

## **Inside Spain Nr 140**

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### **Summary**

Spain holds firm in Elcano Global Presence Index.

Catalonia sets October date for illegal referendum.

Socialist Pedro Sánchez returns from the wilderness to win back the party's leadership.

'Failing' Banco Popular sold to Santander for €1.

Tubacex wins €550 million oil pipeline contract with Iran.e

### **Foreign Policy**

#### **Spain holds firm in Elcano Global Presence Index**

Spain was ranked 12th out of 100 countries in the 2016 Elcano Global Presence Index, which measures the results of internationalisation. Spain has held this position since 2014 (between 1995 and 2013 it was in 11th place). The US has the highest global presence, followed by China (see Figure 1).

**Figure 1. 2016 Elcano global presence ranking, Top 20**



Source: Elcano Global Presence Index, Elcano Royal Institute.

The Index, calculated with objective data, is based on three dimensions (economic, military and soft presence), which, in turn, are composed of variables of a different nature (ranging from energy to development cooperation, troops deployed or tourism), all of which reflect cross-border presence (see Figure 2). Weights are assigned to variables and dimensions are based on experts' criteria.

In Spain's case 59.3% of its global presence is due to its economic presence (62% in 2010), 29.8% to its soft presence (23.9%) and 10.9% to its military presence (14.2%). The country has a high global presence in relation to its position in the world in terms of the size of its economy (the 14<sup>th</sup> largest in nominal terms) and population (30<sup>th</sup>).<sup>1</sup>

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<sup>1</sup> For more details, see my Global Spain post at <http://www.blog.rielcano.org/en/global-spain/>.

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

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

Variable	1990	1995	2005	2000	2010	2013	2014	2015
<b>Economic presence</b>	48.3	63.1	94.5	130.3	158.5	139.8	130.0	128.6
% of global presence	49.0	52.3	58.6	62.7	62.0	59.5	60.6	60.3
Energy	1.5	0.7	1.6	2.3	2.2	3.7	3.6	3.8
Primary goods	6.8	11.4	11.7	14.6	14.9	15.7	16.2	16.4
Manufactures	14.5	19.0	22.1	26.2	22.8	21.5	23.3	23.4
Services	20.2	22.8	27.6	34.3	33.0	28.9	29.0	29.8
Investments	5.3	9.3	31.6	52.9	85.5	70.0	57.8	55.2
<b>Military presence</b>	30.0	30.9	31.7	34.1	36.2	36.0	22.3	23.0
% of global presence	30.5	25.6	19.7	16.4	14.2	15.3	10.4	10.8
Troops	0.3	5.8	9.7	9.7	8.8	8.3	2.9	3.4
Military equipment	29.8	25.1	22.0	24.4	27.4	27.7	19.5	19.6
<b>Soft presence</b>	20.3	26.6	35.0	43.5	61.0	59.3	62.3	61.6
% of global presence	20.6	22.0	21.7	20.9	23.9	25.2	29.0	28.9
Migrations	1.4	1.6	2.5	5.8	8.5	8.3	8.2	7.5
Tourism	7.7	6.3	8.3	9.4	8.4	8.9	9.3	9.9
Sports	0.7	2.2	1.1	2.1	2.8	2.6	2.3	2.5
Culture	3.3	6.7	10.4	9.3	11.7	12.6	12.5	12.3
Information	0.0	0.1	0.3	0.5	2.6	5.6	7.9	7.8
Technology	2.2	1.7	2.3	3.0	3.6	3.2	3.2	3.2
Science	2.3	3.8	5.0	6.8	10.1	11.4	11.8	11.9
Education	0.9	1.7	3.1	1.3	3.3	3.6	3.6	3.6
Development cooperation	1.8	2.4	2.2	5.2	9.9	2.9	3.5	2.9
<b>Global presence index value</b>	98.7	120.6	161.2	207.9	255.6	235.0	214.6	213.2
Position in the index	12	11	11	11	11	11	12	12

Source: Elcano Global Presence Index, Elcano Royal Institute ([www.globalpresence.realinstitutoelcano.org](http://www.globalpresence.realinstitutoelcano.org)).

