



Inside Spain 66

William Chislett

Foreign Policy

Spain Pledges €246 Million for Haiti

The government is to provide €246 million to rebuild Haiti, devastated by January's earthquake, over the next three years, making Spain the third-largest donor country so far after the US and Canada. On top of this, Spain has already sent €80 million worth of emergency aid, the fourth-largest amount after the US, Canada and Saudi Arabia.

Carme Chacón, the Defence Minister, visited Haiti and the amphibious assault ship SMS Castilla, which houses Spain's military relief operation comprising 450 ground troops, doctors and nurses. This mission ends on 4 May.

Although Spain has no geostrategic interests in Haiti or historic responsibilities, like France, the former colonial power, it is one of the government's top cooperation priorities. Spain, together with France and Germany, is one of the few European countries with a permanent diplomatic presence in Haiti.

Four Spanish military personnel were killed in Haiti when their helicopter crashed in a mountainous area. Chacón made a return visit to Haiti for the repatriation of the bodies. This brought to 160 the number of Spaniards killed since 1987 in peace-keeping missions.

US Government 'Not Disappointed' by Lack of Progress in Changing the EU's Stance on Cuba

Alan D. Solomont, the US Ambassador to Spain, said Washington was 'not disappointed' by the scant success of Spain's EU Presidency in changing the EU's common position on Cuba.

Miguel Ángel Moratinos, Spain's Foreign Minister, says the current policy is not working and needs to be changed. A new position, however, requires the agreement of all EU countries and member states are divided.

Solomont, a key fundraiser for President Barack Obama's campaign, said it would be a 'shame' if democratic countries, such as Spain, did not pay attention to the plight of Cuban dissidents or defend respect for human rights in Cuba.

The Spanish government's desire to forge a more flexible policy towards one of the world's few remaining communist regimes received a blow in March when Orlando Zapata died after an 85-day hunger strike in a Cuban prison. His death was condemned by the European Parliament. Another dissident, Guillermo Fariñas, has been on hunger strike at his home since 24 February and as we went to press was in a weak condition.

Domestic Scene

Former Head of the Balearic Islands' Government on Corruption Charges

Jaume Matas, head of the government of the Balearic Islands for seven years on behalf of the conservative Popular Party (PP), was accused of 12 crimes related to political corruption. It is the highest-profile individual case since the scandal involving the Socialist Luis Roldán, the first civilian to head the paramilitary Civil Guard between 1986 and 1993. Roldán was sentenced to 31 years and was released last month after serving half his term.

Judge Luis Castro accused Matas, who was the Environment Minister (2000-03) in the second national government of the PP under José María Aznar, of seven crimes of embezzlement of public funds and one each of falsifying official documents, corrupt practice, fraud, money laundering and an electoral irregularity. He avoided imprisonment pending his trial by paying the €3 million bail, the largest such sum ever imposed.

Castro said there was a 'notable disproportion between the income and spending' of Matas and his wife and that Matas' explanation of the increase in his patrimony, including several properties, was 'absurd' and 'Kafkaesque'. When he decided to quit politics in July 2007 the PP agreed to pay Matas €5,000 a month until he found a job.

In a separate development, the judiciary released the 50,000 page document on the Gürtel corruption case involving more than 20 PP politicians and members of the party. Among those accused are Luis Bárcenas, a Senator and the PP's national treasurer, who is charged with illegally receiving at least €1.3 million. Bárcenas resigned from the party and was expected to stop being a Senator.

María Dolores de Cospedal, the PP's Secretary General, drew a distinction between the Gürtel case and another one known as Filesa involving the illegal financing of the Socialist party in the late 1980s through the creation of various companies. She said the Gürtel case was different as individuals and not the PP itself had received money from it.

Almost two-thirds of Spaniards see the PP as weak on corruption, according to a survey.

