

Inside Spain 90
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Foreign Policy

Spain Backs Enhanced Palestinian Status in the United Nations

Spain was among the 138 countries that supported the Palestinian bid for the upgrading of its status at the UN from an observer to non-member observer state. Only nine countries, including the US and Israel, opposed the move and there were 41 abstentions.

José Manuel García-Margallo, the Foreign Minister, told parliament that the support was the best way to advance towards peace.

The previous Socialist government backed the Palestinian statehood bid in 2011.

Spain and Turkey Boost Budding Trade and Investment Relation

Prime Minister Mariano Rajoy and his Turkish counterpart, Recep Tayyip Erdoğan, agreed at the fourth summit between the two countries to set up a business forum to foster greater trade and direct investment.

Turkey, whose EU membership Madrid actively supports, is becoming an increasingly important market for Spain. Exports to Turkey rose from €2.9 billion in 2007 to €4.4 billion in 2011 and Spanish direct investment in the country during this period amounted to €7.1 billion. Imports from Turkey dropped from €4.2 billion to €3.3 billion, while investment in Spain is insignificant.

The trade pattern is to some extent a result of Spain's recession: a greater drive in exports to compensate for the depressed home market and shrinking imports. Spain's exports to Turkey were €3.4 billion in the first nine months of 2012. The country has become the second-largest non-EU market after the US.

The largest Spanish investor in Turkey is BBVA, which acquired 24.9% of Garanti bank in 2011.

Domestic Scene

Catalan Election Delivers Support for Illegal Referendum on Independence

Artur Mas, the premier of Catalonia, widely failed in his bid to win an absolute majority in the snap election called in the hope of giving him a free hand to push for an illegal referendum on independence. Parties in favour of the referendum, however, won 87 of the 135 seats in the region's parliament.

The Spanish Constitution gives the central government 'exclusive competence' on the authorisation of referendums, and Madrid has already ruled one out for Catalonia. The only legal way to trigger this process is through a constitutional amendment. This would require a large majority in the Spanish parliament, new elections and approval in a referendum held throughout the country.

The centre-right *Convèrgencia i Unió* (CIU), headed by Mas, won 50 seats, 12 less than in 2010 and 18 below an absolute majority, *Esquerra Republicana*, an older and much more radically separatist party doubled its number of seats to 21, the Greens-United Left boosted their number to 13 and the CUP obtained three (see Figure 1).

In the anti-independence camp, the Socialists lost eight of their 28 seats, the Popular Party, which governs Spain at the national level, increased from 18 to 19 seats, and Citizens trebled its number to nine. Voter turnout of almost 70% was the highest ever in a Catalan regional election since 1980 and 11 points above 2010.

Figure 1. Catalan Parliamentary Election Results: Number of Seats and % of vote, 2012 and 2010

	2012 seats	2012 % of vote	2010 Seats	2010 % of vote
Convèrgencia i Unió (CIU)	50	30.7	62	38.4
Esquerra Republicana (ERC)	21	13.7	10	7.0
Catalan Socialist Party	20	14.4	28	18.4
Popular Party	19	13.0	18	12.4
ICV-EUIA (1)	13	9.9	10	7.4
Citizens	9	7.6	3	3.4
CUP	3	3.5	–	–

(1) Iniciativa per Catalunya y Esquerra Unida i Alternativa.

Source: Catalan government.

The percentage of the vote won by parties in favour of a referendum on independence was 54.3%, slightly lower than the 52.8% in 2010 when the CiU was more moderate on this issue and a referendum was not on the cards.

The impact of Spain's recession on the region, which forced the outgoing CiU government to slash spending, a fiscal system, which Catalan nationalists say discriminates against the region, and a massive rally in September pushed the previously cautious Mas into the independence camp.

The Socialists' results were their worst ever, and followed a similar meltdown in the recent Galician and Basque elections. In 2003 the Catalan Socialists won 42 seats (31.4% of the vote) and headed a coalition government with ERC and ICV.

As the second-largest party, the key to the governability of Catalonia lies with the ERC as the CiU on its own cannot form a government. The Socialists are in favour a more federal system but not outright independence, while the PP wants to keep the present arrangement for Spain's autonomous regions.

