Spain’s regional governments seek bailouts

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25 July 2012

Unable to pay back the interest on their huge debts, Spain’s regional governments are seeking bailouts from the central government—even though Madrid itself is so mired in financial crisis that this could lead to a default on its debts.

Two weeks ago, the government created an €18 billion Regional Liquidity Fund (FLA), a system allowing cash-strapped regions to access financing under stringent conditions laid down by Madrid. These include reporting every credit transaction in the short and long term, a central government takeover of the administration of the regions’ debt repayments, and the imposition of a deficit-reduction plan with a detailed debt repayment forecast for the next ten years.

This is an imitation of the requirements attached to European Union bailout funds, in which the “troika”—the European Commission, the European Central Bank and the IMF—ultimately call the shots.

The regions that face the highest debt maturities are Catalonia (€5.8 billion), Valencia (€2.9 billion), Andalucía (€1.6 billion), Madrid (€1.3 billion), La Rioja (€940 million) and Castilla-la-Mancha (€705 million). They have been unable to reduce their debts despite imposing huge austerity measures. On top of this, Madrid has demanded an €18 billion cut in regional spending this year to bring the regional deficit down to 1.5 percent.

The austerity measures imposed by the regions—which are responsible for education, health care provision, and social services and spend four out of every 10 euros of public money—are intensifying poverty in a country that is already suffering 23 percent unemployment.

According to the latest data, the regions’ revenues decreased 6.15 percent in the first quarter of the year. Their two main sources of revenue, the assets transfer tax and the tax on legal documents, have fallen by 23 percent. The collapse of the housing bubble has meant that lucrative construction license fees have also fallen.

Valencia was the first to ask aid from the FLA. It is estimated that it needs around €3 billion in emergency funding. Its debt has been given junk status by credit rating agencies. After initially denying that Valencia government officials had announced that they would request FLA aid, Finance Minister Cristóbal Montoro said that the region will “be obligated to follow new conditions”, i.e., new austerity measures.

On Sunday, Murcia announced it would request between €200 million and €300 million from Madrid to shore up its finances. Ramón Luis Valcárcel, the regional premier, said that the conditions would be “very tough… nobody should think that we’re going to get the money for free.”

The finance minister of Castilla-La-Mancha, Arturo Romaní, has also declared that his region is looking for a bailout, stating that “we are very worried of our region’s treasury.”

Catalonia, Andalucía, the Canaries, the Balearic Islands and one or two more are expected to join them. In exchange for the loan, Madrid will demand tighter control of regional spending, under the threat of direct intervention.

The aid a request by the regions has only increased the speculation that Spain will need a bailout. This would dwarf the bailouts already imposed on Greece, Ireland and Portugal.

Up to now, Madrid has been able to avoid formally requesting a bailout from European and international authorities. However, the money markets now interpret the liquidity problems of the regions— which must repay nearly €16 billion in debt before the end of 2012—as making it inevitable that Madrid will have to request a bailout.

On Monday Spanish bond yields reached a record high, driven by fears that Spain might need a bailout of its sovereign debt, worth hundreds of billions more than the ones taken by Greece, Ireland and Portugal. The rise continued on Tuesday, with lenders to the Spanish government demanding a new euro-era high interest rate of 7.57 percent on 10-year debt. Credit default swaps, used to insure against Spain defaulting on its sovereign debt, also rose to another record high, and the stock market in Madrid fell by 2 percent.

Even before the latest crisis, the International Monetary Fund was predicting that Spain's national output (GDP) will shrink by 0.6 percent in 2012, when it had previously forecast a 0.1 percent increase. IMF projections also did not take into account the recessionary impact of the €65 billion in spending cuts and tax hikes passed recently by the Popular Party government.

Fernando Restoy, deputy governor of Spain's central bank, told reporters that "the tensions in the markets reflect the problems facing Spain and the euro zone …We need more adjustments, more reforms and more mechanisms to strengthen the euro zone."

The new crisis the EU is facing comes after the euro-zone finance ministers only agreed on Friday to a €100 billion bailout aimed at averting a collapse of the Spanish banking system. In exchange, Rajoy introduced a €65 billion austerity package of spending cuts and tax increases directly targeting Spanish workers and the unemployed.

With the latest increase in interest rates on Spain's bonds, which are unsustainable in the long term, the markets are insisting that Madrid intensify its anti-working class austerity policies.

These measures have already provoked massive opposition in the working class. Last Thursday over a million people protested in 80 cities against the Popular Party (PP) government's latest budget, after days of spontaneous protests by civil servants, firemen, and even police.

The call for more austerity measures by the regional governments will mean the destruction of whatever is left of the welfare state. Workers in Spain are suffering an ongoing and devastating decline in their living standards. Every week brings a fresh report highlighting falling wages, rising unemployment and worsening hardship.

The ruling class in Spain and throughout the globe is using this crisis to reverse all the social gains of the working class won through bitter struggle for the past 150 years. This was recently expressed by the Madrid Region's Councilor of Economy and Finance, Percival Manglano, who declared that education should not be free. He added that Spain should change to a different education model, because "it is not sustainable and there is no money."

Nothing is more indicative of the character of the capitalist system than one of its well-paid servants declaring that there is "no money" for education, whilst billions are poured into the banks.