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Spain's public sector debt to be exposed

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By Victor Mallet in Madrid

Madrid plans to arrange payment of up to €30bn in overdue bills for rubbish collection and other services owed by municipalities, a move that will benefit suppliers but will also help to expose the true size of the country's public sector debt.

"It's about restoring order, it's about knowing what's there and dealing with it once and for all," Maria Soraya Sáenz de Santamaría, deputy prime minister, said after a cabinet meeting on Friday that agreed the first part of the programme.

Town halls must give details of overdue bills by March 15, and explain how they will deal with them by March 31.

Spain's accumulated public debt was officially due to reach 67.8 per cent of gross domestic product at the end of last year, one of the lowest figures among developed economies. The previous Socialist government said public debt would stabilise at about 70 per cent of GDP this year and next.

But economists said bills left unpaid by the central, regional and municipal governments – and other state liabilities or contingent liabilities not yet included in official European Union calculations of public debt – mean that the true burden is rising and is much higher than the published figure.

"Spanish sovereign debt is already over 80 per cent of GDP," said Edward Hugh, a Barcelona-based economist. "I think it's getting nearer 90 per cent."

According to the Multisector Platform against Bad Debts, a business lobby group, municipalities owe €30bn and regional governments €18bn to suppliers. Pharmaceutical and health companies alone said they were owed €12bn and that the average payment delay was an "unsustainable" 500 days.

Other "hidden" public debts identified by economists include more than €32bn in debts of state corporations and billions owed to defence companies.

Mr Hugh said the situation in Spain could not be compared to the confusion in the public accounts of Greece because much of the Spanish data are public and made available by the Bank of Spain, or can be deduced from official sources. But he added that the centre-right government's transparency risked curbing Spain's room for manoeuvre should the crisis deepen further.

The government has yet to explain precisely how the debts will be paid but officials and businesses involved said the idea was that a consortium of banks, led by the state's Instituto de Crédito Oficial, would pay suppliers and be guaranteed repayment from the state. Creditors who accepted discounts, or those with the oldest unpaid bills, would be the first beneficiaries.

Share prices of service companies, such as Fomento de Construcciones y Contratas (FCC) and Actividades de Construcción y Servicios , rose sharply on Wednesday when news emerged of a plan to pay off municipal debts in what the government called a "big financial operation".

Baldomero Falcones, FCC executive chairman, welcomed the plan as a boost to businesses large and small, many of which have suffered from the public sector's poor record in paying its debts, and said it would not increase actual deficits or debt.

"It's already debt," he said. "It doesn't make sense that I'm selling companies, or not investing, in order to finance the public administration."

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