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### Summary

Acting Foreign Minister lays foundations for new relation with Cuba.  
Spain holds firm in Elcano Global Presence Index.  
New left-wing alliance 'set to overtake' Socialists in June's election.  
Madrid wins reprieve after breaking EU budget rules.  
PSA Group and Renault announce €1.3 billion of investments.

### Domestic Scene

#### Acting Foreign Minister lays foundations for new relation with Cuba...

José Manuel García-Margallo, the acting Foreign Minister, and Ana Pastor, the acting Development Minister, made a high-level visit to Cuba, a former Spanish colony, to lay the groundwork for a new relation following the communist island's restoration of diplomatic relations with the US after 56 years.

Both Ministers met with President Raul Castro, who had refused to receive García-Margallo when he visited Cuba in November 2014. 'I believe we have reached the highest point in the relations between Spain and Cuba in the past few years', García-Margallo said.

Their visit followed that of François Hollande, the French President, and Matteo Renzi, the Italian Prime Minister, last year, and Ministers from the UK, Italy, the Netherlands and Austria. It also came hard on the heels of the restructuring of Cuba's US\$2.4 billion debt with Spain, 80% of which was forgiven.

As Cuba's third-largest trading partner and main investor, particularly in tourism, Spain is keen to foster business opportunities between the two countries now that it is opening up more to the outside world.

José María Aznar, Spain's previous Popular Party Prime Minister, was a prime mover behind the EU's common position towards Cuba in 1996, which restricted contacts, imposed soft sanctions and sought to encourage a transition to democracy via constructive engagement with the Cuban government. The crackdown on Cuba's peaceful opposition as of March 2003, when 75 people were sentenced for up to 28 years following summary trials, made engagement more difficult.

Aznar's successor, the Socialist José Luis Rodríguez Zapatero, took the lead among EU countries in easing restrictions, following the release of 52 political prisoners in 2010.

The EU and Cuba concluded their negotiations for a new bilateral political dialogue and cooperation agreement in March. This replaces the common position and offers a comprehensive framework that complements and supports those developed by a number of EU countries including Spain.

### ... Orders return of Ambassador to Caracas after he was recalled

José Manuel García-Margallo, the acting Foreign Minister, ordered the return of the Spanish Ambassador to Venezuela who was recalled to Madrid in April in response to 'insults' made by President Nicolas Maduro against acting Prime Minister Mariano Rajoy.

The return of Antonio Pérez-Hernández was triggered by the deepening political and economic crisis in Venezuela (a state of emergency and inflation of more than 700%), where 200,000 Spaniards are registered, and the presence in Caracas of Spain's former socialist Prime Minister, José Luis Rodríguez Zapatero, in an apparent mission to mediate between the government and the opposition.

Maduro called Rajoy a 'racist, corrupt trash and colonialist trash', and summoned the Spanish Ambassador for consultations. He described the interest of the foreign leaders in Venezuelan affairs as part of a hostile campaign against his government.

The Venezuelan congress classified Felipe González, Spain's socialist Prime Minister (1982-96), as a 'persona non grata' after he went to Caracas to help the defence of jailed opposition leaders.

The government granted Spanish nationality this month to six Venezuelans linked to the opposition including two family members of the jailed opposition leader Leopoldo López. Acting Deputy Prime Minister Soraya Sáenz de Santamaria said the six were victims of political persecution and Spanish nationality would help them face this with more democratic guarantees. Spain granted nationality to Lopez's parents in December.

In an article in *El País*, Rajoy expressed support for journalists who had been detained for criticising the Venezuelan government and had their passports revoked.

### Spain holds firm in Elcano Global Presence Index

Spain maintained its 12<sup>th</sup> position out of 90 countries in the Elcano Global Presence Index and with a slightly higher score, despite its economic woes (see Figure 1).

