Inside Spain 83
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Inside Spain resumes after a break of four months. It covers the events of the past four weeks and also some developments since November 2011. A new section has been added on Spanish companies.

Foreign Policy

Spain Brand to be Promoted in New Push for Economic and Public Diplomacy
A new plank in foreign policy is to promote the Spain brand and make diplomacy more commercially focused. Given the depressed state of the Spanish economy, this overdue initiative makes a lot of sense.

José Manuel García-Margallo, the Foreign Minister, sent a clear message of support to the private sector by travelling to Saudi Arabia, in his first official visit, to ratify the contract awarded to a consortium of Spanish companies to build a high-speed train line between Medina and Mecca, a contract valued at €6.7 billion.

His Ministry is coordinating activities related to the Spain brand, which will have its own structure under a *Marca España* commissioner. A country's brand incorporates many elements including its products, companies, culture, sports and cooperation.

The image and reputation of the Spain brand have been eroded over the past few years, be it in the form of the rise in the risk premium paid by Spanish government bonds or the lack of confidence expressed in international circles and media at the country's capacity to put its house in order.

Nevertheless, the perception of Spain is out of sync with the country's reality and potential, despite all its problems. For example, there are around 20 Spanish multinationals with leading positions in the global economy, but this is not widely known at home or abroad (see Figure 1), and a substantial part of their revenues come from international activities (see Figure 13 on the last page).

Figure 1. Spanish Multinationals with the Largest Global Market Positions (1)

Company	Industry	Global Market Position
Ebro Puleva	Food processing	#1 producer of rice, and 2nd of pasta
Grupo SOS	Food processing	#1 producer of olive oil
Chupa Chups	Food processing	#1 producer of lollipops and #2 of candy
Viscofán	Food processing	#1 producer of artificial casings for the meat industry
Freixenet	Sparkling wine	#1 producer of sparkling wine
Tavex	Textiles	#1 producer of denim
Inditex	Clothing	One of the world's two biggest clothes makers (2). Zara, the world's second most valuable apparel brand (Interbrand 2011)
Pronovias	Clothing	#1 maker of bridal wear
Acerinox	Steel	#3 producer of stainless steel
Repsol	Energy	#3 privately-owned shipper of liquefied gas
Roca	Sanitary equipment	#1 maker of sanitary equipment
Grupo Antolín	Automobile components	#1 producer of interior linings
Zanini	Automobile components	#1 producer of wheel trims
Gamesa	Machinery	#4 manufacturer of wind turbines
Indo	Optical equipment	#3 manufacturer of lenses
Mondragón	Diversified	#1 worker-owned cooperative group
Iberdrola	Electricity	#1 wind farm operator
Grupo Ferrovial	Infrastructure	#4 developer & manager of transportation infrastructure (Public Works Financing 2011) (3)
ACS/Hochtief	Infrastructure	#1 developer & manager of transportation infrastructure (Public Works Financing 2011) (3)
Acciona	Infrastructure, renewable energy and water	#6 in wind energy and #7 in renewables (Bloomberg New Energy Finance)
Abertis	Infrastructure	#3 developer & manager of transportation infrastructure (Public Works Financing 2011) (3)
Telefónica	Telecom	#5 telecom operator by total customers (4)
Santander	Banking	#4 most valuable bank brand (BrandFinance 2011), largest bank by market capitalization in the euro zone, and #1 franchise in Latin America (double that of its nearest competitor)
Prosegur	Security	#3 company by sales
Sol Meliá	Hotels	#17 Sol Meliá hotels by number of beds
Real Madrid	Sports	#1 football club by revenue

(1) 2011 or latest available.
(2) The other is H&M of Sweden.
(3) Ranked by number of road, bridge, tunnel, rail, port and airport concessions over US$50 million investment value put under construction or operation as of 1 October 2011.
(4) Three of the four companies ahead of Telefónica are Chinese.
Source: compiled by William Chislett, Esteban García-Canal and Mauro F. Guillén from various sources.

