SPAIN

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Nation wearies of the euro crisis

An economy in good shape, with great strengths, has fallen in the world's estimation, says **Victor Mallet**

Pondering: Mariano Rajoy of the Popular Party says "We are not on the edge of a precipice. It's not a bed of roses but this is not the eve of the Apocalypse either" Getty

Like an actor with stage fright in an interminable drama, Spain in mid-2012 finds itself exactly where it does not want to be: centre stage in the unfolding tragedy of the eurozone.

Each year since the collapse of Lehman Brothers in 2008, Spaniards have braced for another year of crisis, only to be reassured by politicians that the sacrifices of austerity would be rewarded sooner or later with an economic recovery. Each year, the light at the end of the tunnel – as in the sardonic joke – has turned out to be the threat of an oncoming train.

First Greece, then Ireland, then Portugal collapsed into the arms of the European Union and the International Monetary Fund. These smaller eurozone economies were forced to seek multibillion-euro bailout programmes because they could no longer finance their debts in the sovereign bond markets.

Both José Luis Rodríguez Zapatero, the Socialist prime minister from 2004 to 2011, and Mariano Rajoy, the centre-right Popular Party leader who soundly defeated him in a general election last November, thought they could steer Spain out of the danger zone.

Mr Zapatero, after a brief flirtation with Keynesian public spending that pushed the budget deficit up to 11.1 per cent of gross domestic product in 2009, obeyed his European partners in Berlin and Brussels and implemented what was billed as one of the harshest austerity programmes in the developed world, cutting civil servants' pay and raising taxes.

There was more of the same from Mr Rajoy. He immediately reinforced fiscal discipline (which had been tighter in theory than in practice under the Socialists), liberalised the uncompetitive domestic labour market and accelerated reforms of the troubled financial sector.

Yet none of this has been enough to keep Spain safe.

As this report went to press in early June, Spain's ability to raise money by issuing sovereign bonds was threatened by an alarmingly high risk premium – the gap between the yield on its 10-year bonds and those of low-risk Germany – of more than five percentage points.

Most analysts and economists were predicting that Spain – as the fourth largest eurozone economy, it is much bigger than Greece, Ireland and Portugal combined – would need some form of international bailout programme, although the Spanish government was hoping to limit the rescue to perhaps €50bn of aid to recapitalise its banking system.

A full bailout would cost about 10 times as much, place severe strain on the finances of international institutions, undermine confidence in global markets and increase the possibility that Italy and others would also need help, and so raise the prospect of a break-up of the euro. The unassuming Mr Rajoy, his popularity severely dented by the crisis in the six months since he took office, has belatedly tried to reassure Spaniards that a catastrophe is not inevitable.

"We are not on the edge of a precipice," he told business leaders at the start of June.

"It's not a bed of roses but this is not the eve of the Apocalypse either."

In terms of bare statistics at least, it is true that Spain entered the crisis four years ago in relatively good shape, and still has lower public sector debt as a proportion of GDP than economies such as the UK and the US, let alone Italy and Greece. Only a few years ago, there was virtually no sovereign risk premium at all, and sometimes it was inverted – in other words, the markets perceived Spanish debt to be less risky than Germany's.

Spanish banks, furthermore, had hardly any involvement in the "toxic" derivatives that sank some of their Anglo-Saxon rivals, and were shielded from the effects of the post-Lehman recession by an enviable system of counter-cyclical provisions – money set aside from profits in the good years to protect the banks against loan losses when times became hard.

Even now, in the depths of international despair about the eurozone, Spain can boast of some economic and political achievements.

Exports and the tourism industry have been performing well, and a current account deficit that topped 10 per cent of GDP at the start of the crisis is heading towards equilibrium as the economy rapidly adjusts.

Spanish democracy is intact, the government has a clear mandate from voters and – unlike in Italy – is not led by an unelected technocrat with the blessing of Brussels. In the Basque country, the militant

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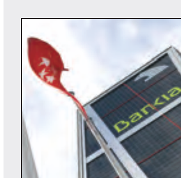
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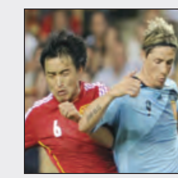
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Spain

Regional difficulties undermine confidence

Regions

Devolution makes running the country more difficult, says **Victor Mallet**

When the history of Spain's travails after the 2008 collapse of Lehman Brothers is written, it will be said that two problems in particular helped to trigger its own crisis: the financial difficulties of the autonomous regions, and the collapse of troubled banks.

Yet both problems have their origins in the radical devolution of political and economic power after the death of the dictator Francisco Franco in 1975. Most of the banks that had to be bailed out or nationalised were former *cajas*, the regional savings banks that lent too much to local property developers and had close ties to politicians in the territories where they operated.

Criticism of devolution is not new in Spain. Even before the crisis, business leaders and some national politicians had grumbled about the bureaucratic and financial cost of maintaining 17 autonomous regions and over 8,000 municipalities, as well as a layer of 50 provincial authorities in between.

The post-Franco democratic constitution of 1978 granted autonomy and regional identities to the historically distinct territories of the Basque country and Catalonia, and to other, quintessentially Spanish regions – a process called *"café para todos"*, coffee for all.

That led to a plethora of regional regulations that frustrated local and international investors such as General Electric, and prompted Mariano Rajoy – the centre-right Popular party leader, who is now prime minister – to campaign for a "single market" in Spain when he was in opposition. "The autonomous regions all have different norms and that is bad for commercial activity," he said in 2009.

Spain's regions and municipalities spent on a grand scale before the crisis, financed in part by surging property taxes from the housing boom. Some opened "embassies" overseas to promote trade and investment, and publicise their regional identities. New universities, airports and sports centres proliferated.

