Finance ministers tie bailout of Spanish banks to deeper cuts

Stefan Steinberg
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Euro zone finance ministers agreed Friday to a €100 billion bailout aimed at averting a crash of the Spanish banking system. The agreement means Spain will receive a €30 billion down payment to prop up its banks over the next several months.

The €100 billion loan was originally agreed at an emergency meeting of EU leaders held July 9, but required the approval of individual member states—in particular, Germany, the largest contributor to the bailout fund.

On Thursday, the German parliament voted in favour of the Spanish bailout by a large majority, with the opposition Social Democratic Party and Greens voting in favour alongside the government parties.

Leading members of the Greens speaking in the debate criticised the bailout for throwing money at the banks, but still voted in favour. Replying on behalf of the government, German Finance Minister Wolfgang Schäuble declared that liability for the loans lay with the Spanish state and payout of the full amount of the rescue package would be conditional on further “reforms”, i.e., drastic austerity measures.

Twenty-two members of the government coalition plus the parliamentary faction of the Left Party voted against the bailout, reflecting a growing nationalist opposition to the policy of the Merkel government. (See: “Germany: Fierce controversy over banking union”)

When the bank bailout was initially approved in early July, Spanish Prime Minister Mariano Rajoy sought to give the impression that it was conditional only on measures to increase the transparency of Spanish banks and would not involve new public spending cuts. It was also widely reported that the Spanish state would have no liability for the loans.

In fact, the bailout was conditional from the start on the implementation of deeper budget cuts. Rajoy introduced a new package of austerity measures just prior to the July 9 summit, but following the meeting EU leaders made clear that those measures were not sufficient. Rajoy duly introduced a €65 billion package of spending cuts and tax increases directly targeting Spanish workers and the unemployed.

As part of their approval of the Spanish bank bailout, euro zone finance ministers are demanding the right to oversee the implementation of the austerity plan for Spain. A 70-page document released prior to Friday’s meeting revealed that EU officials are insisting on “regular and close” monitoring of Spanish economic policies to ensure that the country’s budget deficit is reduced to 3 percent of gross domestic product (GDP) by 2014.

The sweeping cuts introduced to date by the Spanish government at the behest of the European Union have failed to whet the appetite of the financial markets. The bankers utilize every concession to their demands by the EU bureaucracies and national governments, including €1 trillion ($1.23 trillion) in cheap loans from the European Central Bank at the end of 2011 and beginning of 2012, to make new demands aimed at ensuring that the entire burden of the economic crisis is borne by the working population of Europe.

The devastation of Greece has become the template for the ruination of the working classes of Spain, Italy and the rest of the continent.

On Thursday, the interest rate for Spanish government bonds once again soared about 7 percent—a level that is unsustainable and, if it persists, leads inevitably to national insolvency. By setting the rate this high, the financial markets seek, in effect, to blackmail the government into intensifying its anti-working class austerity policies.

Commenting on the bailout agreement, the Swiss newspaper *Corriere del Ticino* noted that the €100 billion planned for Spanish banks is “a ridiculous sum that will hardly impress the speculators”. The newspaper called for a new infusion of money for the banks from the European Central Bank.

The consequence of the ruthless austerity policy for Europe spearheaded by Berlin and Brussels is a worsening of the economic crisis across the continent. Cyprus became the fifth member of the European Union to apply for financial aid last month, following in the wake of Greece, Ireland, Portugal and Spain.

According to a Reuters poll of economists published Thursday, the euro zone is plunging into its second recession since 2009. The poll noted that the combined economy of the 17 nations in the euro zone declined by 0.3 percent last quarter and is set to shrink by 0.1 percent in the current quarter. Over this period unemployment in Europe reached a new record of 11.1 percent and is expected to rise further in the coming quarters.

Major industries such as auto are registering a dramatic fall in sales, particularly in economically hard-hit southern European countries, where unemployment is surging.

The European crisis is increasingly impacting the world economy. On Wednesday, the president of the World Bank declared that most regions of the world were being affected adversely by the European crisis and warned of the dangers of a deep global recession.

A separate report from the Institute of International Finance (IIF) noted that the euro crisis is leading to a credit squeeze in nations outside Europe. The IIF report stated that measures taken by the European Central Bank, such as its €1 trillion loan program and record low interest rates, provided only short-term relief, leaving credit conditions to tighten in emerging markets around the world. At the same time, it noted, the volume of bad loans in these non-European nations was on the rise. IIF chief economist Philip Suttle declared, “The euro crisis has resumed in earnest.”