The ERC is reluctant to enter government with Mas and instead is expected to give his minority government parliamentary support. The two parties agreed to hold the independence referendum by the end of 2014. The ERC also sought CiU's backing of its plan for a 'transition to a sovereign state'.

The CiU is not united on the referendum issue. Josep Durán Lleida, the head of the *Unió Democràtica de Catalunya*, part of CiU, who heads the Catalan parliamentary group in the national parliament in Madrid, told party members in a weekly message that not everyone who attended the rally on Catalonia's national day was in favour of independence.



Education Reforms Anger Catalan Nationalists, Please the Church

The central government unveiled an education reform bill whose measures include giving Spanish the same priority as regional languages in schools for those families that choose it.

The language issue has enraged Catalan nationalists, who are already on a collision course with Madrid over an illegal referendum on independence for the region, but not nationalists in other regions with their own languages (the Basque Country and Galicia).

Under the draft bill, José Ignacio Wert, the Education Minister, said all future coursework must be offered in both Spanish and the regional language.

Parents that want their children taught primarily in Spanish must be offered this option, and the cost of private classes met by regional authorities if teachers of it are not available in the state school system.

In Catalonia, primary and secondary education is taught in Catalan and Spanish is a separate subject taught for a little as two hours a week in some cases.

Other reforms include establishing rankings of state schools based on their results and specialisation so that parents can better judge the most suitable school for their children. Schools would also be encouraged to compete with one another and improve their quality. Vocational training courses will also be strengthened as an alternative to going to university.

Meanwhile, the Catholic Church hierarchy was reportedly negotiating with the government an end to the controversial Education for Citizenship course introduced by the previous Socialist administration of José Luis Rodríguez Zapatero.

This course (there are similar ones in other European countries), vehemently denounced by the Church as ‘indoctrination’, is a mix of ethics, civics and human rights. Cardinal María Rouco Varela, archbishop of Madrid, said the course ‘clashes with the fundamental principles of the Constitution and with the right of parents to choose their children’s moral instruction.’ It would apparently be replaced by a course on cultural and social values in primary schools and ethical values in secondary schools.

Furthermore, those exercising their right to opt out of the religion course in state schools (under the 1979 agreement between the Spanish state and the Holy See) would take another one that would also count toward their school-leaving certificate. By making the alternative to the religion course less of a soft option, the Church hopes to attract more students to its course as the number of participants has been declining. The Church continues to appoint the teachers of the religion course.

The Socialist leadership called for an end to religious instruction of any type in state schools and a revoking of the agreements in the 1979 accord with the Holy See on this issue, something the party did not do while it was in office between 1983 and 1996 and 2004 to 2011. The salaries of Catholic religious teachers are paid by the state.

Spain’s education results are generally poor, as measured by international yardsticks.

The education system was ranked 28th out of 40 countries in a report issued last month by Pearson in conjunction with the Economist Intelligence Unit (see Figure 2).

Figure 2. Global Index of Cognitive Skills and Educational Attainment: Overall Results of Selected Countries

Country	Score
1. Finland	1.26
6. UK	0.60
15. Germany	0.41
24. Italy	0.14
25. France	0.13
28. Spain	-0.08
40. Indonesia	-2.03

Source: Pearson and Economist Intelligence Unit.

The indicators used in the index for cognitive skills are PISA, TIMSS and PIRLS scores in reading, maths and science and for educational attainment, literacy and graduation rates. The overall index score is the weighted sum of the underlying two category scores.¹

Spain's poor education results, including an early school-leaving rate of 25%, cannot be blamed on low teacher pay. The report says the correlation between pay and results is 'typically found to be weak or non-existent'. Spain is at the top end of the ratio of average teacher salary over the average gross wage (see Figure 3) but low down the global index above, while Finland tops the global index and yet has a much lower pay ratio than Spain.

Figure 3. Ratio of Average Teacher Salary at Primary, Lower and Upper Secondary Levels over the Average Gross Wage, Selected Countries, 2010

Country	Score
1. Chile	2.78
2. Spain	1.76
4. Germany	1.61
5. Italy	1.31
12. US	0.92
13. France	0.88
14. Finland	0.87

Source: Economist Intelligence Unit and OECD.