But it was not until after the housing bubble began to deflate in 2007, and Europe entered its post-Lehman crisis the following year, that it became clear how unsustainable all this spending was. Property tax revenues collapsed. Savings banks, starting with Caja Castilla la Mancha (CCM) in 2009, tottered and were taken over by the authorities.

As the crisis deepened, Spanish regions increased their own borrowings on top of their share of the Spanish national debt. By the end of last year the 17 regions had €140bn of debt, double the amount three years earlier. They and the municipalities had also crippled small businesses by failing to pay their suppliers, forcing the Rajoy government to launch a €35bn scheme this year to pay their overdue bills.

Antonio Beteta

When the PP beat the incumbent Socialists in a regional election in Castilla La Mancha a year ago, they quickly declared the region "totally bankrupt", calling it "the Greece of Spanish regions" and pointed out that even its official 2010 budget deficit – 6.5 per cent of GDP – was more than double the official target.

Regional deficits helped to undermine international investor confidence in the Spanish national governments of José Luis Rodríguez Zapatero, the Socialist prime minister, and of Mr Rajoy when he won the general election in November last year.

When Spain greatly exceeded the overall 6 per cent deficit limit it had agreed with the European Union for 2011 – the latest update puts the final outcome at 8.9 per cent of GDP – the blame was laid largely at the door of the regions and the inability of both PP and Socialist regional administrations to control their public finances.

The rushed nationalisation in May this year of Bankia, a collection of seven cajas from Madrid, Valencia, the Canaries and elsewhere, may turn out to have been the last straw for a Spanish government trying to avoid an international bailout by the EU and the IMF. As this report went to press, Spain was struggling to find the €19bn needed to recapitalise the bank and was hoping that EU institutions would provide the money.

Mr Rajoy's government now insists it has regional finances under control, after Antonio Beteta, secretary of state for public administrations, criticised the "excesses" of Spain's "mini-states".

But the prime minister himself has not gone as far as Esperanza Aguirre, a party rightwinger and the Madrid premier, who told him he could save €48bn with a profound reform of the whole autonomous system.

"It has not done what it was designed to do – to integrate the Catalan and Basque nationalist parties," she said of decentralisation. "In fact it has just made the operations of the other 15 regions more expensive."

The failings of poorer regions in southern Spain and the prospect of a humiliating bailout for the country have made some Catalans and Basques feel more distant than ever from the rest of the country.

Oriol Pujol, a Catalan nationalist politician, has compared Spain to "fetid waters" that were best avoided.

"If there is [international] intervention, the situation in Catalonia would be uncontrollable," says Lorenzo Bernaldo de Quirós, a conservative consultant and economic analyst who has long criticised the poor management of Spain's regions. "Anti-Spanish feeling is running very high. The pro-independence movement would take off."

Spain, he concludes, is neither a unitary state nor a proper federation. "What failed in Spain is not decentralisation, but a badly done decentralisation. You have a state with all the disadvantages of devolution and none of the advantages."

Nation wearies of the euro crisis

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separatist group Eta last year announced the "definitive cessation" of its military activities after more than 800 killings in half a century.

Yet Spain, which became accustomed to receiving praise for its rapid modernisation, cultural vibrancy and economic growth after the restoration of democracy in 1978, has become the butt of jokes around the world. Probably the lowest blow was that jibe from Richard Boucher, a US official at the Organisation for Economic Cooperation and Development, who said Spain today was "only good for flamenco and red wine".

How did Spain fall so far, so fast in the estimation of the world? Mr Rajoy's advisers and independent economists agree that much of the blame lies in the flawed structure of the euro.

Low interest rates suitable for the mature German economy wrought havoc in the credit-hungry and overheated nations of the European periphery.

French and German investors, via their banks, lent tens of billions of euros to Spanish banks at low rates to finance a homebuilding spree that had come to a crunching halt by 2008.

Spain's problem now is not only its public debt, but its private, external debt.

"We went way over the top – trade unions, businessmen, banks, politicians, the whole country," Juan Roig, chairman of supermarket chain Mercadona, told Spanish radio this month.

Spain, he argued, had been living beyond its means given its productivity. "I think if we don't change, if all we Spaniards don't change our ways, there will be a bailout."

As the eurozone crisis deepened, banks, particularly the regional savings banks known as cajas, found themselves in a traditional bad loan crisis related to property, and in most cases have yet to extricate themselves from the resulting collapse of their profits.

Bankia, a merger of seven cajas optimistically floated last year, was nationalised by the government last month and says it needs an extra €19bn of capital on top of the official aid it has already received.

It did not help that Mr Zapatero and Mr Rajoy, both pro-Europeans, were neither of them much good at the vital diplomatic business of negotiating with Spain's European partners over how to handle the crisis.

Mr Rajoy and his ministers, says José Ignacio Torreblanca, senior fellow of the European Council on Foreign Relations, thought it was enough to do what Germany wanted and were "perplexed" when the expected support was not forthcoming.

"He came to power with the understanding that he didn't need to do European policy, that he could just do the structural reforms at home," says Mr Torreblanca. "It was a mistake."

Spain faces a difficult challenge. More than 5.6m Spaniards are unemployed, the economy is shrinking, and economists doubt Spain can cut its budget deficit as agreed with the EU to 5.3 per cent of GDP this year from last year's 8.9 per cent.

After years of expansion, the population has started to fall as Latin American immigrants return home and Spaniards go abroad in search of work.

As Mr Rajoy asserts, 2012 will not be the year of the Apocalypse.

