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William Chislett

Summary: Spain holds its position in the Elcano Global Presence Index. Rajoy bows to pressure and agrees to parliamentary questioning over slush-fund scandal. IMF postpones economic recovery to 2015, urges deeper labour market reforms and says banks should continue to boost their capital ratios.

Foreign policy

Spain holds its position in the Elcano Global Presence Index

Spain remained in 11th position in the Elcano Global Presence Index, which measures the world-wide position of 60 countries on the basis of their economic, military and soft presence (see Figure 1).

Figure 1. Elcano Global Presence Index (IEPG) ranking (20 top positions)

2012			2011		1990	
Position	Country	IEPG	Position	Δ	Position	Δ
1	US	1,012.3	1	=	1	=
2	Germany	390.7	2	=	3	+1
3	UK	347.5	3	=	5	+2
4	China	308.4	5	+1	13	+9
5	France	297.5	4	-1	4	-1
6	Russia	243.7	7	+1	2	-4
7	Japan	237.4	6	-1	6	-1
8	Netherlands	218.3	8	=	9	+1
9	Canada	194.1	9	=	8	-1
10	Italy	171.5	10	=	7	-3
11	Spain	162.8	11	=	10	-1
12	Saudi Arabia	152.1	15	+3	12	=
13	Australia	149.4	12	-1	14	+1
14	South Korea	146.1	13	-1	19	+5
15	Belgium	132.6	14	-1	11	-4
16	India	108.0	17	+1	20	+4
17	Singapore	106.3	16	+1	25	+9
18	Switzerland	97.0	18	=	15	-3
19	Brazil	94.2	20	+1	23	+4
20	Sweden	87.7	19	-1	17	-3

Source: Elcano Royal Institute.

The index (IEPG, after its name in Spanish and now in its third edition), which is believed to be unique as other ones measure power or the degree of economic or political opening, seeks to show comprehensively the real and objective –as opposed to the perceived– presence of countries outside their borders in a wide variety of fields.[1]

[1]See the following two reports by Iliana Olivié and Manuel García, which explain the IEPG: http://www.realinstitutoelcano.org/wps/portal/rielcano_eng/Content?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/cooperation+developpment/ari25-2013-olivie-gracia-united-states-of-europe-estados-unidos-europa-iepg-2012 and http://www.realinstitutoelcano.org/wps/portal/rielcano_eng/Content?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/cooperation+developpment/dt12-2013-olivie-gracia-iepg-metodologia-methodology-2012.

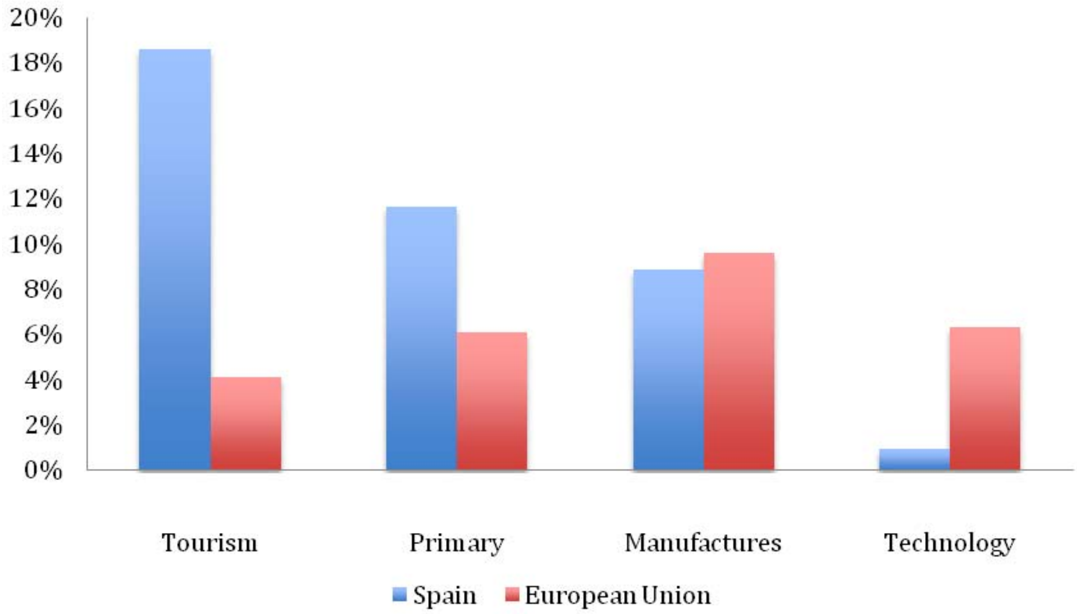
Just over half of Spain's contribution (50.4%) to its IEPG value comes from soft presence (see Figure 2), mostly tourism. Its main weakness is technology (see Figure 3).

