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Summary

Spain accepts deal on Gibraltar, clearing way for Brexit agreement.
Trial of Catalan independence leaders set for early 2019.
Tackling corruption would add €10 billion a year to Spain's GDP, says report.
OECD and IMF downgrade growth, European Commission questions fiscal deficit.
Main banks pass EBA's stress test in adverse scenario.

Foreign Policy

Spain accepts deal on Gibraltar, clearing way for Brexit agreement

The government received a written guarantee that UK-EU trade and security agreements after Brexit would not apply to the overseas British territory of Gibraltar without Madrid's consent.

The Socialist Prime Minister Pedro Sánchez made it clear that Spain would not sign off on the UK's legally binding withdrawal agreement at the Brussels summit on 25 November if Article 184 was not modified to make it absolutely clear that negotiations on the future UK-EU relationship, between the official day of departure on 29 March 2019 and the end of a transition period in December 2020, would not cover Gibraltar, which Madrid has long claimed.

The government accused the UK of introducing Article 184 'under the cover of darkness' in order to ensure Gibraltar would be covered by a future trade deal negotiated with Brussels.

Sir Tim Barrow, the British ambassador to the EU, wrote to reassure Madrid that Gibraltar would not necessarily be covered by future arrangements after Brexit.

The EU gave Spain a veto in the first phase of the negotiations (Clause 24) and it now has one in the second phase. The EU was always going to side with Spain in the Brexit process. The UK, after all, is leaving. But that does not mean that either the UK or Gibraltar accept the EU position. While the Spanish government hails the outcome as a major development, the opposition Popular Party (PP) and Ciudadanos (Cs) accuse it of wasting a historic opportunity for pushing Spain's claim. Meanwhile, Gibraltar remains cautious.

It remains to be seen, however, how events will play out after the transition period is over. Until then the Rock's exit from the EU (Gibraltar voted 96% in favour of remaining) will be as cushioned as much as possible.

Madrid was concerned that the commitment in Article 184 to negotiate a future relationship would automatically have the same territorial scope as the withdrawal agreement. London said this was never the intention and it was happy to provide the clarity that Madrid sought. It does not, however, change the UK's commitment to negotiate a future relationship that works for all of the UK and the 'wider UK family' including Gibraltar.

Foreign Minister Josep Borrell hailed the agreement as 'the most important one since the Treaty of Utrecht in 1713', which had handed over Gibraltar to the British. 'We have received sufficient guarantees to be able to reach a solution to a conflict that has lasted more than 300 years between the United Kingdom and Spain', said Sánchez, adding that Spain would again table its joint sovereignty proposal in the second phase of Brexit negotiations.

'This puts Spain in a position of strength in negotiations with the United Kingdom over Gibraltar that we have not had until now', he said after the summit in Brussels. He was referring to a 1986 agreement when Spain joined the EU and had to adapt its Gibraltar policy to British policy within the bloc. He said the situation was now being reversed.

Theresa May was quick to refute criticism from UK politicians across the spectrum that she had caved in to Madrid. 'The UK's position on the sovereignty of Gibraltar has not changed and will not change', she said.

Fabian Picardo, Gibraltar's Chief Minister, said the commitments from EU states regarding the Gibraltar issue were political and not legally-binding. 'We have a triple lock on our sovereignty. The first lock is the sacred constitutional commitment that the UK will never transfer our sovereignty against our wishes. The second is that the UK will never even start a process of sovereignty discussions with which we are not content. And the third is the most cast iron of all: we are the third lock'.

In a 2002 referendum Gibraltarians overwhelmingly rejected, by 98.7%, sharing sovereignty with Spain.

Sánchez's gambit came ahead of an election in Andalucía on 2 December, the region ruled by the Socialists for the last 40 years to which Madrid argues Gibraltar belongs. Pablo Casado, the Popular Party's leader, has used his campaign there to attack the government for not pushing the issue of shared sovereignty harder.