But it is unlikely to bring much relief to a country weary of economic and financial crisis.

Future looks bright for entrepreneurs

Start-ups

Miles Johnson finds many new businesses in the best of health

Those following news from Spain during its financial crisis have become used to hearing of the bleak future facing the country's youth.

Unemployment for those aged 25 and under sits at more than 50 per cent – the highest in the EU. Scores of students have graduated into a stagnant job market, and an increasing number has been forced to travel abroad in search of work.

Yet, amid the bleakest economic moment in Spain's democratic era, a less widely reported collection of young entrepreneurs has established some of Europe's leading medium-sized technology start-ups – helping Madrid and Barcelona to punch their weight against the continent's traditional internet hubs, London and Berlin.

While many of these start-ups have been founded by Spaniards, a number are also run by foreigners who have chosen Spain as a base for their businesses. This is especially encouraging for a country struggling to prove to a sceptical younger generation there are sufficient opportunities for people with ideas and energy.

> In an otherwise supply-heavy labour market, start-ups are constantly battling over talent

Tuenti, the Spanish-language social network bought by Telefónica in 2010, was founded in 2006 by a mixed team of Spaniards and foreigners in Madrid.

Other successful start-ups have included Review Pro, a Barcelona-based consumer intelligence service for the Hotel industry, and Jobandtalent, a social network-based online recruitment platform.

Inaki Ecenarro, 37, is one of the founders of Trovit, a search engine that specialises in jobs, cars and properties. Since its inception in 2006, the company is now active in 37 countries.

The name Trovit is derived from the Esperanto verb for "to find", and the company has grown from a small office in Barcelona to cover large parts of the world. While retaining its headquarters in Barcelona, Trovit now employs 70 people from Spain and other European countries, as well as further afield in countries such as Brazil and Argentina.

"Barcelona and Madrid are not San Francisco, but they are two of the most important cities in Europe for start-ups," says Mr Ecenarro.

"We have a good talent pool here, with a mix of foreigners and Spaniards. They are also attractive cities for people to live in."

Busuu, a Madrid-based language learning service, is another online start-up from Spain that has enjoyed considerable growth in recent years, and now boasts 18m registered users, of which 9m use the company's smart phone and tablet apps. This, the company says, makes it the largest of its kind in the world.

Founded in 2008 by two MBA students at IE Business School, Busuu provides services in 12 different languages, and allows those trying to learn a language to connect with native speakers. In effect, this means that students become tutors by correcting their fellow users.

Busuu is named after a language from Cameroon which, according to a study in the 1980s, could be spoken by only eight people. Bernhard Niesner, one of the company's founders says that Madrid has provided an ideal base.

"It is a fantastic city, with a lot of sunshine and a great young, vibrant atmosphere," he says. "It is a very nice place to live."

While entrepreneurs in Spain may find it harder to raise capital for start-ups than their peers in the US, there are established venture capitalists operating in the country available to make seed investments in new ideas. There are others who have found it possible to grow simply through self-funding.

Mr Niesner and his partner managed to fund Busuu on their own for its first two years, then raised just €1m to fund the company's expansion.

Trovit, meanwhile, received €150,000 from Luis Martin Cabiedes, a well known Spanish business angel, who makes numerous small investments in new projects each year.

"We quit our jobs when we started, and didn't get a salary for a year, so that was a big investment on its own," says Mr Ecenarro. "People sometimes say, 'But you haven't invested much money in the business,' but we have done that by keeping our costs very low."

The founders of these enterprises argue that lower wage costs in Spain, compared with more established technology and internet hubs, has helped them to attract strong talent at a cost that is sustainable for a nascent business.

"Salaries are simply much cheaper compared with London or the US," says Mr Niesner. "The fact that we are in Madrid has been a big help, as our burn rate for staff was much smaller compared with competitors in San Francisco, and we had lower costs in general."

Both companies are continuing to expand into new markets; Trovit is opening a site for Russia, and Busuu is seeing a surge in users in Brazil. Jobandtalent launched in the UK in January, and will soon set up in Germany, while Reviewpro has 3,000 clients based across 70 countries.

The continuing success of these operations, and their increasing demand for web engineers and other technical staff has, in fact, meant that in an otherwise supply-heavy labour market in Spain, they are constantly battling over talent.

"It is funny," says Mr Ecenarro. "There is 25 per cent unemployment in Spain but in our sector there is basically none."

Bankia, formed in December 2010, has requested a bailout of €19bn, the largest in the nation's history Getty

'Bankeros' pay for denial by lenders and officials

Banks

What began as a small issue is now a danger, says **Miles Johnson**

When Bankia, the now infamous Spanish bank, marketed its own shares to the general public last summer, it offered buyers the chance to transform themselves into "bankeros".

Since the lender, formed from a shotgun marriage of seven ailing savings banks, asked for €19bn in state rescue funds, taking the total amount of public money it has received to €23.5bn, all Spaniards now find themselves "bankeros".

Those small savers and clients who bought the shares – a deal that was endorsed by the then government and the Bank of Spain – have lost more than half their investment and are expected to lose much more as the share price continues to slip.

The Bankia fiasco has indeed come to represent the worst aspects of Spain's attempt to reform a banking sector that had become laden with €180bn of bad real estate developer loans built up during an aggressive expansion using cheap foreign money within the country's decade-long property bubble.

Since the crisis began there have been four attempts by successive governments to clean up the sector, the latest being finance minister Luis de Guindos' rounds of forced provisioning imposed on banks against property assets, bringing total coverage ratio up to 39 per cent.

