Titulo	**Spanish economy: Gathering gloom (Economía española en la penumbra)**
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Descripción	El FT pública en su edición de ayer un artículo sobre los problemas de la economía española, especialmente sobre la situación de las finanzas públicas y el mercado laboral. También se adjunta el link a otro que ha publicado sobre el coste de la deuda, tras la importante subida de los últimos días de nuestra prima de riesgo y la fuerte caída de la bolsa ayer. Las comparaciones con Italia y las alusiones a una posible intervención se encuentran en el texto. Adjunto se transcriben los artículos porque es necesario estar suscrito.
Spanish economy: Gathering gloom	Spanish economy: Gathering gloom By Victor Mallet Concerns are building about the country's banks – and about its chances of avoiding a bailout It was an eye-catching act of horseplay among politicians negotiating under pressure. At the end of yet another Brussels summit this month aimed at resolving the eurozone crisis, Luxembourg's Jean-Claude Juncker, chair of the eurozone finance ministers, jokingly placed his hands around the throat of Luis de Guindos of Spain and pretended to strangle him. In truth, the dispute about Spain's excessive budget deficits had been resolved. The new centre-right government in Madrid had finally yielded to European demands to slash the 2012 shortfall, having already embarked on plans to liberalise the inflexible labour market, and ordered banks to set aside an extra €50bn to cover deteriorating property assets. Until this week, a casual observer of financial markets would have assumed Spain had put the danger of default behind it, and that its fiscal crisis no longer threatened the integrity of the euro. Investors seemed confident about the progress of the administration of Mariano Rajoy, Popular party prime minister. As recently as Tuesday, Spain auctioned one-year Treasury bills at just over 1.4 per cent in annual interest, the lowest yield for nearly two years. That confidence is already starting to evaporate. A growing chorus of economists and analysts is warning that the Spanish economy – the eurozone's biggest after Germany, France and Italy – is in much worse shape than markets might suggest. Their concerns – including a failure to "deleverage", or cut debt, and the onset of a second recession in two years – were finally reflected in the bond market nervousness on Thursday. The country's benchmark 10-year bond yield jumped above 5.5 per cent for the first time in two months. Willem Buiter, Citigroup chief economist, told Bloomberg Radio this

week that Spain was "at a greater risk than ever before" of being forced to accept a debt restructuring. This would shake the European banks that helped fund its rapid growth in the past three decades, further undermining confidence in the euro.

Economists say sovereign bond prices have held up until now, and thus kept yields low, only thanks to the €1tn flood of liquidity released by the European Central Bank under Mario Draghi, its president, in the form of longer-term refinancing operations. Flush with LTRO money, Spanish banks in particular have been buying more of their nation's sovereign debt. Both Spain and Italy have been handed a lifeline by the ECB that some analysts say amounts to an informal bailout.

"The LTRO has given us oxygen for three years," says Professor Luis Garicano of the London School of Economics. "It's averted a catastrophe that was imminent as a result of the financial system being strangled." A senior European diplomat who has followed negotiations in Brussels agrees: "Draghi has saved Spain, he's saved the financial system."

Even so, some analysts are pessimistic about Spain's chances of avoiding a humiliating public rescue of the sort already provided by the EU and the International Monetary Fund to Greece, Ireland and Portugal.

One indicator of rising concern is the change in perceptions of the relative creditworthiness of Spain and Italy. This month, Spanish bond yields rose above those of Italy for the first time since last August, a sign that investors regard Spain as a greater risk.

Bankrupt Jerez aims to end financial chaos
They file in at noon by the dozen. The jobless, the homeless, the hungry, Spaniards, Moroccans, Romanians, young and old, devouring the free lunch provided by the Daughters of Charity of Saint Vincent de Paul at the food kitchen just off the Plaza Ponce de León in the heart of old Jerez.

After more than three years of economic crisis in southern Spain, the stories they tell are familiar. Mari Carmen Riera, a 47-year-old security guard from Barcelona, has not worked since 2009 and lives on the street with her husband; Enrique López, a professional cook, aged 55, last had
a job in Córdoba in 2005.

Jerez, famous for its eponymous sherry, is now notorious for having one of Spain's highest unemployment rates, with one in five out of work. "I think this will be a very bad year," says Rosario Castellón, a social worker who manages the food handouts.

Lack of jobs, however, is not the only problem. Jerez's municipal finances are also in a catastrophic state, making it an egregious example of everything that went wrong with the devolution of power to autonomous regions and municipalities after the death of General Francisco Franco, the dictator, in 1975 and the restoration of democracy.