Figure 2. Spain's IEPG

	1990	1995	2000	2005	2010	2011	2012
Economic presence	**11.4**	**18.1**	**25.2**	**46.5**	**63.5**	**67.7**	**77.8**
% IEPG	27.4	34.4	37.0	44.1	44.1	44.2	47.5
Energy	1.1	0.4	1.5	3.1	3.7	4.6	4.7
Primary goods	2.4	5.1	5.6	9.9	12.9	14.4	18.9
Manufactures	2.8	4.6	5.8	9.7	10.8	11.7	14.4
Services	4.9	7.1	9.2	16.6	21.4	21.6	24.7
Investments	0.4	0.9	3.0	7.2	14.7	15.3	15.1
Military presence	**2.4**	**2.5**	**2.6**	**3.0**	**3.4**	**3.6**	**3.5**
% IEPG	5.8	4.8	3.8	2.9	2.4	2.3	2.1
Troops	0.0	0.3	0.6	0.5	0.6	0.6	0.6
Military equipment	2.4	2.2	2.0	2.5	2.8	2.9	2.9
Soft presence	**27.9**	**32.0**	**40.3**	**56.0**	**77.1**	**81.9**	**82.6**
% IEPG	66.8	60.9	59.2	53.1	53.5	53.5	50.4
Migrations	0.8	1.0	1.7	4.4	6.1	6.1	6.1
Tourism	20.0	18.7	24.8	29.9	27.9	28.1	30.3
Sports	1.5	4.8	2.8	5.8	8.3	8.3	8.3
Culture	1.2	0.5	1.0	2.3	3.9	3.6	4.8
Information	0.0	0.0	0.1	1.0	8.6	14.5	14.5
Technology	0.7	0.8	1.1	1.1	1.5	1.5	1.5
Science	1.4	2.4	3.3	4.7	6.5	5.6	6.1
Education	0.8	1.8	3.4	1.5	4.0	4.6	4.6
Development cooperation	1.5	2.1	2.1	5.2	10.4	9.4	6.2
IEPG value	**41.8**	**52.4**	**68.0**	**105.0**	**143.4**	**152.3**	**162.8**
Position	10	10	11	11	11	11	11

Source: Elcano Royal Institute.

Figure 3. Spain: strengths and weaknesses, contribution to IEPG 2012 value



Source: Elcano Royal Institute.

Spain has quickly reinserted itself in the international community in the last 30 years: its IEPG value almost quadrupled between 1990 and 2012 (from 41.8 to 162.8), compared with increases for the US and Portugal of 112% and 232%, respectively.

In a separate ranking, Elcano looks at the intra-European presence of EU countries. Spain is ranked 5th (see Figure 4). The sooner countries joined the EU, the more presence they gained within the European space. This is particularly the case of Germany. Spain is one of two countries that seem to escape this trend (the other is the UK). Both these countries have benefited more than proportionally from joining the EU in terms of European presence.