Yet at the same time, the intervention in Bankia, which came after the government argued in February that no more state money would be needed to inject into banks, damaged confidence in the country's ability to pay for its banks itself, and set in motion the government's calling for European-wide measures to solve the problem.

For many observers, the drama of the last six months of Spain's banking crisis has been a consequence of several years of denial by lenders and officials about the extent of the problem.

This has taken a relatively small issue (the €121bn of existing provisions make up about 12 per cent of gross domestic product, and have been set aside mostly from banks' own capital base) and turned it into one that has shaken Spain to its foundations.

"It is as if you have been treating cancer with homeopathy, and by the time you realise it is not working it is too late," says Gerald Corbae, a managing director with Alvarez & Marsal, the business consultants.

Some Spanish banks, he argues, have still not begun to adjust their loan valuations to the new reality.

"When you are addressing these problems it very often means writing off your debt, and in many places this is not happening," he said.

"Banks are still not willing to get rid of bad debts at a discount, and that is a big indicator over their willingness to act on the problem."

Analysts estimate another €50bn is needed to restore shattered confidence in the Spanish banking sector, and help lenders begin again to provide credit to a recession-hit economy that desperately needs it.

At the same time, the country's three largest banks, Santander, BBVA and La Caixa, listed as Caixabank, have retained the confidence of much of the financial markets that they are large enough and, in the case of the first two, internationally diversified enough, not to require any outside help.

> 'Spanish authorities haven't acknowledged the fact that there is a systemic banking crisis in the country'

"To talk simply about the Spanish banking sector is a mistake, as there are different situations throughout it," says Santiago Eguidazu, chief executive of N+1, the Spanish-headquartered financial advisers.

"We have a dual banking sector, with the largest having state-of-the-art provisioning better than many other European banks, and which have their own means of coping with the situation," says Mr Eguidazu.

"Then there is the other part of the system, the former savings banks and Bankia. That is 80 per cent of the problem."

But that 80 per cent of the problem remains a troubling one, especially as the problems of a few, as seen with Bankia, have had a contagious effect on sentiment towards even the healthiest lenders in Spain.

For some practitioners, Spain would have the greatest chance of solving the troubles of its banks if it made a determined attempt to arrange a more formal, sector-wide "bad bank" structure, centrally controlled and able to hive off bad assets in a more aggressive way than is currently planned.

"The Spanish authorities haven't acknowledged the fact that there is a systemic banking crisis in the country," says Justin Jenk, a partner at European Resolution Capital Partners, an advisory group working with Spanish government agencies, commercial banks and investors on bank restructuring and asset resolution programmes.

For Mr Jenk, the term bad bank, "a catchy but poor phrase", does point in the right direction for running down problem assets in the medium to long term. A national "asset resolution vehicle" would be able, to secure funding, restructure bad assets, and manage them, he argues.

"Until they do that, it is difficult to really make the appropriate decisions; furthermore, they erode their own credibility with the markets and sources of much-needed capital.

"Textbooks and precedents show the way forward: stabilise the banks first, then focus on asset resolution."

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Competitive advantages obscured by anxiety

Economy

Miles Johnson points out that some sectors, such as tourism and exports, remain remarkably resilient

As Spain finds itself closer to the centre of Europe's sovereign debt crisis, some of the country's politicians and business leaders argue that the outside world is forgetting the strengths of its economy.

For some, the constant stream of bad news about unemployment – the highest in Europe – and the weakness of certain banks, have created a loop of negative feedback. Foreign investors read about bank nationalisations and surging borrowing costs for the government, and this stiffens their resolve to avoid buying shares in Spain's companies or its national debt, meaning the crisis is exacerbated.

"The lack of confidence in markets means we can enter into a vicious circle, where negative expectations begin to condition financial flows into Spain," says Rafael Doménech, chief economist for developed economies at BBVA, a Spanish bank.

In response to this lack of confidence, businesses have increased their efforts to market the country's competitive advantages to the outside world by forming lobby groups and organising special events for foreign investors.

In January the "Spain Investors Day", a two-day presentation in Madrid – in the style of conferences organised by investment banks to introduce clients to capital providers – enabled attendees to meet 30 Spanish companies. There is also the business council for competitiveness, a lobby group of companies from the blue-chip Ibex 35 index, which produces research about the positive aspects of the economy.

Yet, as the government of Mariano Rajoy is increasingly forced to deny Spain will require any form of international bailout, businesses are finding it hard to convince investors that a recovery is going to happen any time soon.

Madrid's pledge to reduce the national budget deficit from nearly 9 per cent of gross domestic product at the end of last year to 3 per cent by 2013 is generally seen as very difficult to accomplish.

The European Commission has already said it doubts Spain will be able to achieve the reduction and has offered Madrid another year to meet its goal.

There is also concern that the government will end up choking any nascent recovery by adopting austerity measures that are too harsh.

Financial markets are now expecting losses in the banking sector to be higher than some had believed. While a theoretical final bill of an extra €50bn would still only amount to 5 per cent of GDP, because Spanish 10 year borrowing costs are more than 6 per cent, there is concern about how the government will find the money.

"I have long been relatively sanguine about Spain because the numbers – even under stress assumptions – are not that bad, and on the reform side and with respect to the regions, the new government has done well," says Erik Nielsen, chief economist at UniCredit, a bank. "But when it comes to the banks, it's starting to look as possibly the greatest fumble of the European crisis."

Mr Doménech, who helps coordinate research at the business council, of which BBVA is a member, argues that while the banking reforms could have been more efficient, the country's so-called risk premium, or the amount it pays to borrow compared with Germany, does not reflect economic fundamentals.