**Figure 1. 2015 Elcano global presence ranking Top 20**

Country	Score	Country	Score
1. US	1,098.5	11. Italy	183.3
2. China	414.0	<b>12. Spain</b>	<b>177.9</b>
3. Germany	404.2	13. Australia	164.7
4. UK	403.9	14. UAE	156.0
5. Russia	320.2	15. Republic of Korea	151.3
6. France	317.5	16. India	145.5
7. Japan	248.1	17. Belgium	141.2
8. Netherlands	242.8	18. Switzerland	132.6
9. Canada	224.3	19. Singapore	128.0
10. Saudi Arabia	194.3	20. Brazil	118.1

Source: Elcano Royal Institute.

The **index**, the result of adding together 16 variables of external projection which are aggregated according to the criteria of experts in international relations, measures the ability of countries to project themselves beyond their borders and the extent to which they are participating in and shaping the process of globalisation.

It measures global presence based on three fields. First, it ranks a country's economic presence, including outward foreign direct investment and other elements such as energy, services and manufactures. Secondly, it assesses a country's military presence, which is determined by the number of troops deployed abroad and the equipment available for deployment. Third, it includes statistics on a country's soft presence, which is based on a wide number of factors including exports of cultural products, tourist arrivals and official development aid.

Spain's economic presence (49% of its total global presence) was a little higher last year, while its military presence (1.8%) was unchanged and its soft presence (49.2%) a little lower (see Figure 2). Spain ranked 19<sup>th</sup> in economic presence, 14<sup>th</sup> in military presence and 8<sup>th</sup> in the soft dimension. The increased economic presence between 2014 and 2015 was largely due to greater exports.

**Figure 2. Spain's global presence index absolute values and % share in the index of the economic, military and soft presence dimensions**

Variable	1990	1995	2000	2005	2010	2012	2013	2014	2015
<b>Economic presence</b>	12.5	19.7	27.2	49.9	65.6	83.3	80.1	85.7	87.1
% of global presence	29.0	35.1	35.5	43.3	43.8	46.6	48.2	48.8	49.0
Energy	1.3	0.7	1.9	3.7	4.5	9.8	9.4	9.5	10.2
Primary goods	2.7	5.7	6.4	11.2	14.6	19.9	20.1	20.9	21.3
Manufactures	3.0	5.1	6.4	10.7	11.8	15.0	13.9	15.4	15.8
Services	5.1	7.4	9.7	17.5	20.8	24.1	22.6	23.8	24.8
Investments	0.3	0.8	2.9	6.8	13.9	14.6	14.2	16.0	15.0
<b>Military presence</b>	3.4	3.4	3.5	4.2	4.7	4.8	4.9	3.2	3.3
% of global presence	7.9	6.1	4.6	3.6	3.1	2.8	2.9	1.8	1.8
Troops	0.0	0.4	0.7	0.7	0.7	0.7	0.7	0.2	0.3
Military equipment	3.4	3.0	2.8	3.4	4.0	4.1	4.2	2.9	3.0
<b>Soft presence</b>	27.3	33.0	45.8	61.2	79.6	83.9	81.3	86.8	87.5
% of global presence	63.2	58.8	59.9	53.1	53.1	48.8	48.9	49.4	49.2
Migrations	0.7	0.9	1.5	3.8	5.3	5.3	5.4	5.4	4.9
Tourism	19.4	18.1	24.1	29.0	27.1	29.1	29.8	31.5	33.7
Sports	1.3	4.3	2.3	4.8	6.8	6.6	6.5	5.9	6.2
Culture	0.9	0.4	0.8	1.8	3.1	3.7	4.2	4.2	4.2
Information	1.1	3.1	8.5	10.4	17.4	20.9	20.3	23.6	22.6
Technology	0.5	0.5	0.8	1.2	1.4	1.0	1.0	1.0	1.0
Science	1.4	2.3	3.2	4.4	6.2	7.1	7.6	8.0	8.3
Education	0.7	1.5	2.8	1.2	3.4	4.4	3.9	3.9	3.9
Development cooperation	1.3	1.8	1.8	4.5	8.9	5.7	2.7	3.3	2.7
<b>Global presence index value</b>	43.2	56.1	76.5	115.2	149.9	172.0	166.3	175.6	177.9
Position in the index	10	11	11	11	10	12	13	12	12

Source: Elcano Royal Institute.

