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Introduction

The economic and financial crisis has prompted a substantial increase in the general government debt of the European Union (EU) countries to levels far higher than those prevailing in the pre-2008 period. This trajectory, along with the difficulties of curbing the attendant expansionary dynamics, has placed the sustainability of public finances at the heart of the economic policy debate in Europe.

In the case of Spanish general government, the low starting level of public debt (36% of GDP compared with 66% of GDP in the euro area in 2007) allowed the initial impact of the cyclical downturn on public finances to be absorbed without high levels in the stock of debt being attained. However, prolonged economic sluggishness and the continuation of high budget deficits, along with the impact of assistance to the financial sector, among other factors, have placed the debt/GDP ratio at 84.2% in 2012 (88.2% of GDP in 2013 Q1), though this is still below the euro area level.

The rapid increase in public debt in some euro countries was, indeed, one of the factors that sparked the sovereign debt crisis that broke in early 2010. The review of the EU economic governance framework in response to this crisis has included a reform of the Stability and Growth Pact (SGP), one of the main aims of which has precisely been to reinforce the disciplining role of the ceiling set for public debt. Along these lines, the amendment of the Spanish budgetary framework, set in train in September 2011 with the reform of the Constitution and its subsequent implementation in April 2012 through the LEP (Organic Law on Budgetary Stability and Financial Sustainability), assigns greater importance to this variable. In particular, it sets an explicit cap not envisaged in previous stability laws, such that its weight relative to GDP may not exceed 60%. A transition period to 2020 has been set for the application of this criterion.¹

Against this background, monitoring public debt has become most important. This article analyses developments in the recent period in Spain's case drawing on the statistics published by the Banco de España.² The following section first describes the different concepts of general government indebtedness that are habitually used. It is important to know the different definitions of this variable in order to be able to arrive at an appropriate interpretation, in particular when international comparisons are made. The third section has as its basis one of these concepts, that relating to public debt according to the Excessive Deficit Protocol (EDP), and recent developments concerning its determinants and its breakdown by agent, maturity, instruments and holder are analysed. The fourth section shows the main factors that have affected the so-called "deficit/debt adjustment", which allows the figures for net borrowing or the general government deficit to be reconciled with those of the changes in the stock of EDP debt. The fifth section draws some brief conclusions.

The different concepts of public debt

In economic terms, general government expenditure and acquisitions of financial assets that are not financed with current and capital revenue (essentially tax revenue) should be

¹ The LEP also sets out the breakdown of the ceiling of 60% of GDP by general government sub-sector: central government, 44% of GDP; overall regional governments, 13%; and local governments, 3%.

² Table 1 summarises the main Banco de España publications containing information on general government debt.

Statistic	Publication	Frequency	Time lag
State: EDP debt and financial accounts	Economic indicators (6.2 and 6.3) http://www.bde.es/webbde/es/estadis/infoest/e06034e.pdf	Monthly	28-30 days
General government: preliminary estimate of EDP debt	Economic indicators (8.8) http://www.bde.es/webbde/es/estadis/infoest/e0808e.pdf	Monthly	47-48 days
General government: gen. gvt. EDP debt with breakdown by sub-sector, tier of government (regional, local and State Funds) and instruments. Deficit-debt adjustments	<i>Boletín Estadístico</i> (Chapters 11 to 14) http://www.bde.es/webbde/en/estadis/infoest/bolest11.html	Quarterly	75 days
General government: Complete quarterly financial accounts	<i>Financial Accounts of the Spanish Economy (FASE)</i> (Tables 2.15 to 2.19) http://www.bde.es/webbde/en/estadis/ccff/cfcap2.html	Quarterly	110 days

SOURCE: Banco de España.

DIFFERENT CONCEPTS OF GENERAL GOVERNMENT DEBT

TABLE 2

€m and percentage breakdown as at 31/12/2012

	EDP debt		Liabilities of the Financial Accounts of the Spanish Economy		Consolidated liabilities of the Financial Accounts of the Spanish Economy	
	Dec-12		Dec-12		Dec-12	
1. Cash and deposits	3,681	0.4%	3,681	0.3%	3,681	0.4%
2. Securities other than shares	669,027	75.7%	743,256	63.2%	675,928	71.0%
General government securities	—	—	67,328	5.7%	—	—
Other securities (short, medium and long-term)	669,027	75.7%	675,928	57.4%	675,928	71.0%
3. Cross-general government long-term debt	—	—	117,022	9.9%	—	—
4. Other long-term loans	196,490	22.2%	196,473	16.7%	196,473	20.6%
5. Short-term loans	14,675	1.7%	14,667	1.2%	14,667	1.5%
6. Trade credits and other cross-general government liabilities	—	—	39,759	3.4%	—	—
7. Other trade credits and other liabilities	—	—	61,791	5.3%	61,791	6.5%
8. TOTAL (8=1+2+3+4+5+6+7)	883,873	100.0%	1,176,649	100.0%	952,540	100.0%
% of GDP mp	—	84.2%	—	112.1%	—	90.8%

SOURCE: Banco de España.

NOTE: Detailed data are published quarterly in Table 1 of Chapter 11 of the *Boletín Estadístico* and in Table 2.15 of the FASE.
<http://www.bde.es/webbde/es/estadis/infoest/a1101e.pdf>.
<http://www.bde.es/webbde/es/estadis/ccff/0215a.pdf>.

financed through the generation of liabilities. This generation of liabilities is usually called general government debt or indebtedness. Under this broad definition different concepts may be distinguished, the boundaries of which are defined by the instruments included in each of them and by the valuation method. Described below are the main general government debt concepts habitually used, whose figures for the Spanish case are compared (see Table 2).

Total general government liabilities

This is the broadest possible debt heading, reflected in the Financial Accounts of the Spanish Economy (FASE), given that it encompasses all liabilities incurred by general gov-

ernment, irrespective of their nature.³ In particular, unlike EDP debt which will be described below, it includes the general government liabilities that are held by other general government sectors along with trade and other payables, which reflect, inter alia, the deferrals of payments due by general government sectors to their suppliers of goods and services. As to the valuation of liabilities, ESA 95⁴ methodology – which employs market prices in the stocks and flows of liabilities in the form of securities other than shares – is used.

In association with this definition, a second concept called “consolidated liabilities” is included. This coincides with that of total general government liabilities, but those liabilities held by another general government sector are stripped out.

