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William Chislett

Summary: Population falls as more than 200,000 immigrants return home. Royal household and the Roman Catholic Church to be included in transparency law. Brussels gives Madrid two more years to meet budget deficit targets. Bankia returns to profit.

Foreign policy

The Spanish and US governments reached agreement on the temporary deployment of a rapid reaction force to be based at the Morón de la Frontera air base, which will deal with crisis situations in Africa. It will consist of 500 US marines and eight US aircraft.

The authorisation stems from a 1988 cooperation agreement between Spain and the US and was granted for a period of one year as of 19 April. The need for the force follows the attack last year when four US citizens were killed in the Libyan city of Benghazi.

The US Air Force uses Morón under an agreement that dates back to 1953 when Spain's dictator, General Franco, signed a military bases agreement with Washington, which helped to consolidate his regime. There is also a naval station at Rota, strategically located near the Strait of Gibraltar.

Domestic scene

Population falls as immigrants return home

Spain's population fell by more than 200,000 in 2012 to 47.1 million, the first decline since the regular census began in 1996 and due to foreigners fleeing the economic crisis.

The foreign population dropped by 216,125 in net terms and the Spanish population rose by 10,337, according to provisional figures from the statistics agency (INE). The foreigners' share of the total population fell to 11.7% from 12.1% in 2012 (see Figure 1).

Figure 1. Spain's population and foreigners' share, 2003-12

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 (1)
Population (mn)	43.2	44.1	44.7	45.2	46.1	46.7	47.0	47.2	47.3	47.1
Foreigners' share (%)	7.0	8.5	9.3	10.0	11.4	12.1	12.2	12.2	12.1	11.7

Note: the figures at 1 January of each year are based on those registered with local town halls and are rounded to the nearest decimal point. Foreigners have an incentive to register as it entitles them to public health care and education, although not everyone does so. Failure to register leaves individuals with no legal recourse and no access to state services or aid.

(1) Provisional figures.
Source: INE (National Statistics Office).

The largest falls came from Ecuadoreans and Rumanians (see Figure 2). The number of Chinese, however, increased by over 3,500 to 180,648 and was close to the number of Germans (whose total fell by 15,558).Of the 216,125 people who left the country, 90,639 were EU citizens and 125,486 from other countries.

Figure 2. Foreign population by the top-10 countries of origin

	1 January 2013 (1)	% of total
Rumania	868,635 (-28,568)	15.7
Morocco	787,013 (-1,550)	13.7
UK	383,093 (-14,799)	6.9
Ecuador	262,223 (-45,951)	4.8
Colombia	221,361 (-24,984)	4.0
Italy	192,147 (+246)	3.5
Germany	181,320 (-15,558)	3.3
China	180,648 (+3,647)	3.3
Bolivia	172,412 (-13,606)	3.1
Bulgaria	168,631 (-7,780)	3.1
Total	5,520,133 (-216,125)	100.0

(1) Provisional figures and the change over 2012 are in brackets.
Source: INE.

According to German statistics, almost 30,000 Spaniards including foreigners with Spanish residency emigrated to Germany last year, 45% more than in 2011 and roughly the same number that went there in 1973 (see Figure 3). With an unemployment rate of less than 6%, a quarter of Spain's, Germany has a skilled labour shortage.

Figure 3. Emigration to Germany in 2012

	Number
Poland	176,367
Rumania	116,154
Hungary	53,892
Italy	42,167
Greece	34,109
Spain	**29,910**
Portugal	11,762

Source: Federal Statistical Office of Germany.

The size of foreign communities by region varied considerably (see Figure 4). Catalonia has the largest one in absolute terms (1.15 million and 15.3% of its population), while Cantabria has only 38,462 (6.5% of its population). Valencia, one of the regions that benefited the most from the housing boom and has suffered heavily from the bursting of the property bubble, has the largest relative share –almost 17% of its population are foreigners–.