In another report released earlier this month the International Association for the Evaluation of Educational Achievement (IEA) ranked Spain low in primary education (see Figure 4).

Figure 4. TIMS and PIRLS Fourth Grade Mathematics, Science and Reading Achievements (average scale score), Selected Countries

Mathematics	Score	Science	Score	Reading	Score
Singapore	606	South Korea	587	Hong-Kong China	571
Hong-Kong China	602	Singapore	583	Russia	568
Finland	545	Finland	570	Finland	568
England	542	England	529	UK	552
Germany	528	Germany	528	Italy	541
Ireland	527	Italy	524	Germany	541
OECD average	522	OECD average	523	OECD average	538
Italy	508	Ireland	516	France	520
Spain	482	Spain	505	Spain	513

Source: IEA.

¹ Full information available at <http://thelearningcurve.pearson.com/index/index-ranking/overall-score-highest>.

Meanwhile, the rectors of the 50 state universities are up in arms over budget cuts and called in a joint communiqué for sufficient and sustainable financing, without which they said higher education would suffer ‘economic asphyxiation’. The 2013 budget has slashed spending on universities and vocational training by 18%.

Former Head of the Employers Association Arrested on Money-Laundering Charge

Gerardo Díaz-Ferrán, the former head of the Spanish Confederation of Employers’ Organisations (CEOE), was arrested and imprisoned on charges of fraudulent conveyance and money laundering in connection with the 2010 bankruptcy of his Viajes Marsans tourism conglomerate.

Hotel managers and tourism operators brought a case against Diaz-Ferran and several associates in June, on grounds that they had concealed part of their assets in order to avoid paying the requirements of administrators.

Spanish prosecutors accused Díaz-Ferrán of hiding roughly €45 million in assets. Police found €1.5 million in cash at various homes in Madrid and Valencia, a 1 kg gold bar and several luxury cars. Among the assets that Díaz-Ferrán hid was a Rolls Royce car, worth €500,000, whose ownership he had transferred in order to avoid having to hand it over. He also has two luxury flats in the building of the hotel Plaza in New York. His lawyer, Ángel de Cabo, was also arrested.

Spain Improves Slightly in Public Sector Corruption Ranking...

Spain was ranked 30th out of 176 countries with a score of 65 in the latest public sector corruption ranking drawn up by the Berlin-based Transparency International, compared with 31st out of 183 nations in 2011 with a score of 62 (see Figure 5). The nearer to 100, the cleaner the country.

Figure 5. Ranking of Perceived Levels of Public Sector Corruption, Selected Countries

Country Ranking out of 176 nations	Score out of 100
1. Denmark	90
2. Finland	90
13. Germany	79
17. UK	74
22. France	71
30. Spain	65
72. Italy	42

Source: Transparency International.

... Fares Reasonably Well in Immigrant Integration

The situation of immigrants in Spain is less critical than across other OECD countries, according to the latest report by the rich countries’ club. Only 6% of immigrants live in overcrowded or deprived dwellings, compared with an OECD average of 29% and 3% among native-born households.

The report, based on data for 2010, provides the first international comparisons of how well countries are doing across a broad range of issues.²

² Available at <http://www.oecd.org/migration/integrationindicators/#d.en.217290>.

The share of the foreign-born in the total population in Spain trebled between 2000 and 2010 to 14.3%, a proportionately much faster rise than in all other countries (see Figure 6). In 2010, 57% of the foreign-born were employed, lower than the OECD average, and 46% of immigrant household members owned their dwelling, compared with 85% of the native-born. The number of immigrants since 2010 has dropped because of the recession.

Figure 6. Snapshot of Spain's Foreign-born Population

Foreign-born population (15-64)	Spain (%)	OECD average (%)
Recent immigrants	27	17
Highly educated	21	31
From an OECD high-income country	16	28
From country with same official language	35	27

Source: Settling In, OECD Indicators of Immigrant Integration 2012.