General government debt according to the Excessive Deficit Protocol (EDP)

This concept of debt is the relevant one for the purposes of the ceilings set in the European SGP and in the Spanish LEP, and is defined in Community Regulations.⁵ It comprises general government payables in the form of cash and deposits, securities other than shares, excluding financial derivatives, and loans. It differs from the previous concept of “Total general government liabilities” in that it does not include general government liabilities held by other general government sectors or the so-called trade credits and other payables. Moreover, the methods for valuing liabilities applied in EDP debt are based on the use of nominal values.

Table 2 offers a comparison of the three aforementioned definitions of debt for the Spanish case. Chart 1 shows the recent time path of these three definitions for Spain and the euro area. It can be seen that Spanish total general government liabilities amounted to 112.2% of GDP at end-2012 (110.9% in the euro area). Nonetheless, of this total, slightly more than 21 pp of GDP related in Spain to liabilities of one general government sector to another, such that consolidated liabilities stood at 90.8% of GDP (103.7% in the euro area). Further, if trade credit and other liabilities – which accounted for 6% of GDP in Spain (4.7% in the euro area)⁶ – are stripped out, and an adjustment is made for the different valuation methodology, that gives the figure for EDP debt (84.2% of GDP in 2012). EDP debt stood at 90.6% in the euro area that same year. In terms of changes, the increase in EDP debt in the 2007-2012 period was 48 pp of GDP in the Spanish case, double that in the euro area.

Net general government debt

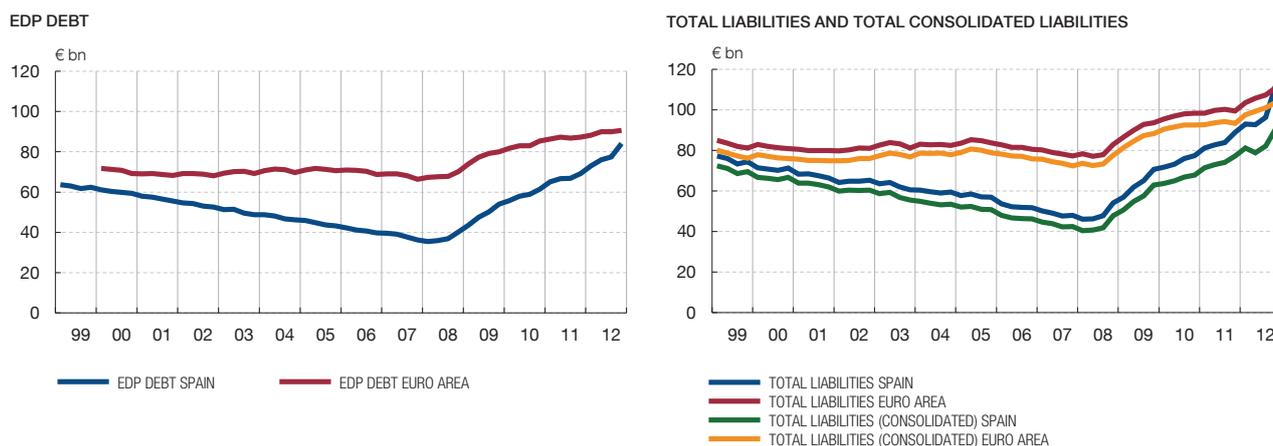
Occasionally, the concept *net public debt* is also used. This takes general government debt in gross terms (which is how the aforementioned concepts of debt are defined) as its starting point, deducting a portion or all of the stock of financial assets, given that, from an economic standpoint, the general government sector could meet payment of its debt by

3 These liabilities are coined money, securities other than shares, other equity holdings, non-trade credit, both short and long-term, in euro and in currencies other than the euro, trade credit and other payables.

4 See the methodological note in the FASE disseminated on the Banco de España website: (<http://www.bde.es/f/webbde/SES/Secciones/Publicaciones/PublicacionesSerias/NotasEstadisticas/07/nest05e.pdf>).

5 The current definition of this debt is regulated by Council Regulation (EC) 479/2009 of 25 May 2009. Among other things, this Regulation obliges EU Member States to send twice yearly (in late March and in late September) to the European Commission and, specifically, to Eurostat, the data for this definition of debt by sub-sector and with extensive details of specific items and transactions. These data transmissions are known as EDP Notifications.

6 There is some cross-country heterogeneity in the size of trade credit and other liabilities. In 2012 these were far below the average in Germany (0.1% of GDP) and Austria (0.9%), around the average in Ireland (3.1%), Portugal (4.1%), Belgium (4.1%), Netherlands (4.9%), Italy (5.5%), Finland (5.6%), Spain (6%), and Luxembourg (6.6%), and far above the average in France (9.4%) and Greece (11.1%).



SOURCES: Banco de España and Eurostat.

NOTE: Detailed quarterly data are published in Chapter 11 of the *Boletín Estadístico* and in Table 2.15 of the *FASE*.

<http://www.bde.es/webbde/es/estadis/infoest/a1101e.pdf>

<http://www.bde.es/webbde/es/estadis/ccff/0215a.pdf>

selling the financial assets – at least the most liquid ones – it holds. Table 3 presents total general government financial assets in 2012 in Spain. They can be seen to have accounted for 31.9% of GDP in terms of consolidated assets, of which around 43% related to shares and other equity and 25% to cash and deposits. If total consolidated assets were deducted from total consolidated liabilities (90.9% of GDP in December last year), the resulting net liabilities would stand at 59% of GDP at end-2012.

Contingent liabilities

General government occasionally grants guarantees on the debts incurred by other institutional sectors. These guarantees are not recorded as liabilities in the general government accounts given that the secured debt is registered under the liabilities of the agent receiving the guarantee.⁷ However, these guarantees involve contingent liabilities for public finances, meaning that if the guarantee were fully or partly enforced, general government would assume the debt in its entirety, a capital transfer paid to the original debtor would be recorded as a balancing entry and, therefore, the general government deficit and debt would increase.

As regards guarantees granted by Spanish general government, the Banco de España publishes information on the value of the outstanding balance of State-guaranteed debt⁸. According to this information, the volume of these operations stood at somewhat higher than 17 pp of GDP at end-2012, as a result of the various guarantees granted to the banking system⁹, to the European Financial Stability Fund and, more recently, to Sareb (the

7 In addition to the guarantees granted by general government on the liabilities incurred by other sectors, there are other types of general government contingent liabilities of a different nature or with an associated value at risk that is difficult to measure. These include most notably future payment commitments in respect of spending on pensions and guarantees to depositors up to the established ceilings at credit institutions that participate in the Deposit Guarantee Fund, a unit which since 1 January 2012 has become part of the general government sector.

