Spain faces economic catastrophe

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The Socialist Workers Party (PSOE) government of Prime Minister José Luis Zapatero is unlikely to meet targets negotiated with the European Union to slash the public deficit from 9.2 percent of gross domestic product (GDP) in 2010 to 6.0 percent by the end of this year and to 3.0 percent by 2013.

Economic growth has slowed and unemployment has soared, raising fears that the euro zone's fourth largest economy is in danger of a full-scale debt crisis that will precipitate a bailout, further "contaminate" the region and blow apart the euro zone.

In an attempt to appease the EU and financial markets, Deputy Finance Minister José Manuel López Carbajo insisted last week that the government would meet the 6 percent target by year-end. He said that a 17 percent decline in the central government budget deficit over the first nine months of this year, possible increased tax revenues and a surplus in the social security fund (as a result of pension cuts) meant they were on course.

Economists disputed Carbajo's conclusions, saying tax revenues were actually falling, the cost of borrowing was rising and social security spending was increasing due to unemployment. The highly indebted regions and municipalities responsible for a substantial part of the deficit have also failed to cut their spending.

The credit rating agency Moody's is predicting that Spain's budget deficit will be 6.5 percent in 2011. This, along with the country's vulnerability to a further "escalation of the euro-area crisis" and poor growth, was the reason, Moody's said, for its downgrade of Spain's credit rating again in mid-October.

Ludovic Subran, chief economist at credit insurers Euler Hermes SA, declared, "They will never make it.… Our September forecast sees Spain's deficit at 7 percent of GDP this year."

Subran added that this prediction was made before Spain's credit rating was cut in October. Citibank economist Guillaume Menuet said there was "a large question mark" over Spain hitting its 6 percent target, and that it could end up as high as 8.1 percent by year's end.

Royal Bank of Scotland strategist Harvinder Sian explained the implications of Spain failing to meet its 6 percent target: "Missing the deficit target would destroy private-sector demand for your bonds.… If you start seeing big figures like 7 percent, then it's very problematic."

To make matters worse, Spain's economy slowed in the second quarter of this year (April-June), expanding by just 0.2 percent, after expanding 0.4 percent in the first quarter. The government expects quarterly growth to remain at 0.2 percent for the rest of 2011, and admitted that it will probably miss its 1.3 percent estimate for growth in 2011. It forecasts debt, currently 61 percent of GDP (€600 billion, $840 billion), will rise to 67 percent by year's end, almost double the 2007 level.

Spanish banks are struggling to recapitalise and have been told to bolster their top-grade money reserves for the second time this year by €17 billion ($24 billion). They are now required to hold 9 percent in core capital as a result of the sovereign debt crisis, which has produced a 3 percent cut to Spanish bonds and "haircuts" on loans to Greece. The banks say they will not ask the Bank of Spain for the cash, but will increase reserves using profits and "optimising risk-weighted assets"—i.e., changing the calculations so that risky investments look less risky!

Latest data show that Spain's manufactured goods are becoming less competitive. The prices of goods leaving Spain's factories, mines and refineries have risen 7.1 percent in one year and are forecast to climb 7.3 percent by year's end, much faster than the euro-region average of 5.9 percent.

Unemployment has increased to 21.2 percent—the highest in the European Union—leaving 5 million people without work. One year before the economic crash of 2008, the figure was 8.3 percent.

Global Insight economist Raj Badiani said: "The lack of job creation is likely to linger well into 2012. The austerity measures are cutting into the number of public-sector jobs, while private-sector employment is expected to fall well short of picking up the slack."

Homelessness and poverty have shot through the ceiling. This comes on top of austerity measures such as the increase in retirement age to 67, wage cuts for government employees of up to 10 percent and labour reforms that have made it easier to sack workers with much reduced compensation and replace them with casual workers.

Although social conditions have worsened everywhere, the most vulnerable people are suffering the most. According to a recent report published by UNICEF and the Foundation Pere Tarrés, one in four children in Spain lives in poverty. Amongst migrant workers, the poverty rate is one in three children, and amongst one-parent families it is more than half. Figures for extreme child poverty—where all members of the family live on one euro per day—have now reached 15.6 percent among children from migrant worker families and 6 percent for Spanish-born ones.

Half of the working young in Spain are unemployed, and scores are unable to access higher education or to live independently. More and more young people are forced to continue living with parents or relatives.

The number of suits filed for evictions has risen by 36 percent in the first quarter of this year, and by a further 21.2 percent in the second quarter.