The index does not measure power nor does it reflect the effort of countries to achieve greater internationalisation or the openness of countries. Instead it shows the results of internationalisation and examines the external projection of countries more than the way in which they absorb the external action of other countries within their national territory. The index thus takes into account the exports of manufactured goods but disregards the imports.

By comparing a state's presence with its actual power (or influence), it is possible to measure the extent to which it is punching above or below its weight. In Spain's case, it punches below its weight since it has more presence than influence.

In the Elcano European Presence Index, Spain is ranked 5<sup>th</sup> out of 28 countries, between Belgium and Italy. Its presence declined in 2015 due to lower exports of services to the EU.

The slight increase in the global presence index score (from 175.6 in 2014 to 177.9) and the lower European presence score (from 364.42 to 355.53) shows Spain gaining presence outside the EU, albeit only marginally. The two indices use different scales.

Spain's contribution to the EU's global presence is 6.6%, up from 6.1% in 2005, putting it in sixth place.

Its global index score quadrupled between 1990 and 2015, underscoring the extent to which Spain has reasserted itself into the international community since the transition to democracy from the Franco dictatorship (1939-75), a process that coincided with globalisation. While Spain's share of the global presence index rose from 2% to 2.3% between 1990 and 2015, Germany's dropped from 6.5% to 5.3%, France's from 6.2% to 4.1% and Italy's from 3% to 2.4%, only a tiny bit above Spain.

### First refugees set to arrive under EU pact

Spain was expected to receive its first batch of refugees by the middle of June under the EU's relocation programme, according to the Interior Ministry.

Of the 586 refugees, 150 will come from Greece, 50 from Italy, 285 from Lebanon and 101 from Turkey. Most of them fled the civil war in Syria.

## Domestic Scene

### New left-wing alliance 'set to overtake' Socialists in June's election

Podemos, the upstart anti-establishment party, and United Left, the much older Communist-led movement, sealed an alliance to run as a joint list in next month's general election, the second in six months, which would surpass the Socialist party, the main left wing opposition, into second place behind the conservative Popular Party (PP).

According to the latest Metroscopia poll, Unidos Podemos would win 23.2% of the vote (see Figure 3).

**Figure 3. Voter intention (% of valid votes)**

	2011 election	20 Dec. 2015 election	17 Jan 2016	7 Feb.	13 Mar.	3 April	1 May	22 May
PP	44.6	28.7	29.0	24.0	26.0	27.7	29.0	29.9
Socialists	28.8	22.0	21.1	23.3	23.1	21.0	20.3	20.2
Podemos	–	20.7	22.5	19.9	16.8	15.9	18.1	23.2 (1)
Ciudadanos	–	13.9	16.6	18.5	19.5	18.8	16.9	15.5

(1) Unidos Podemos.

Source: Metroscopia.

Podemos and its allies in Catalonia, Valencia and Galicia won 69 of the 35 seats in December's inconclusive election and United Left just two, while the Socialists captured 90. In terms of percentage of votes, however, Podemos with 20.6% was hard on the heels of the Socialists' 22%.

As a result of the way the d'Hondt system of proportional representation works, the alliance could boost their combined share of the vote by a much larger margin. Strong regionally-based parties fare better in elections for the national parliament than those that have broad but low support across the country.

The Catalan offshoot of Podemos, En Comú Podem, won 927,940 votes in December's election compared with United Left's 922,638 but got six times more seats. Analysts calculated after December's election that a joint ticket could win 14 more seats, putting Unidos Podemos close to the Socialists. The sum of Podemos' and United Left's votes was 6.11 million compared with the Socialists' 5.4 million.

The gamble, however, might not pay off as United Left is identified with the former Spanish Communist Party, while Podemos pitches itself as a transversal party trying to cross and redraw borders that mark politicised differences and so win wider support. Unidos Podemos could be 'contaminated' by the communist element.