The census carried out every 10 years by the National Statistics Office (INE) published earlier this month showed that the almost 6 million increase in the population between 2001 and 2011 to 46.81 million (+14.6%) was largely due to the influx of foreigners. The population growth of 5.96 million, 3.68 million of which was due to immigrants, was the largest ever in a 10-year period. The number of Romanians, for example, rose from 57,533 to 798,104 (see Figure 7). The total number of foreigners during this period grew 234.1% to 5.25 million compared with a rise of 5.8% in the number of Spaniards to 41.56 million.

Figure 7. Growth in the Foreign Population, 2001-11 (1)

	2011 census	2001 census	% increase
Romania	798,104	57,533	1,287.2
Morocco	773,966	247,941	212.2
Ecuador	316,756	216,474	46.3
UK	312,098	94,862	229.0
Colombia	250,087	160,104	56.2
Bolivia	183,626	11,311	1,523.4
Italy	177,520	36,815	382.2
China	171,127	27,595	520.1
Germany	153,245	78,020	96.4
Rest	2,115,945	641,358	229.9
Total	5,252,473	1,572,013	234.1

(1) 1 November 2011.

Source: INE.

The Economy

Euro Zone Releases Bank Aid with Tough Conditions

The euro zone agreed to inject €39.5 billion into ailing banks in the hope that this would draw a line under the crisis in the financial sector and, combined with an easing of EU-imposed budget deficit targets, avoid a full-blown sovereign bailout.

Most of the recapitalisation funds (€18 billion) go to Bankia, the fourth-largest lender and the product of the merger of seven regional savings banks, which was nationalised earlier this year after it was felled by massive overexposure to the property sector when the real-estate bubble burst.



The rest goes to three other banks –Catalunya Banc, NCG Banco and Banco de Valencia– and €2.5 billion of it to the so-called ‘bad bank’ which will hold toxic real-estate assets. All but Banco de Valencia were poorly managed and politically-influenced savings banks.

In return, Bankia, formerly headed by Rodrigo Rato, a Managing Director of the IMF (2004-07) and Economy Minister in a previous Popular Party government (1996-2004) until he was ousted from the bank earlier this year, has to cut 6,000 jobs (28% of staff) and 39% of its branches by 2015.

‘It’s a demanding but realistic plan’, said José Ignacio Goirigolzarri, Bankia’s Chairman and a former CEO of BBVA, Spain’s second-largest bank, who took over from Rato.

The bailout loans for the banks carry a 12-and-a-half-year maturity with a 10-year grace period and an interest rate in the first year of less than 1%.

‘We believe these are advantageous conditions that will help heal, restructure and overcome the problems in the Spanish banking system’, said Luis de Guindos, the Finance Minister.

The size of the loan is substantially less than the €100 billion which the EU agreed last June to provide. Some analysts say more than the €39.5 billion will be needed.

Yields on Spain’s benchmark 10-year government bonds fell over the last month from 5.97% to 5.33% on 18 December (see Figure 8).

Figure 8. 10-Year Government Bond Yields (%) and Spreads over Germany’s Bunds

	Yield (%)	Spread (pp)
Germany	1.42	–
Greece	12.70	+11.28
Ireland	4.65	+3.23
Italy	4.45	+3.03
Portugal	7.14	+5.71
Spain	5.33	+3.90

Source: ThomsonReuters.

In a related development, the government announced it was drawing up a draft law to ban politicians, political party and trade union officials and members of employers’ organisations from the boards of savings banks. The number of representatives in ‘banking foundations’ and in savings banks that have kept this status appointed by public administrations will be reduced to 25% of the total from the current 40%.

Savings banks losing their control over banks, or lowering their participation below a certain threshold, are to be transformed into foundations. These institutions, however, are questioned by Brussels and the IMF.

Budget Deficit Reduction Difficulties Force Pension-Rise Cap

The government broke another of its electoral campaign pledges and said it would not make the usual end-of-year adjustment to pensions to take account of inflation in 2012 in order to help meet its budget deficit target, a top priority.

As a result, more than 8.3 million pensioners will receive a rise of between 1% and 2% in 2013 and not 2.9%, the inflation rate in November. This will save the government around €4.4 billion.