Figure 4. Elcano European Presence Index (IEPE) ranking

2012			2005	
Position	**Country**	**IEPE**	**Position**	**Country**
1	Germany	706.7	1	=
2	UK	654.7	2	=
3	France	519.6	3	=
4	Netherlands	442.2	4	=
5	**Spain**	**302.9**	**7**	**+2**
6	Italy	279.9	6	=
7	Belgium	272.2	5	-2
8	Luxembourg	157.3	17	+9
9	Sweden	151.8	8	-1
10	Austria	135.9	9	-1
11	Ireland	123.8	11	=
12	Denmark	108.4	10	-2
13	Poland	100.8	13	=
14	Czech Republic	82.1	14	=
15	Hungary	79.9	12	-3
16	Portugal	61.6	18	+2
17	Finland	59.6	15	-2
18	Greece	50.7	16	-2
19	Romania	35.7	19	=
20	Slovakia	35.6	20	=
21	Bulgaria	22.3	21	=
22	Lithuania	20.5	22	=
23	Slovenia	20.4	23	=
24	Estonia	14.6	24	=
25	Latvia	11.3	25	=
26	Cyprus	10.1	26	=
27	Malta	5.5	27	=

Source: Elcano Royal Institute.

In a novel development, Elcano looks at the EU's global presence in the event of a political union and the formation of a single country. The EU is ranked just above the US.

Domestic scene

Bows to pressure and agrees to parliamentary questioning over slush-fund scandal

The slush-fund scandal involving Luis Bárcenas, the former treasurer of the ruling Popular Party (PP), took a dramatic turn when the Socialists, the main opposition, forced the Prime Minister, Mariano Rajoy, to appear before parliament for questioning after they threatened to table a formal censure motion.

If the Socialists' move had gone ahead and produced a vote of no-confidence it would not have succeeded in forcing Rajoy to resign because the PP has an absolute majority in parliament. But it would have been damaging for the PP, which is already reeling from the allegations, and further convinced people that the party has something to hide.

'I think this the right moment for me to explain the situation', Rajoy said, reversing his party's earlier opposition to a debate in parliament. He will appear before Parliament on 1 August. Rajoy's tactic so far has been to stonewall his critics.

Bárcenas broke his silence earlier this month and told a Madrid judge the PP had consistently broken party finance laws for 20 years. He was imprisoned last month until his trial starts and denied bail because he is considered a flight risk. He is accused of amassing a fortune of €48 million in Swiss bank accounts.

In an interview with the newspaper *El Mundo,* Bárcenas described how cash was delivered to the PP in suitcases in return for contracts and favours for businessmen, particularly construction companies. Rajoy denied receiving €322,231 and earlier this year published his tax returns in a bid to prove his innocence.

Bárcenas said publication of documents in his possession 'would bring down the government'. He confirmed the authenticity of the secret handwritten ledgers first published by the newspaper *El País* on 31 January, which he had previously said were forgeries. Bárcenas appears to have changed his tune as a result of being imprisoned and deserted by the PP.

The Bárcenas case is a huge embarrassment for the PP and is part of a wider investigation into another scandal known as Gürtel. The case has halted what little cooperation there was between the PP and the Socialists, including over a transparency law which parliament has yet to approve. Bárcenas resigned as the PP's treasurer in 2009 after he was implicated in the Gürtel case.

More than 60% of Spaniards believe Rajoy accepted undeclared cash payments and 83% said the PP was involved in illegal party financing, according to a poll published in *El Mundo* on 21 July.

According to a poll conducted by Metroscopia and published in *El País* on 7 July, the PP would win only 23% of the vote if elections were held, down from 44.6% in the November 2011 general election. The Socialists would do even worse: 21.6% compared with 28.7% in 2011.

In a separate development, a magistrate completed a four-year investigation and accused *Convergčncia Democrática*, the main Catalan party and part of the region's ruling centre right nationalist coalition, of illegally receiving €5.1 million from the construction company Ferrovial in exchange for public-works contracts.

Former Socialist Minister investigated in fraud probe,…
Magdalena Álvarez, a former Economy Minister in the Socialist regional government of Andalusia (1994-2004), was placed under investigation in the long-running probe into fraudulent use of public funds used to pay early-retirement compensation for companies in Andalusia that laid off workers.

Álvarez was subsequently Public Works Minister in the central government (2004-09). She is currently the vice-president of the European Investment Bank.

The fraud –reportedly the biggest public money scam in Spanish history– involved a regional development fund which was used to pay bogus early-retirement payments to up to 100 individuals, often for companies they had never even worked for. Nineteen other current and former Andalusian government officials are also under investigation. The Socialists have ruled the region for 30 years.

