Debate on all public accounts for 2012

Montoro: "We're going to meet the deficit target, an unwaivable commitment"

- The Budgets will have to restore confidence in the Spanish economy and Spanish society among our partners and the markets
- Montoro stressed that the root of the crisis is financial and that the only way out of it is through diligence, budget austerity and more structural reforms
- The regional governments will have to publish their adjustment plans at the next Council for Fiscal and Financial Policy and adapt their accounts to the deficit target, to avoid intervention
- On Friday the Government will approve the National Reform Plan and the revised Economic Stability Programme
- "We are a big country and we will be able to tackle the tasks we face, as we demonstrated in the 1990s", he said

24 April 2012. "This Government is going to meet the deficit target, set at 5.3% of GDP, because this is an unwaivable commitment", declared the

Minister of Finance and Public Administrations, Cristóbal Montoro, today in the debate on the General State Budgets for 2012 in the Spanish Congress. Budgets that "are rightly being called the most austere in Spain's democracy and which aim to be realistic to get us out of the economic crisis we are experiencing", he stated.

Montoro began his speech by explaining that these budgets are being presented "at an extraordinary time", in April, following the decision of the previous Government to hold the general election early so as not to have to draw the budgets up. Responsibility for the public accounts has fallen on the new government which is aware of what it has inherited: a recession which started at the end of last year "made worse by the credit restrictions resulting from the lack of reform in the banking sector which should have been carried out during the last term of office" and a public deficit "hidden through serious deception" which has damaged Spain's image.

“The Budgets are difficult, Montoro explained, like the times, "but with these budgets we aim to restore confidence in Spanish society among our European partners and the markets. We need to make it clear that "the accounts have to be transparent, with no deception, not a seed of doubt" he added.

The Minister of Finance reminded his audience that the origin of this crisis "which many people believe we can resolve by spending more" is financial and it comes from Spain's debt compared to the rest of the world and our ability to cover the maturity dates on external borrowing. “The way to respond to a financial crisis is not with a bigger public deficit”. This deficit needs to be reduced, because it shouldn't be competing for the credit available to the rest of society. “The bigger the deficit, the less credit is available to those who have to get us out of the crisis”, he said.

COMPLIANCE BY LOCAL AND REGIONAL ADMINISTRATIONS

The General State Budgets for 2012 also define the financial relations with the regional governments and local councils. Montoro insisted that "if there are doubts now, these are of particular concern" to the regional administrations.

According to the minister, since doubts first started to arise about the financial viability of regional governments and local councils and the difficulty they have accessing credit, the Government has been working "without setbacks" on developing the regional financing system. It gave a 50% advance on payments from the system and has given the autonomous communities up to ten years to repay debts they accumulated with the State as a result of "poor budgeting in 2008 and 2009".This comes in addition to the plan for supplier payments, which will provide regional administrations with more than 27 billion euros.

However, Montoro stressed that this is not enough. We need to ensure that the regional governments meet their deficit targets and for this reason, in accordance with the Law on Budgetary Stability and Financial

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Sustainability which comes into force immediately, they will be monitored, and we will intervene in regions that fail to comply and they will be penalised.

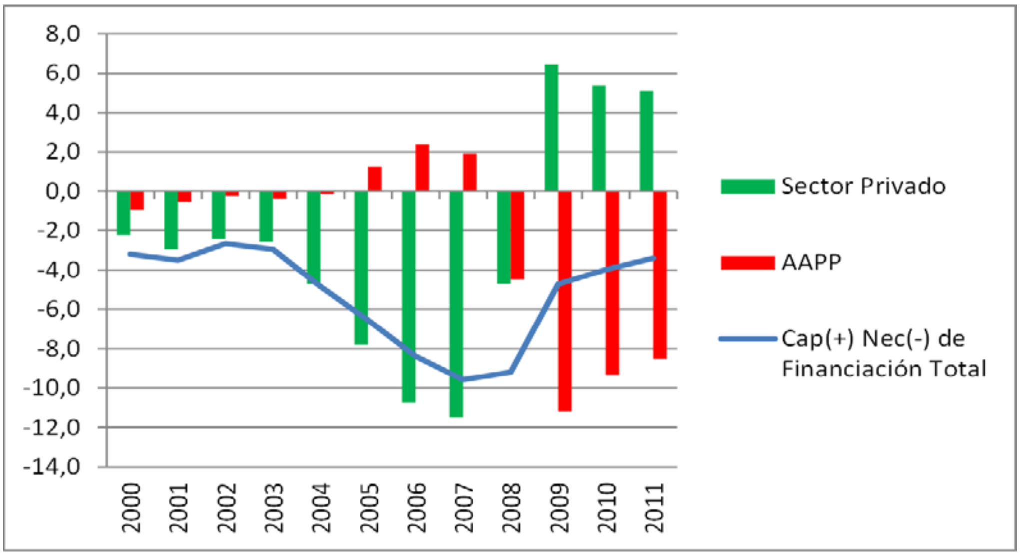
An audit will be carried out by the Council for Fiscal and Financial Policy, which will next meet in the first fortnight of May, to which all the autonomous communities will have to bring their economic-financial plans. These plans "will be known by the Government and by the rest of the communities, EU institutions, the markets and creditors, who are also investors, and will be reviewed by the General Audit Office" announced the minister.