In a separate development, Spain and Gibraltar will seek to cooperate more closely under a protocol that creates bilateral committees on security, citizens' rights and fisheries and the environment, and a taxation agreement.

Spain deepens ties with Cuba with visit by Sánchez to Havana

Pedro Sánchez made the first visit to Cuba by a Spanish Prime Minister in 42 years in a bid to bolster ties with the former colony, as it modernises its centrally-planned economy and allows a little more political freedom in the post Castro era.

Spain is Cuba's third-largest trade partner and one of its main foreign investors, particularly in tourism. Sánchez opened a business forum in a hotel run by the Spanish chain Iberostar and owned by Cuba's military, which was attended by President Miguel Díaz-Canel, who succeeded Raul Castro in April.

Sánchez's visit came against a backdrop of President Donald Trump's tightening of the decades-long trade embargo by the US and partial reversal of Barack Obama's détente. Washington recently added the hotel to a list of places banned to Americans.

Europe is taking a different approach, with some countries opening up trade offices in Cuba. Relations between the EU and Cuba have thawed in recent years.

The two leaders agreed to hold high-level annual meetings including on human rights.

Popular Party (PP) leader Pablo Casado criticised Sánchez for going to Cuba 'to entertain dictators instead of calling for freedom and democracy'. Sánchez did not meet Cuban dissidents but he did see representatives of civil society, following the same trail as Francois Hollande, the former French President, Pope Francis and the two former PP Foreign Ministers.

Spain and Russia agree to form joint cybersecurity group

Foreign Minister Josep Borrell and his Russian counterpart, Sergei Lavrov, agreed to set up a joint cybersecurity group to prevent the dissemination of misinformation from damaging the bilateral relation.

Lavrov said he had discussed with Borrell how 'some Russian mass media go beyond the limits of their professional activity and create inadmissible interference in other countries' issues'.

He denied the allegations of some Spanish officials that a misinformation campaign mainly started in Russia was partly to blame for fuelling the independence movement in Catalonia.

Foreign Minister calls for sanctions on Nicaragua's government

International sanctions should be imposed on the government of Nicaragua, where more than 300 people have been killed in protests since April, Josep Borrell, the Foreign Minister, told an Iberian-Latin American forum in Madrid.

Borrell, according to Europa Press, told the forum that 'regrettably' sanctions are 'not currently on the radar screen' because Venezuela's crisis overshadows Nicaragua's problems.

He rejected the use of force, both from outside Nicaragua and within.

Domestic scene

Trial of Catalan independence leaders set for early 2019

The trial is expected to begin in January of 18 Catalan independence leaders, nine of who have been in pre-trial detention for more than a year, on charges of rebellion, which carries a potential sentence of up to 25 years.

The other nine, who are on bail, face charges ranging from misuse of funds to disobedience. Seven others are in self-imposed exile, mainly in Belgium, including Carles Puigdemont, the former Premier of Catalonia, and will not go on trial unless they return home. Spain does not allow trials in absentia.

The highest profile person in the dock is Oriol Junqueras, the leader of Catalan Republican Left (ERC) and former Deputy Premier of Catalan.

For the charge of rebellion to stick, the public prosecutor has to prove that the informal referendum in October 2017 followed by the Catalan parliament's unilateral declaration could be considered violent. The prosecutor of the Supreme Court is pushing rebellion while the state's solicitor general, which represents the national government, has called for rebellion charges to be dropped in favour of the lesser charge of sedition, a crime that does not have to involve violence, but would still see the nine spending up to 12 years in jail if found guilty (see Figure 1).