8 <http://www.bde.es/webbde/es/estadis/infoest/e0603e.pdf>.

9 In October 2008, under the so-called Concerted Action Plan of the euro area countries, it was agreed that governments should, for a limited period (up to 31 December 2009), directly and indirectly provide, on an arm's-length basis, guarantees, insurance or similar instruments allowing issues of medium-term bank debt to be guaranteed, the aim being to restore confidence and the sound working of the funding market for credit institutions. In this connection, the Spanish government stated that, over the course of 2008, guarantees could be granted up to a maximum amount of €100 billion. Subsequent events led governments to successively add flexibility to and extend this rule.

€m

	2008	2009	2010	2011	2012
1. Non-consolidated general government financial assets (1 = 1.1 + 1.2 + 1.3 + 1.4 + 1.5)	342,161	382,872	393,061	439,110	560,916
As % of GDP	31.5	36.5	37.5	41.3	53.4
1.1 Cash and deposits	101,935	119,749	95,114	77,523	84,693
1.2 Securities other than shares	71,677	77,814	83,371	77,657	74,202
Short-term	1,266	1,203	3,712	2,211	5,857
Long-term	70,411	76,611	79,659	75,446	68,345
1.3 Loans	40,608	47,970	53,714	64,611	175,652
1.4 Shares and other equities	88,319	95,016	109,930	133,469	143,918
1.5 Other accounts receivable	39,622	42,323	50,932	85,850	82,451
2. Consolidated general government financial assets (2 = 1 – 3)	273,145	302,074	292,689	315,316	334,853
As % of GDP	25.1	28.8	27.9	29.7	31.9
3. Consolidation (3 = 3.1 + 3.2 + 3.3)	69,016	80,798	100,372	123,794	226,063
3.1 Securities other than shares	37,274	49,776	61,015	63,247	69,282
3.2 Loans	17,168	17,169	17,168	17,169	117,023
3.3 Other accounts receivable	14,574	13,853	22,190	43,378	39,759

SOURCE: Banco de España.

NOTE: Additional and detailed data are published in Table 2.15 of the FASE.
<http://www.bde.es/webbde/es/estadis/ccff/0215a.pdf>.

asset management company for assets arising from bank restructuring) under the bank restructuring process¹⁰.

Spanish public debt during the crisis

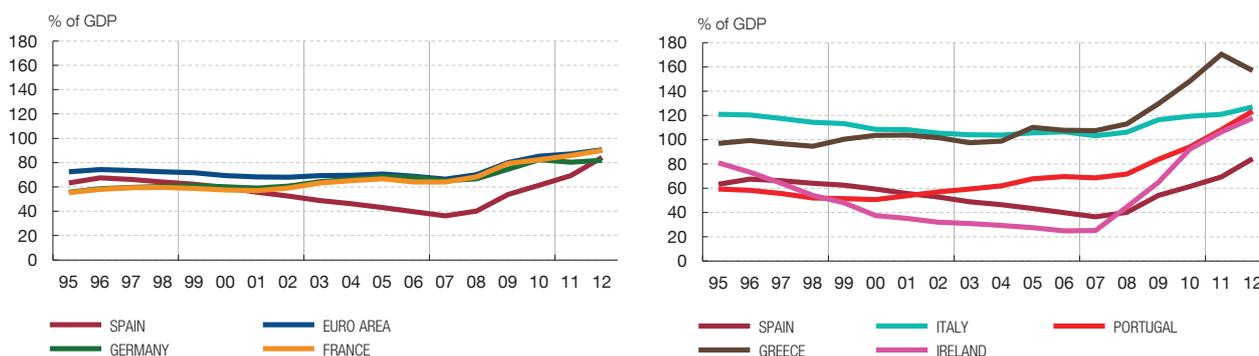
Of all the definitions of public debt analysed in the previous section, that of EDP debt is favourably prominent in that it is defined according to uniform rules that are mandatory for all EU countries and it is subject to scrutiny by the European Commission (Eurostat), which ensures comparability across the different EU Member States. This definition of public debt is taken as a starting point below to analyse in greater detail comparative recent developments in such debt and its different determinants, along with its composition by agent, maturity, instrument and holder.

SPANISH PUBLIC DEBT IN THE CONTEXT OF THE EURO AREA

From the onset of the economic crisis, general government debt levels in the euro area countries moved on a sustainedly increasing course that has continued to date (see Chart 2). The scenario is the same in other economies, such as the United States, the United Kingdom and Japan. As described in the previous section, Spain has been no exception to this deterioration in public indebtedness.

To analyse the reasons for this, it helps to break down the change in the debt/GDP ratio into its fundamental factors: a) the level of the primary budget balance (i.e. excluding the interest burden), where a negative balance of this variable translates into an increase of the same amount in debt; b) nominal GDP growth, where growth (reduction) generates a

¹⁰ As regards Sareb, a unit classified under the Financial Institutions sector, its regulations specify that among its sources of financing will be State-guaranteed debt issued by it as a balancing entry of the assets received by banks.



SOURCES: Banco de España and Eurostat.

NOTE: Detailed information by country is published in Table 7, Chapter 1 of the Banco de España *Boletín Estadístico*.
<http://www.bde.es/webbde/es/estadis/infoest/a0107e.pdf>.

reduction (increase) in the debt ratio (this factor can be broken down in turn into the contribution of real GDP growth and that of the GDP deflator); c) the interest charges generated by public debt, which must also be financed, and d) the so-called “deficit-debt adjustment”, which reflects, among other aspects, the need to finance the acquisition of financial assets and, in general, all those transactions and flows that are not reflected in the deficit but are so in public debt, in accordance with European statistical regulations.

