

Inside Spain Nr 131

19 July - 21 September 2016

William Chislett

Summary

Spain receives 2% of the refugees it agreed to accept.
 Clock starts ticking towards third election in a year.
 Rajoy ups growth forecast, warns of consequences of political deadlock.
 Ferrovial enters Chilean electricity sector.

Foreign Policy

Spain receives 2% of the refugees it agreed to accept

Spain has received just 197 of the 9,323 refugees it agreed to relocate from Italy, Greece and other EU states under the September 2015 EU two-year accord.

Overall, only 3,822 people out of 160,000 have been relocated between last September and 11 August, according to the latest figures from the International Organisation for Migration (see Figure 1).

Figure 1. Distribution of refugees from Greece and Italy by main recipient countries

Recipient country	Number of refugees	Already relocated
Germany	27,536	62
France	19,714	1,330
Spain	9,323	197
Poland	6,182	–
Netherlands	5,947	520
Rumania	4,180	139
Belgium	3,812	119

Source: OIM.

Spaniards' view of the impact of immigration as something positive has remained stable since 2011 at between a low of 19% of those surveyed and a high of 21%, according to the latest poll by Ipsos (see Figure 2).

Figure 2. Would you say that immigration has generally had a positive or negative impact on your country? Very positive/fairly positive (%)

	July 2016	October 2015	2014	2013	2011
UK	35	31	26	25	19
US	35	28	25	22	18
Spain	20	21	21	21	19
Germany	18	21	15	17	16
France	11	13	12	11	14
Italy	10	9	9	12	14

Source: Ipsos.

Domestic Scene

Clock starts ticking toward third election in a year...

Mariano Rajoy, the head of a caretaker government since last December, failed to win enough support in parliament for a new term as Prime Minister, setting the clock ticking for a third election during Christmas if by 31 October there is no agreement on a new leader for the country.

Rajoy was supported by 170 of the 350 MPs, 137 from his conservative Popular Party (PP), 32 from the centrist Ciudadanos (C's), a new party with whom a deal was struck, and one from a coalition in the Canary Islands. He needed 176 votes.

Elections on 20 December and again on 26 June delivered a deadlocked parliament, with the PP winning 14 more seats in June but far from its absolute majority of 186 in 2011. As the second largest party, the centre-left Socialists (85 MPs, five less than in December) hold the key to enabling Rajoy to continue as Prime Minister, but their leader, Pedro Sánchez, has denied support so many times that he has boxed himself into a corner.

Rajoy needed six more 'yes' votes at the first investiture vote on 31 August that required an absolute majority or 11 abstentions at the second vote on 2 September that required only a simple majority.

A Metroscopia poll showed that a great majority of Spaniards (71%) are fed up with the bickering and do not want a third election (see Figure 3). Voters' discontent is reflected in a lower turnout forecast of 63%, down from 70% in June and the lowest since the transition to democracy as of 1975. Close to three-quarters of respondents who said they were Socialist voters are against a new election.

Figure 3. Are you in favour of new elections? Potential voters by party (%)

	Popular Party	Socialists	Unidos Podemos	Ciudadanos
Yes	19	25	42	12
No	80	73	56	87

Source: Metroscopia.

If an election were held the PP would be the only party to benefit. Its share of the vote would rise to 34.8%, according to Metroscopia (see Figure 4). The other parties would get more or less the same results, making the formation of a new government no easier.

Figure 4. Voter intention (% of valid votes)

	2011 election	20 Dec. 2015 election	7 Feb. 2016	3 Apr.	26 June	9 Sept. 2016
PP	44.6	28.7	24.0	27.7	33.0	34.8
Socialists	28.8	22.0	23.3	21.0	22.7	21.3
Podemos	–	20.7	19.9	15.9	21.1 (1)	21.1 (1)
Ciudadanos	–	13.9	18.5	18.8	13.0	12.0

(1) Unidos Podemos.

Source: Metroscopia.

The gridlock is the result of the weakening of the two-party system that has dominated Spain for more than 30 years as a result of the emergence of C's and the far-left Podemos, and the teething problems in adapting to a new political culture.

The traditional parties (PP and Socialists) are not adapting to the new circumstances or casting off the 'old' political culture. In the much quoted words of the Italian neo-Marxist theorist Antonio Gramsci, 'The crisis consists precisely in the fact that the old is dying and the new cannot be born'.