Source: Elcano Global Presence Index, Elcano Royal Institute.

## Domestic Scene

### Catalonia sets October date for illegal referendum

The Catalan regional government announced it would hold an illegal referendum on independence on 1 October, in open defiance of the courts and the government in Madrid.

Although Spain has a monarchy, Carles Puigdemont, the Catalan President, said voters would be asked if they wanted a Catalan state in the form of a republic.

The region plays a vital role in the Spanish economy (see Figure 3).

**Figure 3. Catalonia at a glance**

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Population	7.5 mn (16% of Spain's total)
GDP	19%
Manufacturing	Around one quarter of the total output
Exports	€65.1 bn in 2016 out of a total of €254.5 bn
Tourism	18 mn tourists in 2016 out of a total of 75.6 mn

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Source: INE and Economy Ministry.

The referendum, which Prime Minister Mariano Rajoy –supported by the opposition Socialists and the centrist Ciudadanos– has vowed to block is the culmination of a separatist movement that was ignited in 2010 when the Constitutional Court struck down some articles of Catalonia's self-government charter, after the Popular Party referred it to the court. Ernest Benach, the President of the Catalan parliament, said the court's ruling opened a 'crisis of state' because it 'ignores the will of Catalan citizens'.

Three-quarters of Catalan voters had approved the charter in a referendum, following its approval by the Catalan and national parliaments. The abstention rate in the referendum was high, at 51%.

As of 2010, the proportion of Catalans in favour of an independent state has increased considerably (from 24.5% to 37.3% in March 2017), according to polls, while the share of the vote in the region's parliamentary elections won by pro-independence parties has remained steady at 48%.

Catalonia held a non-binding independence vote in November 2014, which was declared illegal by the courts. Of the 2.3 million people who voted in that referendum (out of 6.3 million who were eligible), more than 80% were in favour of independence (29% of the possible votes).

In March 2017, Artur Mas, the former regional Prime Minister of Catalonia, was barred from holding public office for two years for disobeying the judiciary and staging the vote.

The Catalan government's every move under its road map for independence has been blocked by the courts. The ultimate weapon that Madrid could wield is to invoke Article 155 of the Constitution which allows it to intervene directly in the running of an autonomous region. The government is loath to do so because it would turn the pro-independence leaders into 'martyrs' and enflame the movement.

The Spanish constitution gives the central government 'exclusive competence' on the authorisation of referendums. The only way to trigger a process that results in a referendum of any region is through a constitutional amendment, which requires a large majority in favour in the Spanish parliament, new elections and approval in a referendum held throughout the country and not just in Catalonia in this case.

The latest poll by the Catalan CEO centre found that 49% of Catalans would say 'No' to an independent state, with 44% in favour.

Most Spaniards believe the government has not known how to handle the crisis adequately (96% of respondents in Catalonia and 77% in the rest of Spain), according to Metroscopia. While 71% of Catalans say the best way to resolve it is to hold a binding referendum in agreement with Madrid, only 38% in the rest of Spain take this view.

### Socialist Pedro Sánchez returns from the wilderness to win back the party's leadership

Pedro Sánchez, who was ousted as the Socialist leader last October in a power struggle, was re-elected the party's Secretary-General after militants rejected the candidate of the party's establishment.

Sánchez won 50% of the vote, 10 points higher than Susana Díaz, the regional Prime Minister of Andalusia, who was publicly backed by two former Socialist Prime Ministers, Felipe González and José Luis Rodríguez Zapatero, and most regional leaders. Patxi López, a former regional Prime Minister of the Basque Country, came in a long way behind with 10% of the vote. A record 80% of party members voted in the primary. Sánchez won in every region except Andalusia and the Basque Country.

After he lost the party's top job and resigned his seat in parliament, Sánchez took to the road as an outsider against the party's hierarchy. He rallied support for a comeback in a campaign that had something of a 'David' vs 'Goliath'.

