More austerity measures as Spain’s public debt soars

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22 March 2012

Spain’s financial situation is deteriorating rapidly, with debt reaching an historic high of 68.5 percent of GDP during the last quarter of 2011. It has now entered its second recession since 2009.

“Spain seems to be the main risk in the near future for Europe,” said UBS AG chief European economist Stephane Deo.

Madrid is supposed to stick to targets agreed two years ago with the European Commission, the European Central Bank and International Monetary Fund to cut the deficit from 9.2 percent of GDP in 2010 to 4.4 percent this year and 3.0 percent by 2013. Last month, Prime Minister Mariano Rajoy declared the country would not be able to meet the 4.4 percent target and had “unilaterally” decided to change it to 5.8 percent. The European Commission agreed a revision was necessary, but insisted the target had to be 5.3 percent.

This means Spain will have to come up with more than €35 billion in savings to meet the new target on top of the €15 billion worth of tax rises and spending cuts already announced in December. Economy Minister Luis De Guindos has suggested that VAT may be raised next year and Finance Minister Cristobal Montoro has estimated that to meet the new 5.3 percent goal the central government will have to reduce spending from 5.1 percent to 3.5 percent.

On top of this, forecasts predict that the Spanish economic output will fall by 1.7 percent this year. Exports decreased 1.6 percent from the previous three months, and consumer spending declined by an annual rate of 1.1 percent.

The real estate sector, upon which Spain has depended heavily over the past decade, continues to slump. The fourth quarter of 2011 saw the price of an average new home fall 8.5 percent compared to the previous year, while the price of used properties was down 13.7 percent.

Last Friday the ruling Popular Party (PP) government announced the elimination of 27 state-owned corporations and public disinvestment in 43 other companies. Amongst the eliminated state-owned corporations are the Corporation for Public Rents, Corporation of Engineering and Aerospace Services and Marine Towing Corporation. In total, the government intends to eliminate 19 percent of state owned enterprises and reduce the participation in other entities. Grasping at straws, it has also asked the European Commission for €7.5 billion in aid to combat the drought that is currently affecting the country.

The government has also delayed the 2012 state budget until March 30, after regional elections on March 25 in Andalusia and Asturias, in the hope it will unseat the current Socialist Workers Party (PSOE) administrations there and have control of nearly all of Spain’s 17 regions, which are a major source of debt. Not one of them met the 1.3 percent target last year and this year their debt has risen 17.2 percent (around €140 billion). In December, Valencia failed to pay back a €1.8 billion loan and had to be bailed out by the central government. The regional governments have already cut spending by up to €15 billion this year and further drastic cuts will now be imposed on services, including health and education for which they are responsible.

Catalonia, ruled by the right wing nationalist Convèrgencia I Unió (CiU), is currently the most indebted region in Spain—at 20.7 percent of its GDP. According to *El Pais*, it has become “the laboratory in implementing an agenda of social cuts… [which] also looks to be tested in one way or another in the rest of Spain.”

Just last week the region became the first to implement a system based on "co-payment" of health care by charging a euro for every prescription. One day later Galician President Alberto Núñez Feijó stated he would campaign for the same measure in the PP-controlled regions.

The Catalan government was also the first to announce it was implementing the recent "reform" of the labour laws in the national Congress (see: "Spain's Popular Party government imposes savage labour legislation"). Some 230,000 regional civil servants will see their working hours and conditions worsened and 6,800 part-time workers will face a 15 percent reduction in working hours and salaries.

In contrast, billions have been spent on bailing out the banks and forcing through mergers. Just last week, €850 million from the public treasury was given to the savings banks Unicaja and Caja España Duero (which has already received €525 million) in exchange for their merger.

While families are thrown out of their homes for not paying the rent, Spanish football teams, which have strong links with the banks, are left increasing their debt, which already reaches €752 million.

The government has also amnestied a former top-ranking member in the Catalonia regional administration and a businessman facing jail sentences for corruption and embezzlement of public funds. Both are members of Unió Democràtica, coalition partners in the ruling CiU Catalan nationalist bloc. This comes days after the PP passed the labour reform through parliament with the help of the CiU.

Last week, the interior minister stated that he will not take any disciplinary action against any policeman who brutally suppressed teenagers who were demonstrating against education cuts in Valencia on February 20. Minister Jorge Fernández Díaz defended the "professionalism" of the police, who had violated the constitutionally protected right of free assembly.

Under conditions where Spain's economy is plunging into the same vicious spiral that Greece has experienced, and where spending cuts and tax rises reduce revenues and lead to calls for further spending cuts and tax rises, the living standards of Spanish workers are being dramatically worsened. With the complicity of the PSOE and the wretched response of the unions, the PP is using the economic crisis to drive workers back to the days of the 19th century.