

Inside Spain 93 (20 February-18 March 2013)

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Foreign policy

Prince Felipe represents Spain at funeral of Hugo Chávez

Prince Felipe, the heir to the throne, attended the state funeral for Hugo Chávez, the Venezuelan President who died earlier this month.

The Prince's father, the 75-year-old King Juan Carlos, recently underwent back surgery, his seventh operation in three years. Apart from health considerations, his attendance at the funeral might not have been welcomed as he told Chávez to 'shut up' at the 2007 Ibero-American summit in Santiago, Chile.

The outburst came after Chávez called José María Aznar, the former Popular Party (PP) prime minister, a 'fascist.' Aznar's successor, Mariano Rajoy, who became Spain's prime minister at the end of 2011, issued a short statement after Chávez died calling him 'one of the most influential figures in contemporary Venezuela'.

Domestic scene

EU Court ruling forces government to change the eviction law

The harsh eviction law, which has resulted in the repossession of around 400,000 houses since the onset of the crisis in 2007 and become a major social issue, will be reformed following a ruling by the European Court of Justice that said it was incompatible with EU law.

The move followed an appeal by Mohamed Aziz against his eviction in 2007. His contract with CatalunyaCaixa, since nationalised, allowed the bank to take away his home after just one failure to pay an instalment and provided for a default interest rate of 18.75%, which he said was unfair.

Anti-foreclosure campaigners collected more than 1.4 million signatures, forcing parliament to debate a change in the law. The reform, making it easier for homeowners to fight evictions and contest clauses in their contracts regarded as abusive, will now come more quickly.

Courts will be given powers for the first time to halt evictions while a mortgage contract is scrutinised. Spain's mortgage law has hardly changed in more than 100 years. A home owner is held liable for a mortgage loan even after returning the property and can only be freed from any liability when the loan has been fully repaid.

According to a Metroscopia survey, 87% of respondents said they trusted social movements and the justice system more to resolve the issue of evictions than the government.

Popular Party under further scrutiny as judge links Bárcenas papers with Gürtel corruption case

The judge investigating the case known as Gürtel, involving bribery, money laundering and tax evasion among a circle of PP politicians and businessmen, moved towards incorporating the case involving a secret slush fund allegedly handled by Luis Bárcenas, the PP's former treasurer.

Pablo Ruz, a judge at the *Audiencia Nacional*, took this step after the police said it had discovered links between the two scandals. Ruz ordered the PP to hand over all information on donations over the last 20 years.

Investigations into the ongoing Gürtel case (since 2009) revealed earlier this year that Bárcenas had Swiss bank accounts with €22 million. The leading daily *El País* then published parts of a handwritten ledger that showed payments in cash to PP leaders including the Prime Minister, Mariano Rajoy, (€322,231 between 1998 and 2008) and donations from companies, mainly construction firms.

Rajoy vehemently denied receiving any money, while Bárcenas said the publication of the accounts was a 'set-up' and the handwriting was not his.

Bárcenas, whose passport has been removed so that he cannot leave Spain, was summoned to repeat the handwriting test after it was suspected he had changed the way he formed letters.

As soon as the ledger was published, the anti corruption prosecutor's office (whose head is appointed by the government) began to take evidence. It determines whether there is a case to answer, something that Ruz appears to have already decided.

The PP filed a lawsuit against *El País* for defamation, more than a month after the newspaper published the ledger, and Bárcenas filed a lawsuit against the PP for firing him without just cause. He is seeking compensation of €905,000.

In a separate development, another judge, Javier Gómez Bermúdez, accepted a lawsuit brought by United Left (IU) and summoned businessmen named in the ledger for allegedly donating funds to the PP that surpassed the legal limit.

The state prosecutor apparently favours Ruz rather than Gómez Bermúdez to assume the Bárcenas case. Ruz is an interim judge and due to leave the *Audiencia Nacional* in September which would prolong the case, while Gómez Bermúdez crossed swords with the PP over the handling of the case regarding the bomb attacks in Madrid that killed close to 200 people on 11 March 2004.

Corruption is now the second most worrying problem for Spaniards after unemployment, according to the government-funded Centre for Sociological Research (CIS). In its latest survey, 40% said it was the country's main problem, up from 17.7% in January.