Now the government is demanding that the 17 autonomous

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regions bring their own budgets into line with central government savings and meet their deficit target for this year of 1.3 percent of GDP.

Added pressure has come from the financial markets, with Moody's downgrading Catalonia, Andalusia, Valencia, Murcia, Castilla-Leon, Extremadura, Madrid, Galicia and the Basque Country at the end of October. Castilla-La Mancha was cut five levels to junk status and threatened with a further downgrade. "Large financing needs alongside constrained access to long-term funding sources have forced regions to deplete their cash reserves, extensively use short-term credit lines, and expand their commercial debt obligations," Moody's said.

The regions together control about one third of the national spending, and they have the main responsibility for health and education, so the cuts are proving catastrophic.

In Catalonia, the second biggest region in terms of population and Spain's largest regional economy, May's elections saw the regional government (Generalitat) pass back into the hands of the right-wing nationalist CiU (Convergencia y Unio).

Many hospitals have been forced to reduce the number of beds, close operating theatres and stop employing temporary staff (without increasing permanent staff). The government is also planning to cut the wages of 40,000 health workers and halve the Christmas bonus for all health workers. Doctors have been instructed to speed up discharges from hospitals and restrict medical tests. Half of the 24-hour outpatient departments will close at night, and around 40 will close during the summer. The closures will affect intensive care units. Eight of the biggest hospitals are on minimum service for five days a week until the end of the year, and there are plans to extend this to next year. The number of people waiting for operations has increased by 23 percent. The Generalitat is also considering splitting up the health service into separate companies that can be sold off to private investors.

The Generalitat has slashed its payments to homes for the elderly and disabled by half, drastically reduced subsidies to state universities and the arts, deferred work on new underground lines and cancelled benefits to children under three years of age.

Other regions are making or planning to make drastic cuts in their spending. In Castilla-La Mancha, the regional right-wing Popular Party (PP) government has initiated an "emergency plan" to cut its budget by 20 percent. The region is forecast to have a debt of €3.1 billion ($4.3 billion) at the end of 2011, equivalent to 59 percent of its income.

Castilla-La Mancha's president, Maria Dolores de Cospedal, who blamed the previous PSOE government for covering up the true state of the deficit, has promised to cut the shortfall to 1.3 percent of its GDP in 2012 from 6.5 percent last year. The measures in Castilla-La Mancha include 1,000 fewer secondary school supply teachers, the reduction of 34 teacher training centres to one, the sale of hospitals and an end to both the €400 a month paid to 32,000 widows and cheap travel for over-60s. Recruitment has been frozen in the public sector, and there is a ban on the recruitment of temporary staff.

In Madrid, which the PP has ruled since 2003, the regional government's addition of two hours to the teaching time has left 1,000 supply teachers without jobs and meant teachers having to teach subjects they are not trained in. Subsidies to the arts have been slashed, and 219 libraries are stopping their workshops and other activities.

In Extremadura, where the PP took power with the abstention of the United Left, the new leader, José Antonio Monago, has announced that he will close half of all public bodies in order to reduce the budget by up to 20 percent. The region of Galicia has stopped providing free school books and is privatising hospitals, closing operating theatres and suspending insurance coverage for 30,000 seamen and shellfish farmers. In Murcia, benefits for dependents, migrant workers and students have been cut by 30 percent, and the regional government is planning to cut prescriptions.

Valencia's government is putting at risk the existence of 62 music conservatories, proposing to cut the number by more than half. Some 1,200 jobs could be lost and music teaching to 8,500 students ended.

These are only a few examples of the massive attacks taking place on the living standards of Spanish people. Yet they are not sufficient for the global banks and investors. Their representatives in governments are baying for more, with German Chancellor Angela Merkel declaring, "Spain has already done a lot, but she will probably have to do more to win back the confidence of the markets."

Whichever party wins the November 20 general election will do whatever is demanded of it by the financial institutions. At the beginning of September, the PP abstained to allow an unprecedented change by the PSOE to the Spanish constitution—the imposition of a ceiling on public spending deficits for all future governments—to go through in the space of just two weeks. Now, PP leader Mariano Rajoy, who, according to opinion polls, is expected to win an outright majority in the election, has declared his party would carry out similar measures nationally to the policies carried out by his party's number-two official, de Cospedal, in Castilla-La Mancha—policies that can only be described as scorched earth. "We will have to take many measures right away. Others will be taken throughout the next four years, but many will be taken in the first 100 days," he said.

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