Spanish government unveils €27 billion in budget cuts

Alejandro López
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On Friday, Spain's Popular Party government announced €27.3 billion (US$36.4 billion) in cuts to the 2012 budget. With cuts equivalent to 2.5 percent of gross domestic product (GDP), the budget is the most austere since the fascist dictatorship.

The figure, which includes cuts of €15 billion announced in December, will be voted on in parliament today.

The government claims that the measures are necessary to reduce Spain's deficit by the end of the year from 8.51 percent of GDP to 5.3 percent as demanded by the Troika—the European Union (EU), European Central Bank (ECB) and the International Monetary Fund (IMF).

Finance Minister Cristóbal Montoro described the country's finances as "critical," whilst Deputy Prime Minister Soraya Sáenz de Santamaría talked of a "desperate situation."

The latest measures come on top of the €15 billion in cuts pushed through by the social democrat Spanish Socialist Workers Party government of José Zapatero in May 2010.

It means that more than €40 billion will have been slashed from spending in two years. This only counts the central government's budget "adjustments" and not those from the regional and local governments, which have been instructed to make cuts of around €14 billion to €17 billion. These will also have a major impact on workers lives, particularly as they are responsible for health care and education.

These latest measures include:

• Cuts in the ministries' budget by an average of 17 percent: including cuts for the departments of Foreign Affairs (54.4 percent), Justice (34.6 percent), Defense (31.9 percent), Education, Culture and Sport (21.2 percent), Agriculture (7.4 percent), Health (4.3 percent) and Economy (3.8 percent). The biggest cuts (€594 million) are to overseas aid.

• A civil service pay freeze. This comes on top of the measures in December that included a rise in the working week from 35 to 37.5 hours without extra pay and salary cuts of up to 15 percent made in May 2010.

• Public investment in "Active Employment Policies" (training and finding employment to access the labour market), to be cut by €1.5 billion.

Since Sunday electricity and gas prices have risen by 7 and 5 percent respectively. Cigarette prices will also increase.

However, the government announced that a tax amnesty is to be launched for sections of the bourgeoisie who have overseas accounts to avoid paying taxes and people who are paid off the books. Tax evaders will be allowed to repatriate capital from abroad and will only have to pay 10 percent tax on the money. This is a bargain, especially when taking into account that the highest tax rate in Spain is 43 percent.

The Spanish economy is plunging into the same vicious spiral experienced in Greece, where cuts and tax rises reduce revenues, followed by demands of further spending cuts and tax rises. Spain has now entered its second recession since 2009.

A new forecast 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.

Spain's financial situation is also deteriorating rapidly, with debt reaching an historic high of 68.5 percent of GDP during the last quarter of 2011.

Added to this, Spanish banks are continuing to face the effects of the property bubble. According to *El Economista*, "Loan defaults have reached their highest level in 18 years, moving the focus beyond the exposure to the real estate crash to banks' entire €1.8 trillion ($2.39 trillion) loan book."

As an unnamed member of the government executive described the economic deterioration to the daily *El País*, "I don't know if we have explained ourselves well or not, but let's not deceive ourselves, we are holding on thanks to the artificial respiration of the open-bar-liquidity of the European Central Bank. If it wasn't for that, this explodes." This was in reference to the €1 trillion of cheap money auctioned by the ECB in December, which was used by the Spanish banks to cover the €130 billion spike in debt maturities this year and to buy sovereign debt.

Referring to the government's budget announcement, Nicholas Spiro at Spiro Sovereign Strategy told *Reuters*, "This is as austere as it gets. It's a tightening of fiscal policy until the pips squeak. There can be no doubting the government's willingness to curb Spain's excessive budget deficits."

But the measures will not be enough to satisfy the international markets, which will inevitably demand more.

IHS Global Insight economist Raj Badiani told the news agency that the "government could be forced to implement further austerity measures later this year, with lingering economic downturn set to place additional strains on an already perilous budget deficit reduction plan."