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### Summary

Spain holds its position in global presence ranking. New restrictions in Madrid amid second virus wave. Spaniards against Juan Carlos's departure and broad support for Felipe VI. Government wrestles with 2021 budget and prepares for EU's pandemic recovery fund. CaixaBank and Bankia to merge and create largest bank in Spain.

### Foreign Policy

#### Spain holds its position in global presence ranking

The country remained in 12<sup>th</sup> position in the latest Elcano Global Presence Index, although its score was slightly lower (see Figure 1).

**Figure 1. 2019 Elcano Global Presence Index, top 20**

| Country        | 2019 score | 2013 score | Country         | 2019 score | 2013 score |
|----------------|------------|------------|-----------------|------------|------------|
| 1. US          | 3,043.9    | 2,830.6    | 11. S. Korea    | 310.2      | 259.5      |
| 2. China       | 1,137.2    | 747.4      | 12. Spain       | 285.4      | 299.6      |
| 3. Germany     | 809.4      | 808.6      | 13. India       | 273.4      | 263.6      |
| 4. UK          | 795.6      | 807.6      | 14. Australia   | 232.5      | 244.9      |
| 5. Japan       | 729.7      | 610.5      | 15. Belgium     | 205.3      | 219.7      |
| 6. France      | 683.2      | 694.5      | 16. Switzerland | 201.2      | 227.7      |
| 7. Russia      | 534.2      | 579.9      | 17. Singapore   | 178.9      | 175.3      |
| 8. Canada      | 415.0      | 390.6      | 18. Turkey      | 176.3      | 108.1      |
| 9. Netherlands | 361.8      | 369.0      | 19. Ireland     | 141.2      | 102.4      |
| 10. Italy      | 352.7      | 371.3      | 20. Brazil      | 139.9      | 165.2      |

Source: Elcano Royal Institute.

The 130 countries covered (10 more than last year) generate 99% of global GDP and account for 94% of the world's population. The ranking of the top 20 countries was virtually the same as in 2018.<sup>1</sup>

The index, the result of adding together 16 indicators of external projection that 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 dimensions. First, it ranks a country's economic presence, including outward foreign direct investment and other elements such as energy, services and exports. Secondly, it assesses a country's military presence, which is determined by the number of troops deployed abroad and the equipment available for deployment. And 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.

The index does not measure power and nor does it reflect a country's effort to achieve greater internationalisation or its degree of openness. 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, for example, but disregards imports. By comparing a state's presence with its actual power (or influence), it is possible to gauge the extent to which it is punching above or below its weight. Spain is regarded as punching below its weight.

Spain's economic presence (62.5% of its global presence) was slightly lower, mainly due to a lower outward stock of direct investment (see Figure 2). Spain's total score was 285.4, down from 292.9 last year and 339 in 2011.

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<sup>1</sup> The results are explained in this post by Iliana Olivie and Manuel Gracia: <https://blog.realinstitutoelcano.org/en/some-thoughts-on-the-pre-covid-world-2019-elcano-global-presence-index-results/>.

**Figure 2. Spain's global presence index absolute values and % share in the index of the economic, military and soft presence dimensions, 1990-2019**

