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Foreign Policy

Spain guarantees residency and healthcare rights for British citizens in event of no-deal Brexit

Britons in Spain will have continued healthcare access if the UK leaves the EU without a Brexit deal, according to unilateral contingency measures announced by the government, provided certain reciprocal conditions are met for Spaniards in Britain.

The package of measures also covers employment, social security, education, transport, customs and driving licences.

Spain has the largest number of resident British ex-pats in Europe (around 300,000 are registered) and 18.5 million British tourists visited Spain last year (22% of the total). Some 150,000 Spaniards live in the UK.

Unregistered Brits have until the date of Brexit to register in their local town hall. Those registered will then maintain their legal residence status and have until the end of 2020 to apply for residency as non-EU citizens, with a Foreigner's Identity Card.

'It's a series of measures fundamentally designed to preserve the interests of citizens, whether they are Spanish or British, who exercised their right to freedom of movement before the withdrawal date', said Foreign Minister Josep Borrell. 'They exercised a right and it needs to be maintained and respected. We also have to preserve Spain's normal trade flows and economic interests'.

Borrell said he hoped the contingency law never has to be used 'because if it is, it means that the UK has left the EU through the window. We will do everything we can to make this decree unnecessary'.

As regards the British overseas territory of Gibraltar, long claimed by Spain, Madrid made it clear that customs procedures to avoid potential obstacles to the free movement of goods will apply to the Rock and not just to trade between Spain and the UK. More than 9,000 Spaniards cross the border to work in Gibraltar. 'We're giving special consideration to this border and our chief aim is to defend the rights of cross-border workers', said Borrell.

The UK and Spanish governments agreed in January to guarantee continued voting rights in certain elections for Spanish and British citizens living in each other's countries after Brexit.

The UK began to implement a settlement scheme in January for EU citizens living in Britain to allow them to remain after Brexit.

Spain signs Gibraltar tax agreement with Britain

The Spanish and UK governments signed a tax treaty on Gibraltar, the British overseas territory long claimed by Madrid, ahead of Brexit.

Foreign Minister Josep Borrell, who signed the accord with David Lidington, Prime Minister Theresa May's effective deputy, hailed the agreement as 'the first international agreement signed by Spain and the UK over Gibraltar since the Treaty of Utrecht', which dates back to 1713 and under which Spain ceded the Rock to Britain.

Gibraltar's Chief Minister, Fabian Picardo, called the treaty 'massively significant' as it meant 'Spain recognises, for the first time in history, the existence of registered Gibraltarians and of the Gibraltarian Status Act'. This is the Act that determines who are the people that can register and describe themselves as 'Gibraltarians'.

Spain has long accused Gibraltar of being a tax haven, which the Gibraltarian authorities deny. The territory has a much lower tax regime than Spain. Its corporate tax rate is 10%, compared with Spain's 25%.

The treaty is about resolving the tax status for people and companies who live or are based in one jurisdiction but work or make revenue in the other, and it cuts both ways. It has similar provisions to those in a double-taxation treaty including the sharing of tax information, in the way that Gibraltar already says it does under EU directives with a host of countries including Spain.

Picardo said the Spanish government had pledged 'that the effective implementation of this treaty will lead to Gibraltar being removed from the Spanish blacklist of tax haven jurisdictions in the future. I trust we will now be able to end the irritating myth that Gibraltar is anything other than entirely cooperative when it comes to the exchange of tax information'.

The treaty provides for Gibraltar, which voted 96% to remain in the EU, to keep legislation equivalent with EU law on matters related to transparency, cooperation, harmful tax

practices and anti-money laundering after it has left the EU, something which Picardo said the territory had long been committed to doing.

The governments of Gibraltar, the UK and Spain have already signed four memorandums of understanding (MoUs) that underpin the Rock’s position after Brexit in the special protocol on Gibraltar to the legally binding Agreement on the UK’s withdrawal from the EU, provided Britain achieves a negotiated exit. These MoUs ensure the Rock’s orderly withdrawal from the EU and set out a time-limited framework for cooperation with Spain. The MoUs cover citizens’ rights between the UK and Spain, environmental matters, cooperation in police and customs matters and tobacco and other products.

London and Gibraltar have also published a concordat stating that the MoUs and the protocol will be implemented in accordance with Gibraltar’s 2006 Constitution. The MoUs do not modify in any way the positions of Spain, the UK and Gibraltar on the issues of sovereignty, jurisdiction or control. Spain is pushing for shared sovereignty.