Spanish exports increased by close to 16% in 2011, a faster pace of growth than most other EU countries (see the item below). Traditionally, Spanish exports have always risen during economic downturns and then dropped off when consumption at home recovers. Changing this pattern is a major challenge. Companies could certainly do with more official help: 47 of Spain's 118 embassies and 80 consulates do not have a commercial section.

Spain's ambassadors are also being made more aware of the Spanish corporate presence in the countries where they are based. All ambassadors appointed as of this year have to get together in Spain with the companies in the country to which they are destined before taking up their post.

José Luis Rodríguez Zapatero, the former Prime Minister (2004-11), recognised the need to foster the Spain brand when he announced in June 2008 that a public diplomacy commission would start to operate in 2009, but nothing was done to set it up.

Fostering the Spain brand requires reflection by the government and civil society on Spain's current position and influence in the world and where it can reasonably expect to be.

Government Seeks New Format in Gibraltar Talks

One of the few other changes in foreign policy so far is over Gibraltar, the UK overseas territory long claimed by Spain. The government wants to turn the trilateral forum (Spain, the UK and Gibraltar), started in 2004 by the previous Socialist and UK Labour governments to air grievances but not sovereignty, into a four-sided forum by adding the Campo de Gibraltar (the area in Spain close to the Rock comprising several municipalities).

The inclusion of Gibraltar in a trilateral forum with two sovereign states on cross-border issues without representatives from the other side of the frontier seems to be a red line that the Spanish government is not prepared to cross. The UK and Gibraltar are not budging on the issue, which looks like killing the current framework.

Madrid also hankers after a return to the 1984 Brussels Process, which established a bilateral negotiating framework with the UK for the discussion of all issues including sovereignty. A return to such a process would reduce Gibraltar's influence.

Mariano Rajoy, the Prime Minister, won no concessions when he made his first official visit to the UK in February to meet David Cameron. The UK Prime Minister made it very clear that sovereignty was not up for negotiations and the people of Gibraltar would have the last word on all matters regarding their future.

Official Development Assistance Plummets

Spain's net official development assistance (ODA) to poor countries dropped to 0.29% of GNI in 2011 from 0.43% in 2010 and will widely miss the target for this year of 0.7% promised by the previous Socialist government, which had proclaimed in 2004 that Spain would be one of the first countries to reach the 0.7% figure recommended by the United Nations.

Spain was one of 16 developed countries that reduced its ODA because of tight budgets (see Figure 2). Spain's reduction in absolute terms from US$5.94 billion to US$4.26 billion (-32.7%) was the largest after Greece and Ireland. The largest donor is the US.

Figure 2. Net Official Development Assistance in 2011 (% of GNI)

Country	2011	2010
France	0.46	0.50
Germany	0.40	0.39
Italy	0.19	0.15
Spain	**0.29**	**0.43**
Sweden	1.02	0.97
UK	0.56	0.57
US	0.20	0.21
Average country effort	0.46	0.49

Source: OECD.

ODA consists of debt forgiveness grants, humanitarian aid and bilateral development projects, programmes and technical cooperation. This year's budget of the Spanish development agency for international development cooperation has been cut by 71%, from €834 million to €240 million.

Domestic Scene

General Strike Fails to Budge the Government over Labour Market Reforms
Trade unions staged a one-day general strike in March over labour market reforms that make it easier, among other things, to fire workers on permanent contracts.

The strike was supported by several hundred thousand workers, mainly in the public sector and particularly in public transport and state schools. Since then there has been no sign that the government will backtrack as it says the reforms are needed to help get the economy moving again and foster job creation. Spain has shed more than two million jobs in the last four years, leaving it with a stated unemployment rate of 24.6% in March, more than double that of the EU and four times higher than Germany's, which peaked at 7.9% (see Figure 3). Youth unemployment (under the age of 24) now stands at 50%.

Figure 3. Seasonally-adjusted Unemployment Rates in the Euro Zone (% of work force) (1)

	%
France	10.0
Germany	5.7
Italy	9.3
Spain	**24.6**
EU-27	10.2

(1) February apart from Spain which is March and is not seasonally adjusted.