With regard to Spain, the change in debt in the reference period was chiefly due to primary deficits and the interest burden, which accounted for somewhat more than 70% and 20% of the total increase, respectively (see Chart 3). The contraction in GDP contributed positively to the increase in debt, albeit only marginally, and the net effect of the deficit-debt adjustment was 2 pp, concentrated above all at the end of the period. Indeed, these adjustments contributed to moderating the increase in debt in 2010 and 2011, mainly owing to the use of the liquidity buffers previously built up by general government.¹¹

In the case of the euro area, the main determinant of the change in debt in the 2007-2012 period was interest expenses, which contributed 15 pp of GDP to the stock of public debt, while the cumulative primary deficits contributed 7.7 pp (30% of the total), and the deficit-debt adjustment, 6 pp (25%). The impact of the latter was concentrated, in this case, at the start of the crisis (2008-2010), when most interventions in support of the financial sector were made. Conversely, nominal GDP growth enabled the ratio to be cut by 4 pp, offsetting almost 20% of the contribution of the other determinants.

CHANGES IN THE STRUCTURE OF DEBT

The structure of the EDP debt of Spanish general government in 2012 (see Table 4) was concentrated in the long term (89% of the total) and via securities (76% of the total), whereas holdings by residents (63% of the total) were higher than those of non-residents (37%).

In terms of changes over time, the 2012 term structure was similar to that in 2007.¹² There was an increase in the weight of resident holders (who accounted for 50% in 2007 compared with 63% in 2012). In the case of resident financial institutions, these percentages climbed from 42% in 2007 to 49% in 2012. Finally, a slight increase can also be seen in loans, which rose from accounting for 17% of the total in 2007 to 24% in 2012.

¹¹ Given that the sale of assets enables funds to be obtained to finance the deficit without having to resort to debt.

¹² However, there was a significant increase in the weight of short-term debt in 2008 and 2009, which held at around 18% in 2010 and 2011 and fell to around 11% in 2012.



SOURCES: Banco de España and Eurostat.

NOTE: Detailed quarterly data are published in Table 9, Chapter 11 of the Banco de España *Boletín Estadístico*.
<http://www.bde.es/webbde/es/estadis/infoest/a1109e.pdf>.

From a comparative perspective (see Chart 4), short-term debt gained weight from the start of the crisis in the main euro area countries, as did the percentage of debt with a residual maturity of less than one year. However, the average life of the stock of debt fell marginally from 2007 to 2012 in the area as a whole, reflecting the reduction in Germany, and given the return to normality seen in 2012 in the rest of the main euro area countries. The proportion of total debt held by residents remained relatively stable across the area, though it trended unevenly from one country to another, with an increase in Italy and Spain and a reduction in Germany and France.

THE DISTRIBUTION OF GENERAL GOVERNMENT DEBT BY SUB-SECTOR

In a context such as Spain's, marked by the high decentralisation of its general government sector, it is also worth analysing the distribution of public debt by sub-sector (central government, Social Security, regional governments and local governments). In this case, it is important to take into account the debt transactions between the different sub-sectors, given that in some cases the increase observed in one tier of government arises to finance, at least temporarily, another tier. In recent years, these cross-general government debt transactions have essentially generated an increase in the central government debt issued on the market, which has been instrumental in financing regional and local government operations (see Box 1 for a more detailed explanation of these operations). Regional and local governments have thus seen an increase in their debt with central government but not with the markets. Furthermore, the purchase of State-issued public debt by the Social Security Reserve Fund has been commonplace, the latter being a financial asset of the former.

	Percentage of GDP						Percentage of total		
	2007	2008	2009	2010	2011	2012	2007	2012	Difference 2012-2007
1. General government debt (1 = 2.1 + 2.2 + 2.3 = 3.1 + 3.2 + 3.3 = 4.1 + 4.2)	36.3	40.2	53.9	61.5	69.3	84.2			
2. By type									
2.1 Currency and deposits	0.3	0.3	0.3	0.3	0.3	0.4	0.9%	0.4%	-0.4%
2.2 Securities	29.7	32.7	45.0	50.9	57.4	63.7	82%	76%	-6.2%
2.2.1 Short-term	3.2	4.9	8.2	8.4	9.0	7.9			
2.2.2 Long-term	26.6	27.8	36.8	42.4	48.3	55.9			
2.3 Loans	6.2	7.2	8.6	10.3	11.6	20.1	17%	24%	6.7%
2.3.1 Short-term	0.4	0.7	0.9	0.8	1.4	1.4			
2.3.2 Long-term	5.8	6.4	7.7	9.5	10.2	18.7			
3. By maturity									
3.1 Currency and deposits	0.3	0.3	0.3	0.3	0.3	0.4	0.9%	0.4%	-0.4%
3.2 Short-term (3.2 = 2.2.1 + 2.3.1)	3.6	5.6	9.1	9.2	10.4	9.3	10%	11%	1.1%
3.3 Long-term (3.3 = 2.2.2 + 2.3.2)	32.4	34.3	44.5	51.9	58.5	74.6	89%	89%	-0.6%
4. By holder									
4.1 Residents	18.9	21.2	30.5	35.1	44.3	52.6	52%	62%	10.5%
Resident financial institutions	15.2	16.3	23.2	25.3	31.0	36.8			
Other resident sectors	3.7	4.9	7.3	9.8	13.2	15.9			
4.2 Rest of the world	17.4	19.0	23.4	26.4	25.0	31.6	48%	37%	-10.5%

SOURCE: Banco de España

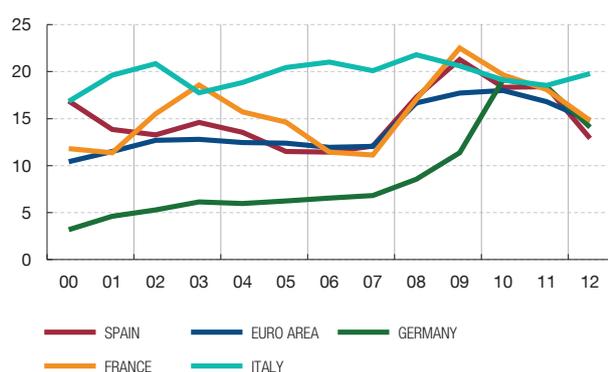
NOTE: Detailed quarterly data are published in Chapter 11 of the Banco de España *Boletín Estadístico*.
<http://www.bde.es/webbde/es/estadis/infoest/a11112e.pdf>

The unconsolidated EDP debt of the different general government tiers in Spain is addressed below as is, in parallel, the same debt but discounting the financial assets that each level of general government holds in respect of the other levels (see Chart 5). In particular, central government EDP debt rose from accounting for 30.1% of GDP in 2007 to 72.4% in 2012, posting an increase of 42 pp of GDP. However, if it is taken into account that a portion of this increase in central government debt was used to finance regional and local governments, the resulting increase after stripping out the financial assets generated by these transactions is 4 pp lower. In the case of regional and local governments, EDP debt increased over the same period by 12 pp and 1 pp of GDP, to 17.6% and 4% of GDP in 2012, respectively. The debt of Social Security Funds, for its part, held at 1.6% of GDP. If, moreover, it is borne in mind that the Social Security Reserve Fund invested most of its assets in State debt, the debt of this sector net of these financial assets was in fact negative (-4% of GDP in 2012).