The protocol on Gibraltar lasts until the end of the transition period (currently 31 December 2020). This means that the UK-Spain-Gibraltar relationship has yet to be fully resolved.

Agreements between the EU and the UK in respect of Gibraltar after Britain leaves the EU will require Spain’s prior agreement.

Only one in five Spaniards approve Trump’s leadership

Just over 20% of Spaniards surveyed by Gallup approve of President Donald Trump’s leadership, one of the lowest levels in Europe (see Figure 1). Kosovans (80%) have the highest approval and Russians the lowest (11%).

Figure 1. Do you approve or disapprove of the job performance of the leadership of the US? (%)

	Approve	Disapprove	Don’t know/Refused	Change from 2017 in pp
Kosovo	80	12	8	5
Italy	36	57	8	-9
UK	26	64	11	-7
France	26	65	9	1
Spain	22	73	6	-4
Germany	17	73	9	-5
Russia	11	60	29	3

Source: Gallup, Rating World Leaders 2019.

Domestic Scene

Abandoned rural Spain key in next month's election

The so-called 'Empty Spain', where 30% of the population lives in 65% of the territory, is set to play a bigger role in Spain's upcoming snap election on 28 April.

Some villages have fewer than 10 inhabitants and 40,000 of them face extinction. 'Laponia' ('Spanish Lapland') –a hypothetical territory formed by the provinces of Cuenca, Teruel, Soria and Guadalajara– shares with Northern Lapland the lowest rates of population density in Europe.

Internal migration began in the late 1950s as Spain industrialised and villagers moved to urban areas to work. Between 1960 and 1970 more than 3 million people moved on a permanent basis. That exodus today is down to an estimated 40,000 a year, making Spain one of the most rurally depopulated countries in the EU.

Rural Spain has traditionally been the preserve of the two main parties, the conservative Popular Party (PP) and the Socialists, particularly the former, both of which hardly campaigned in this area in the 2016 election as voters tended to be loyal.

This time round five parties will be competing, and all of them are far from winning an absolute majority.

While the liberal Ciudadanos (Cs) and the far-left Podemos broke the 33-year hegemony of the PP and the Socialists in the 2015 election and produced a hung parliament that led to another election in 2016, the arrival of the far-right VOX, which came from nowhere to win 12 seats in last December's parliamentary election in Andalucía and backs the PP/Cs minority government in that region, has further fragmented politics.

The Socialists are currently forecast to win 113 of the national parliament's 350 seats, the PP 75, Cs 58, VOX 38 and Unidos Podemos 36, according to a poll of polls compiled by Kiko Llaneras of El País.

The Socialists would not be able to govern with Podemos's support as their combined 147 seats would be short of the 'magic' number of 176 and the tripartite right would be five short of a majority. These results would leave Basque nationalists and Catalan secessionists as kingmakers.

Albert Rivera, the leader of Cs, has ruled out a pact with the Socialists even before the campaign has begun, let alone knowing the results, something that many analysts view as a risky strategy. His rightward shift is aimed at stemming any haemorrhaging of PP voters who switched to Cs in the 2016 election.

PP, Cs and VOX politicians were keen to be seen at the demonstration in Madrid earlier this month 'in defence of the rural world and its traditions'.

Cs gave parliamentary support to the two-year minority PP government of Mariano Rajoy that was ousted last June in a censure motion engineered and won by the Socialists under its leader, Pedro Sánchez, backed by Unidos Podemos, Basque nationalists and Catalan secessionists.

Cs joined the PP and other parties in rejecting the Socialists' 2019 budget, triggering the election in April. Sánchez's administration is the shortest lived in post-Franco Spain.

Sánchez paints the PP and Cs as moving to the extreme right, in order not to be outflanked by VOX, while Pablo Casado, the PP's new leader, compares the Socialists and Unidos Podemos to the leftist Popular Front that was in power before and during Spain's 1936-39 Civil War.

The greater polarisation has produced a much larger number of undecided voters, according to Metroscopia, a leader in political polling. Cs calculation is that a readiness to pact with the Socialists would deter undecided voters from voting for it.

