Spain's budget deficit: almost one point above the agreed target

According to the data provided last week by the Ministry of Finance, in 2015 the overall budget deficit of the Spanish public administrations rose to 5.16% of the GDP. As seen in the previous years, the Spanish public sector failed to comply with the target agreed by the EU: 4.20% of the country's GDP, which represents a deviation of almost one GDP point or, in other words, of around 10000 million euros.

The budget deficit had significantly decreased in the previous years, from 9.13% in 2011 to 5.79% in 2014, although the most notorious drop took place between 2011 and 2012 (2.36 points). After that, results were always above the agreed targets.

It should be remembered that, in the framework of a monetary union that is becoming more and more integrated, the absence of a common budget and a unified fiscal policy leads to the necessary approval of stability rules for all Member States with the aim of defending the common currency and preventing distortions and speculative pressures on the public debt of those countries with greater economic difficulties. As mentioned, these rules are crucial, and guaranteeing their credibility and realism, as well as guaranteeing sufficient means to ensure their fulfillment, is the main concern. The EU institutions are thus forcing the Member States to adjust themselves to the agreed rules and penalize failures to comply with them. It is however true that penalties in this field within the European Union are hardly ever seen, as there is almost no precedent and severe economic penalties would do nothing but increase the budget deficit.

In addition, the excessive rigidity of the implementation of the rules and politics has caused serious problems for many Member States, as meeting the consolidation requirements has entailed public expenditure cuts and/or notorious increases in revenue. European austerity policies have reduced public services and benefits and hindered economic growth in several countries, especially those in Southern Europe. Over the last years, the institutions that were more distrustful of the guarantee of stability (International Monetary Fund, G20 or even the European Central Bank) have suggested that the States assume certain fiscal laxity as a means to facilitate the exit from the current economic stagnation. However, this recommendation, which enjoyed massive support from the European citizenship, refers essentially to the adoption of rules and not to the management of their unfulfillment once they are adopted.

In any case, why did Spain fail to comply with the target in the context of economic growth (3.2%), low energy prices and low interest rates? Naturally the several agents involved offer different reasons. The European Commission, the opposition parties and the autonomous communities allege the optimistic projection of the central Government regarding tax collection and its electoral strategies of tax reduction and restoration of the 2012 extra pay of the civil servants.

On the other hand, the Government pleads the growing deficit ran by the Social Security and the failure of most of the autonomous communities to comply with their targets.

With regard to the first element, some reasons alleged are related to the increase in pension expenditure, much higher than the overall amount resulting from the promised pension increase of 0.25%. Such increase might be due to the inclusion of new pensioners with higher contribution profiles in the system (that is, pensioners who have the right to receive higher pensions).

In addition, and as a direct consequence of the current circumstances, the weight of the allowances offered with the aim of promoting employment (modality of fiscal spending) and the increase in job precariousness have led to the decrease in revenue with relation to provisions. Such income has also been affected by the high unemployment rate which impedes the contribution of large sums to the financing of the system. This aspect alone represented a difference of around 9000 million euros between the revenue budget approved and the actual budget.

The negative evolution of the deficit ran by the Social Security is also caused by the lack of effects of the 2013 reforms. However, a structural problem remains that will demand the revision of the Toledo Pact (a reform of the Spanish Social Security system approved in 1995) so as to guarantee the functioning of the distribution system. The Finance Minister, Cristóbal Montoro, mentioned that, if the trend continues or intensifies, the contributions might need to be complemented by other resources.

With regard to the autonomous communities, most of them, 14, ended the year with deficit figures above the 0.7% target, partly due to the election year and especially to the need to get back their basic public services that had been seriously affected by the cutbacks in the previous years.

All the autonomous communities that have failed to comply with the target (some of them in particular as they have presented deficit figures above 2 GDP points: Catalonia, Extremadura, Murcia, Comunidad Valenciana and Aragón) have been warned by the central Government and threatened with the sanctions set forth by the 2012 Stability Law if they do not take appropriate measures to correct the imbalances. In this line, given the alleged high deficits and relevant delays in payments to suppliers, the Government has embargoed the revenues of the funding system of Extremadura and Aragón in order to directly pay the suppliers.

Furthermore, the Ministry of Finance has given the failing autonomous communities 15 days to approve the non-availability of credit that might put the fulfillment of the 2016 budgetary target at stake (which entails a maximum growth of 1.8%).

Even though the deficit reduction undergone by the central Government has been more substantial than that of other institutions, it still presents the highest deficit figures. Nevertheless, it must be said that in view of the strong competence reduction, the central Government has allocated most of the expenditure to the payment of unemployment benefits, the solidarity and territorial funding mechanisms, and the interests on public debt, the amount of which equates to 100% of the GDP.

To summarize, the deficit figures recently published pose serious difficulties to the incoming Government, who will be obliged to restart the negotiations with the EU institutions in order to reformulate the consolidation procedure, as it is impossible to reduce the deficit from 5.16% to the 2.8% set for 2016). In addition, in light of the centralization of competences derived from the implementation of the stability rules, a thorough revision of the regional funding model and the territorial coordination mechanisms will be required. In any case, the autonomous communities will have to assume responsibilities, control the expenditure and prevent the fall in revenue with the aim of adjusting their budgets to the demands of the stability program agreed upon with the EU.

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