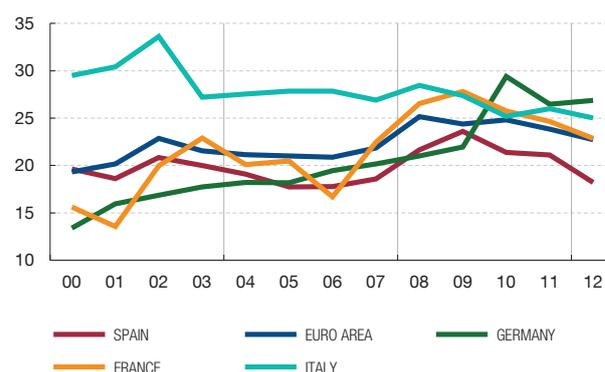
Lastly, it should also be mentioned that the Banco de España regularly publishes the debt of each of the regional governments together with that of the main municipal councils.¹³ In the first case (see Chart 6), an across-the-board increase in debt since 2007 can be seen in all the regional governments, significantly so in Castile-La Mancha, Valencia and Catalonia. These are also the regional governments whose debt levels as a percentage of their regional debt were highest, at 28.2%, 29.4% and 25.4%, respectively. The debt of the six main Spanish municipalities (Madrid, Barcelona, Valencia, Zaragoza, Seville and Málaga)

13 See Table 13.6 of the Banco de España's *Boletín Estadístico* (<http://www.bde.es/webbde/es/estadis/infoest/a1306.pdf>) to obtain information on the breakdown of the regional governments' EDP debt and Table 14.6 (<http://www.bde.es/webbde/es/estadis/infoest/a1406.pdf>) for details of the debt of the main municipalities and other local government groupings.

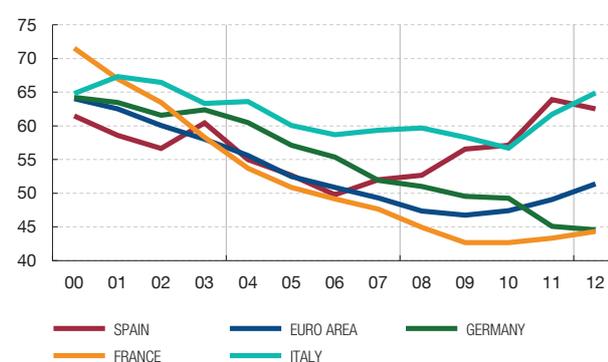
SHORT-TERM DEBT (% OF LONG-TERM DEBT)



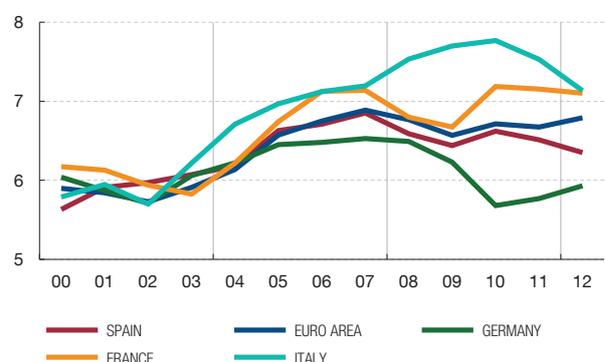
DEBT WITH RESIDUAL MATURITY OF LESS THAN 1 YEAR (% OF TOTAL)



DEBT HELD BY RESIDENTS (% OF TOTAL)



AVERAGE LIFE OF DEBT STOCK (YEARS)



SOURCES: Banco de España, Eurostat and Spanish Treasury.

NOTES: Detailed quarterly data are published in Chapter 11 of the Banco de España *Boletín Estadístico*.

<http://www.bde.es/webbde/es/estadis/infoest/a1112e.pdf>.

<http://www.bde.es/webbde/es/estadis/infoest/a1113e.pdf>.

stood at €11,696 million (1% of domestic GDP) in 2012, 27% up on 2007. Of this debt, almost 64% was concentrated in the Municipality of Madrid.

THE DEBT OF PUBLIC CORPORATIONS

Under Community regulations, the general government sector encompasses for statistical purposes those institutional units controlled by general government that do not cover more than 50% of their production costs with revenue from the sale of their products.¹⁴ Accordingly, general government-controlled units that finance their costs in the main with revenue from their activity and which are in economic terms called public corporations fall outside this definition. The Banco de España nonetheless regularly publishes the debt of Spanish public corporations (which is not included either in general government liabilities or in EDP debt), and its breakdown into the general government sub-sectors to which these corporations report (see Table 5). On the contrary, there is no comparative published information on this type of debt for all EU countries. In accordance with this information, the debt of Spanish public corporations stood at end-2012 at 5.1% of GDP, around 2 pp of GDP higher than in 2007. Around 60% of this debt ratio relates to entities

¹⁴ Further to the entry into force of ESA2010, the criteria to determine whether a public-sector producer is a market producer shall be changed. Firstly, in the definition of costs where more than 50% thereof should be financed by sales if the producer is to qualify as a market producer, debt interest expenses are to be included, having been excluded under ESA 95. Secondly, a series of qualitative criteria are to be introduced: in short, these exclude the possibility of most sales being made to general government units and require market producers to be profitable in the long term.

In recent years cross-general government debt transactions have emerged as a significant explanatory factor of the levels and changes in the debt of each tier of general government in Spain. These transactions have arisen essentially as a result of the functioning of the regional government financing system and of the creation of the Fund for the Financing of Payments to Suppliers and of the Regional Government Liquidity Fund, which have meant that central government has raised funds in the market to finance the operations of regional and local government. This is discussed in detail in this box.