In a separate move, José Antonio Griñán, the premier of Andalusia, decided to step down after four years in the post.

… ex-head of the National Employers' Organisation found guilty of fraudulent management…
A court found Gerardo Díaz Ferrán, the former head of the CEOE employers' organisation, guilty of fraudulently managing his Marsans travel group and barred him and an associate from holding an administrative post for 15 years. They were also ordered to pay off more than €400 million of debts to over 11,000 suppliers as well as money owed to the Tax Agency and the social security.

Díaz Ferrán, who urged wage restraint in his negotiations with trade unions, and Ángel de Cabo have been in prison since last December as they are unable to pay the bail set for them.

… and former President of the Valencian parliament faces 11-years in gaol for embezzlement, bribery and corruption
Milagrosa Martínez, a former head of the parliament of the region of Valencia, a stronghold of the ruling Popular Party (PP), faces an 11-year prison sentence if found guilty of involvement in the ongoing Gürtel case related to illegal party funding and the awarding of contracts.

The anti-corruption prosecutor also asked that Martínez, a member of the parliament, be barred from public office for 34 years and that Angélica Such, a former Tourism Minister in the Valencian government and an MP, be imprisoned for 11 years and barred from office for 10.

Six other PP members of the Valencian parliament also face charges.

Proportion of NEETs rises from 17% to 24% in four years
The proportion of 15-29 year-olds in Spain who were not in education, training or employment (NEETs) rose from 16.8% in 2008 to 24.4% in 2011, much more than the average increase across the OECD countries (from 13.5% to 24%) and the EU-21 (from 12.2% to 14.8%) during the same period, according to the OECD's Education at a Glance 2013[2] (see Figure 5).

Figure 5. Young people not in education, training or employment in OECD countries, 2011 (% of 15-29 year-olds)

Country	**(% of 15-29 year-olds**
Turkey	34.6
Spain	**24.9**
Italy	23.2
OECD average	15.8
EU-21 average	14.8
Germany	11.0
Netherlands	6.9

Source: Education at a Glance, 2013, OECD.

Spain's youth unemployment rate is officially 57%. Many young people left school early at 16 (after completing their basic education) during the country's decade-long economic boom, which ended in 2008 with the bursting of a massive property bubble. The early school-leaving rate for males in 2012 was still high at 28.8%, but well below the 36.1% recorded in 2007 as students have little option but to continue their education. The lack of skills hampers the need to create a more knowledge-based economy.

Other findings show that Spain is still among the only five OECD countries (the other four are Italy, Mexico, Portugal and Turkey) where less than 60% of 25-64 year-olds have attained an upper secondary or tertiary education –the OECD average is 75%–. The attainment level is better for younger generations: 65% of 25-34 year-olds have at least upper secondary education compared with only 34% for 55-64-year olds.

The Economy

IMF postpones economic recovery to 2015, urges deeper labour-market reforms
The International Monetary Fund (IMF) poured cold water on the government's forecasts and said the economy would not begin to grow again until 2015, one year later (see Figure 6).

Figure 6. IMF growth forecasts, 2013-14 (%)

	2013	**2014**
Germany	0.3	1.3
France	-0.2	0.8
Italy	-1.8	0.7
Spain	**-1.6**	**0.0**
Euro zone	-0.6	0.9

Source: IMF.

[2]See http://www.oecd.org/edu/eag2013%20(eng)--FINAL%2020%20June%202013.pdf.

The IMF said GDP would shrink 1.6% this year, slightly more than the government's projection of -1.3%, and would not grow at all in 2014, when the government envisages growth of 0.5%. The new figure for 2014, however, was better than the IMF's previous forecast of a 0.7% contraction in 2014.

The economy has been in recession since 2009, apart from anaemic growth of 0.4% in 2011.

The government lifted the ceiling on public spending for this year, increased the taxes on tobacco and alcohol and removed some corporate tax deductions. It will also impose a levy on gases used in air-conditioning.

The spending limit was increased by 2.7% to €133.3 billion. This year's budget deficit target is 6.5% of GDP, following a two-year extension to 2016 for reaching the EU's threshold of 3%.

