Mr. Jean-Claude Trichet  
President of the European Central Bank  
Frankfurt  
Germany  

Madrid, 6 August 2011

Dear President,

In response to your letter of 5 August, I should like to inform you that the Spanish government has been working in a number of measures in line with the proposals made in your letter. Some of these have already been implemented by the government. Furthermore, I announced on July 29th that the Government will be holding two extraordinary Council of Ministers meetings in August to approve a batch of additional measures.

Specifically, the government will announce new measures of fiscal consolidation that will account for more than 0.5% of GDP in 2011, in order to ensure there is no deviation from our target of attaining a budget deficit of 6% of GDP at year-end and further enhance our fiscal consolidation beyond 2011. The specific measures include: expenditure reduction on pharmaceuticals with an annual saving of €2,4B (€0,6B in 2011) with most of the savings accruing in the accounts of the regional governments; revenue increases from higher withholding and enhancements in the management of the corporate tax amounting to €2,5B in 2011; and additional revenues resulting from the auction of part of the spectrum amounting to €2B. Furthermore, the regions have committed to enhance their transparency in fiscal reporting. We have the goal to provide quarterly accounting on budget execution for all regions on a national account basis starting with the 3rd quarter of 2011.

On structural policies in the labour market, the recently approved collective bargaining reform increases flexibility at the firm level by establishing the prevalence of firm-level collective bargaining agreements on salaries, working hours, and professional categories. This Royal Decree is currently subject to amendments in Parliament and is the intention of the Government to support any amendments that reinforce the prevalence of firm-level collective agreements. Furthermore, the government has the intention to approve at the above-mentioned extraordinary Council of Ministers meetings, various regulatory changes to labour market legislation improving contracting flexibility to accelerate job creation.
With regards to wage settings, and in addition to the flexibility introduced at the firm level by the approved regulations, it is important to highlight that last year, the social partners signed a three-year agreement in which wage evolution was not tied to annual inflation for the first time. The Government is decided to advance further along this route by promoting future agreements among social partners with the explicit mention that wage evolution will be linked to productivity factors along the objectives mentioned in your letter. The government also has a strong commitment to better align prices with production costs in energy markets. In particular, the reduction of the deficit in the electricity system has been a priority, and electricity tariffs have been increased by more than 11% since the beginning of this year.

The increased tensions in financial markets in recent weeks pose a most serious risk to the Monetary Union, in particular to those economies – Spain among them – most affected by these tensions. These measures stated above will reaffirm the Spanish government’s commitment to fiscal consolidation and structural reforms to foster growth in Spain and should contribute to financial stability in the euro area as a whole. However, tackling the current situation requires resolute action by all economic policy authorities at the European level. Along with measures at the national level, the urgent implementation of the decisions taken by the euro area Heads of State and Government on July 21 should be a priority.

However, it is impossible for such reforms to be fully operational in the short run to tackle the malfunctions in financial markets that we are experiencing. The Spanish government is of the opinion that the European Central Bank could play a pivotal role in easing tensions by means of the purchase of Spanish public debt on a sufficient scale to stabilise the markets and to ensure the proper functioning of the transmission mechanism of monetary policy. Such actions should maintain an impact until the enhancements formulated on 21 July by the euro area Heads of State and of Government regarding the possibility of intervening on secondary markets via the European Financial Stability Facility (EFSF) become fully operational. I trust the Governing Council of the European Central Bank will contribute, through the adoption of such measure, to confront the exceptional circumstances challenging the euro area.

Vicepresident Salgado and I are happy to further elaborate on the details of the measures described above at any time.

Yours sincerely,

José Luis Rodríguez Zapatero