The government also passed a new law to unlock a pension reserve fund and increase by €4.3 billion the capital buffer available to pay pensions. The fund, which was established in 1997 and stood at more than €67 billion at the end of 2011, was used for the first time this year but the government has already tapped the maximum available amount allowed per year.

José Luis Rodríguez Zapatero, the Socialist Prime Minister between 2004 and 2011, increased pensions every year except in 2011, when they were frozen. The minimum pension for the close to 3 million people who receive it rose by 50% in nominal terms.

Pensioners lost 1.2 pp of purchasing power during Rodríguez Zapatero's seven years in office compared with 1.9 pp so far under the Popular Party.

Trade unions threatened to take the issue to the Constitutional Court.

Tax Amnesty Fails to Live Up to Expectations

The cash-strapped government's tax amnesty, which came into effect in June and ended on 30 November, netted €1.2 billion, well below the €2.5 billion target.

The amnesty allowed undeclared assets or those hidden in tax havens to be repatriated by paying a 10% tax, with no criminal penalty.

Cristóbal Montoro, the Economy Minister, said 31,484 tax declarations were made under the amnesty.

Tax inspectors called the measure, which they criticised at the time for 'undermining the conscience of honest taxpayers', a failure.

'Spain on the Road to Recovery', OECD

Spain, immersed in a deep recession since 2009, apart from very weak growth in 2011, is on the path to recovery, but still needs further measures to restore confidence in the financial sector, redress public finances and lower the very high unemployment, according to the OECD's latest survey of the country.³

The OECD, in line with other international organisations, forecasts the economy will shrink by 1.4% in 2013 (see Figure 9), before returning to growth of 0.5% in 2014 (the highest rate since 2008).

³ Available at <http://www.oecd.org/eeco/surveys/spain2012.htm>

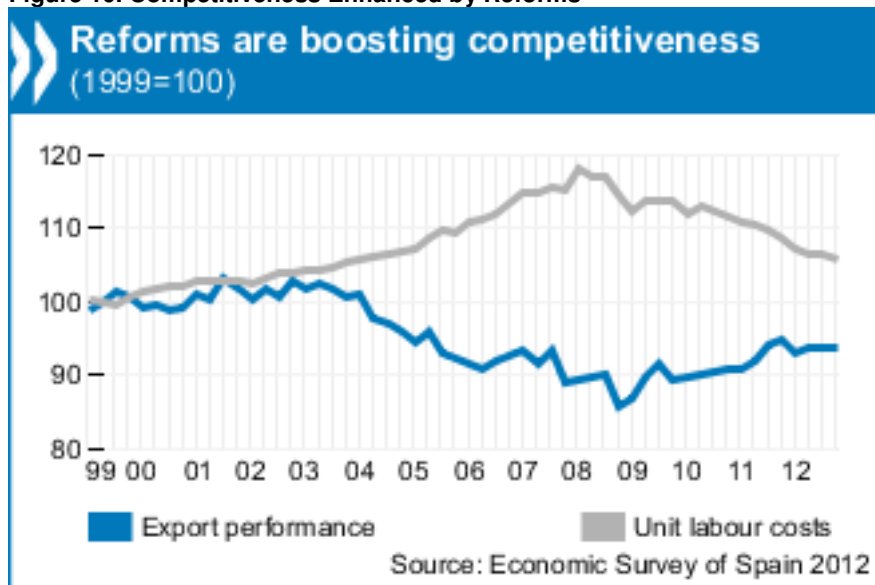
Figure 9. OECD Forecasts, 2012-14

	2012	2013	2014
GDP growth (%)	-1.3	-1.4	+0.5
Unemployment (%)	25.0	26.9	26.8
Budget deficit (% of GDP)	-8.1	-6.3	-5.9
Public debt (% of GDP)	86.1	92.6	97.6
Current account balance (% of GDP)	-2.0	+0.5	+1.8

Source: OECD.

The OECD said the reforms were enhancing competitiveness (see Figure 10).