Separately, the IMF wants the government's labour reforms, which came into effect more than a year ago, to go further as their impact on net job creation has been negligible so far. The unemployment rate has continued to rise to 27%.

The Bank of Spain raised the controversial idea last month of suspending the minimum wage in certain circumstances. One option would be a German-style mini-jobs scheme.

The IMF in its annual assessment[3] of the Spanish economy said more use needed to be made of the new tools for companies to adjust by modifying work arrangements rather than dismissals. This could change in the coming months, due to the expiry of many agreements. But if it does not, the IMF said 'deeper reforms of collective bargaining may be needed'.

'Compared to other countries, Spain's economy has adjusted to the crisis too much by reducing jobs, rather than moderating wages', said James Daniel, the mission chief for Spain. 'This is improving recently, but it needs to go further'.

The IMF also said insufficient progress had been made on reducing the 'damaging divide between permanent and temporary contracts. The probability of finding a permanent job remains too low and that of losing a temporary job too high'. It called for more alignment of severance costs for permanent contracts with the EU. Another proposal was to 'narrow the scope for judicial interpretation of objective dismissals'.

According to a study by Professor Juan José Dolado of the Carlos III University, the growth threshold needed to create jobs has dropped from 2% to 1.35% because of greater labour-market flexibility. The Spanish economy will not grow by that amount until 2016, according to the government's forecasts.

[3] http://www.imf.org/external/np/ms/2013/061813.htm.

Banks should boost capital ratios and cut cash dividends, says IMF

Spain's banking sector, which had to be bailed out with €41 billion in European aid to bolster capital, should continue to boost capital ratios and reduce cash dividend payments rather than accentuate the credit crunch with further cuts in lending that would deepen the recession, the IMF said in its third progress report on financial sector reform.[4]

'Financial sector dynamics still contribute to recessionary pressures, with credit contraction accelerating, lending standards tightening, and lending rates to firms rising', the IMF said. Lending was 7% lower year-on-year in May.

The Bank of Spain recently pressed banks to limit their cash dividends in 2013 to the equivalent of 25% of annual profit.

The IMF said Madrid should consider helping banks boost their capital by changing the status of some deferred tax assets (DTAs), which will no longer be counted towards capital under international Basel III rules being phased in. Spanish banks have around €50 billion in DTAs –created when a bank makes losses that it can offset against future tax bills when it returns to profit–.

The IMF said much progress had been made in repairing banks' balance sheets, many of which were crippled, particularly those of savings banks, after the crash of the property sector in 2008. Non-performing loans as a proportion of total lending is close to 11%. Banks have set aside billions of euros in provisions to cover loan losses.

Bank salaries and pay-offs have become an issue in Spain. In 2011, Spanish bank salaries were among the most generous in Europe, according to a study by the European Banking Authority (see Figure 7).

Figure 7. European bank salaries (1)

	Number	Average salary (€)
UK	2,436	1,437,797
Germany	170	1,835,296
France	162	1,587,182
Spain	**125**	**2,439,546**
Italy	96	1,646,406
Netherlands	36	1,478,396
Denmark	33	1,473,005

(1) Bankers paid more than €1 million in 2011.
Source: European Banking Authority.

Pensions experts call for link to life expectancy and a halt to automatic rises in line with inflation

The group of experts advising the government on reforming state pensions, an issue where the European Commission is pressing for faster change from the government, recommended that payments be linked to life expectancy and that payouts stop rising automatically in line with inflation.

[4] See http://www.imf.org/external/pubs/ft/scr/2013/cr13205.pdf.

The reform of the pay-as-you-go system in 2011 by the previous Socialist government gradually raised the legal retirement age from 65 to 67 (as of 2027) and increased the requirement for a full pension from 35 to 37 years. Earlier this year, the Popular Party government curbed access to early and partial retirement.

The system, however, is still not sustainable in the long term for various reasons and not just because five years of recession have weakened the social security accounts (a deficit of 1.4% of GDP this year, according to the government, compared with last year's deficit of 1% and a surplus of nearly 1% in 2009).