Podemos sought to soften its radical image by dissociating itself from Venezuela's crisis-hit authoritarian government with which it had close links when the late Hugo Chávez was President. Pablo Echenique, the party's organisation boss, criticised Nicolás Maduro, Chávez's successor, for accusing Mariano Rajoy, Spain's acting Prime Minister, of conspiring against his government. 'He is doing the same as Rajoy by speaking of another country instead of his own. It is the same tactic and it is equally reprehensible'.

Following December's election, the Socialists refused to form a government with Podemos and instead forged an agreement with the centrist Ciudadanos. All three parties rejected any kind of deal with the PP, which won the most seats and looks like improving its results in June's election, according to Metroscopia.

The deal between Podemos and United Left has polarised the political scene even more. The PP has been quick to seize on this and already announced an electoral slogan, *Populares vs extremistas* (PP versus extremists), which effectively categorises all the opposition as radical. Rajoy is playing the fear card.

The Socialists see themselves as the centre ground, where elections are often won. According to the latest post-December survey by the state-funded CIS, the Socialists, in a scale of one (extreme left) to 10 (extreme right), are put at 4.44 (practically in the centre), Podemos-United Left at 2.21, Ciudadanos at 6.63 and the PP at 8.31.

There is a deep generational split between the parties, particularly between the PP and Podemos (see Figure 4). For example, close to 40% of Podemos votes in December were students compared with 11% of the PP's and 26% were unemployed (16% the PP's). Youth unemployment (15-24 years old) is still around 50%.

**Figure 4. Voters in the December 2015 general election on the basis of their work situation and the party they chose (%)**

Situation	Popular Party	Socialists	Ciudadanos	Podemos
Unemployed	16	23	12	26
Unqualified worker	17	21	15	23
Qualified worker	12	22	13	28
Administrative, commercial or services	16	9	24	25
Shopkeeper or small business person	22	18	17	20
Businessman, executive, senior civil servants	23	10	20	23
Student	11	11	15	39
Pensioner	32	23	6	11

Source: CIS, prepared by Kiko Llaneras.

### Population continues to fall, due to exit of foreigners

Spain's population declined by close to 100,000 in 2015 to 46.5 million, according to provisional figures from the National Statistics Office (INE). This was the fifth consecutive fall and largely due to a steep reduction in the number of foreigners, from 5.7 million in 2012 to 4.6 million in 1 January 2016, triggered by recession and a jobless rate that has been above 20% for the last five years.

Rumanians, whose number has decreased by 182,067 since 2012 to 753,425, are no longer the largest foreign community, as they were overtaken by Moroccans (see Figure 5). Their number (753,425), in comparison, has only fallen by 35,138. The Chinese were the only group, among the top 10 countries, whose number increased (by 22,660 to 199,661).

**Figure 5. Foreign population by the top-10 countries of origin, 2016, 2015 and 2012 (1)**

	1 January 2016	1 January 2015	1 January 2012	Change 2016/12
Morocco	753,425	750,883	788,563	-35,138
Rumania	715,136	752,268	897,203	-182,067
UK	253,928	283,243	397,892	-143,964
China	199,661	191,638	177,001	+22,660
Italy	181,848	179,363	191,901	-10,053
Ecuador	158,070	176,397	308,174	-150,104
Colombia	140,166	151,258	246,345	-114,179
Bulgaria	133,427	142,328	176,411	-42,984
Germany	118,979	130,911	196,878	-77,899
Bolivia	115,165	126,375	186,018	-70,853
Other	1,831,467	1,844,980	2,169,872	-338,405
Total	4,601,272	4,729,644	5,736,258	-1,134,986

(1) Provisional figures for 2016 and definitive for 2015 and 2012.

Source: INE.

The foreign-born population accounted for 9.9% of the total population, down from a high of 11.6% in 2009. While Rumanians left because of lack of work, many Brits are believed to have returned to their country because they did not want to fill out the *Modelo 720* form that obliges them to declare their assets abroad.