Public prosecutor of Catalonia resigns over independence referendum remarks

Martín Rodríguez Sol, the public prosecutor of Catalonia, quit his post after the state attorney general opened a case against him for overstepping his role and defending the legitimacy of a referendum on the region's independence which the central government has declared illegal.

His departure added fuel to the controversial issue of the referendum, which is scheduled to be held by the end of 2014.

Rodríguez Sol said Catalans should be given the 'possibility of expressing what they want', while making it clear, subsequently, that he was against independence.

Artur Mas, the president of the Catalan government and head of the centre-right nationalist Convergence and Union party (CiU), announced he would speed up the law enabling the referendum to be held.

According to a poll by the public opinion agency of the Catalan government, 55% of Catalans would vote in favour of independence. The poll also showed the CiU losing ground to the more radical pro-independence Catalan Republican Left (ERC). If elections were held now, the ERC would gain a larger share of the votes than the CiU, for the first time, but fewer seats in the Catalan parliament.

The referendum push has opened up a division between the Socialist Party (PSOE) and the affiliated Catalan Socialist Party (PSC), which, for the first time, broke ranks in the national parliament in Madrid this month when 13 of its 14 deputies disobeyed the party line by voting in favour of a motion urging the conservative PP government to allow the referendum. The motion was also supported by the CiU, the ERC and another Catalan party.

The vote angered the Socialist party leadership at the national level and led Alfredo Pérez Rubalcaba, the PSOE leader, to call for a review of the relations with the PSC. Socialist votes in Catalonia (for the PSC) have played a significant role in getting the PSOE elected to govern Spain.

The PSC deputy Carme Chacón, who lost to Rubalcaba when the PSOE elected a new secretary general to replace José Luis Rodríguez Zapatero, the former prime minister, after the PP won a sweeping victory in the November 2011 general election at which Rubalcaba was the Socialist candidate, sat on the fence. She did not vote for the motion or against it or abstained. The 14 were fined €600 each and the PSC is no longer part of the leadership of the Socialist parliamentary group.

Chacón is widely believed to still harbour ambitions to be the PSOE candidate for prime minister in the next general election, not due until 2015.

In the Catalan parliament, the PSC's proposal for a referendum was supported by 104 of the 135 MPs, 14 more than the proposal put forward by the CiU in February and strengthening Mas's hand.

King's son-in-law questioned further in corruption probe

Iñaki Urdangarin, the son-in-law of King Juan Carlos, who is under investigation for allegedly misusing millions of euros in public funds between 2004 and 2006 and for tax evasion, was questioned by a judge in Mallorca for the second time in a year.

Urdangarin, suspended from official royal engagements, read a statement distancing the King from the scandal. He said the royal house 'had no opinion, did not advise and did not authorise' any of his activities at the non-profit making Nóos Institute which he headed. 'On the contrary, when the accusations arose, the palace recommended I stop any activity not considered appropriate to my institutional status, which I did'.

The statement followed e-mails published in newspapers, which appeared to show that the King took a close interest in Urdangarin's business affairs.

In a separate development, Pere Navarro, the head of the Catalan Socialist Party (PSC), called for the King to abdicate in favour of his son, Prince Felipe. This was an unprecedented move by the leader of a prominent political party and provoked an angry response from Alfredo Pérez Rubalcaba, the leader of the Socialist Party to which the PSC is affiliated.

Spain heads healthy life ranking...

Spaniards have the most years of healthy life, according to a wide-ranging study published in *The Lancet*, the world's leading general medical journal (see Figure 1).

Figure 1. Top 10 and the UK and the US by years of health

	Years of healthy life	Life expectancy
1. Spain	70.9	81.4
2. Italy	70.2	81.5
3. Australia	70.1	81.5
4. Sweden	69.6	81.4
5. Canada	69.6	80.6
6. France	69.5	80.9
7. Austria	69.1	80.6
8. Netherlands	69.1	80.6
9. Germany	69.0	80.2
10. Ireland	68.9	79.9
11. UK	68.6	79.9
12. US	67.9	78.2

Source: *The Lancet*.