Figure 1. Sentences sought for Catalan independence leaders

		SUPREME COURT Crimes to be charged			SENTENCES REQUESTED									
		Rebellion	Misuse of funds	Disobedience	CURRENT SITUATION	P Prison		B Ban from public office		F Fine				
						SUPREME COURT PROSECUTION			SOLICITOR GENERAL					
○ IN PRETRIAL DETENTION														
EX-MEMBERS OF REGIONAL GOVERNMENT	 Oriol Junqueras ERC	✓	✓		Prison without bail	P 25 years	B 25 years			Rebellion and misuse of public funds	P 12 years	B 12 years	Sedition and misuse of public funds	
	 Joaquim Forn JxCat	✓	✓		Prison without bail	P 16 years	B 16 years			Rebellion and misuse of public funds	P 11y 6 m	B 11y 6 m	Sedition and misuse of public funds	
	 Jordi Turull JxCat	✓	✓		Prison without bail	P 16 years	B 16 years			Rebellion and misuse of public funds	P 11y 6 m	B 11a 6 m	Sedition and misuse of public funds	
	 Raül Romeva ERC	✓	✓		Prison without bail	P 16 years	B 16 years			Rebellion and misuse of public funds	P 11a 6 m	B 11a 6 m	Sedition and misuse of public funds	
	 Dolors Bassa ERC	✓	✓		Prison without bail	P 16 years	B 16 years			Rebellion and misuse of public funds	P 11a 6 m	B 11a 6 m	Sedition and misuse of public funds	
	 Josep Rull JxCat	✓	✓		Prison without bail	P 16 years	B 16 years			Rebellion and misuse of public funds	P 11a 6 m	B 11a 6 m	Sedition and misuse of public funds	
	 Meritxell Borràs PDeCAT		✓	✓	Free (€100,000 bail)	P 7 years	B 16 years	F €30,000			Misuse of public funds and disobedience	P 7 years	B 10 years	Misuse of public funds and disobedience
	 Carles Mundó ERC		✓	✓	Free (€100,000 bail)	P 7 years	B 16 years	F €30,000			Misuse of public funds and disobedience	P 7 years	B 10 years	Misuse of public funds and disobedience
	 Santi Vila PDeCAT		✓	✓	Free (€50,000 bail)	P 7 years	B 16 years	F €30,000			Misuse of public funds and disobedience	P 7 years	B 10 years	Misuse of public funds and disobedience
ASSOCIATIONS	 Jordi Sánchez JxCat / ANC	✓			Prison without bail	P 17 years	B 17 years			Rebellion	P 8 years	B 8 years	Sedition	
	 Jordi Cuixart Òmnium	✓			Prison without bail	P 17 years	B 17 years			Rebellion	P 8 years	B 8 years	Sedition	
	 Carme Forcadell ERC	✓			Prison without bail	P 17 years	B 17 years			Rebellion	P 10 years	B 10 years	Sedition	
EX-MINISTERS OF CATALAN PARLIAMENT	 Lluís Mª Corominas PDeCAT			✓	Free (€60,000 bail)		B 1 year 8 m.	F €30,000		Disobedience	F €30,000	B 1 year 8 m.	Disobedience	
	 Lluís Guinó PDeCAT			✓	Free (€25,000 bail)		B 1 year 8 m.	F €30,000		Disobedience	F €30,000	B 1 year 8 m.	Disobedience	
	 Anna Simó ERC			✓	Free (€25,000 bail)		B 1 year 8 m.	F €30,000		Disobedience	F €30,000	B 1 year 8 m.	Disobedience	
	 Ramona Barrufet PDeCAT			✓	Free (€25,000 bail)		B 1 year 8 m.	F €30,000		Disobedience	F €30,000	B 1 year 8 m.	Disobedience	
	 Joan Josep Nuet CSQP			✓	Free		B 1 year 4 m.	F €24,000		Disobedience	F €24,000	B 1 year 4 m.	Disobedience	
	CUP	 Mireia Boya CUP			✓	Free		B 1 year 8 m.	F €30,000		Disobedience	F €24,000	B 1 year 4 m.	Disobedience

Source: *El País*.

The imprisonment and now the upcoming trial of the Catalan secessionists has put paid to any hopes of the minority Socialist government of Pedro Sánchez and the Catalan government, led by the ultra-nationalist Quim Torra, reaching any agreement and defusing the tensions.