"There is not a general problem of solvency, there are some insolvent companies in some particular sectors, but this is not a general problem," he says. "The main complication now is liquidity due to our dependency on international financial markets."

> 'When it comes to the banks, it's starting to look as possibly the greatest fumble of the European crisis'

At the same time, parts of the economy have demonstrated remarkable resilience in the face of recession and a lack of credit due to the banking crisis.

Exports have grown 36 per cent since 2009, with Spain roughly maintaining its market share in the period between 1999 and 2011. France has seen its market share of exports shrink by 2.4 per cent, and the UK share has shrunk by 2.2 per cent.

Construction, once 18 per cent of GDP, has collapsed, while other domestic sectors remain strong. Spain is the second most popular tourist destination globally by revenues, and expects to attract about 58m visitors this year.

These competitive advantages are being obscured by anxiety about the banks and deficit reduction, but are, economists say, what distinguish the country from other more troubled European neighbours.

"The Spanish economy is now adjusting after a very intense crisis, and has to reallocate capital and workers from sectors that no longer are dynamic," says Mr Doménech. "This adjustment takes time and, although this process is not easy, we are making clear progress."

Getting in line: a queue at a government employment office in central Madrid Getty

Victory in sport followed sea change in philosophy

Football

Jimmy Burns says a game that once divided the nation now unites it

Few moments in recent Spanish history have managed to produce a sense of collective achievement as effectively as Spain's victory in the 2010 World Cup.

The pervading image of its aftermath was of an explosion of Spanish flags across the country, as if the shared and successful enterprise had, for a moment, overcome seemingly irreconcilable political, social and cultural prejudices.

It may have provided only a temporary uplift before the country's economic debacle but, two years on, Spanish football – probably the most talented in the world – provides Spaniards with something they can still feel proud of, at a time when all else seems to be collapsing about them.

The recent football season had Spain's two big rival clubs – Real Madrid and FC Barcelona – reaching the semi-finals of the lucrative Champions League.

Two other Spanish clubs – Atlético de Madrid and Athletic Bilbao – met in the final of the Europa League, the secondary club tournament organised by Uefa.

Now, following an unbeaten qualifying stage, the national squad enters Euro 2012, the European championships in Poland and Ukraine, as favourites, hoping to become the first side to win the tournament twice in succession.

Even if it fails to do so, the reputation of Spanish football looks set to endure, with Real Madrid and FC Barça once again topping the Deloitte league table of the world's richest clubs, preparing for a season of conquests at home and abroad, while sharing 50 per cent of the La Liga's €618m annual TV money.

The history of Spanish football is littered with teams destroyed by the politics of the dressing room.

Spain's Fernando Torres (right) in a friendly with China Getty

But during the Franco years it was the politics behind the dressing room that gave Spanish football its particular dynamic, not always in a positive sense.

At club level, it fuelled intense rivalry between Real Madrid, representing nationalism and centralism and Barcelona, representing socialism and Catalanism – while failing to produce an agreed system of play at national level that would guarantee success.

It was the old mythologies of what constituted the Spanish race that turned two earlier triumphs – the silver medal in the 1920 Olympics in Antwerp and victory over the Soviet Union in the European Nations final of 1964 – into legends of their time: trumpeted by the regime and fans as an example of La Furia Española – The Spanish Fury – a phrase denoting virility and brute force.

This had nothing to do with style or technique, still less team management, and everything to do with the delusion of a nation capable of conquering any enemy on account of its imagined superior spirit.

The figure of Don Quixote and bullfighting analogies loomed large during the Franco period when football became not just a mass sport but also the nation's most popular pastime, with fewer good toreros and a growing number of good football players, both foreign and homegrown.

It was the doctrines of La Furia which led to successive national teams underachieving until 2008, when Spain won its first major tournament in more than four decades with a technical, skilful, flowing game of quick, precise passing known as tiki-taka, developed by FC Barcelona.

> The history of Spanish football is littered with teams destroyed by the politics of the dressing room

Along with the style, came a change in political philosophy, with old club rivalries set aside by FC Barcelona and Real Madrid players picked to play for a national squad that was nicknamed La Roja – The Red – by Luis Aragonés, the coach who took Spain to European victory in 2008.

Only a minority of Spanish fans of an extreme-right persuasion objected to the national team being marketed with a colour that for them conjured up memories of communists in the Spanish Civil War.

They also took the view that Aragonés wanted to ingratiate himself with the then socialist government of José Luis Zapatero, which was still in a pre-crisis honeymoon period.

Aragonés always denied political motives and simply pointed instead to the colours his players wore.

That the name La Roja went with Spain to the World Cup and survived the return to power of the centre-right Popular Party in December 2011 was thanks to his widely respected successor Vicente Del Bosque, a former Real Madrid player and political conciliator who forged a championship team of Basques, Catalans, and Castilians.

A master tactician and quiet, incisive manager, Del Bosque forged a rare consensus around football in a country that, for most of its history, had struggled to agree on what constituted the common good.

In four years, La Roja has secured greater following than any previous national squad. At the same time, a majority of Spaniards seem quite happy to see La Liga being thrashed out by FC Barcelona and Real Madrid.

Undoubtedly, this has something to do with the sheer range of talent that each club has on offer, and their ability to win as well as entertain.

It may also reflect the fact that the two clubs have continued to financially keep their head above water when other, smaller clubs have become heavily indebted or gone into administration. Football, generally, can still provide Spain with more good stories than bad ones.

La Roja: A Journey Through Spanish Football, by Jimmy Burns, Simon & Schuster

Spain

Repsol's travails remind business of risks

Energy investment

Some are counting the cost of venturing abroad, says **Miles Johnson**

For many Spanish companies, the route out of the economic crisis at home has long been clear: move as much as your business as possible into faster-growing emerging markets.