The Global Burden of Disease Study compares death rates, disease and health risks in 1990 and in 2010 for 19 countries.

Spaniards are not only living longer, but, unlike Britons, are also enjoying shorter periods of ill health and disability. The premature death rate, often linked to avoidable risk factors such as smoking, high blood pressure and obesity, has hardly changed in the UK for both men and women aged 20-54.

Professor Kevin Fenton, director of health and wellbeing at the government agency Public Health England and report co-author, called the report a 'wake-up call' for the UK.

Spain's average life expectancy increased from 76.9 years in 1990 (the seventh longest of the 19 countries) to 81.4 in 2010 (the fourth longest), compared to Britons' rise from 75.7 (12th) to 79.9 (14th).

There was a marked improvement in Spain between 1990 and 2010 in chronic obstructive pulmonary disease, breast cancer, cirrhosis, diabetes and chronic kidney disease, reflecting, to some extent, the healthier diet and life style.

However, Spain cannot rest on its laurels. The national survey on health published this month showed an increase in the proportion of the population regarded as overweight from 40% in 1987 to 54% in 2012.

... Remains in 23rd place in Human Development Index

Figure 2. UN Human Development Index (HDI) for selected countries

Ranking (1)	Human Development Index Value (2)	Life Expectancy at birth 2012 (years)	Mean years of schooling (2010)	GNI per capita (2005 PPP US\$) 2012
1. Norway	0.955	81.3	12.6	48,688
3. United States	0.937	78.7	13.3	43,480
5. Germany	0.920	80.6	12.2	35,431
20. France	0.893	81.2	10.1	36,438
23. Spain	0.885	81.6	10.4	25,947
25. Italy	0.881	82.0	10.1	26,158
26. UK	0.875	80.3	9.4	32,538
39. Poland	0.821	76.3	10.0	17,776

(1) Out of 187 countries.

(2) The maximum value is one.

Source: United Nations Human Development Report, 2013.

The Economy

Budget Deficit Reduced to 6.7% of GDP, Close to the EU's Target

The budget deficit dropped in 2012 to 6.7% of GDP from 9.0% in 2011, close to the target of 6.3% set by the European Commission.

Including the one-off euro zone bailout funds for ailing banks, the deficit was 10.2% of GDP (see Figure 3). This figure does not count for the Commission's purposes. Ireland, however, was forced to account for its bank bailouts in its official budget deficit figure in 2011.

Spain has received more lenient treatment because bank recapitalisations look like being mutualised retroactively once the European Central Bank has been established as a single supervisory mechanism by March 2014, a plan that did not exist in 2011.

Figure 3. Deficit of public administrations (% of GDP)

	2012	2011
Central government	3.8	5.1
Regional governments	1.7	3.3
Local governments	0.2	0.5
Social security	1.0	0.1
General government	6.7	9.0

Source: Finance Ministry.

For the first time since 2009, when the economy went into recession, the regional governments reduced their combined deficit to 1.7% of GDP from 3.3% in 2011, but it was above the target set by the central government of 1.5% (see Figure 4).

Figure 4. Regional budget deficits, 2012 and 2011 (% of regional GDP)

Region	2012	2011
Andalusia	2.0	3.5
Aragón	1.5	2.6
Asturias	1.0	3.6
Balearic Islands	1.8	4.2
Basque Country	1.4	2.6
Canary Islands	1.2	1.5
Cantabria	1.1	3.5
Castilla y León	1.4	2.6
Castilla-La Mancha	1.5	7.9
Catalonia	2.0	4.0
Extremadura	0.7	4.7
Galicia	1.2	1.6
La Rioja	1.0	1.5
Madrid	1.1	2.0
Murcia	3.0	4.5
Navarre	1.3	2.0
Valencia	3.5	5.0
Combined deficit	1.7	3.3

Source: INE.

Olli Rehn, the EU Commissioner for Economic and Monetary Affairs, praised the government for the ‘structural effort made to cut the deficit as asked’, adding that it faced ‘unexpected problems in growth’.

One factor behind the deficit reduction was a delay in returning money owed to some taxpayers to early 2013 so that it did not form part of the 2012 figures.