That said, the two sides are very far apart and have so far conducted little more than a dialogue of the deaf. Torra wants a Scotland-style referendum on independence, but this is not allowed by the legal framework and is a red line that the government, backed by the Popular Party and Ciudadanos, is not prepared to cross.

'The government has missed a golden opportunity to remove the Catalan conflict from the courts and put it back in the political areas, which is where it belongs', said Torra.

The indictment was followed by the Court of Auditors ordering Artur Mas, the former Catalan Premier (replaced by Puigdemont), and nine other former officials to repay €4.9 million of public funds used to organise an illegal vote on independence in 2014.

Mas defied a ruling by the Constitutional Court to suspend the ballot.

In another development, Puigdemont launched a new party, *Crida Nacional* (National Call), in a bid to rally separatists across the political spectrum in a movement that shows signs of splits and different strategies.

Poll gives victory to socialists in Andalusian election

The Socialists are forecast to win the most votes in the 2 December election in Andalucía, which they have governed for 40 years with majority or minority governments, but fewer than in 2015.

A Socialist victory would embolden the Socialist Prime Minister Pedro Sánchez, whose minority government only has 84 of the national parliament's 350 seats, to call a snap election in 2019, something he is already considering. The next election is not due until July 2020.

Susana Díaz, the region's Premier, called the early election after Ciudadanos (Cs) withdrew its support, leaving her with a 47-seat minority of the 109 seats in the Andalusian parliament, eight seats short of a majority.

The Socialists would win 39-42 seats, according to 40dB (see Figure 2). The ultra-right Vox could gain its first seat or seats in a regional parliament.

Figure 2. Andalusia's election, 2018 and 2015 (number of seats and % of votes)

	2018 seats and % of votes	2015 seats and % of votes
Socialists	39-42 (32.1)	47 (35.4)
Adelante Andalucía (1)	22-24 (19)	20 (21.6)
Popular Party	22-26 (20)	33 (26.7)
Ciudadanos	19-22 (18)	9 (9.3)
Vox	0-4 (4.3)	–

(1) Four parties in a coalition in 2018 including Podemos and United Left with a Green party (IULV-CA). In 2015, Podemos won 15 seats and 14.8% of the vote and IULV-CA five and 6.9% of the vote.

Source: 40dB.

The latest poll by the state-funded CIS shows the Socialists winning 31.6% of the vote if a general election were held tomorrow, up from 22.7% at the 2016 election (see Figure 3).

Figure 3. Voter intention (% of valid votes)

	26/VI/16 election	January 2017	October 2017	July 2018	October 2018
PP	33.0	33.0	28.0	20.4	18.2
Socialists	22.7	18.6	24.2	29.9	31.6
Unidos Podemos	21.1	21.7	18.5	15.6	17.3
Ciudadanos	13.0	12.4	17.5	20.4	21.0

(1) Unidos Podemos as of the June 2016 election.

Source: CIS.

The election in Andalucía (with a population of 8 million) will also be a first test for Pablo Casado, the Popular Party leader, who replaced Mariano Rajoy after he stepped down as Prime Minister in June following a vote of no confidence that brought Sánchez to power.

Tackling corruption would add €10 billion a year to Spain's GDP, says report

Rooting out corruption in Spain, which to judge by the slew of cases in the courts and the public's perception of it has become a big problem, would add some €10 billion a year to economic output over the next 15 years, according to a report by the BBVA Foundation.

The report uses five Worldwide Governance Indicators of the World Bank to calculate the economic impact of reducing corruption if controls and institutional shortcomings were improved.

Spain is ranked 31st out of 154 countries on the basis of the world distribution of the institutional quality combined indicator (see Figures 4 and 5).¹

Figure 4. Combined indicator of institutional quality (percentiles; 0 = worst, 100 = best)

Ranking out of 154 countries	Percentiles (1)
1. Norway	100.0
10. Germany	94.7
13. UK	92.9
16. US	90.5
21. France	87.6
22. Portugal	87.0
31. Spain	80.5
39. Italy	74.6

(1) Percentiles divide the world distribution into 100 'boxes' and ranks countries from worst to best.