| Variable                           | 1990         | 1995         | 2000         | 2010         | 2014         | 2016         | 2017         | 2018         | 2019         |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Economic presence                  | 61.2         | 79.0         | 128.3        | 230.5        | 183.4        | 171.2        | 176.3        | 186.7        | 178.5        |
| % of global presence               | 48.0         | 53.4         | 61.9         | 66.5         | 66.2         | 63.6         | 62.7         | 63.7         | 62.5         |
| Energy                             | 1.6          | 0.7          | 1.6          | 2.2          | 3.6          | 2.4          | 1.9          | 2.9          | 3.4          |
| Primary goods                      | 5.7          | 9.4          | 9.6          | 12.2         | 13.7         | 13.0         | 13.4         | 14.0         | 14.0         |
| Manufactures                       | 18.8         | 24.3         | 28.1         | 28.9         | 29.5         | 28.6         | 28.8         | 29.4         | 29.5         |
| Services                           | 25.9         | 28.7         | 34.7         | 41.4         | 36.3         | 35.1         | 37.1         | 38.2         | 38.8         |
| Investments                        | 9.2          | 15.9         | 54.2         | 145.8        | 100.2        | 92.1         | 95.1         | 102.2        | 92.8         |
| Military presence                  | 46.6         | 44.7         | 45.5         | 52.1         | 32.4         | 32.2         | 31.9         | 34.2         | 35.1         |
| % of global presence               | 36.5         | 30.2         | 22.0         | 15.0         | 11.7         | 12.0         | 11.4         | 11.7         | 12.3         |
| Troops                             | 0.4          | 8.1          | 13.4         | 12.1         | 3.9          | 5.0          | 4.8          | 7.4          | 8.3          |
| Military equipment                 | 46.2         | 36.6         | 32.1         | 40.0         | 28.4         | 27.2         | 27.1         | 26.8         | 26.8         |
| Soft presence                      | 19.9         | 24.2         | 33.4         | 64.0         | 61.3         | 65.6         | 72.8         | 72.0         | 71.9         |
| % of global presence               | 15.6         | 16.4         | 16.1         | 18.5         | 22.1         | 24.4         | 25.9         | 24.6         | 25.2         |
| Migrations                         | 1.6          | 1.8          | 2.8          | 9.4          | 8.6          | 8.4          | 8.4          | 8.3          | 8.3          |
| Tourism                            | 9.0          | 7.3          | 9.7          | 9.7          | 10.8         | 11.9         | 13.0         | 14.0         | 14.0         |
| Sports                             | 0.9          | 2.7          | 1.2          | 2.8          | 3.4          | 3.2          | 3.1          | 3.0          | 3.0          |
| Culture                            | 0.3          | 0.9          | 4.2          | 11.2         | 11.5         | 10.9         | 11.1         | 11.8         | 12.0         |
| Information                        | 0.0          | 0.1          | 0.3          | 3.1          | 4.8          | 9.9          | 9.8          | 9.7          | 9.5          |
| Technology                         | 0.9          | 1.2          | 2.1          | 3.4          | 3.3          | 3.6          | 3.9          | 4.4          | 4.5          |
| Science                            | 2.1          | 3.3          | 4.8          | 8.5          | 10.4         | 10.6         | 10.9         | 11.1         | 11.1         |
| Education                          | 1.0          | 1.9          | 3.3          | 3.6          | 4.0          | 4.0          | 3.4          | 4.4          | 4.3          |
| Development coop.                  | 4.0          | 4.9          | 5.1          | 12.3         | 4.4          | 3.1          | 9.1          | 5.3          | 5.0          |
| <b>Global presence index value</b> | <b>127.6</b> | <b>147.9</b> | <b>207.2</b> | <b>346.6</b> | <b>277.0</b> | <b>269.0</b> | <b>281.0</b> | <b>292.9</b> | <b>285.4</b> |
| Position in the index              | 13           | 10           | 10           | 11           | 11           | 12           | 11           | 12           | 12           |

Source: Elcano Royal Institute.

## Domestic scene

### New restrictions in Madrid amid second virus wave

When Spain ended its 14-week state of emergency on 21 June and with it the strict pandemic lockdown, allowing people to move more freely, there was no shortage of prophecies that coping with the 'new normal' would be much more challenging. This has proved to be the case, particularly in Madrid where new restrictions came into force for two weeks as of 20 September to cope with a second wave of the virus.

More than 850,000 people (13% of the Madrid region's population) in 37 of the worst-hit districts are subject to the measures which include only being able to leave their zone to go to work, school or seek medical care. These areas have COVID-19 infection rates of over 1,000 cases for every 100,000 people (280 for the country as a whole). The incidence rate for the richest district, Barrio de Salamanca, is 565 and for Madrid as a whole 746.

Madrid's Popular Party Premier Isabel Díaz Ayuso is widely criticised for her poor handling of the crisis, including within her own party. Having attacked the leftist central government for taking away the region's health powers under the national state of emergency (restored when it was lifted), she desperately wants to avoid being the one that calls for a second state of emergency.

The affected areas are in some of the poorer districts with high population density, cramped living conditions (small flats) and large numbers of immigrants. Parks in these areas are closed but bars and restaurants remain open until 10pm.