Supreme Court Indicts Judge Garzón for Investigating Francoist Crimes

Baltasar Garzón, the controversial and crusading magistrate who in 1998 ordered the arrest and extradition of the Chilean dictator Augusto Pinochet for crimes against humanity in the 1970s, is himself in the dock. He faces a 20-year suspension from his job.

The Supreme Court charged him with knowingly overreaching his jurisdiction when he took on a case to investigate the alleged crimes committed by the regime of Francisco Franco, Spain's dictator between 1939 and 1975.

Spain's 1977 amnesty law pardoned politically-motivated crimes committed by both sides and was a core element of the so-called 'pact of silence' that smoothed Spain's transition to democracy.

The case against Garzón dates from 2008 when, at the request of victims' family members, he opened a probe into the disappearance of an estimated 113,000 people during Spain's 1936-39 civil war and the early years of the ensuing dictatorship. Garzón characterised the repressive actions of Franco and 34 of his officials as crimes against humanity and in his view, under international law, they were not covered by the amnesty. This stirred up a hornets' nest in a country where interpretation of this painful period of history is still politically divisive.

The writ against Garzón was first brought by *Manos Limpias* (Clean Hands), a small far-right trade union, and then backed by the Falange, the former fascist party. The Supreme Court upheld the charges after it passed through several judicial stages. Luciano Varela, a Supreme Court investigating magistrate, ruled that Garzón had ignored the amnesty law.

Some legal experts believe Garzón's case is legally defensible, despite the amnesty law. 'Numerous sources of international law suggest that amnesties for crimes against humanity are inconsistent with a State's obligations to protect human rights, including the right of access to justice', Carolyn Lamm, President of the American Bar Association, wrote in a public letter to Spain's Attorney General, an opponent of the prosecution. Carlos Jiménez Villarejo, the former chief anti-corruption public prosecutor, called the Supreme Court's decision a 'brutal blow against democracy'.

The case against Garzón was also condemned by Amnesty International and Human Rights Watch. The latter urged the Spanish authorities to 'abide by the United Nations call for an end to its 1977 amnesty law rather than prosecuting a judge seeking accountability for past abuses'. The move against Garzón also unleashed demonstrations backing him in Spain and some Latin American countries.

Political analysts say one factor behind prosecuting Garzón is that his opponents in Spain's polarised political life and judiciary have long been looking for ways to trip him up. Garzón initiated the proceedings in the corruption case known as Gürtel which is causing huge embarrassment to the Popular Party. In the mid 1990s, he uncovered the death squads that carried out 27 killings of alleged members or sympathisers of ETA, the Basque terrorist group, which were sponsored from within the Socialist government.

Almost two-thirds of respondents in a recent survey conducted by Metroscopia said the Spanish judiciary was politicised, and almost the same proportion of Socialist (69%) and PP (71%) voters felt this way.

Socialists and PP Seek to Limit Votes of Spaniards Abroad

The estimated 1.3 million Spaniards living abroad will only be allowed to vote in elections for Spain's Senate and not in all elections under an agreement which the Socialists and the Popular Party (PP) are negotiating.

The outcome of some municipal elections, in particular, has been decided by Spanish emigrants. In Argentina, for example, 293,000 Spanish emigrants are registered to vote in Spain and they have played a key role in elections in Galicia.

Spain Switches Over to Digital Terrestrial TV

The transition from analogue to digital terrestrial TV (DTT) was completed smoothly, putting Spain almost two years ahead of the EU deadline of 1 January 2012 for the switch over, and joining the earlier movers –Germany, Denmark, Finland, Luxembourg, the Netherlands and Sweden–.

Significant Advance in E-government

Spain has made considerable progress over the last two years in E-government on-line availability, with the percentage of availability rising from 70% to 80%, the same as France but higher than Germany and Italy (see Figure 1). Half the EU-27 countries are still below the average level of 74%.

Figure 1. E-Government On-line Availability (% of availability of 20 basic services)

	2009	2007
Portugal	100	90
UK	100	89
Finland	89	67
Spain	80	70
France	80	70
Germany	74	74
EU-27	74	59
Italy	70	70
Bulgaria	40	15

Source: Eurostat.