Residents say Jerez's municipality lived for decades beyond its means under the ambitious Pedro Pacheco, an Andalusian nationalist who was mayor for 24 years, until 2003, after which he was in coalition with others.

Then came a collapse in municipal tax revenues when the Spanish housing bubble burst in 2007.

With just 215,000 inhabitants, Jerez municipality has debts of €980m, making it the country's most indebted city on a per-capita basis, and can no longer pay its staff of more than 2,000 or its suppliers on time. "The bad thing is not the current situation, which is chaos," says one senior municipal employee, who expects the town hall to finish paying his January salary in May. "It's what is still to come."

Juan Pedro Crisol, a Socialist councillor and member of the administration that lost power to the centre-right Popular party in municipal elections last May, accuses María José García-Pelayo, the PP mayor, of unfairly blaming her Socialist predecessors and of carrying out unnecessarily drastic surgery instead of curing the patient. "In nine months there's been a total collapse of the city," says Mr Crisol. "There's an urban bus strike, a rural transport strike. The schools are not being cleaned. Staff are not being paid."

In the mayor's office, Ms García-Pelayo dismisses such criticism, mocks the "fictitious" budgets of the past and says she is taking the previous administration to court because it left the municipality bankrupt.

Municipal income up to the year 2031 was committed to paying off debts, she says. "For many years there were economic problems and instead of solving them, they just had recourse to the banks... It's time to fix Europe, it's time to fix Spain, Andalusia and Jerez."

To explain the increasing pessimism, economists and Spanish policy makers point to two big worries. First, the domestic economy remains in poor shape more than three years after the collapse of US investment bank Lehman Brothers – with more than one in five workers unemployed and a second deep recession under way. Mr Rajoy will therefore find it very hard to meet his promise to cut the deficit from 8.5 per cent of gross domestic product in 2011 to 5.3 per cent this year, and so reach the EU-imposed 3 per cent target in 2013.

Second, they think several Spanish banks, especially some of the former cajas or unlisted savings banks, still refuse to recognise the full extent of their loan losses as a result of over-exuberant property investments in the decade to 2007. In other words, although the state has taken on some of the burden of private sector debts, it may need to spend billions of euros more on rescuing "zombie" banks.

For this reason, writes Dario Perkins of Lombard Street Research, in a pessimistic analysis of the euro crisis that predicts a Greek exit from the single currency, "in many ways, Spain looks even worse than Italy." He sees economic growth declining this year, while unemployment rises – contributing to "further sharp declines" in house prices and widespread loan defaults by businesses and households.

For all the talk of austerity under Mr Rajoy – he says measures to solve the country's "extremely serious" problems "will not be pleasant" – and José Luis Rodríguez Zapatero, his Socialist predecessor, Spain has only recently, and only slowly, begun the process of deleveraging. According to a McKinsey Global Institute report, the total debt rose from 337 per cent of GDP in 2008 to 363 per cent in mid-2011, because of a rapid increase in public debt as Madrid tried to alleviate the effects of the crisis.

Prof Jesús Fernández-Villaverde of the University of Pennsylvania and the LSE's Prof Garicano portray Mr Rajoy's deficit reduction plans as "Mission impossible" in Nada es Gratis ("Nothing is for free"), their blog focused on Spanish economics. In 2011, the public deficit fell by only about €8bn – the proceeds of just one good bond auction, or less than 1 per cent of GDP.

The PP government blames Mr Zapatero for overshooting the 2011 deficit target agreed with the EU by €25bn. But Mr Rajoy, focused on winning one of the Socialists' last fiefdoms in a regional election in Andalusia this weekend, has delayed until the end of this month the announcement of this year's budget. It must then be approved by the national parliament, giving him seven or eight months at most to achieve the deficit target agreed in Brussels.

His task, say professors Fernández-Villaverde and Garicano, is even harder than it looks. As Greece has discovered, harsh austerity measures during a recession tend to deepen the downturn. In a shrinking economy, furthermore, higher tax rates do not necessarily increase tax revenues; nor do advertised spending cuts automatically result in lower revenues, as outlay on unemployment benefits and other costs rises. They reckon that to cut the deficit to the targeted 5.3 per cent this year will not therefore require tax rises and spending cuts worth €32bn, as a simple calculation would indicate, but €53bn-€64bn – "which is, frankly, impossible".

To make matters worse, the austerity programmes attempted in the past two years by the Socialist and PP central governments have unveiled a picture of fiscal laxity and financial mismanagement by several of the 17 autonomous regional governments – which run hospitals and schools and therefore spend most public money – and by hundreds of municipalities.