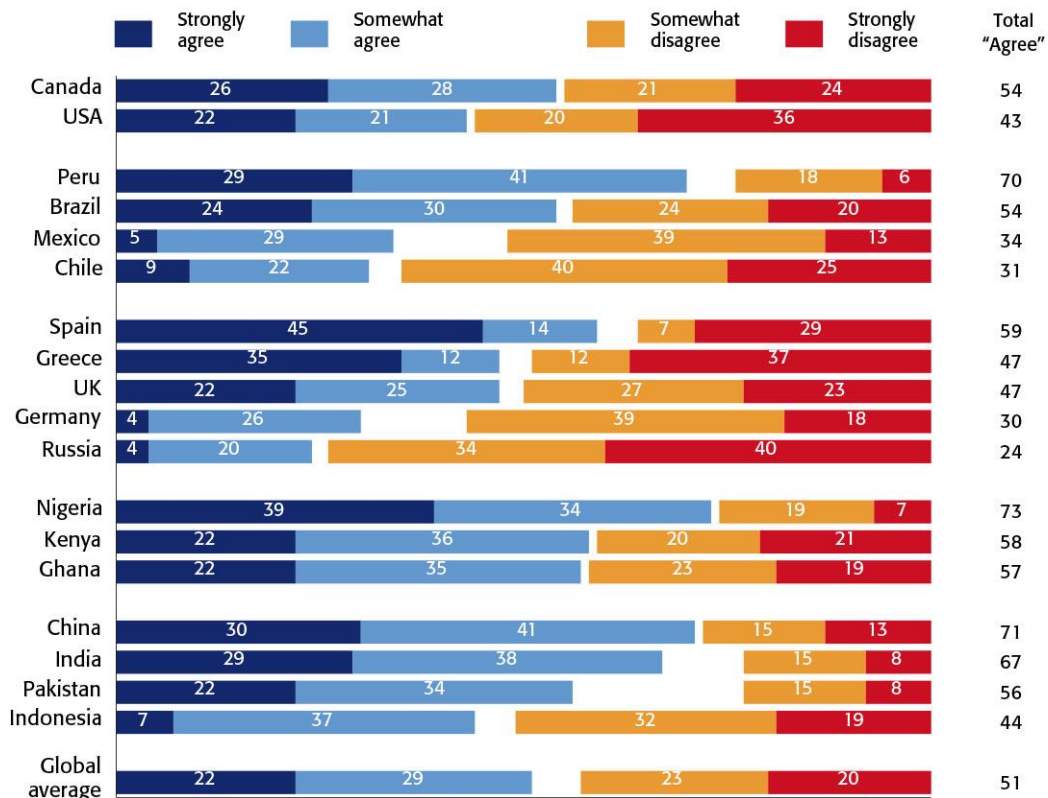
### Spaniards among the most global citizens, says BBC poll

Close to 60% of Spaniards consider themselves as global citizens rather than citizens of their country, one of the highest levels among the 18 countries surveyed in a BBC World Service poll conducted by GlobeScan, compared with 47% in Greece and the UK and 30% in Germany (see Figure 6).



**Figure 6.**

**I See Myself More as a Global Citizen than a Citizen of My Country**  
"Agree" vs "Disagree," by Country, 2016



BBC3143\_Q18jt\_etry

The white space in this chart represents "Depends, neither agree nor disagree," and "Don't know."

Source: Globescan.

## The Economy

### Madrid wins reprieve after breaking EU budget rules

The European Commission decided to put back its decision whether to fine Spain for missing its fiscal target until after the country's election on 26 June.

Spain's budget deficit last year came in at 5% of GDP, well above the target agreed with Brussels of 4.2%. The deficit will also breach the 3% target (the maximum allowed under EU rules) for this year. As a result, Brussels agreed to give Spain until 2017 to reach 3%.

The Popular Party government was meant to reach the 3% ceiling by 2013, but the dire situation it inherited from the Socialist government when it won the 2011 election made this impossible. The deadline was extended by a year, but in 2014 so little progress had been made that the PP won a further two-year extension to 2016.

