

Deficits in Regions Compound Fears About Spain

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“There is increasing recognition across Spain that the mathematics of financing regionalism don’t work out,” said Salvador Garcia Ruiz, one of the founders of Emma Initiative, an association promoting Catalan interests. “And we’re the first to agree because we’re the ones who’ve been paying for this party.”

Still, some industrialists predict that Catalonia will rebound faster than the rest of Spain because of its exposure to foreign markets.

“As an industrial hub, we got hit harder in the recession, but we also have the capacity to recover faster and benefit more from the stronger momentum of Germany and others,” said Joaquim Boixareu, chief executive of Irestal, a stainless steel company based on the outskirts of Barcelona.

In the wake of the downgrade by Moody’s, Catalonia’s most immediate concern is how to secure additional financing on affordable terms. In March, the regional government had to abandon a planned sale of as much as €500 million of debt to institutions after failing to attract sufficient demand.

“Catalonia recently borrowed at a cost that was close to Greece’s and that is not sustainable,” said Luis de Guindos, director of the Center for the Financial Sector, a Madrid-based institute run by PricewaterhouseCoopers and the IE business school. “The problem with Catalonia is not so much its bad numbers but a loss of credibility and the weak control that the central government has over the regions.”

Last October, just before being ousted from office, the Catalan coalition government sold €3 billion of bonds to its citizens. The sale met with strong demand, but also drew criticism from economists because of its pricing. The one-year bonds were sold with a 4.75 percent interest rate, on top of which the government paid a fee to the issuing banks of about 3 percent. Such generous terms set “a precedent that I would prefer not to have,” Mr. Mas-Colell said.

With municipal elections scheduled for May, his party’s austerity drive has had a direct effect on city halls like Barcelona’s, since the regional government runs services like health and education — hence the shelving of projects like those for the handicapped.

“The problem used to be that we didn’t have enough infrastructure,” said Jordi William Carnes i Ayats, Barcelona’s deputy mayor responsible for the treasury. Now, he said, there was a lack of funds to put it into operation.

The belt-tightening has extended as far as F.C. Barcelona, a soccer club idolized by most Catalans. Last autumn, a team of new directors abandoned a planned revamp of the Camp Nou stadium after concluding that the club could not afford the €300 million project, which was designed by the British architect Norman Foster.

“Barcelona wants to have the status of a capital city, but to maintain such a status, you need to spend a lot,” said François Badelon, a French fund manager who has worked in Barcelona for the past three years. “The infrastructure here is great, but I’m not sure that there are enough people using it to justify it all.”

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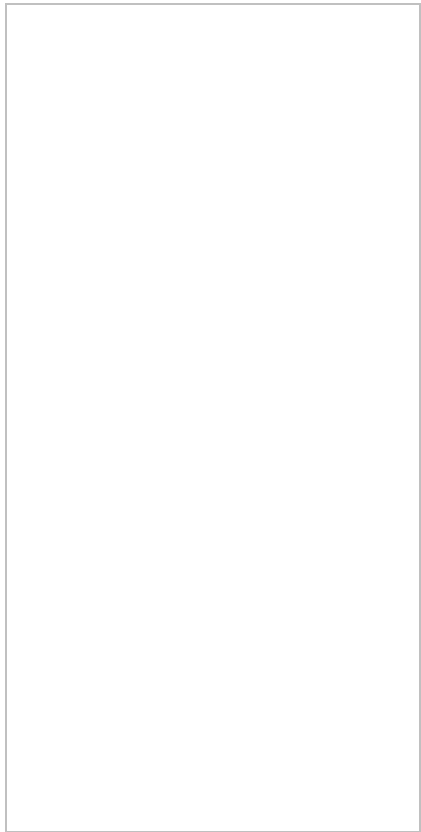


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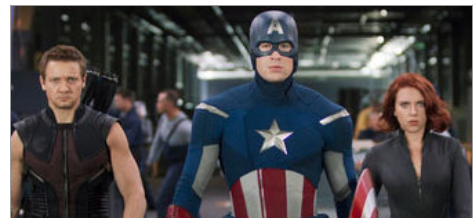
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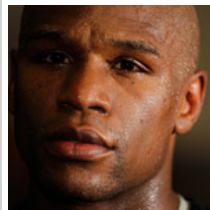


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