The economy shrank 1.4% in 2012 compared with anaemic growth of 0.4% in 2011. Domestic demand chipped 3.9% from GDP (-1.9% in 2011) and external demand boosted GDP by 2.5% (2.3% in 2011). But for the continued rise in exports, the economy would have shrunk more.

The Commission forecasts GDP shrinkage of 1.4% this year, much higher than the government’s figure, and a budget deficit of 7.2% of GDP, well above the 4.5% figure agreed with Brussels.

Brussels is expected to reward the government’s efforts by giving it more leeway to bring its budget deficit under control. The government is committed to reducing the deficit to the EU threshold of 3% in 2014 (from a previously agreed 2013), a Herculean task.

The construction sector’s share of GDP continued to decline in 2012 (see Figure 5). The number of construction workers dropped by more than one million between 2008 and 2012 (see Figure 6). House prices fell by an average of 13.7% in 2012, the biggest decline since the bursting of the property bubble at the end of 2007.

Figure 5. GDP Structure (%) and Employment by Sectors (% of total jobs), 2012

	GDP structure	Employment by sectors
Agriculture	2.7 (2.6)	4.4 (4.8)
Construction and industry	26.0 (28.3)	20.7 (22.6)
Services	71.3 (69.1)	74.9 (72.6)

Note: 2011 figures in brackets.
Source: INE.

Figure 6. Workers by sector, 2008-12 (million)

	2008	2009	2010	2011	2012
Services	13.83	13.38	13.40	13.19	12.71
Industry	3.04	2.68	2.62	2.52	2.38
Construction	2.18	1.80	1.57	1.27	1.07
Agriculture	0.80	0.78	0.80	0.80	0.78
Total	19.85	18.64	18.40	17.80	16.95

Spain's export drive, which helped to cut the trade deficit in 2012 by 33.6% to €30.8 billion and reduce the current account deficit to less than 1% of GDP (from a massive 10% in 2007), will continue this year. According to the Commission's forecasts, exports of goods and services will grow 4.2%, the fastest rise in the EU (see Figure 7).

Figure 7. Exports of Goods and Services (annual percentage growth)

	2013	2012
Spain	4.2	3.1
Estonia	4.1	5.8
Germany	3.3	4.1
Euro zone	2.6	2.8
Italy	2.1	1.8
France	2.0	2.3

Source: European Commission.

Although Spain has made impressive strides in boosting its exports over the last four years, the country still lags behind the other big EU economies in this sphere. According to the World Bank's latest comparative figures for exports and population (2010), Spain's per capita exports were US\$5,339 compared with US\$15,474 for Germany, US\$8,010 for France and US\$7,458 for Italy. In 2012, Spain's exports per head, based on the official population figure on 1 January and exports for the whole year, were US\$6,225.

The progress in Spain's internationalisation is well documented and explained in a two-volume study published by the Leading Brands of Spain Forum earlier this month (www.atlas.marcasrenombradas.com).

Benchmark 10-year bond rallies and yield eases

The 10-year government bond yield fell to below 5% earlier this month for the first time since November 2010, reflecting the improvement in some of Spain's macroeconomic fundamentals, and leading the Treasury to hold an unexpected auction of long-dated bonds in order to take advantage of lower borrowing costs.

The yield then rose a little to just over 5% after the EU's controversial bailout of Cypriot banks involving a levy on deposits (see Figure 8).

Figure 8. 10-Year government bond yields (%) and spreads over Germany's bunds

	Yield, 18 December	Yield, 18 March
Germany	1.42	1.40
Greece	12.70	11.24
Ireland	4.65	4.15
Italy	4.45	4.64
Portugal	7.14	6.03
Spain	5.33	5.03

Source: ThomsonReuters.

Registered unemployment surpasses 5 million for the first time

The number of registered unemployed exceeded 5 million at the end of February and the number of social security contributors, at 16.1 million, was the lowest since 2002.

The government drew comfort from the fact that the almost 60,000 increase in the number of jobless was the smallest rise since February 2008 and 1.2% higher than in January 2013.

Spain has two measures for unemployment. The other one is based on quarterly labour market surveys of households, in accordance with EU methodology. The stated number of jobless at the end of 2012 was almost 1 million higher at 6 million (26% of the workforce).