Brussels made its decision in the face of Spain's inconclusive election last December and the failure since then to form a new government. Announcing a fine before Spaniards go to the polls again next month could have had a political impact, although by putting back the decision until early July the Commission laid itself open to accusations of

politicisation of economic decision making.

Pierre Moscovici, the EU's Economic Commissioner, said it was 'not the right moment economically or politically' to take decisions on punishing Spain. Portugal was also in the same boat as Spain. The fines, if they are imposed, would be the first ever in the EU.

The decision coincided with a promise by Mariano Rajoy, the acting Prime Minister, to look at a fresh round of tax cuts if he is re-elected next month and tax revenues continue to rise. This could set Spain on a collision course with Brussels as the government's reduction of income and corporate tax rates in 2015 was one factor behind the budget overshoot.

The stated unemployment rate, measured by a labour force survey, was 21% in the first quarter, very slightly higher than at the end of 2015. The rate, which peaked at 24.9% in 2012, has been stuck at more than 20% for 22 consecutive quarters, beating the previous record in the mid-1990s.

The number of jobless rose by 11,900 to 4.79 million. In 1994, when the unemployment rate peaked at 24.5%, 3.7 million people were unemployed. Since then there has been a change in the methodology for calculating unemployment and the labour force has grown enormously, mainly due to the influx of immigrants.

The jobless rate for foreigners is 29.7%, 10 points higher than that for Spaniards. According to the government's latest forecasts, the rate will fall to 14% in 2019 –still very high by US and UK standards–.

The long-term (12 months or more) jobless rate, a serious problem, ended 2015 at 11.4%, down from 12.9% in 2014 but still far from a mere 1.7% in 2007 before the onset of recession (see Figure 7).

**Figure 7. Long-term unemployment rates in EU countries, 2015 (%)**

	2015	2014	2007
Spain	11.4	12.9	1.7
Italy	6.9	7.7	2.9
UE-28	4.5	5.0	3.0
France	4.3	4.2	3.0
Germany	2.0	2.2	4.9
UK	1.6	2.2	1.3

Source: Eurostat.

### Five largest banks still weighed down by more than €100 billion of real-estate risks

Eight years after the bursting of Spain's massive property bubble, the five main banks had €122.3 billion of real-estate risks on their balance sheets at the end of 2015, according to their annual reports.

Banco Popular's exposure to the real-estate sector was the largest at €32 billion, followed by BBVA with €25.8 billion (see Figure 8).

**Figure 8. Five main banks' exposure to real-estate sector: foreclosures + loans to the sector**

	€ million	Change 2014/15	Coverage ratio (%) (1)
Popular	32,024	-1,587	39.3
BBVA (2)	25,819	+1,080	52.7
Caixabank	23,532	-2,609	49.2
Sabadell (3)	18,751	-671	48.7
Santander (2)	17,997	-1,112	52.1

(1) Loan-loss provisions + provisions to cover foreclosures/doubtful loans + foreclosures.

(2) Data for BBVA and Santander is only for Spain.

(3) Excluding TSB in the UK.

Source: Banks' annual reports, data published by *El País*.

The total exposure of the banking sector was €213 billion, €84 billion of which corresponds to foreclosures.

When the bubble burst banks had loaned a total of €457 billion to the real estate and construction sectors, resulting in the collapse of many savings banks and the creation of a 'bad bank' Sareb which assumed the most toxic assets, particularly from Bankia whose crisis sparked a €42 billion EU bail out of some banks.

Just over one quarter of Popular's total loans (26%) were to the real-estate sector (see Figure 9).

**Figure 9. Real-estate exposure as a % of total loans (1)**

	%
Popular	26.0
Sabadell (2)	14.8
BBVA (3)	12.2
Kuxtabank	11.1
Caixabank	10.4

(1) Foreclosures + loans to real-estate sector/foreclosures + total loans in %.

(2) Excluding TSB in UK.

(3) Only for Spain.

Source: Banks' annual reports, data published by *El País*.