The Socialists lost the last three general elections, two of them under Sánchez (December 2015 and June 2016) who refused for months to let the Popular Party (PP) form a minority government under Mariano Rajoy. He was unable to form one himself, either with the far-left Unidos Podemos (UP) or with the centrist Ciudadanos, and faced the prospect of a third election last December at which, according to polls, the Socialists would have won even fewer seats than they did in June.

This led to a stormy meeting of the party's federal committee at which Sánchez was outvoted on the PP issue and a caretaker administration took over the running of the party.

He now faces an uphill struggle to re-build a united party and make it a credible alternative to the PP. Unless he can turn around the party, the only way for the Socialists to return to power would be by reaching an understanding with UP.

Both parties are battling for the hegemony of the left. UP blocked Sánchez's bid to become Prime Minister last year, enabling Rajoy to return.

The Socialists abstained in the motion of no confidence against the PP government earlier this month, which was brought by UP. Lawmakers rejected the motion, with 172 votes against, 82 in favour and 97 abstentions.

The motion never had a chance of succeeding, but provided Pablo Iglesias, Podemos's leader, with an opportunity to hammer the PP for corruption and put himself forward as a potential Prime Minister.

This was the third motion of no confidence since Spain's first democratic election in 1977, following the end of General Franco's 39-year dictatorship. Such motions in Spain require the opposition to agree on a new Prime Minister in order to take down the government, something that was never on the cards.

The Socialists' spokesman mooted during the no confidence debate a pact with UP and Ciudadanos to dislodge the PP, but the two parties roundly rejected it.

The first opinion poll since Sánchez's return to the helm showed the Socialists gaining some ground over UP (see Figure 4).

**Figure 4. Voter intention (% of valid votes)**

	2011 election	20/XII/2015 election	26/VI/2016 election	11/XI/2016	9/III/2017	9/IV/17	2/VI/17
PP	44.6	28.7	33.0	35.7	31.2	30.2	25.9
Socialists	28.8	22.0	22.7	17.9	19.0	20.2	22.8
Podemos	–	20.7	21.1 (1)	23.1 (1)	21.5	20.7	19.2
Ciudadanos	–	13.9	13.0	13.0	16.5	17.4	18.7

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

Source: Metroscopia.

## Anti-corruption chief resigns over offshore company, European Commission criticises shortcomings in fighting graft

Manuel Moix, the top anti-corruption prosecutor, resigned after four months in the job following an admission that he holds a stake in an offshore company in Panama. He denied any wrongdoing.

Moix has a 25% share in a Panamanian company that was set up as part of an inheritance from his parents. In April 2016, José Manuel Soria, the Industry, Energy and Tourism Minister, quit after alleged links to offshore dealing emerged in the Panama Papers, the leaked documents created by the Panamanian law firm Mossack Fonseca. At that time, Cristóbal Montoro, the Finance Minister, said, 'No one who has operated in tax havens can be in the government'.

Last month Moix was suspected, along with the Attorney General and the Justice Minister, of trying to hinder a probe into fraud involving senior Popular Party (PP) members in the Madrid region. In an unprecedented move, all three were reprimanded by a majority of MPs in the parliament (all parties except the PP).

Moix's resignation came at a time when the PP is under close scrutiny in many corruption cases that have come to trial or are under judicial investigation. Prime Minister Mariano Rajoy has been called to testify next month in the ongoing Gürtel kickbacks-for-contracts case.

Corruption is regularly ranked as the second-biggest cause for concern among Spaniards after unemployment. According to the latest poll by the state-funded CIS, 71.4% of respondents in May said unemployment was the main problem, followed by corruption and fraud (54.3%, up from 36.7% last December).

Two-thirds of respondents in a Metroscopia survey last month said anti-corruption prosecutors do not have sufficient independence from politicians in pursuing corruption cases.

Spain has made some progress in combating corruption, but needs to implement 'tailor-made preventive strategies' and pass laws that protect whistle-blowers, enhance the independence of the recently established Office of Conflicts of Interest and regulate lobbying, the European Commission urged in a report.