Infections have been rising at an alarming rate since August. Spain has the highest number of cases in Europe (ninth in the world) and was the first to pass the barrier of more than 500,000. The number of cases now stands at more than 670,000 and deaths exceed 30,600 (see Figure 3). The latter figure only includes those who died after a positive PCR test.

**Figure 3. Notified cases by selected countries and as % of population**

|              | Notified cases | As % of 2019 population |
|--------------|----------------|-------------------------|
| US           | 7,030,502      | 2.13                    |
| <b>Spain</b> | <b>671,468</b> | <b>1.43</b>             |
| France       | 458,061        | 0.67                    |
| UK           | 398,625        | 0.58                    |
| Italy        | 299,506        | 0.48                    |
| Germany      | 275,548        | 0.32                    |

Figures at 21/IX/2020.

Source: <https://www.worldometers.info/coronavirus/#countries> and <https://www.worldometers.info/population/>.

The situation is even bleaker on the basis of 'excess' mortality –the number of deaths from all causes during a crisis above and beyond what we would have expected under 'normal' conditions–. In Spain's case, the number of 'excess' deaths between 2 March and 29 August was more than 53,500, 27% higher than the average of the previous four years, according to the National Statistics Office (INE). This suggests a higher death toll from coronavirus, though the exact number is not known.

The various factors behind the resurgence include the drive to get people back to work in offices and children to school, the failure to respect social distancing during the gathering of large groups of people, particularly young adults, meetings in homes where people drop their guard, the inadequate testing capacity, shortages on the contact-tracing front and healthcare personnel, and a lack of coordination and clear instructions.

The region of Madrid accounts for 30% of total registered infections (see Figure 4). One in five beds in Madrid's hospitals are now occupied by COVID-19 patients.

**Figure 4. Coronavirus (COVID-19) by region (1)**

|                    | Notified cases (PCR test) | Cases per 100,000 people in last 14 days | Deaths        |
|--------------------|---------------------------|------------------------------------------|---------------|
| Andalucía          | 50,600                    | 141                                      | 1,690         |
| Aragón             | 33,427                    | 382                                      | 1,335         |
| Asturias           | 4,627                     | 93                                       | 341           |
| Balearic Islands   | 12,636                    | 164                                      | 277           |
| Basque Country     | 40,776                    | 311                                      | 1,751         |
| Canary Islands     | 12,027                    | 130                                      | 214           |
| Cantabria          | 6,315                     | 240                                      | 232           |
| Castilla y León    | 41,019                    | 337                                      | 2,948         |
| Castilla-La Mancha | 36,380                    | 367                                      | 3,071         |
| Catalonia          | 132,024                   | 169                                      | 5,802         |
| Extremadura        | 8,959                     | 273                                      | 549           |
| Galicia            | 19,428                    | 119                                      | 718           |
| Madrid             | 199,036                   | 746                                      | 9,023         |
| Murcia             | 14,946                    | 367                                      | 193           |
| Navarre            | 15,080                    | 606                                      | 556           |
| La Rioja           | 7,732                     | 465                                      | 399           |
| Valencia           | 35,249                    | 105                                      | 1,550         |
| <b>Spain (2)</b>   | <b>671,468</b>            | <b>280</b>                               | <b>30,663</b> |

(1) Figures at 21/IX/2020.

(2) Including the North African enclaves of Ceuta and Melilla.

Source: Health Ministry.

### A nervous return to school

Schools reopened amid high COVID-19 infection rates, the hiring of thousands of extra teachers in order to meet the new safety requirements and the catch-up challenge for those students left behind since schools were closed in March, as they missed out on digital learning at home.

During the Great Reclusion only half of schools had adequate digital learning platforms in place, and four out of every 10 households with a monthly income of no more than €900 did not have a computer at home.

By the end of June, before the summer holidays, Spain had experienced 16 weeks of effective school closures in some form, compared with 14 weeks on average across OECD countries.

The return to school was preceded by chaotic scenes in the region of Madrid when tens of thousands of teachers in state schools were due to be tested for COVID-19. Some waited for five hours in the hot sun on the first day of testing, which was eventually cancelled.