Cs and VOX will be campaigning in rural areas, most of which have returned PP politicians to the national parliament. Thirty-six of the 66 seats in constituencies that elect three or four MPs (19% of parliament's total 350 seats) were won by the PP in 2016 (see Figure 2). The eight smallest provinces that elect three deputies each have a combined population of 810,000 (1.7% of Spain's total), but their 24 seats account for 6.9% of the total.

Figure 2. Parliamentary seats won by parties in ‘empty Spain’ in electoral constituencies with three or four seats

	Popular Party	Socialists	Unidos Podemos	Ciudadanos	Others
Lugo	2	1	1		
Ourense	3	1			
León	2	1	1		
Zamora	2	1			
Salamanca	3	1			
Cáceres	2	2			
Palencia	2	1			
Burgos	2	1	1		
Segovia	2	1			
Ávila	2	1			
Álava	1	1	1		1
La Rioja	2	1	1		
Soria	1	1			
Guadalajara	2	1			
Cuenca	2	1			
Albacete	2	1	1		
Teruel	2	1			
Huesca	1	1	1		
Lleida	1		1		2
Total	36	19	8		3

Source: Interior Ministry.

The urban conglomerations of Madrid and Barcelona, in comparison, elect 36 and 31 MPs, respectively (a combined 22% of parliament’s seats).

With the right split three ways, the d’Hondt method used for allocating seats based on proportional representation could work against the PP, the main beneficiary in rural areas so far, and to the advantage of the left, which is less divided.

Casado urged VOX not to run candidates in the smallest constituencies as this might spoil the right’s chance of repeating the Andalusian result at the national level.

Another increasingly important factor in next month's election will be the female vote. Several million women all over Spain joined a strike on 8 March, International Women's Day, calling for equality in the workplace and home, an end to macho culture and greater action against gender-based violence. PP leaders did not participate in the protest as they accused the extreme left of 'monopolising' it and 'seeking division and confrontation between men and women'.

VOX's voters are predominantly male. The party wants to repeal Spain's gender-violence law, which it views as biased against men. Cs, on the other hand, announced a 'liberal feminist manifesto', while 11 of the 17 outgoing Socialist government's Ministers are women, the highest share in the EU.

Fugitive former Catalan Premier to run in European Parliament election

Carles Puigdemont, the fugitive former Premier of Catalonia who has been living in self-imposed exile in Belgium for the past 16 months after Madrid imposed direct rule on the region, will head the list of candidates of Junts per Catalunya (JxCat) in the 26 May European Parliament elections.

Puigdemont is wanted in Spain on charges of rebellion after holding an unconstitutional referendum on independence for Catalonia and then unilaterally proclaiming independence.

He believes that by becoming a MEP the Spanish authorities cannot arrest him if he returns home. Legal experts, however, say that he would not automatically have immunity as it could be revoked because he is wanted for a serious crime.

Moreover, the electoral law stipulates that he would have to return to Spain to formally swear that he would comply with the Spanish Constitution as a European lawmaker. Failure to do that would bar him from assuming his seat in the European Parliament.

Oriol Junqueras, the jailed leader of the pro-independence party ERC who is on trial in Madrid with 11 other Catalan politicians for their role in the secession drive, will also run in the European election.

'It is the moment to make another step to internationalise the self-determination right of Catalonia from Europe's heart to all the world', Puigdemont said on Twitter.

Spanish courts lifted last July the European arrest warrants for Puigdemont after a German court ruled that he could only be extradited to Spain to face a separate charge of misuse of public funds, but not for rebellion. The Spanish judiciary decided not to accept that.

Spain moves up two places in WJP Rule of Law Index

Spain was ranked 21st out of 113 countries in the latest Rule of Law Index drawn up by the World Justice project (WJP), up from 23rd in 2018 (see Figure 3). This was yet another rebuttal of the accusation by Catalan leaders on trial for organising an illegal referendum

on independence that the rule of law does not exist in Spain. The country was ranked close to France.

Figure 3. WJP Rule of Law Index 2019 (1)

Ranking out of 113	Score	Rank change
6. Germany	0.84	0
12. UK	0.80	-1
17. France	0.73	+1
20. US	0.71	-1
21. Spain	0.71	+2
28. Italy	0.65	+3

2018 Index

(1) The change in rankings was calculated by comparing the positions of the 113 countries measured in the 2017 with the rankings of the same 113 countries in 2019, exclusive of the 13 new countries indexed in 2019.