Source: Eurostat.

The greatest failure of the Spanish economy since the end of the Franco dictatorship in 1975 is the very high unemployment rate. In the 30 years since the 1980 workers' statute, Spain's average unemployment rate was 14.5%, 1.7 times higher than that of the EU-15, even though the economy grew during that period at an average rate of 2.6% compared with growth of 2.2% in the EU-15.

The reforms, which have yet to be approved by parliament, will cut the severance pay for workers on new permanent contracts from 45 days' salary for each year of employment (high by European standards) to 33 days and the maximum payment possible will be reduced from 42 months pay to 24 months. Companies facing difficulties will be allowed to reduce employees' working hours and collective wage bargaining agreements will take more account of companies' circumstances and will not be automatically binding for the whole sector. The reforms, however, have not tackled the enormous divide between permanent and temporary workers (around one-quarter of employees compared with one-third in 2007, the last year of the economic boom).

Popular Party Fails to Win Regional Election in Andalusia

The Popular Party (PP) received a surprising setback last month when it failed to dislodge the Socialists from Andalusia, the most populous of the 17 regions (8.4 million inhabitants) and which they have governed since 1978 (see Figure 4). The PP, widely predicted in opinion polls to win an absolute majority, obtained 50 of the 109 seats (47 in 2008) in the regional parliament, the Socialists 47 (nine less) and the United Left (IU) 12 (double the previous number).

The Socialists remained in power in a coalition government with United Left, making it even more difficult for the PP to rein in spending by regional governments, the main factor behind the substantial overshoot of 2.5 percentage points in the general government budget in 2011 (from 6.0% to 8.5% of GDP).

Figure 4. Evolution of Socialist and Popular Party Votes in the Andalusian elections, 1982-2012 (million)

	1982	1986	1990	1994	1996	2000	2004	2008	2012
Socialist	1.49	1.58	1.36	1.39	1.90	1.79	2.26	2.17	1.52
Popular Party (1)	0.48	0.74	0.61	1.23	1.46	1.53	1.42	1.73	1.56

(1) Popular Alliance between 1982 and 1986.

Source: Government of Andalusia.

The PP received 420,000 fewer votes in Andalusia than it did in the November 2011 general election, despite the many corruption scandals affecting the Socialists in that region, their internal divisions and the highest unemployment rate in Spain (31%). The left's victory showed that the government's reforms were beginning to meet resistance, while the large fall in voter turnout (from 72.6% in 2008 to 62.2%) suggested discontent with the whole political class.

The Socialists' tactic of not calling the elections in Andalusia at the same time as last November's general election triumphed and lifted the depressed spirits of party after its overwhelming defeat (see Figure 5).

The Andalusian socialist party is very influential in shaping the strategy of the socialist party as a whole. It accounted for 24% of the delegates at the federal congress in February, which elected Alfredo Pérez Rubalcaba as the party's new Secretary General after José Luis Rodríguez Zapatero, the former Prime Minister, stepped down.

Figure 5. Results of General Elections, 2011 and 2008 (seats, millions of votes and %)

	2011			2008		
	Seats	Votes	%	Seats	Votes	%
Popular Party	186	10.83	44.6	154	10.27	39.9
Socialists	110	6.97	28.7	169	11.28	43.8
Convergence & Union (Catalan)	16	1.01	4.1	10	0.77	3.0
United Left	11	1.68	6.9	2	0.96	3.8
Amaiur (1)	7	0.33	1.3	–	–	–
Progress and Democratic Union	5	1.14	4.7	1	0.30	1.2
Basque Nationalist Party	5	0.32	1.3	6	0.30	1.2
Catalan Republican Left	3	0.25	1.0	3	0.29	1.16
Galician National Bloc	2	0.18	0.7	2	0.21	0.83
CC-PNC (Canary Islands)	2	0.14	0.6	2	0.17	0.65
Compromís	1	0.12	0.5	–	–	–
FAC	1	0.09	0.4	–	–	–
Geroa Bai (Navarra)	1	0.04	0.2	1 (Na Bai)	0.06	0.24

(1) Basque leftist coalition in favour of independence for the Basque Country.