Spain is well above the 'safe' infection rate for opening of schools of fewer than 25 cases per 100,000 inhabitants, according to the requirements issued by the World Health Organisation (WHO) and experts at the Harvard Global Health Institute. The rate in some parts of Madrid was up to 25 times higher in August.

Madrid's PP Premier Isabel Díaz Ayuso said 'practically all children' will be infected during the school year 'one way or another'.

The re-opening of schools coincided with the publication of the OECD's annual Education at a Glance report, which continued to show the extent to which Spain lags behind. The early school-leaving rate was 17.3% last year, almost the worst in the EU, the grade repetition rate 30.5% of 15-year-olds, one in five of 18 to 24-year-olds were not studying or working (known as NEETs), though better than one-quarter in 2009 (see Figure 5), and 30% of 25 to 35-year-olds did not have upper secondary education or the vocational training equivalent (see Figures 5 and 6).

**Figure 5. Not in education, training or employment (%)**

|          | %    |
|----------|------|
| Turkey   | 32.2 |
| Italy    | 25.5 |
| Spain    | 19.7 |
| France   | 17.3 |
| OECD     | 14.3 |
| US       | 14.2 |
| UK       | 13.3 |
| Portugal | 13.3 |
| Germany  | 8.1  |

Source: OECD.

**Figure 6. Percentage of 25 to 34-year-olds below upper secondary education or the vocational training equivalent**

|           | %  |
|-----------|----|
| Indonesia | 50 |
| Spain     | 30 |
| Portugal  | 25 |
| Italy     | 24 |
| UK        | 15 |
| OECD      | 15 |
| France    | 13 |
| Germany   | 13 |

Source: OECD.

Vocational education and training (VET) has long been a weak area. On average, 36% of all upper secondary students opt for VET programmes in Spain, a lower proportion than the OECD average of 42%.

Higher educational attainment increases the likelihood of being employed, a key issue in a country like Spain with consistently high unemployment (currently around 15%) and an economic model disproportionately based on tourism and construction.

In Spain, the employment rate in 2019 for 25-34 year-olds with upper secondary or post-secondary non-tertiary education as their highest attainment was 71% (OECD average 78%) and 79% for tertiary education (85%).

The political class has failed for decades to agree on education reforms, and successive governments have been prone to overturning those of their predecessors when there is a change of party in power, to the despair of parents. More time has been spent on minor issues such as whether religion classes should count towards grades than on improving English, acquiring basic scientific knowledge or literacy skills.

### **Spaniards against Juan Carlos's departure and broad support for Felipe VI**

A majority of Spaniards believe emeritus King Juan Carlos, under investigation for corruption, should have stayed in the country and not moved to the United Arab Emirates, and they view favourably his son Felipe VI.

The 82-year-old Juan Carlos, who abdicated in June 2014, left Spain on 3 August for an unknown destination. It took the royal household two weeks to announce that he was in Abu Dhabi, which fired up the rumour mill as to his whereabouts.



Only 13.6% of respondents in a survey by 40dB said Juan Carlos did the right thing (see Figure 7). Over 40% said he should have remained in Spain and 19% believed he should have stayed in the Zarzuela Palace. Close to 72% said his departure did little or nothing to improve the monarchy's reputation.

In a letter to his son, Juan Carlos said he was going abroad 'in the face of the public repercussions that certain past events in my private life are generating' and in the hope of allowing his son to carry out his functions as King with 'tranquillity'.

His lawyer said Juan Carlos would remain at the disposal of Spain's justice system.

The Supreme Court is investigating Juan Carlos over possible illegal commissions linked to a lucrative high-speed rail contract in Saudi Arabia awarded to Spanish companies in 2011. He lost his immunity from prosecution following his abdication.