Spain drops to 12th place in world vehicle producer league

Spain produced 1.97 million vehicles in 2012, 16.6% fewer than in 2011 and resulting in a fall to 12th place in the global ranking from 9th in 2011 (see Figure 9).

Figure 9. Top 15 vehicle producers, 2012 (millions of units)

Million units		Million units	
1. China	19.27	9. Thailand	2.48
2. US	10.32	10. Canada	2.46
3. Japan	9.94	11. Russia	2.23
4. Germany	5.64	12. Spain	1.97
5. South Korea	4.55	13. France	1.96
6. India	4.14	14. UK	1.57
7. Brazil	3.34	15. Czech Republic	1.17
8. Mexico	3.00		

Source: Anfac.

Spain remained the second-largest EU producer, but only just ahead of France.

Sales of vehicles in Spain declined 13.4% in 2012 to 699,589 units, the lowest figure since 1986, and 1.27 million were exported.

Inditex founder moves up to third place in Forbes billionaires ranking

Amancio Ortega, the founder of Inditex, the world's largest fashion retailer by sales, was ranked third in Forbes's latest league table of 1,426 billionaires, with personal wealth of US\$57 billion, up from fifth place in 2012 with US\$37.5 billion.

He is one of 20 Spaniards in the list (see Figure 10), compared with 58 for Germany, 37 for the UK, 24 for France and 23 for Italy.

Figure 10. Top 10 Spaniards in the Forbes ranking of billionaires (US\$ billion)

	Source of wealth	US\$ bn
3. Amancio Ortega	Zara	57.0
195. Rosalía Mera	Zara	6.1
219. Juan Roig	Supermarkets	5.5
248. Isak Andic	Mango	5.0
527. Manuel Jové	Real estate	2.7
589. Alicia Koplowitz	Construction	2.5
613. Rafael del Pino	Construction	2.4
704. Juan Abelló	Investments	2.1
831. Helena Revoredo	Prosegur	1.8
831. Juan-Miguel Villar Mir	Construction	1.8

Source: Forbes.

Corporate scene

Inditex's 2012 profits rise 22%

Inditex, the world's largest fashion retailer by sales whose flagship store is Zara, boosted its profits by 22% to €2.36 billion on the back of further expansion abroad.

The group, whose financial year ends on 31 January, opened a net 482 stores in 2012, including launches in Armenia, Ecuador and Macedonia. Only 21% of sales came from its home market.

Stellar growth has caused Inditex's share price to skyrocket and made Amancio Ortega, its founder, the world's third-richest individual in the Forbes ranking (see Figure 10). Its profit surge bucked the general trend in Spain (see Figure 11).

Iberia calls off strike after reaching deal

Iberia's workers called off a third strike planned for this week after accepting a mediator's proposal to reduce the number of job losses from 3,807, or just under a fifth of the workforce, to 3,141.

The two five-day strikes led to the cancellation of hundreds of flights and refunds for passengers for whom alternative flights could not be found, at a cost of around €3 million a day for International Airlines Group (IAG).

IAG was formed in 2010 from the merger of Iberia and British Airways and made a near €1 billion pre-tax loss in 2012, most of it due to Iberia. Iberia owns 45% of IAG.

José Manuel Soria, Spain's Industry Minister, questioned Iberia's link-up with BA and implied it had not got a fair deal. 'From the moment there was a merger between British Airways and Iberia the number of routes for BA has increased and the number for Iberia has fallen. Earnings for BA have risen and fallen for Iberia... It gives the impression that there has not really been a merger at all'.

Total profits of main listed companies plunge 57% in 2012

The profits of the companies that form the Ibex-35, the benchmark index of the Madrid Stock Exchange, fell by 57.6% in 2012 to their lowest level since 2002 and those of all listed companies were negative for the first time ever because of the massive €19 billion loss of Bankia (see Figure 11).

