Press release

Stability target and expenditure ceiling debate in the Upper House of Parliament

Montoro: "We are proposing a budgetary policy in order to overcome the crisis as soon as possible.

- The Minister announced that adjustments will be based on declining expensive projects
- No public jobs will be lost and neither will public worker's wages be reduced in the 2012 State Budget
- Cristóbal Montoro defended the proposed deficit target of 5.3% "because our European partners ask this of us, and rightly so"

14 March 2012. "We are proposing a budgetary policy in order to overcome the economic crisis as soon as possible. It is a policy that aims to open the door of hope", the Minister of Finance and Public Administrations said in the plenary meeting of the Upper House of Parliament during the debate on the stability target and expenditure ceiling for the 2012 General State Budget, which has been approved. Despite the situation and the adjustments that need to be made, he announced that "no public jobs will be lost and neither will public worker's wages be reduced in the 2012 State Budget".

Cristóbal Montoro maintained that the proposed deficit target "is consistent and it is coherent with our European commitments". The target is to be reduced to 5.3%, "as our European partners ask this of us, and rightly so". The Minister urged all groups in the Upper House to commit to the deficit target "which is not only a target for the Spanish Government, but also one for the rest of Europe". "Europe is the solution for overcoming the crisis", he said.

In his speech, Montoro explained that the Government's proposal is based on correcting the public deficit recorded in 2011. He pointed out that "we should be delighted about the outcome of the Eurogroup meeting. We have finally shelved a Stability Programme that was neither credible nor reliable and that predicted a clearly unachievable target in view of the current economic recession".

According to the Minister, with the stability and expenditure ceiling target, the Government is proposing a balanced public spending policy adjustment and also a tax policy that does not generate "social injustices" like those resulting from the rise in indirect taxes, the freezing of pensions and reductions in public workers' wages.

Montoro said that the Government's adjustment policy is set to decline expensive projects, "spending less in order to grow financially as quickly as possible", with contributions from other structural reforms like the financial and the labour reform. The structural deficit which does not depend on the state of the economy at a specific time is also to be eliminated in order to ensure financing public services, regardless of upward or downward cycles.

Cristóbal Montoro also announced that the Central Government will adjust the deficit target adjustment in the budget from 5.8%, approved by the Council of Ministers, to 5.3%, approved by the Eurogroup, to prevent the adjustment made in 2012 being carried over into 2013.

Realistic budget

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.

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 shows how the deflator of private consumption will have a moderate effect of 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.

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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 income forecast for 2012 stands at €119,233 million. The National Accounts adjustments total -€6,360 million, which means that the spending capacity of the State's budget is reduced by this amount. Due to the €2,270 million in obligations from previous years, the standardised spending limit is set at €116.295 million. Funds available for Ministries are down by 12.5% this year, which means they will have a total of €57,978 million.

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