Figure 10. Competitiveness Enhanced by Reforms



Three priority areas are identified for future action:

- The financial crisis needs to be quickly addressed. A rapid and orderly resolution of non-viable banks and recapitalisation of viable ones with capital is key.
- Confidence in public finances needs to be restored. Newly reformed budgetary rules across all levels of government should be strictly implemented. Permanent budgetary measures needed to stabilise government debt should be spelled out. Further pension reform would improve long-term sustainability and improve incentives to move activity from the informal to the formal economy.
- Reducing unemployment will require a broad range of reforms. More could be done to reduce labour market duality, notably by ending the marked differences in dismissal compensation between permanent and temporary employees. Quick action is needed to improve the effectiveness of placement services, strengthening training, especially for the young unemployed, and tightening search requirements for workers receiving unemployment benefits.

R&D Spending Falls in 2011 for First time

Spending on R&D fell in 2011 to 1.33% of GDP from a peak of 1.39% in 2009 and 2010, widening Spain's gap with the European leaders such as Finland and Germany (see Figure 11).

Figure 11. R&D Spending (% of GDP), Selected EU Countries

	% of GDP
France	2.26
Finland	3.87
Germany	2.82
Italy	1.26
UK	1.77
Spain	1.33
EU-27 average	2.00

Source: Eurostat and INE for Spain. 2010 figures apart from Spain which is 2011.

Bright young scientists are increasingly leaving the country to work abroad. Such a brain drain does not augur well for the widely recognised need to create an economic model based more on knowledge and less on bricks and mortar.

Luis de Guindos Last in Financial Time's Ranking of EU Finance Ministers

Luis de Guindos was ranked last in the Financial Times' annual ranking of EU Finance Ministers. Germany's Wolfgang Schäuble headed the list, which is based on the measures of political ability, economic performance and credibility in the markets, for the second time (see Figure 12).

The methodology used rewards ministers whose economies have produced balanced growth and solid public finances; who scored high notes in domestic and international politics and who earned the respect of financial markets.

Figure 12. Financial Times Ranking of Europe's Finance Ministers

Overall ranking	Country	Political	Economic	Credibility
1. Wolfgang Schäuble	Germany	1	3	12
2. Anders Borg	Sweden	2	2	=13
3. Jacek Rostowski	Poland	6	4	=12
4. Jutta Urpilainen	Finland	=10	5	=7
5. Michael Noonan	Ireland	4	13	6
6. Jean-Claude Juncker	Luxembourg	7	10	=4
7. Peter Kazimir	Slovakia	13	1	18
8. Vittorio Grilli	Italy	5	15	=9
9. Steven Vanackere	Belgium	14	6	=1
10. Vítor Gaspar	Portugal	3	18	=15
11. Miroslav Kalousek	Czech Republic	15	8	=1
11. Jan Kees de Jager	Netherlands	9	14	=7
13. Bjarne Corydon	Denmark	12	12	3
14. Maria Fekter	Austria	16	7	=4
15. George Osborne	UK	=10	16	=13
16. Pierre Moscovici	France	17	9	=9
17. Yannis Stournaras	Greece	8	19	=15
18. Gyorgy Matolcsy	Hungary	19	11	17
19. Luis de Guindos	Spain	18	17	19

Source: Financial Times.

Corporate Scene

Inditex Profits Continue to Surge

Inditex, the world's largest clothing retailer, again beat forecasts and posted a 27% jump in net profits in the nine months to 31 October to €1.66 billion.

Profits continued to be driven by the group's international expansion. During this period it added 360 new stores in 54 different markets. Earlier this month Inditex broke the 6,000-store mark when it opened a new flagship store on London's Oxford Street.

Inditex's results were in stark contrast to the aggregate fall of 35.5% in the net profits of the 120 companies listed on the continuous market of the Madrid Stock Exchange. Telefónica, part of the Ibx 35 benchmark index, displaced the bank Santander, hit by provisions for bad property loans, as the profits leader (see Figure 13).