The recommendations form part of the Commission's report on Spain's current reform programme. Usually such documents are limited to purely economic and financial matters, but such has been scale of the unearthing of corruption that Brussels saw fit to speak out.

Since 2012, the PP government has made administrative decision-making more transparent and enacted legislation on transparency of party financing, asset disclosure and conflicts of interest. But this has not been enough. The 2016 annual report of the Council of Europe's Group of States against Corruption (GRECO), published this month,

says Spain has failed to implement 75% of its recommendations regarding MPs and the judiciary (see Figure 5).

**Figure 5. Countries' progress in complying with GRECO's 4<sup>th</sup> round recommendations (1)**

	Member of parliament			Judiciary		Prosecutors	
France	33%	50%	17%	34%	66%	50%	50%
Germany			X				X
Italy			X				X
Poland		16%	16%	20%	60%	20%	80%
<b>Spain</b>		25%	84%		25%	75%	100%
UK		40%	60%	50%	50%		100%

(1) The recommendations regarding MPs, judges and prosecutors are on pages 44-45 of GRECO's 2014 report, available at <https://rm.coe.int/16806ca048>.

Code:

Implemented	Partly Implemented	Not Implemented
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X: no evaluation and/or compliance report publicly available yet at the end of 2016 to track progress because either the evaluation report is too recent (and the compliance procedure has not started yet) or the compliance procedure is ongoing and no report has been adopted yet by GRECO and/or made public.

Source: GRECO.

Another issue of concern is the protracted judicial procedure for corruption cases. The Criminal Procedure Law was amended in 2015 to limit the time assigned to investigations and reduce undue delays in criminal procedures, but this measure 'could result in impunity in complex corruption cases for which the time limits would not be sufficient for building cases', the Commission said.

The Commission's report coincided with the publication of anti-corruption recommendations by the Spanish chapter of the Berlin-based Transparency International.

Transparency's proposals include:

- Reduce the representation of political parties in bodies such as *the Consejo General del Poder Judicial*, the body that oversees the judicial system.
- Outlaw pardons for those convicted of corruption.
- Cut the number of *aforados*, estimated at 10,000. This is a privilege enjoyed by politicians and some public officials who can only be judged by the highest courts. Investigations into lawmakers must also be approved by the legislative chamber to which they have been elected. No other European country has as many *aforados* as Spain. The figure of *aforado* does not exist in the UK, Germany or the US.

- Reduce the large number of *cargos de libre designación* (discretionary appointments, often made on the basis of political and not professional criteria) in public administrations.
- Speed up the notoriously slow judicial processes by having more judges and prosecutors. Spain has around 11 judges per 100,000 inhabitants, half the EU average, and five prosecutors per 100,000 inhabitants (EU average of 12). The justice system is also technologically backward.

### Spain faces summer with reservoirs at lowest levels since 1995

With reservoirs at 56% of their capacity at the beginning of June and a heat wave earlier than normal, Spain faces the prospect of water restrictions in some areas.

Some river basins are at less than one-third of their capacity, a situation that has not occurred since Spain's last drought in 1990-95.

Spain and Portugal could be hit by 'megadroughts' lasting for several years, according to researchers at Newcastle University which looked at different climate models.

## The Economy

### 'Failing' Banco Popular sold to Santander for €1...

Banco Popular was deftly and swiftly saved from collapse after its rival, the giant Santander, paid a symbolic €1 for Spain's sixth-largest bank, which the European Central Bank (ECB) described as 'failing or likely to fail'.

The overnight move for the ailing Popular came after the bank went through €3.6 billion of emergency central-bank funding in two days following a run on its deposits that was so big that the bank ran the risk of not being able to open.

This crisis made the EU's recently created bank-rescue agency, the Single Supervisory Mechanism, swing into action for the first time.

'The significant deterioration of the bank's liquidity situation in recent days led to a determination that the entity would have, in the near future, been unable to pay its debts or other liabilities as they fell due', the ECB said.

Santander plans to raise €7 billion in fresh capital to rebuild Popular's severely weakened balance sheet which is weighed down by €37 billion of toxic real-estate loans.