Last year, Ibex 35 members, who represent a variety of sectors, from clothes retailing to banking and construction, generated €207bn of revenues, of which 61 per cent came from outside Spain. Of that, 19 per cent was derived from within the European Union, 15 per cent from the OECD, and 27 per cent from the rest of the world.

Inditex, the Galician owner of the Zara clothes chain, and now the Ibex 35's largest company by market value, opened 132 outlets in China last year, out of a total of 483 openings globally across 82 countries.

Other Spanish market leaders, such as BBVA and Santander in banking, and Telefónica in telecommunications, have found shelter from brutal trading conditions in Spain through the Latin American operations bought before the crisis.

For the Business Council for Competitiveness, a lobby group formed of Spain's largest companies to promote the country's economy during the crisis, it has been these positions in Latin America that have, in part, helped exports remain robust since 2009.

This, the group says, "is a reflection of the competitive advantages of Spanish companies and their potential for a big natural market: Latin America".

However, a series of misfortunes that have befallen Spanish companies in Latin America since the start of the year has reminded companies operating in some of the continent's more politically risky states that there are still problems with this hoped-for miracle cure for Spanish multinationals.

In April, the Argentine government under Cristina Fernández, seized the YPF unit of Repsol, the Spanish integrated oil group that had depended on the subsidiary for a fifth of its operating revenues in 2011.

Two weeks later, the Bolivian government expropriated the operations of Red Eléctrica, the Spanish electricity grid. However, its Bolivian subsidiary represented no more than 3 per cent of its revenues.

For Repsol, the loss of YPF stripped it of significant parts of its cash flow and promising exploration prospects, and serves as a parable for the powerlessness of a company facing a government intent on seizing its assets.

Repsol, which had purchased the former state Argentine oil company in 1999, appeared to be in Buenos Aires' good books until last November, when Roberto Barrata, Ms Fernández's representative on the YPF board, said: "The state is in complete agreement with the activities the company is undertaking."

That month, Repsol had discovered the Vaca Muerta ("dead cow") shale gas formation, estimated to contain more than 20bn barrels of oil equivalent in reserves and resources, making it the most exciting find in the group's modern history.

Cristina Fernández: seized the YPF unit of Repsol, the oil group

Argentina has promising shale gas potential and, after the US and China, holds the third in terms of potential reserves, meaning Repsol, which had struggled earlier in the decade after a reserves reporting scandal, appeared to have achieved prime position in one of the world's most exciting hydrocarbon systems.

Soon after the discovery, however, Ms Fernández's government, faced with a mounting energy crisis at home due to consumer prices fixed lower than market ones, changed its tune, and showed dissatisfaction with Repsol's management and investment in YPF.

Increasingly severe warnings from the Spanish government did little to put the brakes on Buenos Aires' eagerness to target YPF.

In early April, the industry minister José Manuel Soria, warned that "hostile gestures against the interests of Spanish companies will be interpreted by the government as hostility against Spain and the Spanish government," and that: "If there are gestures of hostility, there will be consequences."

Less than a week later, Ms Fernández announced the state would seize 51 per cent of YPF, sending Repsol's share price tumbling further after being weighed down by weeks of speculation, and prompting a diplomatic row between Madrid and Buenos Aires.

Repsol has since presented its investors with a new strategic plan to grow without its Argentine operations, and has called for at least $10bn in compensation from Buenos Aires, and for international arbitration.

More difficult for Repsol is the queue of international investors seeking compensation from Argentina following its default at the start of the last decade, and experts feel the Spanish company could wait a long time before it sees any money.

"This may become quite a protracted saga," says Andy Moody, partner at Eversheds, the international law firm. "Argentina has been known not to pay out under arbitral awards made against it."

While Repsol's travails in Argentina are not seen by analysts as having implications for companies operating in larger, more politically stable markets in Latin America, the seizure will remind executives there are benefits to doing business in your home economy, even in a crisis.

Dubbing artists won't be silenced

Languages

Miles Johnson talks to voice actors charged with harming education

For most film fans, the rise and fall of a star's career is little more than a footnote in Hollywood history.

However, for Spain's legion of film dubbing artists who provide the Castilian Spanish voices for foreign films in the country, the possibility of the original performers in Los Angeles churning out a series of turkeys, or heading into rehab, presents recurring risks to their livelihoods.

Film studios prefer that Hollywood actors are dubbed by the same voices in Spanish for each of their films. This enables the domestic audiences to become familiar with the dubbed voices, and regard them as the actors' own.

This means that the career fortunes of an actor can have large consequences for the careers of his or her dubs, while the original star is unlikely to meet the multitude of dubbing artists that translate every performance into dozens of languages.

Carlos Ysbert, a Spanish actor, and head of the Madrid Association of Dubbing Film Actors, has worked as the voices of John Goodman, Homer Simpson and James Gandolfini.

When the six seasons of *The Sopranos*, starring Mr Gandolfini as a mafia boss, came to a close, Mr Ysbert had to adjust to working less. After more than 20 years in the dubbing industry, he has become used to stars fading from view.

"He is a fine actor, but after the series I am doing practically nothing for him – maybe a few films," he says. "Actors get old, or have illnesses – it happens all the time."

These are the career risks for which a dubbing artist has always needed to be ready, but the most successful, such as Mr Ysbert, may have numerous roles as a hedge against one star disappearing, or a television series being axed.

More recently, dubbing artists have been drawn into a debate over their impact on wider society – forced to defend their profession against accusations that the norm of Spaniards not watching productions in the original language has held back the country's level of English.

