822
Germany	924	951
China	535	562
UK	454	441
France	396	404
Canada	282	280
Switzerland	243	252
Italy	170	168
Australia	193	180
Brazil	155	165
South Korea	147	144
Spain	**140**	**137**

Source: RBC Wealth Management and Capgemini, 2012 World Wealth Report.

Corporate Scene

BBVA Sells its Puerto Rico Operations
BBVA, Spain's second-largest bank, is to sell its businesses in Puerto Rico to Oriental Financial Group for US$500 million.

BBVA Puerto Rico has 37 branches in Puerto Rico and the bank also has an insurance company. The bank's market share is 5.9%.

The sale will enable BBVA to focus more on its business in the US, where it operates in Texas and California.

The move follows plans to sell pension fund businesses in Latin America.

Santander, the euro zone's largest bank by market capitalisation, is also retreating from Latin America, as pressure to bolster the balance sheets of big European banks grows. Santander sold its Colombian unit last December and a 7.8% stake in its Chilean unit.

Talgo Wins €989 Million Contract in Kazakhstan
Trainmaker Talgo won a €989 million 15-year contract for the upkeep of 1,044 carriages in Kazakhstan. This follows the €300 million contract it obtained last December to supply 420 carriages.

Santander Wins Euromoney's Best Global Bank Accolade and BBVA Best in Latin America
Euromoney named Santander the best global bank and BBVA the best in Latin America.

Both banks have withstood the turmoil in their home market thanks to their diversification abroad.

The magazine said at its annual awards ceremony that Santander 'has built a unique and diverse business, spread between developed and high growth markets. In each, its high market share enables the bank to produce not only strong revenues but also industry-leading efficiency'.