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# Spain 'causing concern,' Monti warns

89

By Alex Barker in Brussels, Peter Spiegel in Saariselkä and Guy Dinmore in Rome

Spain's hesitancy in fixing its public finances risks spooking investors and rekindling the eurozone debt crisis, Italy's prime minister warned as pressure rises on Madrid to dispel doubts over its budget-cutting credentials.

The note of alarm from Mario Monti, who is pursuing reforms of Italy's labour market against stiff opposition from unions, underlines fears in the eurozone that complacency and indiscipline could jeopardise the fragile gains that appear to have abated the worst of the crisis.

His concerns over Spain were echoed those of Olli Rehn, the European Union's senior economic official, who attributed a sharp rise in Madrid's borrowing costs to the perception that it was trying to wriggle out of tough deficit-reduction targets.

Mariano Rajoy, the new Spanish prime minister, tried to flout European Union rules by unilaterally relaxing his budget deficit target from 4.4 per cent to 5.8 per cent. After a compromise deal with Brussels this month, the goal was adjusted to 5.3 per cent.

Jitters over the Spanish economy sent borrowing rates on benchmark 10-year bonds above 5.5 per cent last week for the first time in more than two months and they have been trading above Italian rates for the first time since the summer. Spanish bonds rallied slightly on Friday, ending the week at just below 5.4 per cent.

In an answer to a question at a conference, Mr Monti said: "[Spain] certainly made profound reform of the labour market but it did not pay the same attention to public finances. This is causing us big concern because their yields are rising and it wouldn't take much to recreate trends that could spread to us through contagion."

Mr Monti's office said he had full confidence in Spain's determination to tackle the problem.

Mr Rehn argued that Spain would need to shrink its 8.5 per cent deficit to the EU-mandated target of 3 per cent next year to regain market confidence – something that would require some of the deepest cuts of any eurozone country outside Greece.

"Because there was a perception Spain was relaxing its fiscal targets for this year, there has been already a market reaction of several dozen basis points on yields of Spanish bonds," Mr Rehn told reporters on the sidelines of an informal gathering of European leaders at a northern Finnish hamlet above the Arctic Circle. "That shows how fragile the situation still is."

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Some economists say Brussels-mandated austerity measures could push Spain into a downward debt cycle, where deep spending cuts hit the overall economy and tax revenues, forcing a fresh round of spending cuts.

Spain's new government rejected criticism of its handling of a "difficult" inheritance. Asked what Mr Monti meant by his comments, Iñigo Méndez de Vigo, Spain's EU minister, said, "You better ask Monti, not me."

Mr Méndez de Vigo insisted that his government was taking the necessary steps to bring its public finances into line. He said it would hit Brussels-mandated budget targets to reduce its deficit to 3 per cent of economic output next year. "We try to say: Spain is back, Spain is back to seriousness," he said. "We give our word, we're going to do it."

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