Source: Interior Ministry.

The PP also received a blow in Asturias where it did not win sufficient seats to oust the Foro of Francisco Álvarez Cascos, a dissident former PP minister, who called an early election. The PP won 10 of the 45 seats (the same as in 2011), the Foro 12 (four less) and the Socialists 17 (two more). The other six seats went to United Left (five) and Progress and Democratic Union (one). As we went to press the shape of the new government was not clear.

According to Metroscopia's voter intention survey, the PP's support dropped in April to 38.1% from the 44.6% of the vote it obtained in the general election, while the Socialists' share fell to 23.0% from 28.7%. Of those surveyed, 56% said the government did not know what to do about the economy.

Early School Leaving Rate Continues to Decline

The proportion of young people aged between 18 and 24 who left school after receiving their compulsory education (which ends at 16) dropped to 26.3% in 2011 from 28.4% in 2010. The level (30.7% for men and 21.7% for women), however, is still around double the average in the EU.

The continued sharp fall was expected as many young people left school early during Spain's long economic boom to work in sectors such as construction and tourism (see Figure 6). The bursting of the real-estate bubble as of 2008 left many young workers unemployed and with low skills. Since then, there has been a move back into further education and those at school are staying on as there are no jobs for them.

Figure 6. Early School Leavers (% of those aged between 18 and 24 who left school after their compulsory education)

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
29.2	29.9	31.6	32.0	30.8	29.9	31.0	31.9	31.2	28.4	26.3

Source: Education Ministry.

Government Unveils Transparency Law

Spain finally has a transparency law that will make government more open and give citizens access to some official documents. Mariano Rajoy, the Prime Minister, said the law would allow Spaniards to discover 'who is spending their money'.

Spain has one of the least open governments in the developed world. Even basic information has been denied, let alone permitting consultation of public contracts. Successive governments have promised to be more open but have done nothing about it.

Based to some extent on the US Freedom of Information Act, the government will have to give full or partial disclosure in response to requests. But the law, which will not come into force for several months, is not expected to be as far-reaching as in other countries.

The Spanish committee of Transparency International, the Berlin-based organisation that every year ranks countries on the basis of corruption perceived in the public sector, welcomed the law as a first step but said it was too restrictive. For example, article 10 limits access to information that harms 'economic and monetary policy' or the 'environment'.

Almost 250,000 Descendants of Spaniards Win Spanish Nationality

The state has granted Spanish nationality to 241,763 descendants of Spaniards who went into exile for political or economic reasons before the end of the Franco dictatorship in 1975. The 2007 Historical Memory Law allows the children and grandchildren to request nationality.

The cut-off date was last 27 December, at which time 95% of the 503,439 requests were made in Spanish consulates in Latin America. Almost half (48%) of the requests were approved.

The Economy

Government Strives to Allay Fears of a Bailout by the EU

The government is battling to convince the markets that Spain will not join Greece, Ireland and Portugal in needing a bailout. Government bond yields on 10-year debt have breached at times unsustainable levels of 6% (see Figure 7) and the fall in the Ibex-35 stock market index has been by far the steepest this year among the main markets (see Figure 8).

Figure 7. 10-year Government Bond Yields (%) and Spreads Over Bund (pp) (1)

	Yield (%)	Spread over bund (pp)
Germany	1.75	–
Greece	21.06	+19.31
Italy	5.48	+3.73
Portugal	12.59	+10.83
Spain	**5.94**	**+4.19**

(1) 17 April.

Source: ThomsonReuters.

Figure 8. Main Stock Market Indices (% change), 1 January-17 April 2012

Index	
Ibex-35 Spain)	**-15.93**
Dax (Frankfurt)	+15.30
FTSE 100 (London)	+3.49
Euro Stoxx 50	+2.18
Dow Jones	+7.35
Nikkei (Tokyo)	+11.94

Source: Markets.