Source: WJP.

The index is based on eight factors: constraints on government powers, absence of corruption, open government, fundamental rights, order and security, regulatory enforcement, civil justice, and criminal justice (see Figure 4).

Figure 4. WJP Rule of Law Index, global rankings of selected countries

	CoGP	AoC	OG	FR	OS	RE	CJ	Cr.J
Germany	6	12	11	6	15	7	3	7
UK	11	11	10	11	21	11	18	9
France	17	18	12	20	56	17	19	22
US	19	20	13	27	49	19	30	23
Spain	21	23	20	16	39	23	23	20
Italy	24	36	29	25	55	33	55	21

CoGP: constraints on government powers; AoC: absence of corruption; OG: open government; FR: fundamental rights; OS: order and security; RE: regulatory enforcement; CJ: civil justice; and Cr.J: criminal justice.

Source: World Justice Project.

The world's healthiest country

Spain moved up six places and surpassed Italy to become the world's healthiest country, according to the 2019 edition of the Bloomberg Healthiest Country Index (see Figure 5).

Figure 5. Healthiest 10 countries in the world

Ranking out of 169 countries	Score
1 Spain	92.8
2 Italy	91.6
3 = Iceland	91.4
3 = Japan	91.3
5 Switzerland	90.9
6 Sweden	90.2
7 Australia	89.8
8 Singapore	89.3
9 Norway	89.1
10 Israel	88.2

Sources: Bloomberg analysis of World Health Organization data, United Nations Population Division and the World Bank.

The index ranks 169 countries on the basis of factors that contribute to overall health including life expectancy and access to clean water and sanitation. Spain already has the highest life expectancy in the EU and in 2040 is forecast to have the highest in the world, at almost 86 years.

One factor that weighs very much in Spain's favour, according to a study led by the University of Navarra Medical School, is a 'Mediterranean diet, supplemented with extra-virgin olive oil or nuts, which had a lower rate of major cardiovascular events than those assigned to a reduced-fat diet'.

The Economy

Parties fail to agree pension reform after three years of negotiations

Political parties failed to agree any measures to stem the long brewing crisis in the pension system after three years of negotiations, leaving the matter to the government that emerges from the 28 April general election.

The hope, at least for the outgoing minority Socialist government of Pedro Sánchez, was for an agreement among the parties in the so-called Toledo Pact, set up in 1995 to make the social security system more sustainable.

Parties accused the far-left Unidos Podemos of being the main obstacle for electoral reasons. The conservative Popular Party was also not keen to hand a victory to the outgoing Socialist government.

The social security deficit (1.1% of GDP in 2018) is the main factor behind Spain's overall

fiscal deficit (2.2% last year). Pension payments have been met in recent years by running down a special reserve set up in 2000 during Spain's economic boom and borrowing. That fund peaked at €66.8 billion in 2011 and today is practically depleted.

By 2050, Spain will have 15 million pensioners, up from 8.7 million today. Close to 80 people then will be above the age of 65 per 100 people of working age (20 to 64 years old), reflecting the country's rapidly ageing population, compared with only 19 in 1975 (see Figure 6).

Figure 6. Old-age dependency rate: number of people older than 65 years per 100 people of working age (20-64)

	1975	2015	2050
Japan	12.7	46.2	77.8
Italy	21.6	37.8	72.4
Germany	26.5	34.8	59.2
France	24.5	33.3	52.3
UK	25.5	31.0	48.0
Spain	19.0	30.6	77.5
EU-28	21.2	29.9	55.9

Source: OECD.

The much higher old-age dependency rate, which is also the result of the low fertility rate of 1.3 children per woman (2.5 in 1978), will be the second-highest among OECD countries after Japan. Deaths have outstripped births in the last three years.

Unemployment at 15% is still very high, and the number of social security contributors has yet to return to the peak of 19.5 million in 2007.

The previous PP minority government of Mariano Rajoy restored annual indexation of pensions to inflation in order to get belated parliamentary approval for the 2018 budget last May, although many economists believe Spain cannot afford this. That agreement became ineffectual when the PP government was ousted by the Socialists in a censure motion last June.