**Figure 7. Survey on emeritus King Juan Carlos**

| King Juan Carlos is in the United Arab Emirates. In your opinion, he...                                                                   | % of respondents |
|-------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Did the right thing                                                                                                                       | 13.6             |
| Should have stayed in Spain                                                                                                               | 41.1             |
| In an EU country                                                                                                                          | 7.8              |
| In the Zarzuela Palace, his residence                                                                                                     | 19.1             |
| N/A                                                                                                                                       | 18.3             |
| To what extent does his departure help to improve the monarchy's reputation                                                               | % of respondents |
| A lot                                                                                                                                     | 4.9              |
| Quite a lot                                                                                                                               | 14.3             |
| Little                                                                                                                                    | 27.0             |
| Nothing                                                                                                                                   | 44.4             |
| N/A                                                                                                                                       | 9.4              |
| Juan Carlos said his decision to leave sought to help Felipe VI as monarch. With which of the two affirmations are you more in agreement? | % of respondents |
| Juan Carlos is trying to protect the monarchy and the reign of Felipe VI                                                                  | 34.0             |
| He is protecting himself in the face of possible court cases                                                                              | 54.7             |
| N/A                                                                                                                                       | 11.3             |
| What should be done with his title of emeritus King?                                                                                      | % of respondents |
| It should not be withdrawn                                                                                                                | 28.0             |
| Withdraw it only if he is charged                                                                                                         | 23.6             |
| Withdraw it, whether he is charged or not                                                                                                 | 37.9             |
| N/A                                                                                                                                       | 10.5             |

Source: 40dB.

King Felipe fares much better in the same survey. Three-quarters of respondents said he was quite or well prepared for the job of head of state and 42.5% rate his six-year reign as very good or good (see Figure 8).

**Figure 8. Survey on King Felipe VI**

| How would you describe him?                                                    | % of respondents |
|--------------------------------------------------------------------------------|------------------|
| Prepared                                                                       | 75.7             |
| Capable                                                                        | 66.7             |
| Honourable                                                                     | 64.9             |
| Affable                                                                        | 57.2             |
| He understands people's problems                                               | 53.2             |
| How would you rate Felipe VI's performance in the first six years of his reign | % of respondents |
| Very good                                                                      | 15.2             |
| Good                                                                           | 27.3             |
| Normal                                                                         | 33.7             |
| Bad                                                                            | 8.3              |
| Very bad                                                                       | 10.7             |
| N/A                                                                            | 4.9              |

Source: 40dB.

There was not a very significant difference, however, between the 46.3% who wanted the monarchy to last many or quite a few years and the 41.7% who hoped it did not last long (see Figure 9).

Those in favour of the monarchy lasting a long time were predominantly people who voted for the Popular Party and the far-right VOX in the November 2019 general election.

**Figure 9. Survey on the future of the monarchy**

| How long would you like the institution to last?                               | % of respondents |
|--------------------------------------------------------------------------------|------------------|
| Many years                                                                     | 25.9             |
| Quite a few years                                                              | 20.4             |
| Few years                                                                      | 41.7             |
| N/A                                                                            | 12.0             |
| <hr/>                                                                          |                  |
| Political affiliation of respondents based on party voted for in November 2019 | % of respondents |
| <hr/>                                                                          |                  |
| Many years                                                                     |                  |
| Socialists                                                                     | 19.3             |
| Popular Party                                                                  | 58.5             |
| VOX                                                                            | 39.8             |
| Unidos Podemos                                                                 | 5.2              |
| Ciudadanos                                                                     | 46.6             |
| <hr/>                                                                          |                  |
| Quite a few years                                                              |                  |
| % of respondents                                                               |                  |
| Socialists                                                                     | 22.1             |
| Popular Party                                                                  | 28.9             |
| VOX                                                                            | 28.7             |
| Unidos Podemos                                                                 | 8.3              |
| Ciudadanos                                                                     | 23.1             |
| <hr/>                                                                          |                  |
| Few years                                                                      |                  |
| % of respondents                                                               |                  |
| Socialists                                                                     | 46.4             |
| Popular Party                                                                  | 9.9              |
| VOX                                                                            | 24.4             |
| Unidos Podemos                                                                 | 83.6             |
| Ciudadanos                                                                     | 21.6             |

Source: 40dB.

Juan Carlos's departure sparked a debate, led by the far-left Unidos Podemos, the junior partner in the coalition government, on whether Spain should remain a monarchy (restored after the dictator General Francisco Franco died in 1975) or return to being a

republic (the Second Republic was declared in 1931 after Juan Carlos's grandfather Alfonso XIII went into exile and ended in 1939 with Franco's victory in the Civil War).<sup>2</sup>

In Catalonia, pro-independence parties with a slim majority in the region's parliament, passed a non-binding referendum condemning the monarchy. The motion 'Catalonia is a republic and does not want a king' was approved by 69 votes in favour and 65 against.