The markets responded badly to the rise in Spain's forecast 2012 budget deficit to 5.8% of GDP from the figure agreed by the previous Socialist government with the European Commission of 4.4%. Prime Minister Mariano Rajoy failed to win support in Brussels for a deficit of 5.8%, a perfectly reasonable request given the massive overshoot in the 2011 deficit from 6% to 8.5% by the previous government and reluctantly agreed to a new figure of 5.3%. The Socialists' deficit estimate of 4.4% for 2012 was based on positive economic growth this year when in fact the economy will shrink by 1.7%, according to the latest official forecast.

The PP's strategy of not announcing its austerity budget for 2012 until after the elections last month in Andalusia instead of in January after taking office, in order not to alienate voters, failed as the left retained the region. As a result, it lost valuable time and spooked the markets.

The budget is the toughest since the end of the Franco dictatorship in 1975. The government's fiscal adjustment of 5.5% of GDP between 2011 and 2013 (from 8.5% to 3%, in line with EU demands) is the largest among euro-zone countries and one of the biggest ever efforts by a large industrial country. It compares with 3.9% for Italy, 3.8% for Greece, 2.3% for France and 0.5% for Germany. Even if the deficit target is met, Spain's public debt will still rise to 80% of GDP by the end of the year from 68.5% in 2011, although it is still well below Italy's level of nearly 120%.

The International Monetary Fund cast serious doubts on the government's ability to cut the deficit and forecast it would not reach the figure of 3% of GDP until 2018.

The brunt of the spending cuts are in investment (-36%) and not in current expenditure. For example, non-financial spending on R&D+i is down 25%, below the level in 2005, while central government personnel costs will rise 1.3, in spite of a continued pay freeze. 'The adjustment is the only way to avoid intervention', said Rajoy.

On the revenue side, the government has approved a controversial tax amnesty for an estimated €25 billion of undeclared 'black money' which will be taxed at a relatively low rate of 10% with no criminal or administrative penalties, surcharges or interest. The amnesty was challenged in some quarters for being unconstitutional and for sending the wrong signal to honest taxpayers. The unofficial economy is estimated to be as high as 20% of Spain's GDP and no government has seriously tackled the issue.

The budget is not due to have completed its passage through parliament until June, which then leaves the government six months to implement it. The European Central Bank has urged Madrid to use an emergency procedure to approve it. Also worrying is that the 17 regional governments have yet to announce their budget plans. They have been set a deficit target of 1.5% of GDP (the same as in 2011), down from last year's overshoot of 2.94% in order for the overall deficit to reach 5.3%. Only one regional government was on target in 2011(see Figure 9).

Figure 9. Budget Deficits of Spain's Regions (% of regional GDP) in 2011 and Political Party in Power

Region	Budget deficit (% of GDP)	Political party in power (1)
Andalusia	3.22	Socialists (since 1982), now with United Left
Aragón	2.88	Socialists (now Popular Party)
Asturias	3.64	Foro (new government not yet formed)
Balearic Islands	4.00	Socialist-led coalition (now Popular Party)
Basque Country	2.56	Socialists in minority government backed by the Popular Party
Canary Islands	1.78	Canarian Coalition and Socialists, now with reduced majority
Cantabria	4.04	Socialists and Regionalist Party, now Popular Party
Castile and León	2.35	Popular Party (since 1987), now with increased majority
Castile-La Mancha	7.30	Socialists (now Popular Party)
Catalonia	3.72	Socialist-led coalition, now conservative nationalist CiU in PP-backed minority government
Extremadura	4.59	Socialists (since 1983), now Popular Party in a minority govt.
Galicia	1.61	Socialist-led coalition, now Popular Party
La Rioja	1.97	Popular Party (since 1995), now with increased majority
Madrid	1.13% (being revised upward)	Popular Party (since 1995), now with increased majority
Murcia	4.33	Popular Party, now with increased majority
Navarre	1.89	Navarrese People's Union, now with reduced majority
Valencia	3.83	Popular Party, now with increased majority
Target set by the central government	1.50	

(1) Based on the party or parties in power at the time of the May 2011 regional elections. The Basque Country and Galicia held elections in 2009, Catalonia in 2010 and Andalusia and Asturias in March 2012. The Basque Country and Navarre have special fiscal regimes.