The regions with the largest number of immigrants tend to be also those with the highest unemployment rates. This is the case, for example, of Andalusia whose jobless rate at the end of 2012 was 36% and Valencia (28%), both of them above the national average of 26%. The unemployment rate of immigrants is more than 30%.

Figure 4. Foreign population by Spain's regions (%)

Region	Number at 1 January 2013 (1)	% of region's population
Andalusia	724,181	8.6
Aragón	172,931	12.9
Asturias	48,310	4.5
Balearic Islands	223,605	20.1
Basque Country	148,165	6.8
Canary Islands	299,774	14.2
Cantabria	38,462	6.5
Castilla y León	163,491	6.5
Castilla-La Mancha	220,245	10.5
Catalonia	1,154,477	15.3
Extremadura	41,241	3.7
Galicia	109,386	4.0
La Rioja	44,138	13.7
Madrid	956,386	14.7
Murcia	230,394	15.7
Navarre	67,714	10.5
Valencia	859,203	16.8

(1) Provisional figures.
Source: INE.

The average age of foreigners is much lower than that of Spaniards (35 years vs 43 years). Close to 60% of the total population aged between 16 and 44 is foreign compared with 38% for Spaniards. At the other end of the age spectrum, only 6.5% of those over the age of 65 are foreign compared with 19% of Spaniards.

A survey published by the Ortega-Marañón Foundation and Princeton University showed that 50% of the children of immigrants who came to Spain during the 1990s felt they were Spaniards compared with 30% in 2008.

Alejandro Portes, one of the report's authors, said the results were a success in terms of integration as most of the parents of these children had spent relatively little time in Spain.

Royal Household and the Roman Catholic Church to be included in transparency law

The government will include the embattled royal family in its transparency law in a bid to restore confidence in the political class and the monarchy, both of them seriously tarnished by corruption scandals.

Spain has one of the least open governments in the developed world. Compared to other countries in which citizens can regularly consult public contracts, spending, lawsuits and other government reports, the Spanish government has been very cautious over allowing citizens to access even basic information even though the Franco dictatorship ended almost 40 years ago.

The popularity of the royal family began to fall in 2011 when King Juan Carlos's son-in-law, Iñaki Urdangarin, faced preliminary criminal charges for fraud, tax evasion and embezzling €6 million of public funds related to Noós, the nonprofit sports foundation he established and ran.

Last month his wife, the Infanta Cristina, was subpoenaed to appear in court after she was named as a suspect, but this was challenged by the prosecution on the grounds of insufficient evidence. A panel of judged upheld this view this month, but it left the door open for her to be questioned later regarding possible tax fraud and money laundering if new evidence against her emerged.

Had the subpoena held, the Infanta Cristina would have been the first royal-born Spaniard to appear in court in the country's modern history.

There have been calls for the King to abdicate in favour of his son, Felipe, and support for the restoration of a republic has risen. The Bourbon monarchy was re-established after General Franco died in 1975, and the King won his spurs and huge respect by piloting the country to democracy. The King's grandfather went into exile shortly before a republic was declared in 1931. It was abolished when Franco won the 1936-39 Civil War.

Public anger at the political class is intense and is reflected in its very low standing in opinion polls and in protests. Politicians of all colours are widely blamed for Spain's economic and financial crisis and for a recession now in its fifth year (growth in 2011 was anaemic). Hundreds of politicians and businessmen associated with them are under investigation for corruption, embezzlement and trafficking of influences.

The transparency law will also introduce a 'good government practice' code to curtail corruption and a public right to information statute, based on the Freedom of Information Act (FOIA) in the United States. The funds that the royal household receives from the state budget will be under scrutiny, but not the royal family's private wealth.

The Roman Catholic Church, which receives millions of euros of public funds a year for religion teachers in schools and other purposes, will also be subject to the new law. Like the royal family, it will receive special treatment.

New mortgage law fails to meet protestors' demands

Parliament approved a new mortgage law, which fell short of the demands of a mass movement whose protests have included haranguing politicians outside their homes.