Today, 90% of Spaniards reach the age of 65 and live on average for another 20 years compared with 35% and 10 years at the beginning of the 20th century. Spain's average life expectancy at 65 is higher than the OECD average –22.4 years for a woman and 18.3 for a man compared with respective OECD averages of 20.1 and 16.5 years–.

Furthermore, those born during Spain's baby boom between the late 1950s and the first half of the 1970s (the average birth rate was 2.86 in 1970 compared with 1.3 today) are coming up to retirement. The proportion of the population aged over 65 is forecast to increase from 17% to 37% in 2052 –in absolute terms, from 9 million to 15 million pensioners–.

The rating agency Moody's said in a note that the proposals would be 'credit positive' for Spain's much deteriorated sovereign rating (Baa3-negative, the lowest rating on the investment grade scale).

Government launches reform of public administrations
The government announced its reform of public administrations, which aims to make them more efficient and help it cut the budget deficit to the EU threshold of 3% in 2016, a target previously set for 2014.

A total of 374,800 civil servants jobs at the general, regional and local government levels were shed between the third quarter of 2011 (the Popular Party took office at the end of that year) and March 2013, according to the government's 253-page report. This brought the total number of public-sector employees including the armed and security forces to 2.84 million, down from 3.22 million at the end of September 2011.

The focus now will be on eliminating foundations, entities and companies in the hands of regional governments, merging others, getting rid of the office of the ombudsman and audit courts in 12 regions, not replacing this year or next civil servants who retire and trying to sell 15,135 properties (27% of the total).

The government estimates its reforms will save €37.2 billion during its four years in office (4% of GDP). 'We have made the biggest reduction in public consumption in Spain's history', said Cristóbal Montoro, the Finance Minister.

Spain's non-financial public spending accounted for 43.4% of GDP in 2012, well below the euro zone average of 49.9%, but growth in expenditure between

2005 and 2011 was steep (from 38.4% to 45.2%). Only two OECD countries registered higher growth during this period –Ireland and Greece, and they have both been bailed out by the EU–.

In addition, public revenue plummeted from 41.1% of GDP in 2007 to 35.1% in 2009 and rose a little to 36.4% in 2012, but was almost 10 points below the euro zone average and the lowest figure after Ireland and Slovakia.

The difference between the spending and revenue figures explains to a large extent Spain's budgetary hole.

In the absence of much greater revenue, which would mean a major crackdown on tax evasion and fraud, something that no government has done, the onus falls on spending.

The creation of Spain's system of regional autonomy and the transfer of powers to regional governments (health, education, social services, etc) over the last 30 years led to a disproportionate increase in total public employment. The number of people employed by the state fell by 74% to 234,685 between 1982 and 2012, but those employed by regional governments rose by a factor of 30 to 1,307,408 (see Figure 8). Redundant structures were created at the regional level, which overlapped with those of the central government, and the regions assumed the trappings of mini states, including a proliferation of official cars.

Figure 8. Growth in the number of civil servants, 1982-2102

Type of administration	1982	2012	Difference
General government	912,642	234,685	-677,957
Regional governments	44,475	1,351,883	1,307,408
Local governments	167,045	597,212	430,167
Total	1,124,162	2,183,780	1,059,618

Source: Ministry of Finance and Public Administrations.

Central government spending, excluding social security, accounted for 31.7% of the total in 2011 (latest figure), down from 37.6% in 2012, while that of the regions rose from 43.3% to 50.3%.

Gross public debt close to 90% of GDP

Gross public debt continued to climb and reached 88.2% of GDP at the end of March, according to the Bank of Spain, and for the first time looked as if it had surpassed the EU average (85.4% at the end of 2012).

The central bank forecasts the debt will end 2013 at 91.4% of GDP, up from 36.2% in 2007 before the onset of Spain's crisis.

The OECD's forecasts show Spain's debt at more than 100% of GDP by the end of 2014 (see Figure 9).

Figure 9. Gross public debt, 2014 (% of GDP)

	2014
Japan	233.1
Greece	189.2
Portugal	147.3
Italy	143.9
France	116.3
OECD average	113.1
Spain	**103.5**
Germany	85.1

Source: OECD.