- 1 The *Fund for the Financing of Payments to Suppliers* (“FFPP” by its Spanish abbreviation)¹ was designed so that central government might raise the necessary financing in the market (via issues of the Treasury and syndicated loans of the banking system), channeling this to regional and local government through loans. Specifically, with its funds it extended loans amounting to €26,445 million in 2012, €17,689 million of which were lent to regional government and €8,756 million to local government, which were used to pay off debts to their suppliers. Thus, central government debt increased by the amount of the financing raised vis-à-vis sectors outside general government and, at the same time, the sub-central general government debt increased by the same amount, in this case vis-à-vis central government.²
- 2 The Regional Government Liquidity Fund (“FLA” by its Spanish abbreviation) – which is part of central government – was created in July 2012 to provide a credit line to regional governments³ so that they can meet outstanding debt maturities or finance the authorised net borrowing for the financial year. Since the FLA is classified under the general government sector, its debt transactions increase EDP debt. In any event, it should be emphasised that this increase in general government debt should not be higher than that arising from the regional government budget deficit since, as mentioned above, the FLA’s funds are earmarked for financing the repayment of outstanding regional government debt, as well as its net borrowing, meaning this Fund would not affect the deficit-debt adjustment. In 2012, the FLA lent a total of €16,641 million (1.6% of GDP) to regional governments that joined the mechanism. The effect of the FLA on the central government financial accounts is an increase in

liabilities and EDP debt for the amount of the State’s issues instrumented to finance the FLA. In the financial accounts of the regional governments which have joined the mechanism, the effect is an increase in liabilities and EDP debt for the loans received from the FLA, although these loans may have been used in part to repay previously existing debt. Finally, the EDP debt increases by the joint sum of the respective increases at regional and central government level and decreases due to the consolidation of the regional government liabilities which are central government assets.

- 3 As for the *regional government financing system*,⁴ in the period analysed here payments on account initially made by the State to regional and local government in 2008 and 2009 for partially transferred taxes were made on the basis of income projections which turned out to be optimistic in relation to actual tax receipts. This meant that the regional governments received higher payments on account than would have corresponded to them once the definitive settlements were made. These differences represented around 0.7 pp and 2.3 pp of GDP in those two years, which they had to repay to the State in 2010 and 2011, respectively.

However, since these amounts are high, the Government decided that the payments which regional and local government had to make to the State be deferred so that for 2008 the amounts deferred began to be repaid in January 2010 and would be made in a maximum period of 120 monthly instalments. The same would apply to 2009, in relation to which repayments began in January 2011. The existence of these deferrals has prompted, and will continue to do so over the coming years, a discrepancy between the deficit figures in NA terms compared with cash-basis figures when they are analysed by sub-sector.⁵

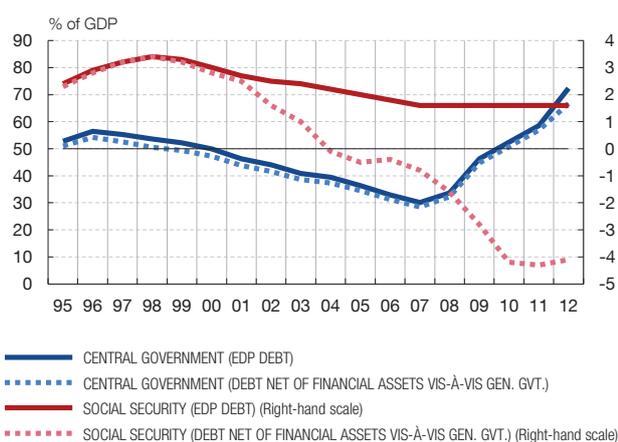
- 1 For a detailed description of this Fund, see Box 4 of the “Quarterly report on the Spanish economy”, *Economic Bulletin*, April 2012, Banco de España.
- 2 In the central government financial accounts the activity of the FFPP was calculated as an increase in liabilities and in EDP debt for the value of the loan which the FFPP received from Credit Institutions. In regional and local government financial accounts a liability (trade credits) was replaced, which is not included in EDP debt, by another liability (FFPP loans), which is included in EDP debt. In the general government financial accounts, EDP debt grew by the joint sum of the respective increases at regional, local and central government level, and decreased by the amount of the consolidation of regional and local government liabilities which are central government assets. The net final result was an increase of 2.7% in the public debt/GDP ratio, whereas general government consolidated total liabilities remained unaltered.
- 3 Regional government requests to join the FLA have to be accompanied by an adjustment plan which ensures that the budget stability targets are met.

- 4 It should be taken into account that the functioning of the regional government financing system requires payment by the State to the regional government of the taxes partially transferred which correspond to a specific year (t) to be made through payments on account of the definitive settlement. Payments on account are made during the year (t) in accordance with a pre-set timetable and for amounts set on the basis of a revenue projection prepared in the previous year (t-1, when the budgets of year t were drawn up). The definitive settlement is undertaken once all the actual data of the financing system are known, with a two-year lag with respect to the relevant year (t+2). In t+2 the settlement of said year t is made for the possible differences between actual tax receipts and payments on account and advances made in t.
- 5 In fact, in NA terms in 2010 (2011), the total surplus amount received by the regional government in 2008 (2009) was recorded under the accrual principle as State revenue and a payment by regional government. On a cash basis, however, these amounts were not recorded in full, since, as mentioned above, the State agreed with the regional government that repayment be made over several years. Thus, in those two years a positive deficit-debt adjustment arose for regional government (NA deficit higher than cash-basis deficit) and a positive deficit-debt adjustment arose for the State, which meant that in the first case the increase in debt was duly lower than the NA deficit, with the opposite applying in the case of the State. Since the payment has been distributed over ten years, in the other years, as the outstanding amounts are repaid by the regional governments to the State, a deficit-debt adjustment of the opposite sign will duly be generated (which is negative for the regional governments and positive for the State).