Source: Regional governments.

The excesses of these 'mini states' are a major headache for the central government. The huge airport at Ciudad Real, which is capable of receiving an Airbus A380, the largest commercial airliner on the planet, shut this month. Virtually the only traffic during its life of less than two years were a handful of private jets.

The budgetary stability law approved by parliament this month allows the central government to intervene in errant regions to ensure compliance. According to a report on devolution last year by the Círculo de Empresarios, a business lobby group, the total number of public employees had risen from 2.2 million in 1996 to nearly 3.2 million.

Esperanza Aguirre, the Premier of the Madrid region, called for control of health, education and justice –the main responsibilities of the regions– to be returned to the central government.

The conundrum for the government is how to meet its austere commitments and secure the confidence of the markets without choking the conditions for growth so that the unemployment rate of 24% begins to come down.

Exports Grow Faster than Germany's, First Trade Surplus with the EU since 1985
Spanish exports of goods grew 15.4% in 2011 to €214.5 billion and imports 9.6% to €260.8 billion, reducing the trade deficit by 11.4% to €46.3 billion. The main reason for the continued high trade deficit is the energy bill.

Export growth was faster than Germany's (11.4%) and France's (7.5%), albeit from a much lower volume of trade.

The trade balance with the EU registered a surplus of €4.06 billion compared with a deficit of €4.19 billion in 2010. There was also a surplus with the euro zone of €1.66 billion. These were the first surpluses since Spain joined the EU in 1986 and underscored the efforts made by companies to compensate for the depressed home market. The challenge is to maintain this momentum when the economy recovers.

Capital goods accounted for 20% of total exports, the largest share (see Figure 10).

Sector	% of total
Consumer durables	1.7
Raw materials	2.7
Other goods	4.4
Energy products	7.4
Consumer manufactures	8.2
Semi manufactures (not chemicals)	12.2
Food	14.2
Chemicals	13.7
Motor industry	15.4
Capital goods	20.1

Source: Ministry of Economy and Competitiveness.

The trade deficit continued to fall in January, thanks to export growth of almost 4% year-on-year. The deficit was €3.65 billion.

Spain's Doldrums Encourage Foreign Direct Investment…
One country's crisis can be an opportunity for others, judging by the surge in foreign direct investment in Spain in 2011.

Net investment (gross less divestments), excluding that in special purpose entities that hold the equity of companies located abroad for tax advantages (known as ETVEs) and hence not productive investment, more than doubled in 2011 to €18.9 billion, according to official figures. Net investment including the ETVEs was €24.7 billion, the highest figure since 2008.

The wireless telecommunications and air transport sectors received almost 36% of the gross investment excluding ETVEs. UK and French investors accounted for 55% of the total of this investment (see Figure 11).

Figure 11. Gross Foreign Direct Investment in Spain in 2011 by Countries (€ bn and % of the total) (1)

Country	Gross amount (€ bn)	% of the total
UK	6.74	30.0
France	5.63	25.1
Netherlands	1.48	6.6
US	1.44	6.4
Luxembourg	1.32	5.9
Germany	1.13	5.0
Rest	4.72	21.0

(1) Excluding ETVEs and based on the final country of origin.

Source: Trade and Investment Directorate.

… But Spanish Investment Abroad Plummets

Spanish net direct investment abroad excluding ETVEs dropped 27% in 2011 to €11.2 billion. The main country receiving investment was Turkey, which is becoming an increasingly important trade partner for Spain and destiny of investment (see Figure 12). Spanish investment in Turkey was €4.4 billion compared to €232 million in 2010.

