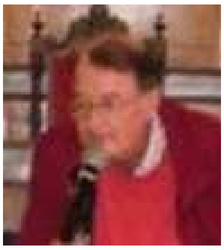
UPDATE ON SPANISH POLITICS – 10th July 2012
by Kevin Bruton



A month ago, as reported in the previous Update, Spain was anxiously awaiting the results of two independent valuations of its banks following Spain's slowness in recognising the hole caused by toxic real estate in many of its banks in the wake of the burst of the property bubble in 2008.

The report came out on 21st June and suggested the banking sector needs up to 62 billion euros to see it through the next three years. Spain then formally applied to the Eurogroup zone of 17 countries and the Brussels Summit of 29th June drew up a deal to recapitalise Spain's ailing Banks.

Initially, and only initially, the deal looked good for Spain. The Spanish PM, Mariano Rajoy, and the Italian PM, Mario Monti, had apparently forced Germany to agree: firstly, that money would be injected directly into the banks with no corresponding increase in national debt; and, secondly, that Spain would receive the money without having to impose new austerity conditions. It appeared, initially, that at last a Eurozone Summit had identified the problem at the heart of the crisis – in the words of the Guardian editorial of 30th June "NOT one of feckless Latin spending but one of feckless banks".

Angela Merkel may have lost this battle, as the German press only too quickly pointed out, but she almost certainly has not lost the war. Again, according to the Guardian, "If the rule book has yet to be written about establishing a new banking union, a supervisory authority for the Eurozone, the Germans will make sure they will write it". Apparently, every change to the European Stability Mechanism (ESM) which would provide a permanent bail-out fund has to go through the Bundestag and then through Germany's Constitutional Court which could then decide that a transfer of powers requires a change in the Constitution and Germany's first national post-war referendum. As usual, with a General Election due in Germany before June 2013, Angela Merkel holds most of the cards.

How does all of this leave Spain? The answer is, in a very precarious situation: firstly, because of the uncertain nature of the bank bail-out; and, secondly, because of the long drawn-out time-scale of any putative bail-out. Firstly, then, it is uncertain whether there is sufficient money in the kitty in the medium term for a Spanish bail-out. The Spanish property market is still in collapse, as is the value of Spanish bank loans. Nothing in the bail-out addresses the Spanish economy. The property market may not recover for a decade or, indeed, ever, while Spanish Government bonds are again near danger point on the stock markets.

Secondly, the long drawn-out time-scale involves, in the first instance, exhaustive surveys of all Spain's Banks by four auditing firms which are due to report by 31st July. A round of stress tests will then be held on each bank in September. Banks then seen to be financially unsound will be given 15 days to come up with restructuring plans and, if approved, nine months to implement them. This effectively means the summer of 2013, which in Spain means the autumn of 2013. A temporary Eurogroup (EFSF) bail-out fund will initially provide money to Spain, with the permanent ESM Fund taking over later. All of this could drag over into 2014. Also, a further Eurogroup meeting in Brussels on 9th July set new tougher conditions for a Spanish bail-out.

The "Invisible Man", PM Rajoy, was finally due to appear in the Spanish Parliament the day after this Update. He was expected to announce the biggest austerity package in Spain's modern history including an immediate increase in VAT, further wage cuts for public sector employees and new cuts in unemployment benefit. Central government is also scheduled to meet the Heads of Spain's Regional Governments in order to force new cuts upon them while the Regional Governments are refusing credit within their regions which means many people are not being paid. The only respite for Spain is that the EU has give Spain an extra year, until 2014, to reduce its national debt to 3%. This, however, is a target that no-one thinks will be achieved.

The coal miners' strike is finally appearing in the back pages of the newspapers and on TV/radio broadcasts. We are now in the seventh week of a national strike called in response to the PP Government's 64% cut in subsidies for coal production. Increasingly, clashes between strikers, pickets and the police are violent. Riot police are using rubber bullets and smoke grenades while miners are blocking roads and using stones and blocks of wood. The first weekend of July was particularly violent in Asturias with four people injured and six pickets arrested in scenes reminiscent of the British miners' strike in the winter of 1983-4.

At the time of writing a "marcha negra" or "black march" of miners is approaching central Madrid. On 22nd June, two columns of marchers set off, a northern column comprising miners from Asturias and León and a southern column of miners from Aragón which set off from Teruel. Both columns are set to converge in the Puerta del Sol in the centre of Madrid and will hold a demonstration on 11th July outside the Ministry of Industry. The marching miners' reception en route to Madrid has been one of incredible support whereever they passed through.

An indication of widespread public anger at the government's austerity measures was the unheard-of appearance during a bullfight which forms part of the world-famous Pamplona fiesta of two vast banners unfurled in the crowd – one banner showing a huge pair of scissors (the now universal symbol of the cuts) and the word "NO" and the other reading "Politicos mentirosos ladrones" or "Politicians liars thieves"!