Deficits in Regions Compound Fears About Spain

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BARCELONA — The city of Barcelona recently finished building four care centers to house 154 mentally and physically disabled people.

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Stefano Buonamici for The International Herald Tribune

A Barcelona commuter train. Catalonia, facing a financing shortfall, has campaigned against government measures ordering regions to cut fares on commuter trains 5 percent.

Instead of opening, however, the centers, which were built at a cost of €14.5 million, or $21 million, are among 10 social and health infrastructure projects in the city that have been mothballed. The regional government of Catalonia, of which Barcelona is the vibrant, seaside capital, does not have the funds to operate them.

Despite its reputation for economic dynamism and the international allure of its golden beaches, Catalonia is facing a financing shortfall that has not only upset its drive toward greater autonomy from the rest of Spain, but also deepened market concerns about faltering fiscal discipline among Spain's 17 regions.

Indeed, the failure of Catalonia and eight other regions to meet their 2010 deficit targets has helped to keep worries about Spain's long-term financial footing alive, despite significant improvement at the national level.

Catalonia, which has traditionally been one of the wealthiest and most industrialized regions in Spain, is now among its worst performers.

Its recently elected government faces the daunting task of having to cut its budget deficit by two-thirds this year to fall back in line with targets set by the central government. At the same time, borrowing costs are rising, adding to an already heavy debt pile.

"For the general population, there has been surprise and even shock at the state of our finances," Andreu Mas-Colell, the finance minister of Catalonia, said during an interview.

He is planning to cut public spending 10 percent this year, but still expects to have to borrow about €11 billion.

With an economy the size of Portugal's, Catalonia accounts for 16 percent of the Spanish population, 19 percent of the country's gross domestic product and 27 percent of its exports.

Catalonia's €30.3 billion of debt, however, represents 28 percent of Spain's combined regional debt pile, according to figures published in December by the Bank of Spain.

Its budget deficit reached 3.9 percent of its regional output last year, compared with a target of 2.4 percent. As a proportion of output, Catalonia now has the fourth-highest deficit and the second-biggest debt ratio among the 17 regions.

Warning of "challenges that will persist throughout this year," Moody's last month downgraded Catalan debt, alongside that of three other regions and the sovereign debt of

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Spain. The credit rating agency also cut the rating for the Barcelona city hall.

Catalonia's difficulties are no different from those that have brought pain to the whole of Spain, with a credit crunch resulting from the worldwide financial crisis coinciding with a bursting of the real estate bubble that has left banks struggling to provision for bad loans.

Furthermore, Mr. Mas-Colell and others suggested that in the months before the election last year, governing politicians took their eye off the ball in an ultimately unsuccessful effort to keep their fragile, three-way party coalition in power.

"The fiscal adjustments that any sensible person should have seen as necessary two years ago didn't start then, and some of them are only starting now," Mr. Mas-Colell said.

The new Catalan government, however, has not allowed financial squeezing to undermine its push for more autonomy, from efforts to keep some ailing savings banks under Catalan control to a recent €10.5 million emergency loan to Spanair, a struggling airline based in Barcelona.

The financial difficulties have heightened the tensions that flare frequently in the decentralized Spanish political system.

Last month, Prime Minister José Luis Rodríguez Zapatero introduced energy-saving measures to offset rising oil prices that included ordering regions to cut fares on commuter trains 5 percent to encourage more use of public transport. Catalonia has led a campaign against the measures, refusing to shoulder the financial burden at a time when transport operating costs are rising.

Mr. Mas-Colell accused Mr. Zapatero's government of setting double standards. "We get scolded in the morning for spending too much and a measure is then taken in the afternoon which has to be paid by us."

The problem, many local commentators claim, lies not with past extravagance or mismanagement but with a national financing system that has left Catalonia contributing the equivalent of 10 percent of its G.D.P. to support poorer regions through taxes collected by the central government in Madrid.

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