Source: BBVA Foundation using the Worldwide Governance Indicators (World Bank).

Figure 5. Indicators of institutional quality (10 = maximum score): international comparison (2015)

	Spain	UK	Germany	France	Italy	US
Voice and accountability	7.0	7.5	7.9	7.4	7.0	7.2
Government effectiveness	7.4	8.5	8.5	7.9	5.9	7.9
Regulatory quality	6.6	8.7	8.3	7.3	6.5	7.6
Rule of law	6.8	8.6	8.6	7.8	5.5	8.2
Control of corruption	6.0	8.7	8.6	7.6	4.9	7.8
Combined indicator	6.7	8.4	8.4	7.8	6.0	7.7

Source: Worldwide Governance Indicators (World Bank).

¹ Available in Spanish at <https://www.fbbva.es/noticias/mejorar-la-calidad-institucional-acabar-la-corrupcion-podria-elevar-16-pib-per-capita-espana-plazo-quince-anos/>.

‘Institutional quality deficits and corruption not only have a negative impact on a country’s politics and wellbeing, they also represent an economic cost over and above the sum of inappropriately used public funds, in that they negatively affect key elements in the functioning of the economy’, say Francisco Alcalá Agulló and Fernando Jiménez Sánchez, the report’s authors. ‘Although Spain ranks globally among the top 25% of countries by the measure of quality of governance, it underperforms with respect to its level of economic development. Among the advanced economies, Spain lags behind on regulatory quality, rule of law and, particularly, the control of corruption’.

The authors criticise the concentration of power in political parties with absolute majorities at the national and territorial level, which has weakened the system of checks and balances and produced a ‘colonisation of institutions’.

Government in a bind over removal of Franco from Valley of the Fallen

The government’s plan to remove the remains of General Francisco Franco, the country’s ruler between 1939 and 1975, from the Valley of the Fallen mausoleum 70km from Madrid has run up against fierce resistance from the dictator’s family, which insists on reintering him in the city’s Almudena Cathedral where it has a crypt.

Faced with the possibility that this would turn the cathedral in the centre of Madrid, where Franco’s daughter was buried last December, into a shrine for the far right, the government is set to modify the Law of Historical Memory that would make it illegal for the dictator to be buried in a public place.

Carmen Calvo, the Deputy Prime Minister, had hoped her visit to the Vatican would serve to enlist the Roman Catholic Church’s support for Franco not to be taken to the cathedral.

After her meeting with Cardinal Pietro Parolin, Calvo said they had jointly agreed a solution that would not involve the cathedral. In an unusual step, the Vatican quickly denied this, saying Parolin did not ‘oppose the exhumation of Francisco Franco, if the relevant authorities have decided on it, but at no time did he comment on the place of burial’.

Calvo had initially said that ‘even though [Franco] was a dictator, they are human remains and only his family can take charge of them or decide where they should go’.

Spaniards among the most worried about the impact of climate change...

A large majority (87%) of Spaniards are concerned or alarmed about the effects of climate change, compared with an average of 78% of people in Europe, 65% in China and 63% in the US, according to the first survey conducted on the issue by the European Investment Bank (see Figure 6).

Figure 6. Percentage of population concerned or alarmed at impact of climate change

	%
Portugal	93
Greece	92
Cyprus	92
Malta	88
Spain	87
France	82
Italy	82
Germany	73

Source: European Investment Bank.

The survey covered 25,000 people over the age of 18 from 30 countries.

... and ranked 4th in the world in Women’s Workplace Equality index

Spain is ranked 4th out of 189 countries in the Women’s Workplace Equality Index drawn up for the first time by the Council of Foreign Relations and mainly based on data gathered by the World Bank (see Figure 7)

Figure 7. Women’s Workplace Equality index

Ranking	Score (0-100)	Ranking	Score (0-100)
1. Australia	94.9	7. UK	91.8
2. Canada	94.5	16. France	87.6
3. New Zealand	93.6	20. US	85.8
4. Spain	92.9	31. Germany	83.1
5. Mexico	92.8	39. Italy	80.8

Source: Council of Foreign Relations.

