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Virtually Bailed Out, Not Quite Rescued. Spain at the Centre of the Eurocrisis

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The week after the Eurogroup carried out a hurried conference call between Finance ministers and offered Spain a 'bailout light' of up to €100Bn to restructure its banking sector was indeed a hectic one for Spanish and EU politics, as well as for international markets. Immediately after the offer was announced, public debate focused on the largely semantic but politically sensitive question of whether or not Spain had in fact been bailed out, like Greece, Ireland and Portugal before it. The blunt denial of the Spanish government and the media closest to the Popular Party – who preferred to talk about a preferential credit to restructure the banking sector, which would bring no conditionality other than upon the banks themselves – was contested in Spain and, in particular, abroad, first by the international press and, slowly, more cautiously, in sympathetic but unequivocal political declarations of the main EU leaders. The debate soon became irrelevant as debt markets did not even wait until the result of the Greek election to start an unprecedented speculative attack which brought the 10 year yield of the Spanish bond and its spread with the German one to a Euro-era high, with the Italian bond close behind – an attack which did not even give way after the results of the Greek elections dispelled some of the strongest doubts about the Euro.

There are arguments to support both positions, and perhaps the best answer is that the deal offered to Spain may indeed be called a bailout, but it does differ noticeably from those extended to Greece, Ireland and Portugal. It does so in at least three ways: the Spanish government was allowed to save face to a certain extent, with recognition of the Spanish efforts to tackle trouble in its public accounts and acceptance of the diagnosis of the problem offered by Madrid; the funds were targeted to restructure the banking system, identified as Spain's main problem, far from the already worn-out mantra of austerity after 'living beyond its means'; and the partners did not try to set exemplary or indeed punitive conditions of the sort applied, in particular, to the first Greek bailout.

That the Spanish government worked so hard to avoid being associated with the situation in the three previously bailed-out countries bears witness to the utter failure of their bailout plans, which discredited their governments in the eyes of markets, partners and their own populations and caused havoc in the real economy without restoring investors' confidence. In fact, to a large extent, Spain has already made the adjustments required by the central Eurozone players. In its endeavour to become 'the Germany of the South', first the Zapatero and then the Rajoy government managed to close a substantial part of Spain's competitiveness gap with the core countries at an accelerated rate, increase its exports faster than any Eurozone country other than Estonia, reduce its trade deficit to a tenth of its original size, cut public spending dramatically, rein in the much-maligned regional governments to drastically reduce their deficits and sustantially restructure the banking system (more than 30 institutions disappeared in two years, through merger, takeover or government intervention), all this despite having been through national and regional elections in the previous year and a half, in the worst possible economic environment at home and abroad and paying ever higher prices to access credit. The extraordinary cost of that fast adjustment seems to be a mere afterthought to the caretakers of the Euro and its soundness, even when one in four Spaniards who seeks a job cannot find one and virtually every indicator in the domestic economy is spiralling downward.

The Eurozone offer of €100Bn did not assuage the markets' doubts about Spain: it just produced the mirage of a recovery that did not survive the first three hours of the following Monday (11th June 2012). That could perhaps be explained by the negative effect of the open contradictions in the narratives offered by the Spanish government and the EU institutions and partners, which shed doubt on the nature of the deal. The deal, that is, if indeed it was one: we should rather consider it a vague offer without a date, an amount, a list of conditions or even an official Spanish request that the markets by and large disregarded. And yet the conditions looked good enough to trigger a barrage of claims from the previously bailed-out countries, asking for similar treatment. All of this in the tense atmosphere prior to crucial Greek elections and with Germany insisting on solving the debate about the shape of a closer political and economic union in the Eurozone before making any further efforts to control the escalating crisis. The Greek elections, in the end, were another step in the direction of a gradual shift in the way the Eurocrisis is managed, with signs and noises signalling a shift away from austerity as the only solution under unrelenting international pressure, not least from the G20 countries, for the Eurozone to change course.

Whether one calls it a bailout or something else, the offer Spain got on Saturday, 9th June 2012, hardly made a dent in the unstoppable progression of the Eurocrisis. Deep as Spain's problems still are – unemployment and anaemic demand, the toxic aftermath of the construction bubble, deficit in productivity, trouble in the banking sector, huge private debt and intractable budgetary deficit – none of them justifies Spain's current predicament in the debt markets: even if Spanish banks did not return a cent of the up to €100Bn offered for banking sector restructuring (a highly unlikely prospect), that would leave the total amount of Spanish public debt around the Eurozone average. It is Spain's absence of monetary instruments to tackle its challenges that is like blood in the water for shark-like speculators. Such instruments need to be activated or, in some cases, created afresh in Brussels and Frankfurt before the crisis becomes intractable, but this type of action faces the stern opposition of the Northern tier Eurozone countries, more interested in long-term institutional design and averting the risk of moral hazard. In the meantime, given the scale of the crisis sweeping through the real economy, Spain, like other countries before it, finds itself at the centre of the Eurozone crisis with a remarkable degree of social stability, political legitimacy and economic resilience, but impotent to resist the assault on its sovereign debt. In Spanish a bailout plan is called a 'rescate', a word which also translates in English as rescue. Spain and its banking system may have been offered a bailout, but its economy is far from rescued.