More cuts demanded as recession looms in Spain

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Figures released this week show that the Spanish economy is spiralling into recession.

Economy Minister Luis de Guindos declared, “There has been no recovery in the economy at any point since the start of the crisis.”

The only solution that the Popular Party (PP) government, the European Commission (EC), European Central Bank (ECB) and International Monetary Fund (IMF) are demanding is greater sacrifice from the working class.

Last week, Finance Minister Cristóbal Montoro revealed that Spain’s budget deficit in 2011 amounted to 8.5 percent of gross domestic product (GDP), well above the target of 6 percent, and above the government’s own 8 percent estimate published in December. Spain had agreed with the EU, ECB and IMF to cut the deficit from 9.2 percent of GDP in 2010 to 6.0 percent by the end of 2011, 4.4 percent this year and 3.0 percent by 2013.

Last year’s deficit was €91.3 billion (US$120.5 billion)—little changed from the €98.2 billion (US$130 billion) deficit in 2010, despite a €15 billion (US$20 billion) package of austerity measures imposed in May 2010 by the previous Socialist Workers Party (PSOE) government. This included tax rises, a 5 to 15 percent cut in public sector wages, raising the retirement age from 65 to 67, and changes to labour protection laws. Huge cuts in health care and education were also imposed by the regional governments.

A new forecast this week predicted that Spanish economic output will fall by 1.7 percent this year, worse than the 1.0 percent forecast recently by the EU. Exports decreased 1.6 percent from the previous three months, and consumer spending declined by an annual 1.1 percent. The number of people without work in Spain rose to a record high of 4.7 million—22.9 percent of the working population, the highest rate in the EU. Almost half of young Spaniards are unemployed, and thousands are emigrating every month.

Faced with these figures, PP prime minister Mariano Rajoy announced that his government had amended this year’s deficit forecast from 4.4 percent of GDP to 5.8 per cent.

Rajoy claimed that he has not discussed the new target with his European counterparts, declaring, “I did not consult other European leaders and I will inform the Commission in April.… This is a sovereign decision made by Spaniards”. This is pure bluster. Every aspect of Spanish economic policy is dictated by EU, ECB and IMF officials. Rajoy made his announcement immediately after an EU summit and amid reports that he had been pleading for more time to reduce the deficit in return for imposing huge new austerity measures.

De Guindos said that “the fiscal consolidation effort” was going to be “large” and that the Commission “understands perfectly that we had a slippage last year.”

“They appreciate the effort we are going to make,” he added.

But Jean-Claude Juncker, president of the Euro Group with political responsibility for the euro zone, insisted that “Spain must respect the targets it has been given.” Germany’s Angela Merkel was similarly dismissive. “It makes no sense to declare first thing that the deficit-reduction targets are no longer valid”, she said. “Every country—and the Spanish prime minister just confirmed this to me—will be very ambitious to anchor these targets in their budgets.”

Reports suggest the government will have to come up with more than €40 billion (US$52.8 billion) in savings to meet the 5.8 percent target on top of the €15 billion worth of tax rises and spending cuts already announced in December.

Spain will plunge further into the vicious spiral that Greece has experienced, where spending cuts and tax rises reduce revenues and lead to calls for further spending cuts and tax rises.

Employment Minister Engracia Hidalgo warned that more layoffs are unavoidable in the public sector and that soaring unemployment figures “justify the Spanish government’s approval of a complete and balanced labour reform in a very difficult period for the Spanish and European economy.”

The government launched its labour reform process in February, when Congress approved plans to slash severance pay and break up collective bargaining agreements. The aim is to reduce workers on permanent contracts to the level of the 30 percent of Spanish workers who are employed on junk contracts at the employers’ beck and call.

The government is planning to rein in the spending of the 17 autonomous regional governments. Not one of them met the 1.3 percent target last year. Their combined deficit ended up over 2.9 percent of GDP, brought about by a collapse of revenues as a result of the crisis—particularly in real estate. In December, Valencia failed to pay back a €1.8 billion loan and had to be bailed out by the central government.

Reports suggest that Rajoy and Montoro have delayed the harshest austerity measures until after the regional election on March 25 in Andalusia, one of the PSOE’s last strongholds, in the hope it will be easier to impose cuts. According to de Guindos, the government will then introduce a new law that “will establish strict instruments of control over the budgets of the autonomous regions.… Before approving the budget, ministers will need the green light from the central government.”

This will mean further attacks on essential services including education and health, for which the regional governments are responsible and which have already led to huge protests in recent months.

In addition to public spending cuts and labour reforms, the EC, ECB and IMF are demanding the government address bank indebtedness. The government has refused to create a state-funded “bad bank” to absorb the toxic assets of the banks and is insisting that they clean up their balance sheets without more state bailouts. They have to set aside an extra €50 billion to cover bad property loans. As a result, many of the weaker banks will close. De Guindos explained, “There are some fragile institutions that won’t be able to do it.… We are going to have fewer players in the banking landscape in the coming years, but simultaneously the remaining players will be stronger.”

The argument did not convince Moody’s, which downgraded Spain’s credit rating to A3 from A1 this week. Several Spanish banks, including Banco Santander, Bilbao Vizcaya, Caja Rural de Navarra, Banca March, and Liberbank y Cajamar Caja Rural were put on negative outlooks.