The Madrid regional government has encouraged parents to show their children films and television programmes in English, in an attempt to improve their foreign language skills, and equip them to work in companies that increasingly demand polyglots.

As part of the region's policy to establish bilingual schools, a special television listing is produced to identify all the English language cartoons and films on local stations.

"In this moment when unemployment is so high, to know another language is not only an advantage, it is becoming a prerequisite," says Lucia Figar, head of education for the Madrid region.

"For children, I think it is evident that watching films in the original language can help," she says.

The relatively recent reappraisal of parts of Spain's education system to improve foreign language skills is built on a general perception that Spaniards have a lower grasp of English than countries from the North of Europe.

"It is a problem in Spain," says Bernhard Niesner, one of the founders of Busuu, a Madrid-based online language-learning company. "The education system, unfortunately, has not been so good, and even now they are thinking about getting rid of oral exams in some English degrees at university, meaning people can study for years and still not speak very well."

For Franz Heukamp, professor of Managerial Decision Sciences at IESE business school, the ability of Spaniards to speak important business languages such as English or German has become an increasingly hot topic since the onset of the financial crisis, partly due to the rising number of mostly young people looking abroad for employment.

"If they suddenly changed all dubbed films into English, the acceptance would not be high, as most people do not speak the language in Spain," he says.

> 'With an original language you might get the musicality of the film but it doesn't help you learn better English'

He does not believe that dubbing films greatly limits the development of foreign language skills.

"There is a wider cultural issue of how much people really wanted to learn a foreign language, but that is changing. I don't think there is really that large a difference in language skills among educated people in Spain than in many other European countries."

So why do so many Spaniards appear to believe that the country's English skills need dramatic improvement? One explanation is a tendency to be concerned about a speakers' accent, even when their command of English is strong.

The presidents of some leading Spanish businesses have stopped speaking English in public after being laughed at in Spain for their performance.

"There is a tendency for people to self-chastise, and people from Spain can be very worried about their accent, even when they speak excellent English," Mr Heukamp says.

Meanwhile, for the film dubbing artists, the idea that their profession is damaging Spain's educational standards is a sore subject.

"With an original language you might get the musicality of the film more, but it doesn't help you learn better English," says Mr Ysbert. "The demand for originals is still very low, so I am not worried."

Producers try to tempt wider range of palates

Wine

The high quality of even cheap bottles is one of the country's best kept secrets, says **Victor Mallet**

To say that wine is of historical, social and economic importance to Spain is something of an understatement.

Vines are grown in every one of the country's 17 autonomous regions – not just in internationally known viticulture areas such as La Rioja, Galicia, Catalonia's Priorat or on the banks of the River Duero (Douro in Portugal) – but also in Madrid and the Canary Islands.

Spanish wine has been exported for more than two millennia and was once supplied to the rest of the Roman empire. In the Middle Ages, local vineyards provided the communion wine required in Roman Catholic churches from one end of the country to the other. According to Rafael del Rey, director-general of the Observatorio Español del Mercado del Vino (OEMV), an industry research foundation, the nearly 1m hectares under cultivation is the largest wine area of any country, although the dry climate means Spain produces less wine than France or Italy.

The generally high quality of even cheap wine is one of the country's best kept secrets, perhaps because too many indifferent Spanish bottles were exported in the second half of the 20th century.

Today, in the depths of the country's gravest financial and economic crisis since the restoration of democracy in the 1970s, quality food and wine have reasserted themselves as vital export sectors helping to keep the economy afloat in spite of the prospect of an international bailout by the EU and the International Monetary Fund.

"This is what we call good news," says Mr del Rey, noting that Castilla-La Mancha, in the centre of the country, has more acreage producing wine grapes than the whole of Australia.

And some of the wine is of very good quality, winning prizes and attracting favourable reviews from international wine experts. Experience suggests that anyone prepared to spend at least €10 on a bottle would be hard pushed to find a bad one.

"Spain has an excellent price-quality relationship," says Félix Solís, export manager of the wine company of the same name.

"This year and last there has been a very positive trend in exports. We need to switch that from bulk exports to high quality."

While wine consumption in the country has fallen steadily for 20 years, exports have risen sharply to reach 21.3m hectolitres in 2011. Seven years ago, more wine was consumed in Spain than was sold abroad: exports today – worth €2.24bn last year – are more than double local consumption.

With imports worth a tenth the value of exports, wine makes a significant contribution to the country's effort to move its current account into surplus and reduce dependence on foreign creditors. Those involved in this highly competitive business want to make sure Spain does not fall into the trap of lowering the price of its wines too far in the hunt for market share.

The international wine trade burgeoned in the 1990s, providing opportunities for new-world wine producers and also for the established European growers. "It was massive for us but also for our competitors," says Mr del Rey.

"We looked at what Chile, Australia and so on were doing. We saw that there was a larger world demand for wine. We saw that there were new competitors taking advantage of that new demand. Obviously, the question was: 'What should we do?'."

With markets such as China rapidly becoming big importers, producers decided to sell wines that would appeal to a broader range of customers and not only to traditional European drinkers accustomed to weighty reds.

"In large parts of the US and Britain, and now in China, consumers are looking for something more fruity and more sweet. And we as a country have to decide whether we want to find a consumer for our wine, or adapt our production to the consumer. Probably we'll do both."

Mr Solís agrees that consumers from countries that do not traditionally make wine, particularly in Asia, tend to like a fruitier product. "They like less complicated wines, easy wines to drink."

Some producers fear there are growers, perhaps because they are stricken by the economic crisis, who are too eager to sell their product at any price. In short, they are dumping wine.