The report measures the formal obstacles to women’s economic participation. While there is often a large gap between laws on the books and their implementation, formal legal equality is a critical first step to closing the gap between women and men in the economy. Spain scored high in the individual indicators except for building credit and protecting women from violence (see Figure 8).

Figure 8. Spain's individual indicators

	Score (0-100)
Accessing institutions	100
Building credit	75
Getting a job	93.8
Going to court	100
Protecting women from violence	81.3
Providing incentives to work	100
Using property	100

Source: Council of Foreign Relations.

The Economy

OECD and IMF downgrade growth, European Commission questions fiscal deficit

Three of the main international organisations downgraded Spain's GDP growth and one of them, the European Commission, raised doubts over whether the minority government would meet the fiscal deficit targets agreed with Brussels.

This year's deficit is set at 2.7% of GDP (above the 2.2% target of the previous Popular Party government for 2018) and next year's at 1.8%. Spain has been under the EU's excessive deficit procedure for the past decade as its fiscal deficit has been above the threshold of 3% of GDP.

Brussels warned that the measures contained in the 2019 draft budget would lead to a 'significant risk of deviation' from the deficit targets and would prevent sufficient progress being made in cutting the high level of public debt (96.2% of GDP in 2019 according to the Commission). Brussels called for structural adjustments (ie, excluding factors related to the economic cycle).

The 2019 budget has yet to be approved. Faced with the possibility that parliament will not approve it, because the minority government cannot count on the support of Catalan secessionist MPs, Prime Minister Pedro Sánchez could roll over the 2018 budget or call a snap election.

The IMF reduced Spain's GDP growth to 2.5% this year and the OECD to 2.6%.

The OECD released its latest country report and made various recommendations (see Figure 9).

Figure 9. Some of the OECD's main findings and key recommendations

Main findings	Key recommendations
Public debt remains high, while the fiscal position has not improved as much as expected given the strength of economic activity.	Stick to medium-term fiscal targets to ensure a durable reduction of public debt. As the recovery continues, set a more ambitious fiscal consolidation path.
Taxation remains tilted towards labour, while value-added and environmental taxes are underutilised.	Abolish reduced value-added tax rates that are regressive.
The design of fiscal rules for regions does not ensure a clear path of reduction in debt to targets.	Make the expenditure rule the main rule and link it to the debt ratio targets.
Population ageing will continue to put pressure on public finances.	Further extend the pensionable earnings reference period and the number of years of contribution requires for a full pension.
Spending on training is low.	Increase spending on training and job-search.
Moving to another region implies the loss of social and housing benefits due to prior residency requirements, which restricts labour mobility.	Ensure full portability of social and housing benefits across regions, by providing temporary assistance either by the region of origin or the central government.
Early school leaving and grade repetition rates are high and vary by socio-economic background.	Increase individualised support to students at the risk of failing at an early stage.
Regulations that depend on the size of firms can create barriers to company growth.	Eliminate the existing regulations that depend on the size of firms, as needed.

Source: OECD Economic Survey of Spain.

Both the OECD and the IMF raised concerns about the sustainability of Spain's pensions system. The OECD said the old-age dependency ratio is set to more than double by 2050. Even with the recent pension reforms, pension replacement rates for those having a full career remain above the OECD average. 'The current system creates disincentives to extend working lives after the attainment of required contribution periods and penalises some who continue to work while receiving a pension'.

The average pension rose 37% between 2007, at the height of the economic boom, and 2017, when Spain finally recovered its pre-crisis GDP level, compared with a 6% increase in the average salary (see Figure 10).