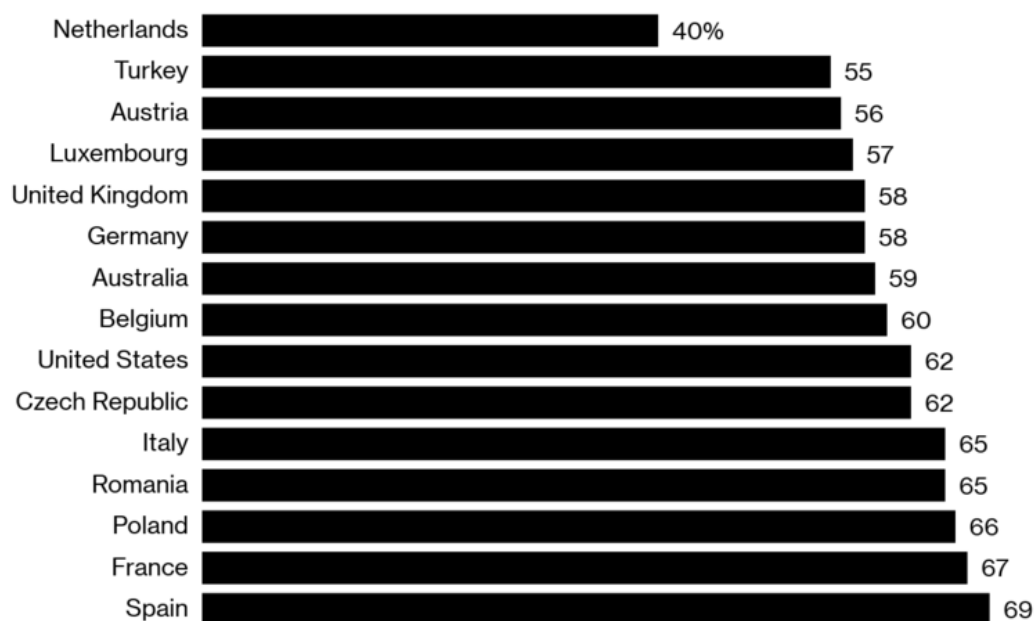
Indexation had been eliminated in 2014 in order to make the system more sustainable, and annual pension rises limited to 0.25%. That move triggered widespread protests by pensioners last year because of their loss of purchasing power.

The 2013 package of pension reforms also gradually raised the retirement age from 65 (unchanged since first established in 1919) to 67 (fully in force as of 2027) for both men and women, and the number of years of contributions to qualify for the maximum pension raised from 35 to 37.

A survey conducted by the Dutch bank ING showed that Spaniards are the most concerned among the 15 countries surveyed at not having enough money for their

retirement (see Figure 7).

Figure 7. Financial fear factor: share saying ‘I worry about whether I will have enough money in retirement’ (%)



Source: ING.

Spain still has severe disincentives to combine work and a full pension. It is one of only seven OECD countries that applies limits to the earnings above which combined pension benefits are reduced. The pensions of those who continue working are reduced by 50%, apart from self-employed workers earning less than the minimum wage or hiring at least one worker. Furthermore, workers still in employment and receiving a pension do not earn additional pension entitlements although they pay a special ‘solidarity’ contribution of 8%, which does not apply to those continuing to work and deferring the pension.

The incentive to build up a private pension fund was reduced as of 2015 when the amount that is tax deductible was reduced from €12,000 to €8,000.

European Commission warns of risks to government finances

Spain’s fiscal deficit remains ‘stubbornly high’, while re-establishing the link of pensions to inflation (ended in 2014), as of this year, is likely to ‘significantly increase expenditure’ unless measures to offset this are taken, the European Commission warns in its latest review of the economy.

The report came hard on the heels of parliament’s rejection last month of the Socialist government’s 2019 budget that led Prime Minister Pedro Sánchez to call a snap election on 28 April.

Finance Minister María Jesús Montero said the deficit could rise to between 2.2% and 2.4% of GDP, far from the target of 1.8%.