"The numbers look nice on the outside – there's growth in exports," says Victor Redondo, chief executive of United Wineries, which sells mostly Spanish wine. "But when you look at these numbers in greater detail I believe it's pretty bad for Spain. Seventy per cent of exports are bulk. And we have first-world salaries for third world [commodity] exports. In the longer term that's unsustainable."

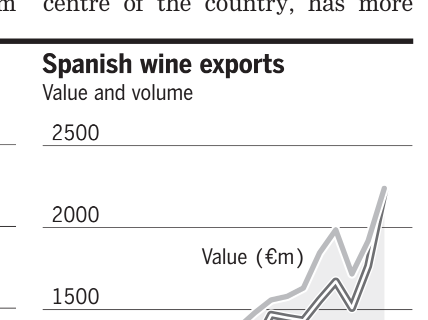
OEMV statistics back him up. Volume, and to a lesser extent value, of exports reached records, but the average wholesale price per litre of exports – exactly €1 in 2011 – is lower than for more than a decade.

In the longer term, Mr Redondo is optimistic the sector will be reformed and improved by the price squeeze, although in the short term even the eventual survivors will find it tough. "I believe Spain as a nation is going to realise we need to add value to all we do, whether it's wine or cheese or ham or olive oil."

Grape expectations: Castilla-La Mancha has more acres producing wine grapes than Australia Alamy

Spanish wine production
Million hectolitres (financial years)

Consumed in Spain
Exported
20, 15, 10, 5, 0
1988, 90, 95, 2000, 05, 11



Source: Observatorio Español del Mercado del Vino

Country's fall from grace is greatly exaggerated

Guest Column
WILLIAM CHISLETT

Richard Boucher, deputy secretary-general of the Organisation for Economic Co-operation and Development (OECD), hit a raw nerve in April when he told a conference in Marseille of the Nato Parliamentary Assembly: "Nobody wants to be like Spain today", because: "It is only good for flamenco and red wine."

In the audience was Diego López Garrido, Spain's secretary of state for the EU in the former Socialist government, who demanded Boucher retract the remarks. José Manuel García-Margallo, foreign minister in the conservative Popular Party government, complained about the "intolerable" words, and got an apology.

The incident highlighted the extent to which Spain's image has deteriorated since its deep crisis in 2008. During its 14-year economic boom it was lauded for creating almost a quarter of the total new jobs in the euro zone, but now has 5.6m unemployed – almost a third of the zone's total.

Too much of the success was due, literally, to sand (the construction and tourism sectors), and not knowledge. The blame lies mainly with a myopic political class. There are still 700,000 new, finished unsold homes and many white elephants, including the €1.1bn airport at Ciudad Real, which has one of Europe's longest runways. It operated for less than two years, almost exclusively with traffic of private jets bringing wealthy hunting parties.

The Spain brand has taken a nosedive. This is most evident in the Madrid stock market – one of the world's worst performers this year – and in the rise in the risk premium on 10-year government bonds over Germany's benchmark bunds to above 550 basis points, at times, from an average of 8 basis points in 2007.

Nevertheless, Spain's fall from grace is exaggerated. The image is out of sync with reality, yet the perception, for many, is the reality.

The country has many positive elements, including about 20 multinationals with leading positions in the global economy – far more than Italy, for example. The Ibex 35 companies collectively generated 60 per cent of their revenues abroad last year – up from 57 per cent in 2010. The latest global presence index of the Elcano Royal Institute, the Madrid-based think tank, using objective criteria, puts Spain in 11th place in the world: unchanged for a decade.

Governments since the end of the Franco dictatorship in 1975 have successfully "sold" abroad the idea of the smooth transition to democracy, but little of other changes that have taken place. As a result, the old stereotypes of a country of fiesta and siesta have re-emerged with a vengeance.

José Luis Rodríguez Zapatero, who was prime minister from 2004 to 2011, aimed to correct the negative image by creating a public diplomacy commission in 2009 – along the lines of other countries that successfully rebranded such as the UK and Germany – but it failed to take off.

'Exporters could do with more official help' – William Chislett

One problem is that Spain needs to speak with one voice. However, its 17 autonomous regions pull in different directions and create confusion abroad.

Several years ago, the government of Castilla and León (known in Spanish as the Junta de Castilla y León), sent a trade mission to New York. As it omitted to mention Spain on its promotional literature, many people mistook the word "Junta" for a Latin American military government.

"What is needed is a co-ordinated and non-partisan approach by the public and private sectors, which would regenerate Spain internally and not just externally," says Emilio Lamo de Espinosa, the president of Elcano. It is setting up a Spain brand observatory.

García-Margallo is making Spain's diplomacy more commercially focused, and promoting the Spain brand. Given the depressed state of the country's economy, this overdue initiative makes a lot of sense. Exporters could certainly do with more official help: 47 of Spain's 118 embassies and 80 consulates do not have a commercial section.

It will not be easy for Spain to change its image and improve the brand. The country is viewed in surveys as "hot" (creative, passionate and not very serious), as opposed to "cold" (efficient, rigorous and serious) like Germany and the UK. The "hot" image benefits the still-flourishing tourism industry but not other parts of the economy, and the way the country is perceived abroad.

Chile was so determined to impress upon the world its "coldness" that it shipped a 60-tonne iceberg to Seville in 1992, and made it the centrepiece of its World's Fair pavilion.

Spain does not have to go to such extremes but it needs to be more proactive.

William Chislett, journalist and author, has lived in Madrid since 1986. His new book on Spain will be published by Oxford University Press in 2013