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Spain's government

Starting to worry

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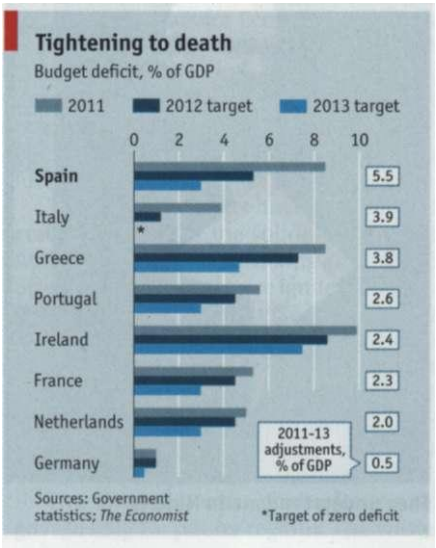
Once again, Spain is on the front-line of the euro crisis

AFTER 100 days in office, the honeymoon is over for Mariano Rajoy. Spain's prime minister has lost an important regional election. Bond yields are creeping up again. On March 29th disgruntled Spanish workers were due to hold a general strike to protest against the government's reforms and austerity. Spain, the euro zone's fourth-biggest economy, is once more becoming its biggest headache.

On March 25th Mr Rajoy's centre-right People's Party (**PP**) confounded the opinion polls by failing to wrest control of Andalusia, Spain's biggest region, from the Socialists. The result is bruising to the **PP** not only because of the loss of a big prize. It also suggests that angry and anxious voters are losing faith in a government that took office less than four months ago. At November's general election 46% of Andalusians voted **PP**. At the regional election that fell to 41%, allowing the Socialists to keep control (albeit only with help from the communist-led United Left, which performed strongly). In a separate election in the small northern region of Asturias, the **PP** was placed a poor third. Euphoric leftists have already hailed the start of a backlash against Mr Rajoy.

They will have plenty more to get worked up about. A day after the general strike Mr Rajoy will publish what is likely to be one of the harshest budgets seen in Europe since the eruption of the euro crisis. It will be "very, very austere," he pledged. (So austere, in fact, that he delayed it until after the Andalusia election, hoping in vain to win a region held by the Socialists for three decades.)

Mr Rajoy has little choice but to get nasty. The European Union wants him to find €20 billion ($27 billion) in new savings this year. Yet if Spain is to meet its deficit target, the true figure could be even worse. As the country enters a downward spiral of spending cuts, recession, unemployment and falling tax revenues, some economists say fully €55 billion will have to be found. That is €1466 per Spaniard.



If Mr Rajoy follows that projection, Spain's governments, central and regional, will have to find savings worth €40 billion this year, on top of €15 billion already announced in December. His decision to delay his budget until after the Andalusian vote means this must be accomplished in eight months. The economy is expected to shrink by 1.7% this year, and unemployment is 23% of the workforce—and still climbing. Spanish economists talk of an "epic" struggle or, simply, of "mission impossible". Savage cuts lie ahead. Mr Rajoy says ministries, for example, must reduce spending by an average of nearly 15%.

Mr Rajoy vows to press on, aware that Spain's credibility is at skate. But some fellow leaders are losing faith in him. Olli Rehn, the **EU'S** economics commissioner, and Mario Monti, Italy's prime minister, have publicly voiced concern. At the core of their worries is Spain's budget deficit. In early March Mr Rajoy unilaterally announced that the target for 2012 would be 5.8% of **GDP**, looser by some way than the figure of 4.4% previously agreed on with the **EU**. At a meeting of euro-zone finance ministers on March 12th the group's president, Jean-Claude Juncker, was photographed pretending to throttle Spain's Luis de Guindos. It may have been a joke, but the underlying message was of irritation. At that meeting the Spanish government compromised on a target of 5.3%.

That was less severe than the old figure of 4.4%, but the government is still supposed to bring the deficit down to 3% by the end of 2013, a two-year adjustment harsher than in any other euro-zone country (see chart). Moreover, Mr Rajoy had previously insisted, that his 5.8% target was "realistic". Does that imply the new one is ••

not? "Getting there in eight months seems an impossibility," write Luis Garicano and Jesus Fernandez-Villaverde, two academics, in a blog post. Mr Rajoy's problem is not so much the target as the starting-point. Last year Spain overshot its 6% deficit target by 2.5 percentage points, thanks largely to free-spending regional governments.

The worry now is that Mr Juncker and friends are throttling not just Mr de Guindos but also Spain's attempts at recovery. Angel Laborda of FUNCAS, a think-tank, believes this year's austerity will take at least 2% of growth out of the economy.

There are brighter spots for Mr Rajoy. The **PP** still runs 11 of Spain's 17 regions and has a strong majority in parliament. That should give Spain up to four more years of stable government. And with the Andalusia and Asturias votes out of the way Mr Rajoy can dispense with short-term electoral calculation.

On the economic front the first-quarter contraction should be softer than previously predicted, says Mr Laborda. Exports in January were 3.9% higher than a year earlier. A weaker-thanexpected recession in the rest of Europe should help maintain the export surge. The public debt, although growing, is small by euro-zone standards.

Mr Rajoy has already proved himself to be an energetic prime minister. Reforms, combined with the Spanish share of €1trillion of cheap cash loaned to European banks by the European Central Bank, are helping drive consolidation of the troubled banking industry. This week a merger of CaixaBank and Banca Cívica created Spain's biggest high-street bank (see page 85). The new labour reform will, the government hopes, persuade troubled companies to reduce wages rather than sack workers, braking the growth in unemployment and benefit payments.

But however you cut it, Spaniards face a terrible year. That is another reason for Mr Rajoy to push his programme forward as fast as he can.

Fonte: The Economist, London, v. 402, n. 8778, p. 61-62, 31 Mar. a 6 Apr. 2012.