Figure 12. Spanish Direct Investment Abroad in 2011 by Countries (€bn and % of the total)*

Country	Gross amount (€ bn)	% of the total
Turkey	4.45	17.6
Poland	4.21	16.6
UK	4.04	16.0
Brazil	4.01	15.9
US	1.88	7.5
Rest	6.69	26.4

(1) Excluding ETVEs and based on the immediate recipient country. No data is available for the final country.

Source: Registry of Foreign Investment.

New Record in Emigrants' Remittances

Workers abroad, mainly Spaniards, sent a record €5.7bn to Spain in 2011, 6% more than in 2010, underscoring the dire employment situation in the country where one in every four workers does not have a job and an increasing number are emigrating.

In 2011, 62,611 Spaniards emigrated, up from 36,967 in 2010, and in the first quarter of 2012 the number more than doubled to 27,004 according to the National Statistics Institute (INE). The total number of people who emigrated in 2011 was 507,740, 104,727 more than in 2010.

Remittances by immigrants in Spain to their home countries were slightly higher at €7.26 billion. In 2011 the number of immigrants arriving in Spain, including 42,127 returning Spaniards, was 457,650, 7,519 more than in 2010.

Two Regions Vie to Attract Europe's First Las Vegas-style Casino

The regional governments of Madrid and Catalonia are outbidding one another in their attempt to lure the so-called Eurovegas project, an US$18 billion investment to build a vast complex with an avenue of skyscrapers housing 12 resorts, six casinos and 18,000 gaming machines.

Politicians are courting Sheldon Adelson, the chairman of Las Vegas Sands, one of the world's largest gaming operators and the world's 14th richest person in the *Forbes* ranking of billionaires (net worth US$24.9 billion). Adelson is seeking tax, labour market and other concessions.

The project would create 260,000 jobs over 10 years, making it very attractive in a country with an unemployment rate of 24%. But opinions are divided over its benefits. For Eurovegas No, one of the pressure groups, the project represents a return to an economy excessively based on bricks and mortar (the construction sector collapsed in 2008) and tourism, its social impact would be negative and it could also become a focus of organised crime.

According to a US study, for every dollar a gaming house invests in an area in America, three are subtracted by the costs of dealing with its social effects. Spain is already the European leader in gambling.

Corporate Scene

Government Threatens Retaliation over Argentina's Renationalisation of YPF

The government reacted angrily to the renationalisation of YPF, the Argentine oil company acquired by Repsol more than a decade ago, and warned Buenos Aires it would become an 'international pariah'. Cristina Fernández, Argentina's populist President, sent a bill to Congress to put 51% of YPF in state hands.

'Breaking the rules comes with a cost and Argentina could turn itself into an international pariah', said Íñigo Méndez de Vigo, Spain's Secretary of State for European Affairs. The European Commission said it would support Repsol's move to take the case to international arbitration at the World Bank.

The Argentine government accuses Repsol of inadequate production, which has made the country import more fuel.

Repsol has had 16 concessions revoked in Argentina this year, being the country's largest producer and operating more than half of its refineries. The latest three licences to be revoked are in the southern province of Santa Cruz and came shortly after Repsol YPF presented provincial authorities with a US$4 billion plan for 2012-17 including the drilling of 2,249 new wells.

Repsol acquired YPF in 1999 for €13 billion with the state retaining a golden share. This turned Repsol into a significant player in the global energy market. It currently owns 57% of YPF after selling a 25% stake some years ago to the Eskenazi family.

YPF accounts for 42% of Repsol's total reserves, estimated at 2.1 billion barrels of crude, and generated one-quarter of Repsol's operating profits in 2011.

Spain is the largest foreign investor in Argentina. Other major companies there include Telefónica (telecoms) and the banks Santander and BBVA. Argentine investment in

Spain is very small, making it unlikely the Spanish government would take any retaliatory action on that front.

Ferrovial's UK Subsidiary Wins €2.4bn Highway Maintenance Contract

Amey, which repairs and improves roads and rail networks, won the contract from Sheffield City Council, beating the British construction and infrastructure firm Carillion.