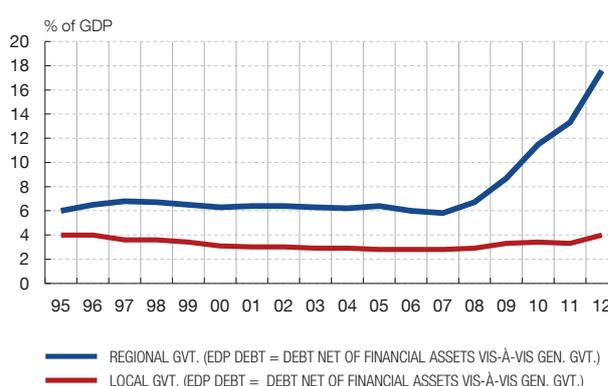
EDP DEBT BY GENERAL GOVERNMENT SUB-SECTOR

CHART 5

CENTRAL GOVERNMENT AND SOCIAL SECURITY



REGIONAL GOVERNMENTS AND LOCAL GOVERNMENTS

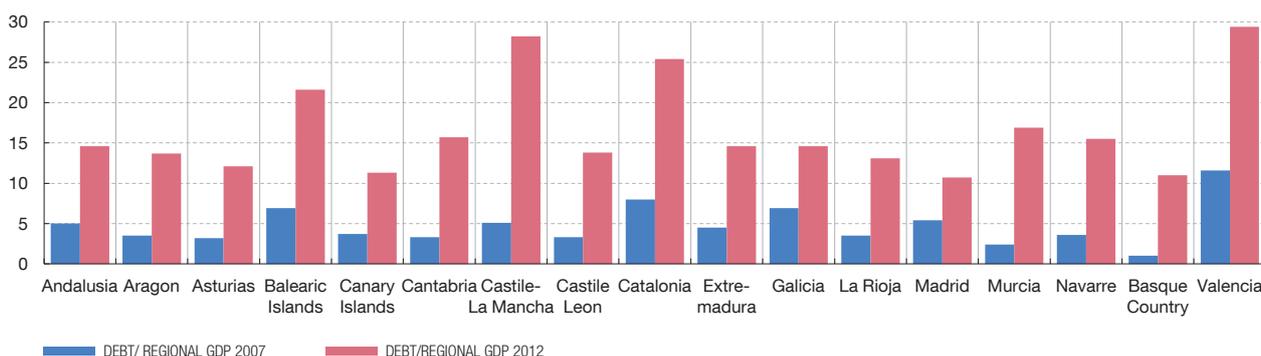


SOURCES: Banco de España and Eurostat.

NOTE: Detailed quarterly information by instrument and level of government are published in Chapters 11 to 14 of the Banco de España *Boletín Estadístico*.
<http://www.bde.es/webbde/es/estadis/infoest/a1105e.pdf>

REGIONAL GOVERNMENTS' EDP DEBT

CHART 6



SOURCE: Banco de España.

DEBT OF PUBLIC CORPORATIONS

TABLE 5

€m

	2007	2008	2009	2010	2011	2012
1. EDP debt of public corporations (1 = 1.1 + 1.2 + 1.3)	32,120	37,422	46,077	52,037	55,056	53,317
As % of GDP	3.0	3.4	4.4	5.0	5.2	5.1
1.1 Public corporations controlled by general government	18,080	21,270	25,360	29,463	32,667	34,300
1.2 Public corporations controlled by regional government	9,195	10,405	12,839	13,485	13,035	10,765
1.3 Public corporations controlled by local government	4,845	5,747	7,878	9,089	9,354	8,252

SOURCE: Banco de España.

NOTE: In Tables 11.14, 12.10 and 13.11 of the Banco de España *Boletín Estadístico*, additional information is published quarterly, broken down by corporation and the tier of government which owns it.

<http://www.bde.es/webbde/es/estadis/infoest/a1114e.pdf>

<http://www.bde.es/webbde/es/estadis/infoest/a1210e.pdf>

<http://www.bde.es/webbde/es/estadis/infoest/a1311e.pdf>

CHANGE IN GROSS GENERAL GOVERNMENT CONSOLIDATED (EDP) DEBT (a)

TABLE 6

€m

	2008	2009	2010	2011	2012
1. Change in EDP debt (1 = 2 + 3)	54,677	128,098	79,610	91,776	147,380
2. Due to general government net borrowing (EDP deficit)	48,897	117,143	101,438	100,402	111,641
3. Due to deficit-debt adjustment (a)	5,780	10,955	-21,828	-8,626	35,739
3.1 Net purchases of consolidated financial assets	12,402	23,647	-16,502	-1,462	13,034
Loans to Ireland, Greece and Portugal under the EFSF	0	0	0	2,067	15,825
Spain's participation in the ESM	0	0	0	0	3,809
Financial assistance to Greece. Hellenic Fund	0	0	2,598	4,052	0
From the FROB (Fund for the Orderly Restructuring of the Banking Sector)	0	9,750	0	2,809	6,369
From the FAFA (Fund for the Acquisition of Financial Assets)	9,337	9,998	-2,114	-11,221	-6,000
From the FADE (Electricity Deficit Amortisation Fund)	0	0	0	10,036	5,764
Shares and other equity and other assets	2,246	-1,902	-1,072	7,257	-17,472
Securities issued by foreign general government (Reserve Fund)	2,842	-11,428	-5,518	-1,013	-5,040
Other	-596	9,526	4,446	8,270	-12,432
Change in cash/deposits (excluding FAFA, FROB and FADE)	819	5,801	-15,914	-16,462	4,739
3.2 Trade credits and other consolidated accounts payable	-5,636	-5,309	-6,095	-9,716	26,064
Decrease due to Fund for the Financing of Payments to Suppliers	0	0	0	0	26,445
Decrease due to reclassification of non-recourse factoring transactions	0	0	0	0	4,511
Other	-5,636	-5,309	-6,095	-9,716	-4,892
3.3 Valuation adjustments and other	-986	-7,383	769	2,552	-3,359
MEMORANDUM ITEMS					
1. Change in EDP debt as % of GDP (1=2+3+4)	3.9	13.7	7.6	7.8	14.9
2. Due to net borrowing (EDP deficit)	4.5	11.2	9.7	9.4	10.6
3. Due to deficit-debt adjustment	0.5	1.0	-2.1	-0.8	3.4
4. Effect of change in GDP on EDP debt	-1.1	1.5	0.0	-0.8	0.9

SOURCE: Banco de España.

NOTES: Data are published for each general government sub-sector in Chapters 11 to 14 of the Banco de España Boletín Estadístico.

<http://www.bde.es/webbde/es/estadis/infoest/a1109e.pdf><http://www.bde.es/webbde/es/estadis/infoest/a1203e.pdf><http://www.bde.es/webbde/es/estadis/infoest/a1213e.pdf><http://www.bde.es/webbde/es/estadis/infoest/a1303e.pdf><http://www.bde.es/webbde/es/estadis/infoest/a1403e.pdf>

a A positive figure in this row means that the nominal debt increases, a negative figure means that it decreases.

that report to central government, while the remaining 40% belongs to the regional and local governments.