### New measures to address the Franco regime's legacy

Almost a year after removing dictator General Franco from his grandiose mausoleum, the government set out further measures to confront the legacy of the 1936-39 Civil War that Franco won and put him in power for 36 years.

The draft Democratic Memory Law, opposed by the conservative PP and the far-right VOX, which regard it as opening old wounds and a distraction from the government's poor handling of the COVID-19 pandemic, would turn the Valley of the Fallen mausoleum in the mountains outside Madrid into a civil cemetery for those who died as a result of the Civil War and into an education site. Crowned by a 150-metre-high cross and partly built by political prisoners, the site contains the bodies of more than 30,000 people from both sides of the war.

The new legislation builds on that passed by the Socialist government of José Luis Rodríguez Zapatero in 2007 and its Historical Memory Law, which was viewed by the left, particularly those with no direct experience of the Franco regime, as not going far enough. The Socialist government of Felipe González (1982-96) did little in this area for fear of provoking the military, while the conservative PP government of José María Aznar (1996-2004) could have begun to pay for the unearthing of mass graves, as Spain's transition to democracy was by then consolidated, but did not do so.

The remains of José Antonio Primo de Rivera, the founder of the Falangist party and buried on the opposite side of the altar to Franco, will be relocated. Associations that 'exalt' or 'apologise for' the dictatorship, such as the Francisco Franco National Foundation, established in 1976, will be shut down; criminal convictions of opponents of the dictatorship will be revoked; a census will be made of all the victims of the war and the dictatorship; the state will finance the unearthing of mass graves (mainly done so far by volunteer associations) and create a national DNA bank to assist the process; and secondary school children will be taught more about the war and Franco's regime.

There will also be a special prosecutor to investigate human rights abuses between 1936 and 1978, a meaningless exercise since most perpetrators are dead. This goes against the spirit if not the letter of the 1977 Amnesty Law, which freed political prisoners and allowed political exiles to return to Spain, while guaranteeing immunity for those involved in crimes during the Civil War and the dictatorship. This law institutionalised the so-called

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<sup>2</sup> Emilio Lamo de Espinosa makes a convincing case for keeping the monarchy in this article published in *El País* on 17/VIII/2020 (<https://elpais.com/opinion/2020-08-16/monarquia-o-republica-diez-razones.html>).

'pact of forgetting', an unspoken agreement among the elites responsible for the transition to look ahead and not rake over the past for political gain.

The bill will be fiercely opposed in parliament by the right for breaking the reconciliation consensus that enabled Spain to move smoothly to democracy, but it has sufficient support to be approved.

### Popular Party in spying scandal

The corruption scandal that brought down the PP government of Mariano Rajoy in 2018 has resurfaced to haunt the party.

Luis Bárcenas, the PP's former treasurer, was sentenced in May 2018 to 33 years in prison and fined €44 million for his role in organising a slush fund to illegally finance the party's campaigns and give under-the-table cash bonuses for top PP officials. He was found to have stashed away millions of euros in Switzerland.

The Bárcenas case was part of a larger scandal known as the Gürtel case involving kickbacks, fraud and money laundering. Almost 30 people were jailed, triggering a no-confidence vote against Rajoy which resulted in him being replaced by the Socialist Pedro Sánchez at the end of May.

Now a court investigation, codenamed Operation Kitchen, is underway on whether the PP government was using public money to spy on Bárcenas between 2013 and 2015 in order to find out and steal any sensitive information he held that might compromise senior PP officials. Jorge Fernández Díaz, a former Interior Minister, is under investigation.

The probe is bad news for Pablo Casado, who replaced Rajoy as the PP's leader, as he is trying to renovate the party's tarnished image and consolidate his position.

Last month he sacked Cayetana Álvarez de Toledo as the party's controversial spokesperson in parliament after she went against the PP's line, calling for a national government between the PP and the Socialists and criticising King Juan Carlos's decision to leave Spain as an 'error'.

