Debate on budgetary stability and expenditure ceiling objective

The Government commits itself to further intensifying the speed of the deficit reduction

- Montoro announces that the Central Government will take on the extra effort requested by Brussels so that the deficit is 5.3% of GDP this year
- He criticised the socialists responsible for the deficit deviation who are now resorting to scare tactics due to the adjustments that have to be carried out

13 March 2012. The Government accepts the additional effort that Brussels proposed today and is treating it as an additional incentive to overcome the crisis in Spain as soon as possible, and for Spain to move closer to the final target of 3% of GDP by the end of 2013. The statement was made by the Minister of Finance and Public Administrations, Cristóbal Montoro, during the debate on the expenditure ceiling for 2012 which took place in the Spanish Congress. With the new public deficit estimate of 5.3% for 2012, it has been accepted that the 4.4% stability target for this year's budgets will be impossible to maintain, a year that will be marked by the serious deviation in the 2011 deficit, which ended at 8.5% compared to the 6% forecast by the previous government, as well as the fall in predicted growth for this year that is expected to result in a 1.7% contraction of GDP. With this new estimate, Brussels recognises the fiscal consolidation measures and financial reforms that are being carried out by the Spanish Government, and is moving closer to the maximum target that the Government has approved (5.8%), which represents a very ambitious reduction of 2.7 points of GDP, equivalent to nearly €30 billion.

During his speech, the Minister of Finance stated that the deficit reduction rate will increase further in order to reach the figure that the European Commission has set for Spain, of 5.3%, with the Central Government being responsible for taking on this additional budgetary burden this year, although that "does not mean more flexibility for regional governments, which will remain committed for the following year". With these decisions having been taken, the Government recognises the social and economic reality that Spain is experiencing, and "we can only get out of this crisis if our feet are on the ground", said Montoro. This additional effort that the Government will have to make will be based on expenditure cuts, not tax increases, and the Minister rejected any "inequitable and unfair" tax increases being imposed.

The Minister of Finance and Public Administrations criticised the Opposition's position, stating, "The same leaders of the Spanish Government that produced the deficit deviation are now warning us about the adjustments". "Are they trying to scare us with the adjustments?", pondered the Minister, going on to state that, "What really worries us are the 5.3 million unemployed people, the public deficit of 8.5%, the loss of 35 points of GDP and that the self-employed and SMEs do not have access to bank credit and that Public Administrations are not paying".

Realistic budgets

In his speech, the Minister of Finance and Public Administrations maintained that the Government's responsibility is to present realistic budgets to Parliament based on credible forecasts of economic growth and revenues. On 2 March, the Council of Ministers approved the macroeconomic table used as a basis for drawing up the budget, the budgetary stability target for this year, as well as the limit on non-financial expenditure by the State for this year, accurately following the terms of the Budgetary Stability Act. However, against a backdrop of international economic uncertainty and tension in the financial and public debt markets, in the final quarter of 2011 the Spanish economy experienced a slowdown in economic activity that has been a prelude to a new recession expected in early 2012. However, despite showing a 1.7% decline in GDP in real terms, a fall of 6.9% in fixed capital investment and a drop of 4.6 percentage points in domestic demand, the macroeconomic table does has positive aspects. It therefore shows how the deflator of private consumption will have moderate effect around 1.6% and the foreign sector will reduce its trade gap to almost zero, from more than 10% of GDP in 2007 to about 0.7% at present.

Expenditure ceiling

In addition to this budgetary stability target, the Government has also presented the State's non-financial expenditure limit for 2012 to Parliament. The expenditure ceiling is set at 118.565 billion euros, which represents a reduction of 4.7%, a level which is in keeping with expenditure in terms of the National Accounts, which results from the deficit target set for the State and from non-financial revenues. The State's non-financial revenues forecast for 2012 stands at 119.233 billion euros. The National Accounts adjustments total -6.360 billion euros, which means that the spending capacity of the State's budget is reduced by this amount. Due to the 2.270 billion euros in obligations from previous years, the standardised spending limit is set at 116.295 billion euros. Funds available for Ministries are down by 12.5% this year, which means they will have a total of 57.978 billion euros.