As still the two most voted parties, the main responsibility for forming a new government lies with the PP and the Socialists, but the Socialists are rudderless and internally divided over which direction to go while the PP, with 137 MPs, is behaving as if it had the 186 MPs it won in the 2012 election.

Felipe González, a former Socialist Prime Minister, who believes his party should allow the PP to govern unless it can come up with a credible alternative (not the case), says Spain has an Italian-style fragmented parliament 'but without the Italians to manage it'.

Some commentators have made much, perhaps too much, of the fact that the Spanish language does not have a word that fully reflects the English word 'compromise'. The

nearest equivalent is *pacto* (pact), but that word does not convey the sense that concessions have been made on all sides. *Compromiso* is a false friend and means commitment.

One hundred of the 150 measures in the deal between the PP and C's were in the one between the Socialists and C's after the 20 December election. Nevertheless, Sánchez rejects any pact with the PP. The Socialists and C's had then 130 seats between them (117 after June), but failed to gain the support of the PP in March for a minority government.

Albert Rivera, C's leader, is the only political leader who is positively viewed by the electorate (see Figure 5).

Figure 5. Approval/disapproval ratings of political leaders

	Approve	Disapprove	Balance
Albert Rivera (C's)	56	41	+15
Pablo Iglesias (Unidos Podemos)	31	67	-36
Mariano Rajoy (PP)	29	70	-41
Pablo Sánchez (Socialists)	28	70	-42

Source: Metroscopia.

More than taking revenge on Rajoy, Sánchez does not want to be the person responsible for letting the PP (very tainted by corruption) back into power and confining the party to the opposition, side by side with Unidos Podemos which is treading on the Socialists' heels. Yet his chances of forming a government with Unidos Podemos (an attempt failed after the December election) are slim and the numbers do not add up. Sánchez is between a rock and a hard place.

Politicians' sights are now set on the regional elections in Galicia and the Basque Country on 25 September. Galicia is a fiefdom of the PP, which is expected to win another absolute majority, and the Basque Nationalist Party (PNV) is forecast to remain in power, with the support of either the left-wing pro-independence EH Bildu or the Socialists.

In the Basque Country, Arnaldo Otegi, who spent six years in prison for trying to revive Herri Batasuna, the banned political wing of the terrorist group Eta, is barred from standing as EH Bildu's candidate. As part of his sentence, the National High Court banned him from holding public office until 2021.

Poor results for the Socialists could tip the party leadership into allowing the PP to continue in power (by abstaining in an investiture vote), unless it takes a gamble and goes for a third election in the belief that it will do better at the expense of Unidos Podemos, which is also riven by divisions in its top ranks.

Two Socialist 'regional barons', Susana Díaz, the President of Andalusia, the party's fiefdom, and Guillermo Fernández Vara, the President of Extremadura, publicly said the party was not in a position to form a government and should continue in the opposition.

The PP faces a spate of corruption trials in the autumn, which could dent its support. The Socialists also face a bruising time: the anti-corruption prosecutor asked earlier this month for a six-year prison sentence for José Antonio Griñán, the former President of Andalusia, for misuse of public funds and breach of public duty in the ERE case.

The Supreme Court opened an investigation this month into the former PP Valencia Mayor, Rita Barberá, for money laundering. The case was opened in April by a lower court judge but Barberá's condition of senator, and Spain's rules giving some 10,000 politicians and public figures special legal protection, meant the case could only be investigated by the Supreme Court.

That judge told the Supreme Court there was up to €200,000 in unexplained funding stretching back to 2001, and that the number of off-the-books accounting entries, describing tens of thousands of euros in income of unknown origin, increased in the run up to local and regional elections in 2004 and 2011.

Barberá, known as the 'Mayor of Spain' as she held the post for 24 years, resigned from the PP but refused to bow to demands for her to leave the Senate and so face the accusations as a 'normal' citizen. Rajoy said he had 'no authority' over her.

In another setback for the PP, the government was forced into withdrawing its appointment of José Manuel Soria, a former Industry Minister who resigned in April after allegations of links to offshore tax paradises, as Spain's new World Bank representative. Even some senior PP politicians criticised the appointment, which carries a tax-free salary of €226,000 as inappropriate, while the opposition had a field day.