### Spaniards' self-esteem rises

Spaniards perceive their country slightly more favourably than foreigners for the first time since 2009, according to a survey by the Elcano Royal Institute.<sup>3</sup> Spaniards gave their country 76.5 out of 100 compared to 75.9 by G-8 nations, ranking it 13<sup>th</sup> out of 55 (see Figure 10).

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<sup>3</sup> Available at

[http://www.realinstitutoelcano.org/wps/portal/rielcano\\_es/contenido?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_es/zonas\\_es/reputationinstitute-elcano-reputacion-de-espana-en-el-mundo-countryretrack-2020](http://www.realinstitutoelcano.org/wps/portal/rielcano_es/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_es/zonas_es/reputationinstitute-elcano-reputacion-de-espana-en-el-mundo-countryretrack-2020).

**Figure 10. International image of countries, according to the opinion of G-8 nations**

|                  | Score from 0 to 100 |
|------------------|---------------------|
| 1.Switzerland    | 83.3                |
| 2.Norway         | 82.9                |
| 3. Finland       | 82.4                |
| 12. Austria      | 77.4                |
| <b>13. Spain</b> | <b>75.9</b>         |
| 15. Portugal     | 75.5                |
| 17. Italy        | 73.8                |
| 18. UK           | 72.1                |
| 19. Germany      | 70.3                |
| 20. France       | 70.3                |
| Average          | 63.1                |

Source: Elcano Royal Institute.

The low self-esteem is lamented by the country's Foreign Ministers as it hinders the country's international projection. Spaniards tend to dwell more on the country's negative points than on the positive ones.

The reputation survey is based on 19 attributes grouped into three areas: quality of life, level of development and institutional quality.

The countries that most favourably view Spain are the UK, Russia, Italy and Germany and those the least Morocco, Colombia, China and South Korea.

## The economy

### Government wrestles with 2021 budget and prepares for EU's pandemic recovery fund

The leftist minority coalition government has its hands full as it seeks to win enough support for its 2021 budget to be approved by parliament and begins to draw up projects that would fall within the scope of the €140 billion Spain could receive from the EU's pandemic recovery fund.

The 2018 budget is still in force as the fragmented and polarised political class was unable to agree ones for 2019 and 2020, a task complicated by inconclusive elections. Socialist Prime Minister Pedro Sánchez called a snap election in April 2019 after Catalan secessionists joined right-wing parties in rejecting his budget, and a fifth election in as many years could be held if the 2021 budget is not approved.

The fiscal deficit was a record 6.12% of GDP in the first half of this year (2.8% for the whole of 2019), as a result of the devastating impact of COVID-19, particularly the cost of the scheme for furloughed workers (known as ERTes), which is likely to be extended until the end of January when it expires this month, estimated at €35 billion. The number of these workers has dropped from a peak of 3.4 million to around 700,000. Spain will receive from the EU more than €21 billion in soft loans, the second-largest amount after Italy, to help finance the ERTes.

The latest OECD forecast puts GDP contraction at 11.1% this year and 14.4% if there is a second and major virus outbreak. The subsequent recovery in 2021 would be slower in the former case, at 5%, compared to a rebound of 7.5% in the single-hit scenario (see Figure 11).

**Figure 11. Real GDP growth, % year-on-year, single-hit scenario**

|              | 2019       | 2020         | 2021       |
|--------------|------------|--------------|------------|
| France       | 1.5        | -11.4        | 7.7        |
| Germany      | 0.6        | -6.6         | 5.8        |
| Italy        | 0.3        | -11.3        | 7.7        |
| <b>Spain</b> | <b>2.0</b> | <b>-11.1</b> | <b>7.5</b> |

Source: OECD.

COVID is taking a heavy toll:

- The number of tourists in July, a key month, plummeted 75.1% year-on-year to 2.4 million. Spending that month was €9.5 billion lower.
- The number of registered unemployed at the end of August was 3.8 million (around 17% of the labour force).
- Public debt hit 110% of GDP at the end of June, up from 95.5% at the end of last year.
- Exports fell 14.6% in the first seven months to €147.5 billion and imports were down 18.2% at €155.4 billion. The trade deficit was 54.2% lower year-on-year.

The EU has come to the rescue with the possibility of €140 billion, in the form of loans and grants, more than the total amount of the 1948 Marshall Fund (equivalent to €112 billion today) used to rebuild war-torn Europe, and from which Spain was excluded because of the pariah status of the Franco regime, which sided with Hitler.