Figure 13. Net Profits of Ibx 35 companies, First Nine Months 2012 (€million)

Company	Sector	Net profits in € mn and annual % change
Abengoa	Technology	117.1 (-44.8)
Abertis	Motorways	1,003.0 (+68.8)
Acciona	Construction	114.0 (-63.7)
Acerinox	Metals	8.7 (-91.5)
ACS	Construction & services	1,099 loss (739.0 profit in 2011)
Amadeus IT Holding	Travel technology	431.6 (-35.3)
Banco Popular	Banking	251.2 (-37.8)
Banco Sabadell	Banking	90.6 (-56.3)
Banco Santander	Banking	1,804.0 (-66.0)
Bankia	Banking	7,053 loss (pro-forma profit of €295)
Bankinter	Banking	72.3 (-50.8)
BBVA	Banking	1,656.0 (-47.3)
BME	Stock market holding	105.1 (-11.3)
Caixabank	Banking	173 (-79.5)
Día	Supermarket chain	99.2 +176.3)
Ebro Foods	Food	110.15 (+18.8)
Enagás	Electricity	281.4 (+3.9)
Endesa	Electricity	1,662.0 (-16)
FCC	Construction	40.1 (-77.5)
Ferrovial	Construction	488.5 (+1.3)
Gamesa	Wind turbines	67.0 loss (30.0 profit in 2011)
Gas Natural	Gas	1,115.0 (+0.09)
Grifols	Pharmaceutical	197.3 (+350.6)
IAG	Airlines	(39.0)
Iberdrola	Electricity	1,115 (+0.09)
Inditex	Fashion retailer	1,655 (+27.1)
Indra	Electronics	93.3 (-35.6)
Mapfre	Insurance	655.9 (-14.3)
Mediaset (Telecinco)	Media	40.7 (-60.2)
OHL	Construction	184.8 (+33.2)
Red Eléctrica	Electricity	337.9 (+1.5)
Repsol	Oil	1,796 (-5.5)
Sacyr-Vallehermoso	Construction	701.4 loss (120.2 profit in 2011)
Técnicas Reunidas	Engineering	101.3 (+1.8)
Telefónica	Telecoms	3,455 (+26.4)

Source: National Securities Market Commission.

Repsol Files a US\$10.5 billion Suit against Argentina for the Expropriation of YPF

Repsol, the oil company, filed a US\$10.5 billion suit at the World Bank's arbitration tribunal against the Argentine government for its expropriation last May of 51% of YPF.

Repsol's case is based on what it views as a violation of a 1991 bilateral investment protection treaty. It has also filed lawsuits in Argentina, Spain and the US.

ACS Wins €1.6 billion Ottawa Rail Transit Contract

A consortium led by the construction group ACS won a €1.6 billion contract to build, finance and maintain a light-rail transit system in the Canadian capital of Ottawa. This is the fifth contract that ACS has won in Canada in the last five years and the eighth in North America.



Santander to Absorb its Domestic Bank Banesto

Santander, the euro zone's largest bank by market capitalisation, is to absorb its domestic subsidiary Banesto and close 700 branches in a move that heralds further restructuring in Spain's troubled banking sector.

The bank acquired Banesto, founded in 1902, in 1994 after it was seized by the Bank of Spain following a fraud scandal involving its Chairman, Mario Conde, who was jailed. Santander owns 90% of the stand-alone Banesto, which has its own management and stock market listing, and will buy out minority investors by offering them shares in the parent bank.

Banesto's net profits plummeted 83% to €50 million in the third quarter, as they continued to be dragged down by provisions for bad loans, many of them related to the collapsed property sector.

Santander said the absorption would yield around €520 million in savings.

Unions Call off Strikes at Iberia over Job Lay-offs

Unions at the airline Iberia, which merged with British Airways last year, called off their planned strikes in the run-up to Christmas in protest at the company's plans to lay off 4,500 staff, about a quarter of the work force, after management agreed to negotiate the restructuring.

International Airlines Group, the parent of Iberia and BA, expects to make an operating loss of €120 million in 2012, largely because of Iberia, which posted an operating loss of €262 million in the first nine months. Iberia has been hit harder than most other airlines by Spain's prolonged recession and faces stiff competition from low-cost airlines such as easyJet and Ryanair.

The average salary of a Ryanair captain is €148,000, and they fly 850 hours each year. By contrast, the average salary of an Iberia captain on a short-haul aircraft is €197,000, flying 629 hours.

Iberia announced the end of flights to Athens, Cairo, Istanbul, Santo Domingo and Havana.