Inward Foreign Direct Investment rises in 2012

FDI inflows to Spain increased by more than US$900 million in 2012 to US$27.7 billion, while the other three big euro-zone economies –Germany, France and Italy– saw a fall, according to UNCTAD's 2013 World Investment Report[5] (see Figure 10).

Figure 10. Foreign Direct Investment inflows by country, 2011-12 (US$ million)

	2011	2012
France	38,547	25,093
Germany	48,937	6,565
Italy	34,324	9,625
Poland	18,911	3,356
Spain	**26,816**	**27,750**
UK	51,137	62,351

Source: World Investment Report 2013, UNCTAD.

The amount received was the seventh-largest in the developed world and the 14th overall (see Figure 11). Internal devaluation is making the Spanish economy more attractive (see the next item).

Figure 11. Ranking of top host economies, 2012 (US$ million)

	US$ million
1. US	167,620
2. China	121,080
4. Brazil	65,272
6. UK	62,351
11. Chile	30,323
12. Ireland	29,318
14. Spain	**27,750**

Source: World Investment Report 2013, UNCTAD.

The value of greenfield FDI projects in Spain was US$11.36 billion and that abroad amounted to US$17.37 billion (see Figure 12).

Figure 12. Value of greenfield FDI projects, by source/destination, 2012 (US$ million)

	World as destination	World as source
France	27,272	7,017
Germany	49,479	8,477
Italy	21,387	4,013
Poland	1,408	11,533
Spain	**17,379**	**11,367**
UK	35,005	41,177

Source: World Investment Report 2013, UNCTAD.

[5] See http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=588.

Outward direct investment plummeted and was US$4,869 negative in 2012 (see Figure 13). Companies are divesting, to reduce debt burdens, among other factors, and investing little abroad.

Figure 13. Foreign Direct Investment outflows by country, 2011-2012 (US$ million)

	2011	2012
France	59,553	37,197
Germany	52,168	66,926
Ireland	4,290	18,966
Italy	53,629	30,397
Spain	36,578	-4,869
UK	106,673	71,415

Source: World Investment Report 2013, UNCTAD.

The stock of inward investment stood at US$634.5 billion at the end of 2012, up from US$622.0 in 2011 and that of outward investment was US$627.2 billion, down from US$642.4 billion in 2011 and the first fall since 1995. In GDP terms, the inward stock accounted for 47% of GDP, more than double that of Italy, and the outward 46.4%, slightly higher than Germany (see Figure 14).

Figure 14. Inward and outward FDI, 2012 (% of GDP)

	France	Germany	Ireland	Italy	Spain	UK
Inward	39.5	21.1	142.1	17.7	**47.0**	54.4
Outward	53.9	45.6	170.5	28.1	**46.4**	74.4

Source: World Investment Report 2013, UNCTAD.

Nominal hourly labour costs continue to fall…

Spain's total hourly labour costs fell 0.7% in the first quarter over the same period of last year compared with a 1.6% rise for the euro zone (see Figure 15). Wages fell 1.2% against growth of 1.7% in the zone. In the fourth quarter of 2012, total costs fell 3.4% and wages 4.4% year-on-year.

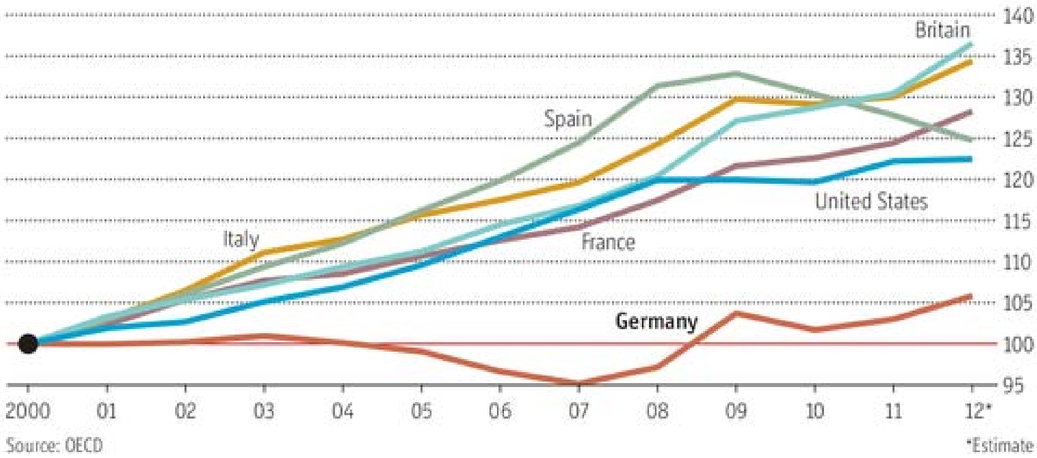
Figure 15. Nominal hourly labour costs in the first quarter of 2013 (% change over same quarter of previous year)