This tsunami of money comes with strings attached and is not a panacea for Spain's deep structural problems.<sup>4</sup> How the money is spent will be closely scrutinised. If one EU

<sup>4</sup> See my analysis of Spain and the recovery fund published on 31/VIII/2020 at [http://www.realinstitutoelcano.org/wps/portal/rielcano\\_en/contenido?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_in/zonas\\_in/ari101-2020-chislett-challenge-for-spain-to-use-the-eu-pandemic-recovery-fundwisely](http://www.realinstitutoelcano.org/wps/portal/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/ari101-2020-chislett-challenge-for-spain-to-use-the-eu-pandemic-recovery-fundwisely).



member state questions another's commitment to reforms, it can delay disbursements for up to three months and take the issue to EU leaders for debate. Such a large amount will sorely test Spain's administrative capacity to adequately plan and execute the funds.

In the 1990s and early 2000s Spain was very successful in using EU funds for large infrastructure projects, such as the high-speed rail network (AVE), the world's second-largest after China, but since then it has slipped. Spain only executed 30% of the funds from the EU's 2014-20 budget as of the end of 2019, well below the EU average of 40%. It has also been painfully slow to put into force the EU's single market directives, taking almost 50% longer than the bloc's average. Only 12% of the European Commission's country-specific recommendations issued every year under the Semester Framework between 2011 and 2019 were implemented.

The Independent Authority of Fiscal Responsibility (AIReF) says the government should re-think its plan to invest a further €75 billion in expanding the AVE network.

Now is the time to invest in human capital and not physical infrastructure (much of it is already world class) and emerge from the pandemic with an economy that is more diversified, knowledge-based, digital, greener and inclusive.

## Corporate scene

### CaixaBank and Bankia to merge and create largest bank in Spain

Barcelona-based CaixaBank and Madrid-based Bankia are to merge and form Spain's largest lender in the country, ahead of Santander and BBVA. The merged bank would have a market share of 23% by assets, 26% by loans and 24% by deposits (see Figure 12).

The government owns 61.8% of Bankia, which was rescued in 2012 with EU funds in order to avert a collapse of the financial system. Bankia was formed from seven ailing regional savings banks including Caja Madrid and CaixaBank is the product of 11. The merger would leave the bank rescue fund known as Frob with a stake of around 16% in a much stronger bank. The COVID-19 pandemic has reduced lending and pushed up non-performing loans, substantially reducing all banks' profits.

**Figure 12. Basic figures of CaixaBank and Bankia compared with Santander and BBVA**

|                        | CaixaBank | Bankia | Santander | BBVA       |
|------------------------|-----------|--------|-----------|------------|
| Assets in Spain (€ bn) | 409       | 218    | 356       | 419        |
| Total profit (€ mn)    | 1,795     | 541    | 6,515     | 3,512      |
| Total employees        | 27,500    | 15,947 | 29,034(1) | 29,406 (1) |
| Total customers (mn)   | 13.6      | 7.4    | 13.8      | N/A        |

(1) Including the Corporate Centre.

Source: The banks.

CaixaBank, with 3,846 branches in Spain, is strong in insurance while Bankia (2,267 branches) specialises in mortgages. About 80% of Bankia's branches are within a kilometre of CaixaBank's, which means many of the two bank's offices will have to close.

Spain is still one of the world's most overbanked countries, with 49.7 branches per 100,000 adults compared with 38.8 in Italy, 34.3 in France and 10.9 in Germany, according to end-2019 IMF data.

Bankia has been cleaned up since the 2008 financial crisis. Its former Chairman, Rodrigo Rato, is currently serving a four-and-a-half-year sentence after he and 63 other executives racked up €12 million in expenses on their corporate credit cards.

### Iberdrola enters wind-farm market in Japan

Iberdrola, one of the world's largest energy companies, has acquired Japan-based renewables developer Acaica and agreed a joint venture with Macquarie's Green Investment Group to develop offshore wind-farm projects with a capacity of 3.3 GW.

The acquisition is part of the €10 billion Iberdrola plans to invest this year in renewable energy, smart electric grids and systems to store electricity.