Opposition politicians accused Economy Minister Luis de Guindos, who backed the botched appointment, of cronyism and lying. Ciudadanos was particularly angry as the party has agreed to support Rajoy's candidacy to lead a new government in return, among other things, for greater transparency and combating corruption.

Spain is still a long way off Belgium's record of more than 500 days without a proper government. Nevertheless, problems and decisions the caretaker government cannot take are piling up, including the need to approve the 2017 budget (see the economy section) and to reform the Toledo Pact on pensions in order to shore up the ailing social security finances.

Spain is also largely absent from the debates about the EU's future.

According to a Foreign Ministry document, the 'lame duck' country is eroding the country's international projection and influence as it has made it impossible to ratify

treaties that other countries had already signed (such as the Paris accord on climate change), hold bilateral summits and for King Felipe to make official trips.

... Catalan independence push draws fewer people on national day

Judging by the lower turnout at the 11 September *Diada* national day in Catalonia, the region's push for secession from Spain is losing steam.

According to the police, 875,000 people attended rallies in five cities, down from 1.4 million in Barcelona, the only city to hold a rally last year.

Carles Puigdemont, the Premier of the region that generates 25% of Spain's exports, attended one of the rallies, the first time a sitting Premier has done so. He plans to call on the national government later this month to allow a referendum on independence and if this is denied, which is most likely, he would call 'constituent elections' after next year's *Diada*.

The *Diada* commemorates the fall of Barcelona during the Spanish War of Succession in 1714.

Puigdemont rejected the idea that the independence movement was flagging. 'I do not see a tired independence movement; it has put itself together with one voice and has filled the streets of Catalonia. This mobilisation was necessary and was felt throughout Spain and the world'.

The last poll by the Catalan government (June) showed a rise in support for independence (to 48% from 45.5% in March).

The Catalan government's moves to implement its pro-independence roadmap, approved by the regional parliament after pro-separatist parties won the majority of seats in last year's election, is being met at every stage by the Constitutional Court in Madrid. Carlos Lesmes, the Supreme Court's President, said state prosecutors would not tolerate 'the challenge to the rule of law' and the 'total contempt for the constitutional order'.

Former Catalan President Artur Mas and two other officials are to testify before court for holding a mock independence referendum in 2014 which the Constitutional Court deemed illegal. Catalonia's Supreme Court rejected the defendants' appeals against the decision.

Only 12 Spanish universities among world's 500 best, early school-leaving rate drops

Spain has 12 universities in the latest Shanghai ranking of the world's top universities, but none of them are yet in the top 100 (see Figure 6). Since the ranking was launched in 2003, Spain has had a low of nine and a high of 13 universities among the 500 best.

Figure 6. Shanghai global ranking of universities

Position	University	Change 2015/16
151-200	Barcelona	=
201-300	Autónoma Madrid	■
	Granada	■
	Autónoma Barcelona	■
	Complutense Madrid	■
301-400	Politécnica Cataluña	■
	Politécnica Valencia	=
	Pompeu Fabra	■
	Santiago de Compostela	■
	País Vasco	=
401-500	Valencia	■
	Rovira I Virgili	■

Source: ARWU.

The early school-leaving rate –those aged 18-24 who have only lower secondary education or less and are no longer in education or training– fell to below 20% last year (19.7%) for the first time since statistics were kept.

The rate, still one of the worst in the EU, peaked at 26.3% in 2011. The target is 15% by 2020.

The Economy

Rajoy ups growth forecast, warns of consequences of political deadlock

Acting Prime Minister Mariano Rajoy raised the GDP growth forecast for this year from 2.9% to 3% (one of the fastest in the euro zone) and warned of the negative consequences of the failure to approve the 2017 budget because of nine months of political paralysis.

The European Commission, which waived a fine for Spain's excessive budget deficit in 2015 (5.1% of GDP) and gave the country until 2018 to reduce it to below the EU limit of 3%, ordered the government to send its proposals for 2017 before 15 October. Economy Minister Luis de Guindos said this would be impossible.

Spain was supposed to have lowered the deficit to below 3% this year, but that proved impossible after the government missed targets in 2014 and 2015. Under the new deal, Spain has to cut the deficit to 4.6% this year, 3.1% in 2017 and 2.2% in 2018.

Madrid stopped all new spending not already committed by ministries as of August.