	Total	Wages	Other
France	0.1	1.6	-3.0
Germany	3.9	3.5	5.3
Ireland	0.5	0.4	1.6
Italy	2.5	2.3	3.1
Portugal	-0.3	-1.3	3.3
Spain	-0.7	-1.2	0.6
Euro zone	1.6	1.7	1.4

Source: Eurostat.

There has been no let up in Spain's internal devaluation (the currency cannot be devalued as the country is part of the euro) since 2009 (see Figure 16).

Figure 16. Miracle workers (unit labour costs, 2000 = 100)



… and Spain's per capita GDP against the EU average

Spain's per capita GDP was 97% of the EU average in 2012, down from a peak of 105% in 2007 (see Figure 17). Among the largest EU economies, Spain's slippage was the largest and brought it to the level in 2000.

Figure 17. Per capita GDP in purchasing power standards (EU-27 = 100)

	2007	2008	2009	2010	2011	2012
France	108	107	109	108	109	108
Germany	122	124	123	128	125	125
Greece (1)	90	92	94	87	79	75
Ireland	145	131	128	127	129	129
Italy	104	104	104	101	100	98
Portugal	79	78	80	80	78	75
Spain	**105**	**104**	**103**	**99**	**98**	**97**

(1) Provisional.
Source: Eurostat.

While GDP per capita is often used as an indicator of a country's level of welfare, it is not the only such indicator. An alternative welfare indicator, better adapted to reflect the situation of households, is Actual Individual Consumption (AIC) per capita. Spain's AIC was 93% of the EU average (see Figure 18).

Figure 18. Actual individual consumption per capita, 2012 (EU-27 = 100)

	AIC per capita
France	113
Germany	121
Greece (1)	84
Ireland	98
Italy	97
Portugal	77
Spain	**93**

(1) Provisional.
Source: Eurostat.

Corporate Scene

FCC wins €700 million bridge contract in the UK

FCC won the €700 million contract to design, build, finance, maintain and operate the Mersey Gateway Bridge in Liverpool. It is the company's biggest contract in the UK.

The bridge will be 2.1km long and carry around 80,000 vehicles a day.

FCC has particular expertise in building bridges, including in Germany, Hungary, Romania and Mexico.

Telefónica sells its Irish mobile operator to Hutchison Whampoa
Telefónica agreed to sell its Irish mobile phone operator O2 to Hong Kong's Hutchison Whampoa for €850 million in a further effort to reduce it high debt burden.

The deal is subject to approval by Irish and European competition authorities as it would reduce the number of mobile phone operators in Ireland from four to three.

Telefónica has a net debt of around €52 billion. In April it sold a 40% stake in its Central American operations for US$500 million. The flotation this year of its German O2 unit raised US$1.5 billion.

Repsol secures court support over expropriation of YPF
Repsol won the support of a Madrid court which ruled it could take on a case against the companies that benefited from the expropriation of YPF, the oil group's subsidiary in Argentina.

The Argentine government seized 51% of YPF last year and has yet to agree compensation with Repsol.

The US company Chevron this month became YPF's first international partner when it invested US$1.24 billion in the company whose most attractive asset is the Vaca Muerta shale formation in which Repsol has a majority stake. Bridas, a Sino-Argentine oil company is also planning a shale joint venture with YPF.

'The significant thing for us and our legal battle is that anyone who is thinking about putting their money into Vaca Muerta knows that he will be sued in Spain and will get into trouble with the Spanish courts', Repsol said.