The reform of the mortgage law, which is over 100 years old, will allow only households where every member is unemployed and annual combined income is under €19,000 to hand over their property to cancel mortgage debt. Unless a mortgage borrower is in this category, he still has to pay off the debt even after eviction. Some 30,000 primary residence owners were evicted last year.

The Platform for Mortgage Victims (PAH), which gathered 1.5 million signatures for a petition to change mortgage rules, called for a much more lenient law, along the lines of that in the UK.

The law has yet to be approved by the Senate, where the ruling Popular Party also has a majority.

The approval of the new law coincided with data that showed that in November 2011 there were 3.4 million empty homes out of a total stock of properties of 25.2 million, almost 4.3 million more than in 2001.

Constitutional Court nullifies Catalan declaration of sovereignty
The Constitutional Court declared the Catalan parliament's declaration of sovereignty null and void, provoking an angry response from Artur Mas, the region's premier.

The Solicitor General's Office took the issue to the court after the Catalan parliament declared the region a 'sovereign political and legal entity' as the central government regarded the text as an 'open challenge to the Constitution'.

The parliament's move in January, followed by a second resolution in March, is part of its strategy to hold a referendum on independence in 2014.

The central government intends to block every move along this path.

'We will not put anything on hold', said Mas. 'We will continue on the path despite the obstacles. We will continue because it is a path chosen by the people of Catalonia'.

According to a Metroscopia opinion poll published this month, 75% of respondents in the whole of Spain (two-thirds in Catalonia) believe the region's independence is unlikely to happen in the near future, and 74% said a referendum on the issue should be held throughout the country and not unilaterally in Catalonia. Mas has said there will be a referendum just in Catalonia in 2014.

In another development, the National Centre of Intelligence (CNI), the secret service, requested Noureddin Ziani, a Moroccan, be expelled from Spain for being a threat to national security. He is alleged to be working for the Moroccan secret service and to have promoted the cause of Catalan sovereignty among immigrants. Catalonia has the largest number of immigrants in Spain (see Figure 4).

Spain in bottom half of child well-being league

The latest league table of child well-being produced by UNICEF confirms the growing crisis among Spain's children, largely as a result of the country's long recession, which has produced high unemployment and deep public spending cuts.

Spain was ranked 19th out of 29 countries in UNICEF's league table, which is based on five dimensions (see Figure 5), down from 13th place out of 21 countries in the early 2000s. Its fall is the largest among the ranked countries over a 10-year period on a common set of indicators (see Figure 6)[1].

Figure 5. League table of child well-being (1)

Overall rank	Material well-being	Health & safety	Education	Behaviours & risks	Housing & environment
1. Netherlands	1	5	1	1	4
2. Norway	3	7	6	4	3
6. Germany	11	12	3	6	13
13. France	10	10	15	13	16
16. UK	14	16	24	15	10
19. Spain	**24**	**9**	**26**	**20**	**9**
26. US	26	25	27	23	23
29. Rumania	29	29	29	27	29

(1) Out of 29 countries.
Source: UNICEF.

Spain has the fifth-lowest child mortality rate and the third-highest pre-school enrolment rate, but it is in the bottom third for participation in further education (the percentage of those aged 15 to 19 in education) and last in the NEET ranking (the percentage of those aged 15 to 19 not in education, employment or training) and 25th in the PISA test scores for reading, maths and science for 15-year-olds.

Finland tops the PISA league and yet is bottom in the ranking for pre-school enrolment, which suggests that starting school early, as in Spain, does not guarantee educational achievement.