If a plan is not approved in the next CFFP meeting, the region must submit a new plan at the following CFFP meeting which will be called immediately and, if it is not approved the second time round, the corrective and coercive measures established in the Stability Law will be implemented.

MORE REFORMS

As well as highlighting the structural reforms already implemented, such as the reforms of the financial system, the employment market and the Public Administration, the Finance Minister announced that the Government would be introducing further significant measures. Next Friday the National Reform Plan and the Spanish Stability Programme will be approved to be sent to Brussels. The Stability Programme will incorporate the public deficit correction measures, bringing the deficit down to 3% by 2013, an "unwaivable objective".

Montoro insisted that Spain has to meet the deficit target of 5.3% of GDP this year and 3% next year. He highlighted the fact that private sector borrowing grew during the last term of office to exorbitant levels and that the previous government made the situation worse by leveraging the public sector even further. However, while the private sector has already made its adjustments (see graph), the public administrations' still remain to be done.



To prevent the situation from worsening, the minister stressed the huge adjustments made in the 2012 Budgets. If we take into account all the spending commitments, the fiscal impact is equivalent to 2.5% of GDP, some 27.3 billion euros. Of this figure, 1.7% of the GDP is spending cuts, and the remaining 0.8% is increased revenue as a result of tax measures. Furthermore, "at each point we have made a choice about where to make the adjustments and where to collect more".

With regard to expenditure, around 40% of the adjustment measures have already come into force since the non-availability agreement was approved last December. Montoro pointed out that the ministerial departments each face average cuts of around 16.9% in their budgets, a total reduction of 13,406 million euros. Current expenditure is down by 10.7%; capital transfers by 46.7%; and real investment by 19.6%. In some ministries the adjustment is greater, with 54.4% for Foreign Affairs and 31.9% for Industry.

PENSIONS AND UNEMPLOYMENT BENEFITS

Nevertheless, spending in priority areas of the Welfare State is to be maintained so as not to cut the rights already acquired by citizens. This means "pensions will be updated and raised, and civil servant salaries and unemployment benefits remain the same, though not without important changes to active employment policies" which in recent years have proven to be unsuitable. As a whole, Montoro said that these measures will enable between 13 and 14 million citizens to maintain their income level this year, in the midst of the economic crisis.

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The minister also pointed out that the funds budgeted for developing infrastructures would continue to be very important and would be topped up with funds from other sources such as balanced and viable public-private partnerships.

In relation to R&D+i, the contribution paid to the CDTI will be cut by 422 million, but funds towards businesses will be redirected, particularly SMEs responsible for innovation and job creation. Furthermore, essential grant programmes for training in the scientific community will remain in place.

In education, transfers are being cut by 532 million euros but this excludes scholarships, which remain a priority. In health, adjustments have been made in an attempt to turn around the financial mismatch inherited from the previous Government which left behind healthcare debts of over 20 billion euros.

LIMITING DEDUCTIBLE EXPENSES

In relation to income, the minister stated that the fiscal consolidation measures will bring in an extra 12.3 billion euros, without which revenue collection would fall given the shrinking economy. The additional revenue raised through Personal Income Tax "will allow for a more equitable" taxation. In turn, large companies will contribute through an increase in their effective tax rate. Montoro highlighted the limit on deductible expenses for companies "that will help to reduce their financial gearing". Lastly, the extraordinary programme for the regularisation of hidden income, in line with OECD recommendations, will help to raise income and broaden the tax base.

The budget execution figures, both for income and expenditure, will be progressively adapted to the stability target approved for this year.

The minister insisted that the Government will meet the fiscal deficit target and will fulfil the commitments made with the European Union, however difficult the climate might be and regardless of the scale of the effort. He therefore emphasised Spain's ability to fulfil its objectives in complex situations and pointed out that "by 2013, Spain will have made a great change by eliminating the structural deficit". This will ensure that public services will not be dependent on the revenue directly related to the current economic cycle.

“We are a big country and we will be able to tackle the tasks we face, as we demonstrated in the 1990s. The starting point is different this time, with huge external debt, but at the same time we have an income per capita that is double what it was in those days, with 50% more people in work and overseas investment of 46% of GDP" he stated, pointing out that, "the most austere budgets of the democracy will help to restore confidence".

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