Brussels is beginning to get irritated with Madrid because of the political deadlock. The lack of a new government since the 20 December election means that major decisions such as approving a new budget cannot be taken. 'We cannot form a government, although we would like to', said Jeroen Dijsselbloem, President of the Eurogroup.

Another major issue that needs to be tackled is reforming the all-party Toledo Pact on pensions. The social security deficit is one of the main factors behind the general government deficit. A jobless rate of 20%, the ageing of the population and around 1.8 million fewer social security contributors than in 2008 are putting the welfare system under strain. The special reserve for pensions, created during the economic boom, dropped from €66.8 billion in 2011 to €25.1 billion in July and at this rate will have been depleted by the end of 2017.

The share of the Spain's population over the age of 65 rose from 16.6% to 18.5% between 2005 and 2015 (see Figure 7).

Figure 7. Population over the age of 65, 2015 and 2005 (% of total population)

	2015	2005
Italy	21.7	19.5
Germany	21.0	18.6
EU-28	18.9	16.6
Spain	18.5	16.6
France	18.4	16.3
UK	17.7	15.9
Ireland	13.0	11.1

Source: Federal Statistical Office of Germany.

The economy is growing briskly, though it has yet to recover the pre-crisis GDP level (2008), thanks to another record year for tourism and exports. As a result of a bumper July, with 9.6 million tourists (+9.1% year-on-year), the total number for 2016 will be more than 70 million, up from 68.2 million in 2015.¹

¹ See my post for more detail at <http://www.blog.rielcano.org/en/spain-on-course-for-another-record-year-in-tourism/>.

The Ibex-35, the benchmark index of the Spanish stock market, however, has not yet recovered the level it had before the UK's decision to leave the EU on 23 June (see Figure 8).

Figure 8. European stock market indices since Brexit

	June 23 referendum	27 June	19 Sept.	% cha. 27/19
Ibex 35	8,885.30	7,646.50	8,715.50	-1.9
Euro Stoxx 50	3,037.86	2,697.44	2,968.31	-2.2
FTSE 100	6,338.10	5,982.2	6,813.55	7.5
DAX	10,257.03	9,268.6	10,373.87	1.1

Source: Stock Markets.

Moody's, the credit rating agency, warned in a report that the prolonged political impasse was 'credit negative for the Spanish sovereign' and would weaken growth and make it more difficult to improve the fiscal performance.

Public debt reached 100.5% of GDP at the end of June, up from 36% in 2007. The lack of a new government has made it more difficult to control the finances of regional governments whose total debt stands at 24.8% of GDP. Their debts vary between a low of 14.2% (Madrid) and a high of 41.7% (Valencia).

Jobless rate drops to 20%, companies headhunting abroad

The headline unemployment rate, based on a quarterly labour force survey, stood at 20% at the end of June, down from a peak of almost 27% in 2012.

The number of jobless was 4.57 million, 216,700 fewer than at the end of March, compared with 3.69 million at the end of August (the lowest figure for that month since 2009) based on those registered each month in government employment offices.

The difference of 880,000 between the two figures reflected those who might have exhausted their right to unemployment benefits, were not on state training-programmes, were working in the shadow economy or had given up seeking a job.

A record number of contracts (11.3 million) were signed in the first seven months, according to the Employment Ministry, but most of them were temporary and for increasingly shorter periods. One-quarter of them were for a week or less. The average length of contracts signed was 51 days compared with 65 in 2010 and 80 in 2006.

Despite the still very high unemployment, some companies say they are unable to find the right people to fill their vacancies. This is because of a lack of the necessary skills.

Over half (56%) of companies said there was a gulf between the skills they are looking for and those of applicants, according to the employment consultancy Hays. This is

particularly the case in companies like the energy giant Repsol and the engineering company Acciona with an international profile.

The large number of temporary contracts means employees cannot acquire much experience and employers do not have the incentive to train these people. In Germany, for example, companies assume the responsibility of providing the training to suit their needs.

Another problem is the sharp rise in the number of 15-29 year-olds who are not only jobless but also not in education or training (known as NEETs). The NEETs rate was 22.8% in 2015, up from 13.2% in 2006 during Spain's economic boom when the jobless rate was below 10% (see Figure 9).

Figure 9. Percentage of 15-29 year-olds not in employment, education or training, 2015

	2015
Italy	27.4
Spain	22.8
France	17.2
OECD average	14.6
UK	13.7
Germany	8.6
Netherlands	7.2

Source: Education at a Glance, 2016, OECD.