Figure 6. Country rankings at beginning and end of the decade (1)

Rank	Early 2000s	Rank	Late 2000s	Change in rank
1.	Sweden	1.	Netherlands	+2
2.	Finland	2.	Norway	+2
6.	France	6.	Denmark	-2
7.	Germany	7.	Belgium	+1
13.	**Spain**	13.	Czech Republic	-4
14.	Italy	14.	Italy	No change
20.	UK	**18=**	**Spain**	**-5**
21.	US	21.	US	-1

(1) The tables are ranked by each country's average rank in four dimensions of child well-being –material well-being, health, education, and behaviours and risks– for which comparable data are available towards the beginning and end of the first decade of the 2000s.
Source: UNICEF.

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[1]See my analysis at http://www.realinstitutoelcano.org/wps/portal/rielcano_eng/Content?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/international+economy/commentary-chislett-child-well-bieng-spain-crisis/.

The Economy

Brussels gives Madrid two more years to meet budget deficit targets
The European Commission came to the rescue of the hard-pressed government and gave it two more years to reduce its budget deficit to 3% of GDP. The 'price' for Madrid is more structural reforms including changes to the state pensions system.

The French and Portuguese governments were also given more time, marking a relaxation of the austerity strategy pursued by Brussels, which is widely believed to be reaching the limits of what countries can withstand.

The Spanish government blames the deeper recession this year for its difficulties in meeting the budget deficit target of 4.5% of GDP. A deeper recession has spoiled their revenue estimates and without further tax rises, which the government has ruled out, means more spending cuts. Spain's top rate of income tax at 52% is the fifth-highest in the EU and well above the EU-27 average of 38.7% (see Figure 7).

Figure 7. Top rates of personal income tax in 2013 (%), selected countries

	%
Sweden	56.6
Denmark	55.6
Belgium	53.7
Portugal	53.0
Spain	**52.0**
France	50.2
Germany	47.5
UK	45.0
Italy	43.0
EU-27	38.7

Source: Eurostat.

The new deficit target for 2013 is 6.3% and it has to be no more than 3% in 2016.

Madrid also failed to meet last year's target, which was initially 4.4% (set under the previous Socialist government which lost the November 2011 general election) and then revised up to 6.3%. It came in at almost 7% (10.6% including one-off aid to ailing banks).

The government optimistically envisaged GDP shrinkage of 0.5% this year when drawing up the budget for 2013 and has now revised the figure to -1.3%, in line with private sector forecasts made months ago (see Figure 8).

Figure 8. Spanish government's revised macroeconomic scenario, 2013-16

	2012 (1)	2013	2014	2015	2016
Private consumption	-2.1	-2.1	0.0	0.4	0.8
Public administrations consumption	-3.7	-4.4	-3.1	-3.8	-3.6
Gross fixed capital formation	-9.1	-7.1	-0.9	2.0	4.3
Domestic demand (contrib. to growth)	-3.9	-3.7	-0.8	-0.1	0.6
Exports of goods and services	3.1	4.1	5.9	6.9	7.1
Imports of goods and services	-5.0	-3.7	2.6	4.7	6.2
External demand (contrib. to growth)	2.5	2.4	1.3	1.0	0.7
Real GDP growth	-1.4	-1.3	0.5	0.9	1.3
Jobless rate (% of the labour force)	25.0	27.1	26.7	25.8	24.8
Budget deficit (% of GDP)	-10.6	-6.3	-5.5	-4.1	-2.7
Public debt (% of GDP)	84.2	91.4	96.2	99.1	99.8

(1) Definitive figures.
Source: Economy and Competitiveness Ministry.

The revised and more realistic macroeconomic scenario makes it clear that the government will end its term of office in 2015 with an official unemployment rate higher than that when it took over from the socialists at the end of 2011. Forecasts by the IMF and the European Commission confirm this bleak picture.

The latest stated jobless figure shows there were 6.2 million people out of work at the end of March. A total of 322,300 jobs were shed in the first quarter. Spain's unemployment rate of 27.2% is more than double the euro zone average (see Figure 9).

Figure 9. EU seasonally-adjusted unemployment rates (%)

	%
Greece	27.2
Spain	**26.7**
Italy	11.5
France	11.0
UK	7.8
Germany	5.4
Euro zone	12.1
EU	10.9

Source: Eurostat.

