Editorial

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Biographical notes: Tony Tinker is a Professor of Accountancy at Baruch College, CUNY, and holds/held Distinguished Visiting Professorial positions at St. Andrews University Scotland, Leicester University and the University of South Australia. He is (or has served as) a Research Fellow at Glasgow-Caledonian University, Chercheur Invite University of Paris lX-Dauphine, Chercheur Invite University of Bordeaux lV, Montesquieu, Fellow of the ACCA, Founder member of the AIA, Member of the Graduate Faculty at CUNY, Faculty Member of SPS CUNY, Founder-Member of the CUNY Faculty for the Development of On-Line Programs, Past-Council Member of the AAA and twice Past-Chair of its Public Interest Section, has authored and co-authored several books and has published numerous academic articles. He is a Co-Editor of *IJCA* and editorial board member of several major accounting journals, and has appeared on/in CNNfn, BBC, CBC, Pacifica Public Radio, New York Public Radio and in *Newsweek* and the *Wall Street Journal*.

Spain is undergoing a tsunami on several fronts – accountants and auditors are ‘up-to-their-necks’ and once again, to varying degrees, will be held responsible. Audit alarm-bells about the looming crisis (staggering government debt and bank vulnerability) were either absent or too little too late. Once the dust has settled (if ever!) legislators and lawyers will begin to ask hard questions. ‘Where were the auditors and rating agencies?’

Spain’s huge trade deficit reached a staggering 10% of the country’s GDP by the summer of 2008. The inflation rate – traditionally higher than those of its European partners – was spurred by house price increases of 150% from 1998 and a growing family indebtedness (115%) chiefly related to the Spanish real estate boom. In the third quarter of 2008, national GDP contracted for the first time in 15 years and, in February 2009, Spain officially entered recession. The economy contracted 3.7% in 2009 and again in 2010 by 0.1% and grew by 0.7% in 2011. By the 1st quarter of 2012, Spain was officially in recession once again. The Spanish government forecasts a 1.7% drop for 2012.

The June 2012 Euro loan €100 bn only covers interest payments; it postpones the inevitable as it does nothing to address the underlying weaknesses – the ballooning Spanish debt. On October 2012, the Troika of the (European Commission, ECB and International Monetary Fund, IMF) began negotiations with Spain to establish an economic recovery programme – providing additional loans from ESM. Spain was also seeking additional support from a ‘precautionary conditioned credit line’ (PPCL) package.

The poor Spanish economy attracts the attention of nervous investors after unemployment data hit a record low with one-in-four workers jobless. Spanish ten-year benchmark bonds fell more than 200 basis points. Yields rose to 5.63% from 5.59% on 26 October 2012. Consumer prices rose 3.6% in October 2012. The central government forecasted a deficit that would increase from 4.8% of GDP – at 50 billion euros ($64 billion.). And there is also the matter of Spain's 'bad bank'.

Spain opposed international pressure to seek a credit line from the European stability mechanism rescue fund that would permit the ECB to buy Spanish debt on the secondary market, a prospect that helped lower the nation's borrowing costs. This act of hubris might be misplaced. Analysts forecast the economy will shrink 1.4% in 2013; unemployment is likely to increase to above 27%. Prime Minister Mariano Rajoy expected joblessness to start falling next year. However, concerns about Spain's creditworthiness – rated one level above junk by Standard and Poor's and two levels higher by Fitch ratings – may increase as a surge in inflation pressures public finances. If Spain continues to draw down its cash reserves, it may not be able to fund itself in 2013.

Capital flight is a further economic concern. In August 2012, the state of Spanish portfolio investment suffered an acceleration in capital flight in the seven months through July. Non-residents withdrew 95.7 billion euros of stock and bond investments, compared with 21.9 billion euros the year before. This may further impact market sentiment.

When it rains in Spain it pours. Economic travails have galvanised secession movements in other parts of the countries. What is economic is also political, and what is political is also economic.

This is bad news for auditors and accountants, whose lacklustre performance in Spain and beyond may attract further unwelcome attention from European and other regulators who are still smarting about their culpability (with the ratings agencies) for aiding-and-abetted the banks in instigating the mortgage crisis (and blessing the junk packaging of securities). The consequences of these audit and financial failures continue to roil the world's economies.