Banks pass EBA's stress tests, state only recovers a fraction of amount spent on bail out
Spain's six largest banks passed the European Banking Authority's stress tests that submitted them to an adverse scenario set in 2018.

The EBA put the bank's balance sheets under a severe economic scenario including a 7.1% drop in GDP, a drop-off in interest income and a collapse in the real-estate market. It did not test for a Brexit of the UK from the EU or a prolonged period of negative interest rates.

BFA (Bankia group), the result of the merger of five tottering savings banks which almost collapsed in 2012 and had to be nationalised, has the best transitional fully-loaded CET1 capital ratio (9.6%) and Banco Popular (6.6%) the worst (see Figure 10). The minimum is 5.5%.

Figure 10. Spanish bank's stress test results, CET1 capital ratio (%)

	Current	2018 baseline scenario	2018 in adverse scenario
BFA (Bankia group)	13.7	14.4	9.6
Santander	10.2	13.2	8.2
BBVA	10.3	12.0	8.2
Sabadell	11.7	12.8	8.0
Criteria Caixa Holding	9.7	11.0	7.8
Banco Popular	10.2	13.5	6.6

Source: EBA.

The average capital ratio for Spain was 8.13%, among the lowest (see Figure 11).

Figure 11. Average CET1 capital ratios by country (%)

	2015	2018 in adverse scenario
Sweden	18.97	16.61
France	12.50	9.57
Germany	13.30	9.44
Europe	12.57	9.22
UK	12.49	8.51
Spain	10.45	8.13
Italy	11.41	7.62

Source: EBA.

The non-performing loans (NPLs) of all banks dropped to 9.39% of total lending in July, the lowest figure since June 2012, when the government sought a bailout for some banks. The NPL ratio peaked at 13.6% in 2013.

The NPL figure does not include the large volume of toxic loans that Bankia and regional savings banks transferred to the 'bad bank' Sareb in 2012 and 2013. These loans helped to fuel a decade-long property boom whose bubble burst as of 2008. Sareb revised its losses for 2015 last month to €1,523 million, up from €1,293 million.

Banks are still very exposed to bricks and mortar. The loans of the six largest banks to the construction and real-estate sectors including doubtful ones amounted to €48,526

million at the end of June, albeit 9.2% lower than a year earlier. The portfolio of foreclosed properties and land in the hands of banks stood at €63,132 million, down 0.5%.

Spain has only recovered €2.69 billion of the €53.55 billion spent on propping up ailing banks four years ago, a fraction of what the Popular Party government hoped for, according to the latest figures released by the country's central bank.

The full privatisation of Bankia and Banco Mare Nostrum in the coming years and the proceeds from convertible bonds will not increase the figure significantly. Luis de Guindos, the Economy Minister, has repeatedly said that the state expects to recover 'most' of the financial aid granted to banks.

Corporate Scene

Ferrovial enters Chilean electricity sector

Ferrovial has agreed to acquire Transchile Charrúa Transmisión from Brazilian companies Alupar and Cemig for €64 million.

Transchile operates a double-circuit 204km long 220kv power transmission line between the substations of Charrúa in the Biobío region and Cautín in Araucanía.

Chile is one of the key countries in Ferrovial's diversification strategy. The company has been operating in Chile since 1996, in the toll roads, services, construction and airports businesses.

Six Spanish construction companies among top 30 in Europe

Construction companies, hard hit by the bursting of the real-estate bubble, recovered in 2015 when their sales rose for the first time since 2008 and their market capitalisation increased, according to Deloitte (see Figure 12).

Figure 12. Ranking of European construction firms, 2015

Ranking	Company	Country	Sales (€ mn)
1.	Vinci	France	38,518
2.	ACS	Spain	34,925
3.	Bouygues	France	32,428
4.	Skanska	Sweden	16,363
5.	Eiffage	France	14,060
8.	Ferrovial	Spain	9,701
11.	Acciona	Spain	6,544
12.	FCC	Spain	6,476
19.	OHL	Spain	4,369
28.	Sacyr Vallehermoso	Spain	2,949

Source: Deloitte, European Power of Construction report.

Revenue, boosted by contracts abroad, was 3% higher than in 2014 at €64,964 million and market capitalisation increased 6% to €32,636 million.