Figure 10. Growth in average yearly salary and pension, 2007-17 (€)

	2007	2010	2013	2016	2017
Salary	18,087	19,113	18,505	18,835	19,172
Pension	10,359	11,759	12,954	13,739	14,174

Source: Finance Ministry.

Bank of Spain criticises the steep rise in the minimum wage

The Bank of Spain's Governor, Pablo Hernández de Cos, criticised the government's 22% rise in the minimum wage as it could lead to people losing their jobs or fewer people being employed.

Prime Minister Pedro Sánchez and Pablo Iglesias, the leader of the far-left Podemos that supports the minority Socialist government in parliament, agreed the big increase last month. The new wage will rise from €736 a month (14 payments as there is an extra one in July and December) to €900 and is expected to go ahead regardless of whether the budget is approved or not.

Sánchez needs Podemos' support and that of Catalan and Basque nationalists, which he does not yet have, in order to get the 2019 draft budget approved.

Hernández de Cos said the rise would have 'the opposite effect to that intended' by 'hindering those we want to help the most, young people'. He estimated the increase would reduce 0.8% of jobs (some 150,000).

'A small minimum wage increase has little effect, but we haven't had to deal with such big wage rises before, let alone 22.3 per cent', he said. The wage rose 8% in 2017 and 4% in 2018 (see Figure 11).

Figure 11. Monthly minimum wage (12 payments), 2018

	€
Ireland	1,614
Holland	1,594
Belgium	1,562
France	1,498
Germany	1,498
UK	1,464
US	1,078
Spain	858

Source: Employment Ministry, Airef and Eurostat.

Unemployment drops below 15% for first time in almost a decade

The economy continued to generate jobs (478,800 in the 12 months to the end of September) and the stated unemployment rate dropped to below 15% for the first time (3.3 million jobless) in almost a decade, but it is still double the EU average.

The jobless rate has dropped steadily since reaching a peak of 26.7% in 2013. Six regions now have rates below 10% and two, Andalucía and Extremadura, more than 20% (see Figure 12).

Figure 12. Unemployment by region (%), third quarters of 2018 and 2008

	Third quarter 2018	Third quarter 2008
Andalucía	22.8	18.3
Aragón	9.8	6.2
Asturias	13.4	7.5
Balearic Islands	7.2	9.4
Basque Country	9.4	6.3
Canary Islands	19.6	17.5
Cantabria	9.0	6.3
Castilla y León	11.3	9.3
Castilla-La Mancha	16.7	11.3
Catalonia	10.6	8.9
Extremadura	21.7	14.6
Galicia	12.2	8.5
La Rioja	9.6	8.3
Madrid	11.9	8.4
Murcia	16.3	14.1
Navarre	9.6	7.1
Valencia	17.4	12.4
Spain	14.6	11.3

Source: INE.

A major factor behind the big regional unemployment disparities is the higher housing prices in those regions with the lowest jobless rates. Spain lacks the kind of incentives that exist in the UK and in Nordic countries that facilitate a change of residence. Furthermore, moving to another region implies the loss of social and housing benefits due to prior residency requirements.

The unemployment rate for Spaniards was 13.7% and for foreigners 20.6%. In just over one million households all those eligible to work were unemployed.

Government calls for ban on sale of petrol and diesel cars as of 2040

The sale of petrol, diesel and hybrid cars will be banned as of 2040 to help cut greenhouse gas emissions if a government proposal goes ahead.

The plan is part of a draft law on climate change, which the minority government hopes to present to parliament by the end of the year.

The move would bring Spain into line with the UK and France which have already pledged to do the same as of 2040.

Nuclear reactors and coal power plants out by 2030, fully renewable electricity by 2050

The minority government plans to close the last of its nuclear reactors and coal power plants by 2030 under its commitment to move toward an electricity system fully based on renewable energy.

José Domínguez, the Secretary of State for Energy, said the government would not extend the lifespan of nuclear reactors beyond their current 40-year shelf life. As a result, the oldest reactor would be taken out of use in 2021 and the newest in 2028.