Figure 11. Profits in 2012 of Ibex-35 companies (€ million and % change over 2011)

Company	Sector	Profit (€ mn)	% change
Abengoa	Technology	125.4	-51.3
Abertis	Motorways	1,024.4	42.6
Acciona	Construction	189.4	-6.3
Acerinox	Metals	-18.3	-
ACS	Construction & services	-1,926.4	-
Amadeus IT Holding	Travel technology	496.9	-31.9
ArcelorMittal	Steel	-2,899.5	-
Banco Popular	Banking	-2,461.0	-
Banco Sabadell	Banking	81.9	-64.7
Banco Santander	Banking	2,204.6	-58.8
Bankinter	Banking	124.6	-31.2
BBVA	Banking	1,675.9	-44.2
Caixabank	Banking	229.7	-78.2
Dia	Supermarket chain	157.9	60.3
Enagás	Electricity	379.5	4.0
Endesa	Electricity	2,034.0	-8.0
FCC	Construction	-1,027.9	-
Ferrovial	Construction	709.7	-42.9
Gas Natural	Gas	1,440.2	8.6
Grifols	Pharmaceutical	256.7	410.3
IAG	Airlines	-943.6	-
Iberdrola	Electricity	2,840.7	1.3
Inditex (1)	Fashion retailer	1,655.0	27.1
Indra	Electronics	132.6	-26.7
Mapfre	Insurance	665.7	-30.9
Mediaset (Telecinco)	Media	50.1	-54.6
OHL	Construction	1,005.5	350.3
Red Eléctrica	Electricity	492.3	6.9
Repsol	Oil	2,060.0	-6.0
Sacyr-Vallehermoso	Construction	-977.5	-39.0
Técnicas Reunidas	Engineering	133.4	3.0
Telefónica	Telecoms	3,928.0	-27.3
Viscofán	Artificial casings	105.0	3.8
Total		14,080.4	-57.7

(1) First nine months.

Source: Based on figures sent by companies to the National Securities Market Commission.

Bankia was formed in 2011 from the merger of seven regional savings banks, all of them hit by the bursting of Spain's property bubble. It was nationalised in 2012 and after revealing a huge capital hole was rescued by EU bail-out funds.

Although transferring its most toxic assets to the 'bad bank' created as part of the EU rescue, Bankia's non-performing loan ratio still rose to 13% from 7.6% at the end of 2011. The bad bank's loans do not figure in NPL statistics.

Losses were also registered by six construction companies. This sector, whose bad loans contaminated many banks, has been in the doldrums since 2008. The combined loss of Colonial, Reyal, Martinsa, ACS, FCC and Sacyr was €6.5 billion.

Geographic diversification prevented the profits of the listed companies from being even lower or the losses higher. Last year 62.4% of the revenues of the Ibex-35 companies were generated abroad, up from 59.7% in 2011.

International Airlines Group (IAG) made a loss of €997 million largely because of Iberia, its crisis-hit Spanish subsidiary, which took an impairment charge of €343 million. IAG was created in 2011 from the merger of British Airways and Iberia.

BA made an operating profit of €295 million and Iberia an operating loss of €896 million, including the impairment charge. Iberia staged more strikes this month in protest at proposals to cut 3,800 jobs.

Ferrovial buys the UK's Enterprise

Ferrovial, the owner of Heathrow airport, agreed to purchase Enterprise, the UK business services group, for €445 million.

Enterprise works mainly with utilities companies and the public sector. It will be integrated into the UK services company Amey which Ferrovial acquired in 2003.

Repsol sells 5% stake to Singapore's sovereign wealth fund

Repsol sold a 5% stake to Temasek for €1 billion, making Singapore's sovereign wealth fund the oil group's fourth-largest investor.

Repsol bought back half of Sacyr's 20% stake in 2011, following a bruising battle with the construction company over strategy.

The sale to Temasek came hard on the heels of the €4.4 billion acquisition by Shell of Repsol's LNG assets, which reduced Repsol's net debt by half.

Iberdrola sells Polish subsidiary

Iberdrola, the world's largest wind-farm operator, sold its 75% stake in Renewables Polska for €203 million to the Polish state-owned utilities PGE and Energa.

This brought the company's total asset sales over the last year to €1.1 billion. The goal is €2 billion.

Telefónica sells its UK broadband business to Sky

Telefónica, the largest telecoms group in Europe by market value, sold the broadband business of O2, its UK subsidiary, to Sky for €208.5 million.