Banesto's First Quarter Profits Slump 88%

The net profit of Banesto, the domestic banking arm of Grupo Santander, plummeted 88% to €20.2 million in the first quarter, mainly due to the extra provisions for bad property loans introduced by the government soon after taking office last December.

Banesto's non-performing loans (NPL) ratio rose to 4.93% of risk-weighted assets from 4.15% in March 2011, but it still remains below the average for Spanish banks.

Leading Companies Boost International Business

Just over 60% of the revenues of the companies that comprise the Ibex-35, the benchmark index of the Madrid stock exchange, were generated abroad in 2011 (see Figure 13), up from 57% in 2010. Thanks to their geographic diversification, these multinationals were able, to varying degrees, to offset the decline in business in the depressed Spanish economy.

Their total revenues increased 12.7% to €455.3 billion, of which €275.6 billion came from abroad. The largest rise in international revenues came from ACS, the construction and services group, which boosted them from €4.8 billion to €20.6 billion. Notable growth was also achieved by Banco Santander, BBVA, Telefónica and Inditex.

Figure 13. International Revenues of Ibex 35 Companies, 2011 (€ mn and % of total) (1)

Company	Sector	Total revenues (€ mn)	International (% of total)
Abengoa	Technology	7,089 (4,860)	72.8 (76.9)
Abertis	Motorways	3,811 (3,802)	54.3 (52.4)
Acciona	Construction	6,646 (6,263)	35.2 (30.8)
Acerinox	Metals	4,672 (4,500)	90.8 (90.5)
ACS	Construction & services	28,472 (14,239)	72.5 (34.1)
Amadeus IT Holding	Travel technology	2,759 (2,594)	6.8 (8.3)
Banco Popular	Banking	4,581 (4,146)	9.0 (7.9)
Banco Sabadell	Banking	3,394 (2,645)	5.5 (5.0)
Banco Santander	Banking	60,856 (52,907)	80.0 (78.9)
Bankinter	Banking	1,636 (1,203)	0.4 (0.6)
BBVA	Banking	24,188 (21,135)	60.4 (57.9)
Dia	Supermarket chain	9,779 (9,588)	57.7 (57.1)
Ebro Foods	Food	1,804 (1,689)	91.9 (94.3)
Enagás	Electricity	1,096 (966)	0.0 (0.0)
Endesa	Electricity	30,827 (29,558)	38.0 (36.8)
FCC	Construction	11,755 (11,908)	52.5 (45.6)
Ferrovial	Construction	7,446 (9,384)	54.8 (59.8)
Gamesa	Wind turbines	3,027 (2,736)	91.4 (88.7)
Gas Natural	Gas	21,076 (19,630)	42.0 (40.1)
Grifols	Pharmaceutical	1,796 (991)	87.2 (77.0)
IAG	Airlines	14,671 (7,510)	87.5 (98.8)
Iberdrola	Electricity	31,648 (30,431)	51.7 (51.9)

Inditex	Fashion retailer	13,793 (12,527)	72.8 (70.6)
Indra	Electronics	2,688 (2,557)	43.2 (38.8)
Mapfre	Insurance	17,093 (14,823)	52.6 (49.1)
Mediaset (Telecinco)	Media	985 (838)	1.4 (2.0)
OHL	Construction	4,870 (4,771)	70.4 (70.0)
Red Eléctrica	Electricity	1,637 (1,397)	2.8 (2.8)
Repsol	Oil	61,502 (55,535)	52.8 (53.2)
Sacyr-Vallehermoso	Construction	3,949 (4,820)	37.3 (31.2)
Técnicas Reunidas	Engineering	2,613 (2,771)	89.0 (83.8)
Telefónica	Telecoms	62,837 (60,737)	72.5 (69.0)
Total		455,313 (403,864)	60.6 (57.0)

(1) The figures for 2010 are in brackets.

Source: based on figures from the National Securities Market Commission (CNMV).