Close to 34,000 Civil War Victims Buried in Common Grave

A total of 33,832 bodies are buried at the Valley of the Fallen mausoleum in the mountains outside Madrid –along with those of General Franco, Spain’s dictator (1939-75), and José Antonio Primo de Rivera, the founder of the fascist Falange party–, according to the first official census.

The monument, crowned by the world’s largest cross (150 metres high), was built as a tribute to Franco’s Nationalist victory in the civil war (1936-39) with the forced labour of Republican prisoners. In early 1959, with construction of the Valley of the Fallen almost complete, Franco decided he needed more bodies to fill his mausoleum. An order was sent out to town halls across Spain, which duly delivered the remains of thousands of bodies, many of them Republicans.

The census was approved by Parliament last October under the 2007 Historical Memory law. It is the first step for authorising the exhumation and reburial of bodies claimed by families.

The Economy

Government Announces More Measures to Tackle the Economic Crisis

The government is pinning its hopes for reactivating the economy and reducing an unemployment rate of nearly 20% on tax deductions for home improvements, while slashing the number of entrants into the civil service by 87% as a way to help reduce a budget deficit that reached 11.2% of GDP last year.

The tax deductions will apply to those earning less than €3,000 a year (95% of taxpayers) until the end of 2012. The labour-intensive property sector, one of the engines of Spain's 13-year economic boom which ended in 2008, is still very much in the doldrums.

The number of people to be hired by the central government will drop from 15,084 in 2009 to 1,989 this year. The measure is one of the elements for cutting personnel spending by 4% until 2013. Another one is to replace only one out of every 10 civil servants who leave the bureaucracy. Spain's rise in public spending since 2007 is one of the highest in the developed world (see Figure 2).

Figure 2. Public Spending (% of GDP), 2007-10

	2010 (1)	2009	2007
Finland	58.4	56.2	47.4
France	55.4	55.5	52.3
UK	53.4	52.1	44.1
Italy	51.2	51.7	47.9
Greece	49.9	51.3	44.4
Germany	48.4	47.7	43.6
Spain	47.2	46.3	39.2
OECD average	44.8	44.8	39.9

(1) Forecast.

Source: OECD.

The number of unemployed registered in the INEM offices reached 4.17 million at the end of March. Almost 36,000 more people joined the dole in March, traditionally a good month for employment. Maravillas Rojo, the Secretary General of Employment, said the figure was better than expected. The number of those receiving unemployment benefit was 3.2 million, double that of a year earlier, and the cost of €2.9 billion was 11% higher.

Prime Minister José Luis Rodríguez Zapatero has made the continuation of these subsidies a hallmark of his economic policy, as against imposing labour market reform on the trade unions, but there are doubts as to how much longer the current system can last.

The International Monetary Fund (IMF), in its latest World Economic Outlook, said Spain's peak-to-trough change of 7.5 percentage points in its unemployment rate was the highest among developed countries (along with Ireland), despite the fact that output dropped by 4%, compared with 8% in Ireland. Germany suffered an output drop of 7%, but its jobless rate decreased.

The Bank of Spain blames Spain's dramatic rise in unemployment on the two-tier labour market (roughly one-third of the workforce are on temporary contracts and the rest are on well-protected permanent ones) and an economic model excessively based on the property and construction sectors and not enough on knowledge. 'Something is not working if we reach 20% unemployment for the third time in 30 years', Miguel Ángel Fernández Ordóñez, the central bank governor, said.

The government, trade unions and employers are finally discussing labour market reforms, but without any agreement so far. There is also a need for Spain to reduce its growth in labour costs, which were among the highest in the EU in 2009 and is one element behind the ailing competitiveness of the economy (see Figure 3).

Figure 3. Total Nominal Hourly Labour Costs (% change 4Q09/4Q08)

	% change 4Q09/4Q08
Bulgaria	11.3
Poland	5.7
Romania	5.2
Spain	3.4
France	1.6
Euro Zone average	2.2
Germany	1.2
UK	0.9

Source: Eurostat.