The 6.2 million figure is based on the labour force survey conducted every quarter under Eurostat methodology. The number of people registered as unemployed (a monthly figure) was almost 5 million (see Figure 10). Some economists claim the registered figure is the one closer to reality. The proportion of the unemployed receiving benefits stood at 61.5%, down from 81% in January 2010.

Figure 10. Registered unemployment by sectors in April

	Number
Services	3,108,033
Construction	742,759
Industry	549,333
Without previous employment	382,601
Agriculture	206,467
Total	4,989,193

Source: INEM.

The stated jobless figures continued to show a wide disparity by regions, with the rate at 16.3% in the Basque Country and almost 37% in Andalusia (see Figure 11).

Figure 11. Stated unemployment rates by region (%) (1)

	%
Andalusia	36.8
Aragón	22.4
Asturias	25.3
Balearic Islands	28.6
Basque Country	16.3
Canary Islands	34.3
Cantabria	20.9
Castilla y León	22.7
Castilla-La Mancha	31.5
Catalonia	24.5
Extremadura	35.6
Galicia	22.3
La Rioja	19.0
Madrid	20.3
Murcia	30.4
Navarre	19.0
Valencia	29.2

(1) Rounded to nearest decimal point.
Source: INE.

There was good news on the inflation front. The annual rate fell to 1.4% in April, down from 2.4% in March. The risk premium –the difference between the benchmark 10-year German yield and the Spanish one– also dropped below 300 bp earlier this month for the first time in more than a year and was less than half the peak of 638 bp last July (see Figure 12).

Figure 12. 10-year government bond yields (%) and spreads over Germany's bunds (pp) (1)

	Yield (%)	Spread (pp)
Germany	1.36	–
Greece	9.71	+8.35
Italy	4.01	+2.65
Portugal	5.50	+4.14
Spain	**4.33**	**+2.97**

(1)13 May**.**
Source: ThomsonReuters.

Spain's Employment Rate, almost the Lowest in the EU

The employment rate –persons with a job as a percentage of the working age population (15-64)– dropped 10 pp between 2007 and 2012 to 59.3%, the second lowest figure in the EU (see Figure 13).

Figure 13. EU employment rates (%)

	2012	2007
Sweden	79.4	80.1
Germany	77.2	77.8
UK	74.2	75.2
France	69.3	69.8
EU-27 average	68.5	69.6
Spain	**59.3**	**69.5**
Greece	55.3	66.0

Source: Eurostat.

The employment rate gives an idea of the labour market situation and is an important indicator of the sustainability of a country's state pension system, among other things. The more people working and contributing to social security, particularly when measured against the number of pensioners, the healthier a pensions system.

In Spain's case, the jobless rate is very high at 27.2% and thus its employment rate is very low, while Germany, for example, has a very low jobless rate (5.4%) and consequently a high employment rate.

Spain, third-highest destination in Europe for foreign direct investment
Spain received 278 foreign direct investment (FDI) projects in 2012, 9% more than in 2011 and the third-highest number after the UK and Germany, according to a report by fDi Intelligence, a division of the *Financial Times* (see Figure 14).

In monetary terms, however, inward FDI, excluding Special Purpose Entities (SPEs), was €13.4 billion, down from €23.6 billion in 2011, according to Spain's Investment Registry (see Inside Spain, Newsletter 94, 16 April, 2013).

Spain and Poland were the only countries with growth in FDI projects

Figure 14. Top 10 FDI destination countries in Europe in 2012

	Number of projects	% change on 2011
UK	812	-8.0
Germany	410	-47.0
Spain	**278**	**+9.0**
Russia	265	-18.0
France	244	-12.0
Poland	237	+5.0
Ireland	147	-21.0
Netherlands	145	-22.0
Rumania	138	-23.0
Turkey	133	-1.0
Other	1,082	
Total	3,891	-21.0

Source: fDi Markets.

