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# Spain is given an extra year to correct its deficit

The Council today[1] issued a revised recommendation on measures to be taken by Spain to correct its government deficit, giving it an extra year to do so on account of adverse economic circumstances.

Setting 2014 as the new deadline for bringing its deficit below the EU's 3% of GDP reference value, the recommendation establishes headline deficit targets of 6.3% for 2012, 4.5% of GDP for 2013 and 2.8% of GDP for 2014.

Spain has been subject to an excessive deficit procedure since April 2009, when the Council issued a recommendation calling for the deficit to be corrected in 2012.

In December 2009, the Council extended this deadline to 2013, on the basis of a Commission forecast that Spain's 2009 deficit would reach 11,2 % of GDP, five percentage points more than its previous estimate. This was explained by a steeper-than-expected decline in economic activity, with consequent effect on budgetary revenue.

Although Spain has taken effective action to comply with the Council's recommendations, the latest Commission projections indicate that its general government deficit is likely to amount to 6.3% of GDP in 2012, compared to the expected 5.3% cited in its stability programme and budget law. And a further deepening of the economic crisis and implementation risks at regional level could imply an even larger deviation.

While the forecast underlying the Council's 2009 recommendation assumed growth rates over 1% per year in 2012 and 2013, the Commission's latest forecasts point to negative growth rates of -1.9% and -0.3% respectively, on a no-policy-change basis. Furthermore, the growth composition is likely to remain biased towards net external demand, with continued negative domestic demand affecting tax revenues.

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1 The decisions was taken at a meeting of the Economic and Financial Affairs Council.

Spain's gross public debt rose to 68.5% of GDP in 2011, and is projected by the Commission to reach 80.9% of GDP in 2012 and 86.8% in 2013 on a no-policy-change basis, thus exceeding the EU's 60% of GDP reference value throughout the period. The increase in the debt ratio is mainly driven by higher interest payments.

Considering all these factors, and given in particular the deterioration in the fiscal outlook since the Council's 2009 recommendation, the Council considers that an additional year for correction of the deficit is warranted. To achieve this, it calls on Spain to achieve a 2.7% of GDP improvement in its structural fiscal balance in 2012, a 2.5% of GDP improvement in 2013 and a 1.9% improvement in 2014.

Given the current market pressure on Spanish sovereign debt, the Council calls on Spain to underpin the credibility of its consolidation effort by adopting its announced budget plan for 2013 and 2014 by the end of July 2012. And in parallel to reviews of the announced eurozone financial assistance for the recapitalisation of Spain's financial services industry, it calls for the monitoring of progress on a three-monthly basis.

Additionally, the Council asks Spain to establish an independent fiscal institution to provide analysis and advice and to monitor fiscal policy.

The Council's recommendation sets a three-month deadline for Spain to take effective action.