The crisis is leading Spaniards with jobs to consume considerably less and save more of their disposable income. Household savings reached 18.8% of disposable income at the end of 2009, up from 12.9% at the end of 2008 and well above the EU-27 average of 13.7%.

While the central government is attempting to rein in its spending (it employs 22% of the total of 2.6 million civil servants), local governments around Spain (23% of jobs in public administrations) are doing very little, despite growing indebtedness. Eight of the 52 provincial capitals at the end of 2009 had *per capita* debts of more than €1,000. The debt of the Madrid local government (€6,777 million and €2,076 per head) was almost the same as that of all the other provincial capitals.

Town halls have been hard hit by the collapse of the property sector, whose income from building permits during the boom years provided them with a large part of their revenues.

Regional and local governments are also increasingly late in their payments to suppliers, something that was not even prompt when the going was good. This has created a headache for many small, private businesses. According to the medical supplies industry, regional governments are paying their invoices an average of 269 days after receiving them.

Inflation is beginning to rise after ending 2009 at a low of 0.8%. The year-on-year rise in March was 1.4%, the highest rate since December 2008, according to advance figures from the INE statistics office.

Spain's Fall in House Prices Steepest in Euro Zone

The price of new home prices fell 7.4% between the third quarter of 2008 and the same period of 2009, the largest decline in the euro zone, according to the *Financial Times* index (see Figure 4). Spain has an estimated one million unsold or unfinished residential properties, as a result of the bursting of its housing bubble in 2007.

Figure 4. European House Prices (% change 3Q09/3Q08)

	% change 3Q09/3Q08
France	-7.1
Germany	-1.8
Ireland	-12.4
Italy	-3.8
Poland	+17.3
Spain	-7.4
UK	-7.4
Euro Zone (16 countries)	-4.6
Europe (23 countries)	-2.8

Source: *Financial Times*.

The new home market is very much at the will of Spain's banks as they have large portfolios of properties and commercial stock acquired through foreclosure, debt-for-equity or debt-for-asset swaps with developers who are no longer in direct control in many cases. Real estate experts say the banks are generally not taking hits on sales and therefore the sales prices they accept are tied to the values in their books, which often do not fully reflect true market realisable prices. The discounts on some homes, however, have reached up to 40%.

Spain, Fourth Largest Contributor to Greek Rescue Package

If Greece has to be bailed out, Spain would contribute €3.7 billion to the emergency loan facility of €30 billion drawn up by Euro Zone countries (see Figure 5). Countries' contributions are based on the percentage of their paid-up capital in the European Central Bank adjusted to exclude Greece.

Figure 5. Main Contributors to Greece's €30 billion Loan Package

	€million and percentage of total	Euros per inhabitant
Germany	8,376(27.9%)	102
France	6,290 (21.0%)	98
Italy	5,527 (18.4%)	92
Spain	3,673 (12.2%)	80
Netherlands	1,764 (5.9%)	107
Belgium	1,073 (3.6%)	100
Austria	859 (2.9)	103
Portugal	774 (2.6%)	73

Source: European Central Bank and own calculations for per inhabitant figures.

Rato Forecasts Big Drop in the Number of Savings Banks

Rodrigo Rato, the former head of the International Monetary Fund (IMF) and Spain's Economy Minister between 1996 and 2004, who last month took over as Chairman of Caja Madrid, the country's second-biggest savings bank, predicted the number of these unlisted institutions usually controlled by regional governments would drop from 45 to 25 over the next few years.

His prediction followed the call last year by Miguel Ángel Fernández Ordóñez, the Governor of the Bank of Spain (central bank), for a third of the *cajas*, as they are called, to be absorbed by stronger institutions. Elena Salgado, the Finance Minister, told Parliament last month that these *cajas* could face 'solvency problems'. So far, the Bank of Spain has approved three merger projects involving eight of the 45 *cajas*. Both Fernández Ordóñez and Salgado have called for a much faster pace of mergers, but regional politicians have been dragging their feet.