Although the PP has arranged a scheme through the banks to pay off €35bn in unpaid debts to pharmaceuticals companies and other suppliers of goods and services, it is taking longer than expected to restore financial order to a highly devolved political system. "The autonomous regions and the municipalities are to Spain what Greece is to the eurozone," says Lorenzo Bernaldo de Quirós of the Freemarket Corporate Intelligence consultancy.

In response to labour reforms and spending cuts at every level of government, the main trade union federations have called a general strike for March 29. But the government is unlikely to yield to the

	unions' demands, since most of them require public money it can no longer afford to spend if it is to have any hope of meeting the EU's deficit targets. Business leaders and policy makers are often exasperated by periodic bouts of pessimism about Spain among international bond investors and foreign economists. History is on the side of the Spanish when they recall that the country has extricated itself from equally grave crises since the restoration of democracy in the 1970s. Spain has maintained its share of world exports in the past 12 years – among leading eurozone economies, only Germany has done better by this measure. Politicians and entrepreneurs alike insist theirs is a "serious" economy. "The corporate base of Spain is phenomenal," says Jorge Calvet, chairman of Gamesa, a wind turbine manufacturer and wind farm developer. "You have only to look at the power of sales, research, financial strength and internationalisation in the Ibex 35 [the index of large Madrid stocks]. That cannot be compared to other countries that are in difficulties." Joan Rosell, head of CEOE, the employers' federation, emphasises rising exports, and identifies the most pressing economic problems as lack of confidence and lack of liquidity. Mr Rajoy's labour reforms, he says, will help restore confidence while the ECB is providing liquidity. Business leaders and politicians are now hoping they can survive the next few months without a rescue and eventually begin to see the kind of economic upturn that has recently inspired optimism in the US. For some independent analysts, Spain has already been rescued in practice, avoiding the need to undergo a formal process only because, like Italy, it is "too big to fail". A sovereign debt restructuring would be crippling for the German and French banks that financed much of Spain's property lending in the boom years and would overwhelm the EU's available rescue funds. "I think Spain is de facto 'bailed out', first by the ECB buying [sovereign] bonds in the summer, and then by the LTRO," says Edward Hugh, a Barcelona-based economist. In return, he says, Spain must comply strictly with EU deficit reduction targets. "More and more we could see Brussels getting involved with Spain and Italy in the way that they have been involved with Greece."
Spain's borrowing costs back above 5.5%	Spain's borrowing costs back above 5.5% By Richard Milne, Capital Markets Editor Spain's borrowing costs rose above 5.5 per cent for the first time since January as investors fretted about another escalation of the eurozone crisis amid signs of further economic weakening even in Germany. Investors, already nervous about Madrid's deficit and weak growth prospects, pushed Spain's benchmark 10-year bond yields up 14 basis points to as high as 5.53 per cent. Italy's borrowing costs also rose with the yield on its 10-year bond breaking through 5 per cent.

	MArkets have been calmed in recent weeks by the European Central Bank's cheap loans for lenders, known as the longer-term refinancing operation. But some investors are now becoming nervous that the impact of the two LTROs is already wearing off. Marc Chandler, currency strategist at Brown Brothers Harriman, noted Italian 10-year yields have fallen 180bp so far this year while Spain's have risen by 39bp. "That is after two LTROs," he said. "That definitely concerns me. When the bonds rally it helps the banks' balance sheets. But when yields start rising it hurts the banks even more. It is a vicious circle." The economic fate of Spain and Italy is both viewed as central to assessing whether the eurozone debt crisis – quiet since Greece's default earlier this month – could re-erupt. Investors worry that weak growth, not just in Italy and Spain but across the rest of the eurozone, could be the spark to reignite the crisis, despite some European politicians' claims that it was largely over. Eurozone purchasing managers' indices, released on Thursday for March, suggest weakening growth prospects across the continent with an unexpectedly strong decline in Germany, the powerhouse of the eurozone. Investors have started to focus on Spain again this year after its budget deficit overshot targets last year and the government proposed to cut it less than it had agreed with European authorities for 2012. After Portugal's bailout a year ago, markets expected Spain to be next in line. But partly due to Italy's high debt burden and the stumbling performance of its former prime minister Silvio Berlusconi, investors turned their sights on Rome first. Now investors are back to worrying about Madrid with concerns ranging from its extremely high youth unemployment rate to its troubled banking sector and high budget deficit. "Spain is a problem still," said a fund manager at one large bond investor. "Maybe it doesn't flare up for a while but it is hard to see it just muddling through forever: the numbers, particularly on unemployment, are just too bad." Investors sought haven bond assets on Thursday with German 10-year Bund yields falling 7bp to 1.91 per cent.
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