Unlike Spain's banking crisis in 2012, sparked by problems at Bankia, which was resolved with the help of a €41.3 billion EU bailout, this time taxpayers' money is not being used (see Figure 6). Instead losses were imposed on shareholders and some bondholders. Popular's share price plummeted from €34.45 in 2007 to zero on 7 June.

**Figure 6. Public funds injected into EU banks, 2008-15 (€ billion)**

	€ billion
UK	100.1
Germany	64.2
Ireland	62.8
<b>Spain</b>	<b>61.9</b>
Greece	46.6
France	25.0
Netherlands	23.0
Belgium	20.8
Portugal	11.8

Source: Bank of Spain and European Stability Mechanism.

Popular escaped Spain's banking crisis: it was ranked the most efficient bank in Europe at the height of Spain's economic boom in 2006 in terms of its cost-income ratio and it passed the EU's stress tests. It bought Banco Pastor –based on Galicia– and took over Barclaycard's Iberian credit-card operations.

The bank seemed so confident of its future that it built new headquarters with state-of-the-art technology on the outskirts of Madrid, occupying 123 square metres on four floors and underground parking for 1,600 cars, at a cost of €144 million.

Popular made a loss of €3.5 billion last year. Its chairman, Ángel Ron, was replaced in February by Emilio Saracho, a top JPMorgan Chase executive, who was unable to stem the continued fall in Popular's share price and the withdrawal of €15 billion of deposits, much of it by town halls and regional governments.

The deal boosts Santander's business with small and medium-sized companies, an area where Popular had a strong franchise, and showed that Ana Botín, Santander's Chairman, has inherited the deal-making talent of her father, Emilio, the previous Chairman.

### ... Prosecutors seek 5-year jail term for ex-Bankia chief Rato

Prosecutors asked for Rodrigo Rato to be jailed for five years over the failed flotation in 2011 of Bankia, which he led and which had to be rescued in a EU-led bailout.

Rato, a former IMF Managing Director and Popular Party Economy Minister, has already been sentenced to four and a half years in a separate case involving the misuse of Bankia corporate credit cards.

He and three other bank executives are accused of falsifying information about Bankia's financial health in order to encourage investors to buy its shares.

Rato was 'fully aware of the inconsistency of the Bankia project and of its financial weakness' but still went ahead with the listing, said prosecutors.

Bankia has so far paid out €1.2 billion in compensation to 190,000 small investors and still has around 30,000 pending claims to settle.

### Spain returns to top 15 prospective host economies for foreign direct investment...

Spain is back among multinational enterprises' top prospective destinations for foreign direct investment (FDI) between 2017 and 2019, according to a business survey by UNCTAD.

The country is ranked 11<sup>th</sup> out of 15 countries, up from 25<sup>th</sup> place in 2016. The US tops the ranking. In another survey, investment promotion agencies put Spain in 9<sup>th</sup> place among the most promising investing countries. China headed this ranking.

The improvements would seem to suggest that investors have responded to the reforms implemented by Spain during its crisis, triggered in 2008 by the bursting of a massive property bubble.

Spain received US\$19 billion of inward FDI in 2016 (US\$12 billion in 2015). Its outward investment was slightly lower at US\$42 billion. The stock of inward investment stood at US\$556.6 billion last year and outward at US\$516 billion (see Figures 7 and 8).

**Figure 7. FDI inward stock of five largest EU countries (US\$ billion)**

	<b>2000</b>	<b>2010</b>	<b>2016</b>
France	184.2	630.7	697.6
Germany	470.9	955.9	771.0
Italy	122.5	328.1	346.4
<b>Spain</b>	<b>156.3</b>	<b>628.3</b>	<b>556.6</b>
UK	439.4	1,068.2	1,196.5

Source: UNCTAD, 2017 World Investment Report.

