



The last weeks of the Spanish government

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General elections will be held on the 20th of November in Spain. Most likely, the PP (the Partido Popular), the current opposition party, will win. The last weeks of the current government have been very busy, not only with preparing a proper departure, but also with making important decisions.

One extremely important decision was the reform of the Spanish Constitution. Everything happened very rapidly. The idea was raised in August, the main parties agreed, the lower chamber of the Parliament voted for it, and a week later, on the 7th of September the Senate approved. The Parliament decided just before its dissolution (on the 27th of September). Since coming into force in 1978, this was the second reform of Spain's constitution (the first was a modification of foreigner voting rights in 1992). The rapid reform met opposition from some experts and civil organizations, articles were published and demonstrations took place.

The aim of the constitutional reform was to include limits to the public deficit and debt in accordance with the criteria of the Economic and Monetary Union. After Germany, Spain is the second country to take such a step. Spain also has a highly decentralized fiscal system and the constitutional law represents an even stronger obligation for the autonomous regions. The constitutional limits can only be overstepped in cases of natural catastrophe, recession or emergency situations with an absolute majority decision of the Parliament.

The modified article 135 of the constitution does not contain exact numbers for the limits. The details are supposed to be included in an organic law to be approved before June 30, 2012. According to the political consensus between the government and the opposition, the limit of the structural deficit will be 0.4 per cent of the GDP (of which 0.26 per cent corresponds to the State and 0.14 per cent to the autonomous regions).¹

There was another important and much debated decision: the temporary reintroduction of the capital gains tax. It was approved by the Parliament at its last session in September, with the opposition party absent. Around 160,000 Spaniards would have to pay more taxes in 2012-13, those with more than 700,000 euros in declared assets. 2007 was the last year that the wealth tax was collected. The Spanish government removed the tax in April 2008.

Although the Popular Party did not agree with the re-introduction of this tax, they announced they would not abolish it after regaining governing power. The collection of the wealth tax will be the task of the regional governments (which are almost all in the hands of the PP).

Finally, a brief glance at some of the most important problems the Spanish economy and the new government will have to face.

¹ See more about the fiscal reform: Banco de España, Boletín Económico, septiembre 2011

The most “famous” is the extremely high unemployment rate. This was 21,2 per cent in August (by far the highest among the OECD countries²) and the rate among young people is 46 per cent. This rate seems to be persistent and there is no prospect of significant reduction in the short run.

The other problem that can cause headaches in the future is the situation of the financial sector, above all of the savings banks (*cajas*). These are burdened with bad loans stemming from the real estate boom ending in 2007. The exposure of the banking sector to the real-estate sector has not decreased significantly since the beginning of 2008.

For the restructuring of the *cajas* and banks, the government established the Bank-Restructuring Fund (FROB) in 2009. The FROB manages the mergers of the *cajas*. From 45 *cajas*, 15 now remain. The Royal Decree 2/2011 increased the core capital requirements of savings banks, by September 2011, to 8 per cent of risk-weighted assets, and to 10 per cent for those banks that depend on wholesale capital markets for more than a fifth of their funding, or if less than a fifth of their shares are in private hands. There are sad stories like the Caja Mediterranea (CAM) where the Bank of Spain and the FROB took control in July. 2.8 billion euros were injected into this *caja*, which, according to the president of the Bank of Spain, was wasted money and the behavior of the directors of the savings bank was scandalous.³ Thus far, the restructuring of the Spanish financial sector has cost the state 7.5 billion euros in total.

There is a third “risk factor” in the Spanish economy: the debt of the regional governments. Regional indebtedness has grown by 23 per cent between June 2010 and June 2011, reaching 12.4 per cent of

GDP. Regional debt is also scrutinized by foreign investors and credit-rating agencies (a warning sign was given with the downgrading of Spain in the beginning of October). The Murcia and Castilla y León regions are the most indebted.

According to the prospects, the Spanish economy will not grow in the short run. Apart from the internal difficulties, the crisis situation in the Eurozone could further aggravate Spanish economic policy. The effects of a possible Greek default would surely spread to Spain as well. The question is only to what extent and which government will deal with it.

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² OECD Harmonised Unemployment Rates, News Release, 11. October 2011. <http://www.oecd.org/dataoecd/10/34/48854723.pdf>

³ <http://www.europapress.es/economia/noticia-fernandez-ordonez-ve-escandalosa-gestion-cam-20110930133934.html>.