Nuclear power generated 20% of electricity needs in 2016, according to the International Energy Agency, and renewable sources around 23%.

Nine of the coal plants will close in 2020 and the other five no later than 2030.

The government is committed to installing at least 3,000MW of wind and solar energy capacity every year in the next 10 years.

New licences for fossil fuel drills, hydrocarbon exploitation and fracking wells will be banned.

Corporate scene

Main banks pass EBA's stress test in adverse scenario

The four largest banks are sufficiently resilient to withstand a common set of adverse shocks, according to the latest stress tests conducted by the European Banking Authority (EBA) on 48 banks.

Santander, the euro zone's largest bank by market capitalisation and one of the global systemically important banks, comes out best among Spanish banks in the exercise. Its fully loaded CET 1 ratio, considered the highest quality ratio, would drop from 10.84% at the end of 2017 to 9.2% in the adverse scenario (see Figure 13).

Figure 13. 2018 EU-wide stress test results for Spain, fully loaded Common Equity Tier 1 ratio (%)

Bank	Actual 31/XII/17	Baseline scenario 31/XII/20	Adverse scenario 31/XII/20
Santander	10.84	13.87	9.20
CaixaBank	11.65	13.60	9.11
BBVA	11.04	12.72	8.80
Banco Sabadell	12.79	12.89	7.58

Source: European Banking Authority.

One of the main features of the 2018 exercise, which is more severe than previous ones, is the implementation of the IFRS 9. Banks provided the starting point according to actual figures at the end of 2017 and IFRS 9 restated figures.

The adverse scenario implies a deviation of EU GDP from its baseline level by 8.3% in 2020, an increase in the unemployment of about 3.3 percentage points by 2020, a fall of the inflation rate by 1.9% below the baseline and a fall of residential and commercial real estate prices by 27.7% and 27.1% respectively below the baseline level by 2020.

Although the four banks do not suffer a sharp erosion of their capital, they are among the last 17 banks in the ranking of the 48 on the basis of their fully loaded CET 1 ratio. Santander is 32nd, Caixabank 34th, BBVA 37th and Banco Sabadell 43rd.

Government changes court ruling and will make banks pay mortgage stamp duties

A controversial court ruling ordering customers to pay mortgage stamp duties provoked such a popular and political outrage that the government stepped in and decided to change the law which will make banks responsible for payment.

The move came after the Supreme Court in a 15-13 vote reversed its previous ruling which held that banks should pay the taxes, as they were the main beneficiaries of them.

Finance Minister María Jesús Montero said that if the ruling was applied retroactively, banks could face a bill of up to €5 billion.

The court's change of mind was widely viewed as eroding confidence in the justice system.

ADICAE, the consumer protection group, said it would continue to support class action suits that demand banks retroactively refund the fees.

Spain's banks fuelled the decade-long property boom that burst as of 2008, leading to a Great Recession, a crisis in some banks that had to be nationalised and a wave of more than 300,000 foreclosures between 2009 and 2012.

Almost two-thirds of respondents (64.3%) held banks largely responsible for Spain's economic crisis, according to a survey published this month by 40dB.

Iberdrola inaugurates offshore wind farm in Germany

Iberdrola, a world leader in renewable energy, opened its Wikingen offshore wind farm in Germany, the first one to be fully designed and operated by a Spanish company.

The €1.4 billion project with 350 MW is connected to the German grid and supplies energy to 350,000 homes (some 20% of the energy demand of the state of Mecklenburg-Vorpommern). This flow of clean energy will have a positive environmental impact since it displaces the emission of nearly 600,000 tons of CO₂ per year.

The Wikingen project marks Iberdrola's entry into the German market, where it was recently awarded the construction of two other offshore wind farms: Baltic Eagle (476 MW) and Wikingen Süd (10 MW). Together with Wikingen, these three wind farms, located off the island of Rügen, will give rise to the largest offshore wind complex in the Baltic Sea, with a total installed capacity of 836 MW and a combined investment of €2.5 billion.