At the end of 2009, 10.06% of the total loans of €23.3 billion by commercial banks and *cajas* to the property sector, mainly to developers, were classified as non-performing (NPLs). This was the first time since comparable figures began to be drawn up that the NPL figure for this segment surpassed 10%.

A report by the Bank of Spain put the 'potentially problematic exposure' of the whole banking system to the construction and property sectors at the end of 2009 at €165.5 billion out of a total of €445 billion of loans to these sectors. The 'problematic exposure' figure is based on bad debts, 'substandard' credits, foreclosures, properties acquired in lieu of paying off loans and write offs.

In January, 5.34% of the *cajas*' overall lending were NPLs, up from 5.19% at the end of 2009. The bad loan crisis is expected to worsen this year. And a price war for deposits, started by Santander, the largest and strongest bank, could spell greater problems for some *cajas*.

The government's measures to reactivate the economy and speed up the restructuring of the financial sector include giving the Bank of Spain greater powers to intervene in the *cajas*.

Regional Income Disparities Narrow

The varying degrees of negative growth in 2009 in Spain's 17 regions narrowed the *per capita* income gap between the richest and the poorest ones (see Figure 6). The Basque Country maintained its position as the richest region in GDP per person (€30,703) and Extremadura remained the poorest (€16,301). The income gap between these two regions narrowed from €15,305 in 2008 to €14,402.

Figure 6. Per Capita GDP by Region, 2009 (Euros) (1)

Region	Euros
Andalucía	17,485 (18,507)
Aragón	24,639 (26,323)
Asturias	21,523 (22,559)
Balearic Islands	24,510 (25,967)
Basque Country	30,703 (32,133)
Canary Islands	19,867 (21,105)
Cantabria	23,343 (24,508)
Castilla-La Mancha	17,208 (18,471)
Castilla y León	22,314 (23,361)
Catalonia	26,831 (28,095)
Ceuta (2)	22,208 (22,320)
Extremadura	16,301 (16,828)
Galicia	19,995 (20,619)
La Rioja	24,754 (25,895)
Madrid	30,029 (31,110)
Melilla (2)	21,250 (21,493)
Murcia	18,619 (19,692)
Valencia	20,259 (21,468)
National average	22,886 (24,020)
EU-27 average (3)	23,600 (25,100)

(1) Figures for 2008 in brackets.

(2) Spanish enclaves in North Africa.

(3) INE estimate based on Eurostat figures.

Source: National Statistics Office (INE).

The biggest GDP contraction was in Aragón (-4.4%), below the national average of -3.6%, and the smallest shrinkage was in the North African enclave of Melilla (-1.4%). Generally speaking, the worst-hit regions were those whose economies were heavily dependent on the construction sector, which slumped as of 2008.

Inditex's Annual Profits Lifted by International Sales

Inditex, the world's biggest apparel group by sales, increased its net profits by 5% to €1.3 billion for the 12 months to the end of January 2010. Sales rose 7% to €11.1 billion, 68% of them abroad (see Figure 7).

Figure 7. Inditex's International Sales (% of the total)

	1994	1996	1998	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Sales	25	36	46	52.3	54	54	54	54.5	57	60.4	63	66	68

Source: Inditex.

The group, whose flagship brand is Zara, opened a net 343 stores in 2009, 98% of them abroad and with Asia the focus of its international expansion. It opened 41 new stores in China, 12 in South Korea and 10 in Japan. Next month it will open its first stores in India. At the end of January, Inditex had 4,607 stores in 74 countries.

Iberia and British Airways Go Ahead with their Merger

Iberia, Spain's flagship carrier, and British Airways signed their merger agreement to create Europe's third-largest airline by revenue. The merged airline, known as International Airlines Group, is 56% owned by BA and 44% by Iberia.

The volcano ash from Iceland brought some airports in Spain to a standstill.