For the first time since 2012, non-performing loans (NPLs) as a percentage of total lending fell to below 10% at the end of March, according to the Bank of Spain. They peaked at 13.6% at the end of 2013. If foreclosures are included, the NPL ratio would be 15.5%, according to the economist Joaquín Maudos.

The continued burden of real-estate exposure is one of the factors fuelling a debate on the need for more mergers. Another is the low level of profitability of some banks.

### Crisis shrinks middle class by 3 million

Spain's crisis severely eroded the average disposable household income of the middle classes and affected some 3 million people.

Those earning between 75% and 200% of the average income dropped from 58.9% in 2004 to 52.3% in 2013, while those with less than 75% of the average income rose from 31.2% to 38.5% over the same period, according to a study (see Figure 10).

**Figure 10. Distribution of disposable household income (%)**

	2004	2007	2013
Below 75% of average income	31.2	26.6	38.5
Between 75% and 200% of average income	58.9	60.6	52.3
More than 200% of average income	9.9	12.8	9.2

Source: IVIE and BBVA Foundation.

Average disposable household income dropped from €28,000 in 2007, before the onset of recession, to €22,000 in 2013. Barcelona (2,022 applications) and Madrid (1,843) were the leading regions after Paris (2,083)

### Spain in 4<sup>th</sup> place in EU patent requests

Spain made 9,406 trade mark applications in 2015, the fourth-largest number among the 28 EU countries (see Figure 11). In terms of per million inhabitants, Spain was the third most innovative country. Barcelona (2,022 applications) and Madrid (1,843) were the leading regions after Paris (2,083).

**Figure 11. EU trade mark applications, 2015**

	Number	% of total	Per million inhabitants (1)
Germany	20,447	23	251.8
UK	12,527	14	193.1
Italy	9,941	11	163.5
Spain	9,406	11	202.5
France	7,907	9	119.0
Netherlands	4,534	5	268.3
Poland	3,665	4	96.4

(1) Population at 1 January 2015.

### Adiós €500 notes

The €500 note, launched in 2002 and which flourished during Spain's economic boom – in 2006 26% of the total number circulated in the country although it accounted for only 10% of the euro zone's GDP– is set to disappear in 2018.

Today, Spain accounts for 11.4% of the total €500 notes, roughly in line with the country's share of the euro zone's GDP, according to the Bank of Spain.

Spaniards, not involved in money laundering or black economy operations refer to these notes as 'bin Ladens' (in reference to Osama bin Laden, the founder of al-Qaeda), because everyone knew they existed and what they looked like but had never seen them.

## Corporate Scene

### PSA Group and Renault announce €1.3 billion of investments

The PSA car Group (Peugeot, Citroën and DS) and Renault are to invest around €1.3 billion between them in boosting their output until 2020, mainly at their Vigo and Valladolid plants. PSA will invest €700 million and Renault €600 million including building new cars.

The Spanish car industry is out of the doldrums after lean years following the country's recession. New car sales rose 21% in 2015 to 1.03 million, spurred by the government's subsidy scheme under which owners who scrap their cars and buy a new one get €2,000, half of which is provided by the government and half from the carmaker.

### European Commission blocks Hutchison's take-over of Telefónica's O2 in UK

Margrethe Vestager, the EU's Competition Commissioner, vetoed the proposed €13 billion take-over of Telefónica's UK business, O2, by Hong Kong's CK Hutchison, the owner of the rival Three network.

The merger of the two would have accounted for 40% of the UK mobile market and reduced the field to three very big networks, seen as a level at which competition can be undermined.

Hutchison said it would appeal the decision. Telefónica, with a large debt burden, could seek to sell O2 to another operator.

### Zara up in Forbes top 100 brands

Zara, the flagship store of Inditex, the world's largest fashion retailer, is ranked 53<sup>rd</sup> in the latest Forbes classification of the world's 100 most valuable brands, up from 58<sup>th</sup> place last year.

The US magazine put the value of Zara at US\$10.7 billion, 13% higher. Santander (US\$8 billion) dropped from 69<sup>th</sup> to 72<sup>nd</sup> place and BBVA (US\$6.8 billion) entered the ranking for the first time.