

## Economics

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# Euro Area: Sovereign Debt Crisis Update\*

- **Spain** – Yesterday, the central government Finance Minister Elena Salgado and the finance chiefs of the regions agreed on a medium term plan to tighten budgets in coming years. However, at the meeting yesterday the Mrs. Salgado only agreed to the deficit reduction plans of 7 regions and left 6 pending. According to the new plan the combined deficit of the regions shall decline from targeted 1.3% of GDP this year to 1.0% of GDP in 2014. However, the government of Catalonia – the largest region – already said that it would not meet the 1.3% target for 2011 and that it would not be willing to reduce expenditures further on top of the 10% already planned for this year. Since the start of the crisis the deficit of the regions and the municipalities has increased substantially, caused by the economic weakness and cuts in capital transfers from the central government. Hence, the central government moved the debt burden to the regional authorities, which in most cases are not prepared to deal with it. Note, that in 2010 the combined debt of the autonomous regions and the municipalities mounted to 14% of GDP. Comment: The fiscal problems of the regions and municipalities highlight the difficulties Spain faces to reduce its general government deficit.
- **Portugal** – According to the newspaper Expresso, the IMF and the EU representatives have the terms of the bailout package “practically ready” and would submit them to the government by the end of the week.

At the presentation of the Socialist Party manifesto for the June 5 snap election caretaker Prime Minister Jose Socrates highlighted the importance of budget consolidation. The proposals are largely in line with the earlier presented fiscal package, which is now probably the basis of the negotiations with the IMF, the ECB and the EU Commission regarding the rescue package.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

\*Correction: The original version of this note incorrectly referred to “combined *deficit* of the autonomous regions” rather than debt

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