Turning to key structural issues, the Commission pointed out that:

- The widespread use of temporary contracts is holding back Spain's growth potential and social cohesion. Moving from a temporary contract to a permanent one remains difficult.
- The proportion of people at risk of poverty or social exclusion decreased slightly in 2017 but remains high, particularly among children. Temporary workers, the low-skilled and those not born in the EU face one of the highest in-work poverty risks in the EU. Public spending on family benefits, which is half of the EU average, remains poorly targeted at low-income families.
- Innovation is hampered by a number of factors and this also affects productivity. The innovation performance of the country suffers from underinvestment in public and private R&D, but also from weak coordination across all levels of government.
- The restrictiveness and fragmentation of regulation within Spain prevents companies from benefiting from economies of scale. Implementing more decisively the 2013 Law on Market Unity and removing identified restrictions for professional services would improve growth opportunities and competition in many services sectors. The large presence of small companies in the economy also explains Spain's productivity gap, as their productivity lags significantly behind that of larger firms.
- Spain faces specific territorial cohesion challenges, such as depopulation and ageing in rural areas, on the one hand, and demographic pressure in some urban areas, on the other. Certain areas of Spain are amongst the most exposed in Europe to climate change and there are significant challenges in managing water and wastewater.

The Commission said Spain made limited progress last year in meeting its recommendations in the following areas:¹

- The institutional framework governing the prudent management of public finances was not strengthened. A new governance structure for public procurement is being set up, but a nation-wide public procurement strategy has still not been put in place.
- Implementation of the 2013 Law on Market Unity is proceeding slowly.
- Advances in the funding and governance of the research, development and innovation system have been modest, despite some positive steps. Cooperation between universities and businesses remains weak.
- National unemployment assistance schemes are fragmented and there are gaps in the coverage of many regional income guarantee schemes. There has been little improvement in support to families, especially those most in need.

¹ See the Overview Table on pages 75-78 of the report for information on the level of progress and actions taken to address the policy advice.

Record goods exports in 2018, but slower growth

Spain's merchandise exports, which have played a significant role in the economy's recovery, set a new record in 2018 for the 10th straight year of €285 billion, but the growth of 2.9% was considerably less than the 7.7% in 2017 (see Figure 8).

Figure 8. Merchandise exports' value, as a percentage of GDP and coverage, 2009-18 (€ billion and %)

	Exports (€ bn)	% of GDP	Coverage (%) (1)
2009	159.9	15.2	77.6
2010	186.8	17.7	77.8
2011	215.2	20.2	81.8
2012	226.1	21.5	87.7
2013	235.8	22.8	93.4
2014	240.6	22.9	90.6
2015	249.8	23.3	90.9
2016	256.3	22.8	93.6
2017	276.1	23.8	91.3
2018	286.0	23.6	89.4

(1) Exports as a percentage of imports.

Source: Ministry of Economy and Competitiveness.

The rise in exports was lower than that attained by the euro zone (+4.4%). Growth was also below that of global trade for the first time since 2008. In real terms, exports declined by 0.1%, while imports were up 1.1%.²

Spain's slow-down in exports combined with a 5.6% rise in imports, reflecting the pick-up in domestic demand, produced a trade deficit of €33.8 billion, the highest since 2011. Exports in 2018 covered 89.4% of imports, the lowest coverage since 2012.

Housing starts return to their level in 2009

The number of housing starts in 2018 was more than 100,000 for the first time since 2009, following the bursting of a massive property bubble that along with the global financial crisis pushed the Spanish economy into recession.

Housing starts peaked at 865,561 in 2006 –more than Germany, France and the UK combined– and plummeted to 33,873 in 2014 (see Figure 9). Fully two-thirds of the properties built in Europe between 1999 and 2007 were built in Spain.

² See my analysis at <https://blog.realinstitutoelcano.org/en/exports-of-goods-set-new-record-but-growth-slow/>.

Figure 9. Housing starts, 2006-18

Year	Housing starts
2006	865,561
2007	598,087
2008	264,795
2009	110,849
2010	91,662
2011	78,286
2012	44,162
2013	34,288
2014	34,873
2015	49,695
2016	64,038
2017	80,786
2018	100,733

Source: Ministry of Development.

Average house prices rose 6.7% last year, the largest annual increase since 2007. Prices plummeted between 2008 and 2013 and have risen every year since 2014.

Corporate Scene

Aena acquires Northeast Brazil airports for €437 million

Aena, the world's largest airport operator in terms of passengers, was awarded the concession for six airports in Brazil in a major boost to its internationalisation.

Recife, Maceió, Aracajú, Campina Grande, João Pessoa and Juazeiro do Norte airports account for 6.5% of traffic in Brazil (13 million passengers).

Aena operates 17 airports outside Spain (12 in Mexico, two in Colombia, two in Jamaica and one in the UK).