In outward FDI, Spain was ranked fourth by number of projects, which were 15%-6% lower at 368 (see Figure 15). In monetary terms, outward investment, also excluding SPEs, amounted to €10.9 billion in 2012 compared with €29.3 billion in 2011.

Figure 15. Top 10 source countries from Europe in 2012

	Number of projects	% change on 2011
UK	1,245	-10.0
Germany	1,065	-15.5
France	547	-17.4
Spain	**368**	**-15.6**
Switzerland	325	-28.4
Netherlands	286	-26.1
Italy	203	-21.9
Netherlands	286	-26.1
Sweden	182	-26.6
Ireland	170	-2.8
Other	949	-19.3
Total	5,468	-17.5

Source: fDi Markets.

Corporate Scene

Bankia returns to profit, Santander's falls and BBVA's rises…

Bankia, the bank created in 2010 from the merger of seven ailing savings banks whose problems shook the financial system in 2012 and led to an EU bailout, returned to profitability less than two months after reporting the largest loss in Spain's corporate history.

The bank, nationalised last year, posted a net profit of €27 million for the first quarter compared with a loss of €19.2 billion for the whole of 2012.

Its bad loan ratio remained at around 13% of total loans excluding the transfer of more than €22 billion in problematic assets to the Sareb state-run bad bank.

The bank is well ahead of the order from Brussels to close 1,100 branches over the next three years. It shut 197 in the first quarter.

In other results, Santander, the euro zone's largest bank by market capitalisation, generated a net profit for the first quarter of €1.2 billion, 26% less year-on-year, while BBVA's profit of €1.7 billion was 72% higher.

Both these banks continued to benefit from their geographic diversification, although Santander's profits from Brazil (26% of the group total) were 22.3% lower than in the first quarter of 2012 and those from the UK dropped by 21.5% (see Figure 16).

Figure 16. Geographic distribution of Santander's ordinary attributable profit (% of total)

	%
Brazil	26
Spain	**11**
Mexico	13
UK	12
US	12
Santander Consumer Finance	9
Rest of Latin America	7
Chile	5
Poland	4
Rest of Europe	2
Portugal	1

Source: Santander.

The driving force for BBVA is Mexico, which posted a profit of €435 million. Profits were also boosted by one-off capital gains from the sale of life assurance business to Ireland's Scor Global Life.

… Lloyds Pulls out of Spain

Lloyds Banking Group agreed to sell its retail, private banking and investment management business in Spain to Banco Sabadell in a deal that will cause a loss of €295 million for the UK bank partly owned by taxpayers.

Lloyds, in exchange, will take a stake of around 1.8% in Sabadell and will keep its corporate banking operations in Spain.

The bank has been hard hit, like Spanish banks, by the bursting of the property bubble and recession.

Telefónica's revenues higher in Brazil than in Spain

Telefónica, the telecoms group, posted net profit of €920 million in the first quarter, 21% higher than in the same period of 2012. Brazil, for the first time, overtook Spain as the biggest market for revenue generation.

Like Santander and BBVA, Latin America is playing an increasingly important part in business. The region provided more than half of the total revenues of €14.1 billion, 9.1% lower year-on-year. Revenues in its depressed domestic market dropped from €3.9 billion to €3.26 billion.

Repsol recovers from YPF Saga

The net profit of Repsol, the oil and gas group, adjusted for the cost of supply (CCS), rose 38% in the first quarter to €634 million compared with the same period of 2012, despite the loss of YPF, its unit in Argentina, less than a year ago when it was nationalised.

The higher profit was due to higher margins and the opening of new projects including the giant Sapinhoá filed in Brazil. Excluding the impact of the YPF expropriation and other changes in Repsol operations, the group's total production climbed 11.4% to the equivalent of 360,300 barrels of oil a day, largely because of its activities in Trinidad and Tobago.

YPF accounted in 2011 for around one-fifth of profits and 45% of proved reserves.