**Figure 8. FDI outward stock of five largest EU countries (US\$ billion)**

	<b>2000</b>	<b>2010</b>	<b>2016</b>
France	365.9	1,173.0	1,259.4
Germany	483.9	1,364.6	1,365.4
Italy	169.9	491.2	460.4
<b>Spain</b>	<b>129.2</b>	<b>653.2</b>	<b>516.0</b>
UK	940.2	1,686.3	1,443.9

Source: UNCTAD, 2017 World Investment Report.

**... Holds position in IMD competitiveness rankings**

Spain continued to be ranked 34<sup>th</sup> out of 63 countries in the IMD competitiveness ranking (39<sup>th</sup> in 2014 and 37<sup>th</sup> in 2015).

The ranking is based on four dimensions and sub-factors for each of them (see Figure 9).

**Figure 9. Spain's performance in the IMD competitiveness index by factors (1)**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Economic performance	53	51	39	30	35
Government efficiency	50	46	43	49	38
Business efficiency	50	42	46	41	42
Infrastructure	27	27	29	27	26
Overall performance	45	39	37	34	34

(1) Ranking out of 63 countries.

Source: IMD World Competitiveness Yearbook 2017.

In the digital competitiveness ranking, Spain remained in 30<sup>th</sup> place (see Figure 10).

**Figure 10. Spain's performance in the IMD digital competitiveness index by factors (1)**

	2013	2014	2015	2016	2017
Knowledge	33	35	35	36	33
Technology	41	36	35	32	33
Future readiness	29	28	29	30	29
Overall performance	32	29	30	30	30

(1) Ranking out of 63 countries.

Source: IMD World Competitiveness Yearbook 2017.

### Students have a low but improved level of financial literacy

Some 25% of 15-year-olds in Spain do not reach the baseline level of proficiency in financial literacy and only 6% are top performers, according to the latest assessment conducted among 10 OECD countries and economies (see Figure 11).

**Figure 11. Financial literacy of 15-year-olds**

	Average PISA score		Low level of literacy (Level 1 or below) in %		High level of literacy (Level 5) in %	
	2012	2015	2012	2015	2012	2015
OECD	500	489	15.3	22	9.7	12
China	603	566	1.6	9	42.6	33
Belgium	541	541	8.7	12	19.7	24
Russia	486	512	16.7	11	4.3	11
Australia	526	504	10.4	20	15.9	15
US	492	487	17.8	22	9.4	10
Poland	510	485	9.8	20	7.2	8
Italy	466	483	21.7	20	2.1	6
<b>Spain</b>	<b>484</b>	<b>469</b>	<b>16.5</b>	<b>25</b>	<b>3.8</b>	<b>6</b>
Slovakia	470	445	22.8	35	5.7	6

Source: OECD, PISA Financial Literacy.

The results of the OECD's Programme for International Student Assessment (PISA) show the extent to which 15-year-old students have the financial knowledge and skills needed to make a successful transition from compulsory schooling into higher education, employment or entrepreneurship.

Spain's results are better than in 2012 when the first assessment was made, but are still below the OECD average and far from the top country China.

Financial education topics were incorporated into the primary-education curriculum in 2014 as part of social sciences, and in the first year of upper secondary education (fourth year of ESO) as part of economics. Economics is offered only to students choosing a general/academic path and is optional for those students. All education administrations in the 17 regions have included the subject of economics in their offerings, and almost all have integrated all the content described in the national legislation.

Since 2010/11, in parallel with the revision of the curriculum, the Bank of Spain and the Securities and Exchange Commission have been implementing a financial education programme in schools within the scope of the national strategy for financial education.

## Corporate scene

### Tubacex wins €550 million oil pipeline contract with Iran

Tubacex is to supply Iran's oil industry with €550 million of corrosion-resistant alloy pipes which were very difficult to buy while sanctions were still in place.

Western powers lifted some of the sanctions in January 2016 which then enabled Tubacex to negotiate a deal.

### China's Cosco acquires container ports

Cosco Shipping Ports bought a 51% stake in Noatum Port Holdings, which operates container ports in Valencia, one of the largest in Spain, and Bilbao, for €203 million. Noatum also has rail terminals in Madrid and Zaragoza.