Deficit-debt adjustments in the 2008-2012 period

The “deficit-debt adjustment” has been a significant factor in public debt dynamics and Spain (and in other countries) since the start of the crisis as a result of the proliferation of various forms of financial operations in which general government sectors have had to become involved in order to mitigate the market failings that have arisen and to tackle the ongoing recapitalisation of entities. Specifically, its value held in 2008 and 2009 at around the historical average (0.7% of GDP), it posted negative values in 2010 and 2011, and it contributed to increasing debt by 3.4% of GDP in 2012. These aggregate values are the result of a series of factors, occasionally counteracting one another (see Table 6). The main operations accounted for by these adjustments in the 2007-2012 period are described below.

European Financial Stability Fund (EFSF), financial assistance to Greece and the European Stability Mechanism (ESM)

The Greek sovereign crisis that began in 2010, and its spread to other European countries, led to the launch of various mechanisms to support financing for ailing Member States. Initially, such financing was through bilateral loans, extended individually to the country in difficulty (Greece¹⁵) by the other euro area members, but the need to establish an institutional mechanism to channel loans to these countries soon became manifest. As a result, the European Financial Stability Fund was created in October 2010, being replaced in October 2012 by the European Stability Mechanism (ESM). In the time it was operating, the EFSF issued bonds and other debt instruments on capital markets, providing financial assistance with the resulting financing to countries with problems. This mechanism was conceived to be strictly temporary and, on the basis of a Eurostat decision, it is not an institutional unit in the true sense of the term owing to the fact that it has no independent decision-making capacity in respect of the Eurogroup. For this reason, all EFSF debt issues were attributed, in National Accounts, to the euro area Member States that act as guarantors for such issues, based on a pre-established distribution key related to the share in the capital of the ECB, which raises the EDP debt of these countries. The euro area members that guaranteed EFSF issues also recorded a claim on the countries that receive the loans extended by the EFSF.

The ESM, for its part, does meet the Eurostat requirements to be considered as an institutional unit. Thus, if it makes debt issues on the capital markets with a view to obtaining financing, the countries participating in the new mechanism will no longer attribute the related percentage of that debt to their liabilities. The EDP debt of the euro area members financing the ESM will only increase if these countries have to issue debt to finance their participation in the capital of ESM, a participation which shall be recorded as a financial asset.

In Spain's case, the allocation of the portion relating to EFSF debt issues entailed, in the 2010-2012 period, an increase in EDP debt of €17,892 million (1.7% of GDP), €2,067 million of which were allocated in 2011, and the remainder in 2012 (see Table 6). Bilateral loans to Greece through the Support Fund for the Hellenic Republic amounted as at December 2012 to an outstanding balance of €6,650 million (0.6% of GDP), the recording of which was in 2010 and 2011. Finally, Spain's share in the ESM as at December 2012 was €3,809 million (0.4% of GDP). In total, then, Spain's participation in these support mechanisms has meant an increase in public debt of around 2.7 pp of GDP.

Fund for the Orderly Restructuring of the Banking Sector (FROB)

In recent years the severity of the financial crisis has meant that government intervention for the clean-up and restructuring of ailing credit institutions in many industrialised countries has been inevitable. In Spain, the Fund for the Orderly Restructuring of the Banking Sector (FROB) was set up in June 2009 to act as an instrument for such operations. The main functions of the FROB are to contribute to strengthening credit institutions' capital and to manage restructuring processes at troubled institutions. The FROB is classified in the general government sector, under the central government sub-sector, meaning its activity has effects on public debt and on the deficit.

¹⁵ Royal Decree-Law 7/2010 of 7 May 2010 creating the Support Fund for the Hellenic Republic and authorising its endowment with an extraordinary credit totalling €9,794 million.

€m

	2009	2010	2011	2012
1. Effect of FROB operations on general government debt (1 = 1.1 + 1.2 + 1.3 = 2 + 3)	9,750	0	7,945	44,712
As % of GDP	0.9	0.0	0.7	4.3
1.1 Contributions from the State	6,750	0	0	5,250
1.2 Securities issues	3,000	0	7,945	0
1.3 ESM loans	0	0	0	39,462
2. Assistance granted with effect on the deficit	0	0	5,136	38,343
As % of GDP	0.0	0.0	0.5	3.7
3. FROB operations with effect only on debt (3 = 3.1 + 3.2 + 3.3 + 3.4 + 3.5 + 3.6)	9,750	0	2,809	6,369
As % of GDP	0.9	0.0	0.3	0.6
3.1 Recapitalisation of financial corporations (increase in own funds)	0	0	69	6,500
3.2 Acquisition of preference shares and their conversion into shares	0	8,697	597	-6,877
3.3 Acquisition of SAREB capital and subordinated debt	0	0	0	1,704
3.4 Granting and repayment of loans	0	0	3,906	-2,938
3.5 Acquisition of other assets	12,013	-8,721	-1,452	8,917
Deposits at the Banco de España	12,013	-8,721	-1,452	1,753
Purchase of State-issued securities	0	0	0	7,164
3.6 Other resources (contributions to Deposit Guarantee Funds and other)	-2,263	24	-311	-937

SOURCE: Banco de España.

NOTE: EDP debt of the main agencies classified in the sub-sector central government is published quarterly in Table 7 of Chapter 12 of the Banco de España *Boletín Estadístico*.<http://www.bde.es/webbde/es/estadis/infoest/a1207e.pdf>.

In total, the FROB's accumulated liabilities as at December 2012 amounted to €62,407 million (see Table 7), €39,462 million of which relate to a loan received from the ESM, €10,945 million to debt issues by the FROB itself and €12,000 million to contributions by the State funded by public debt issues. In addition, the FROB received contributions totalling €2,250 million in 2009 from the Deposit Guarantee Funds, charged to the equity of the latter.¹⁶ Accordingly, the cumulative effect on EDP debt of the FROB's activity (which includes the effect on the budget deficit) accounted as at December 2012 for 5.9% of GDP.

Intervention by the FROB was initially carried out through the acquisition of preference shares issued by the financial institutions involved, these instruments having been subsequently converted in the main into ordinary shares, with the FROB assuming the losses arising from the process. Further to the approval of Royal Decree-Law 2/2012 in February 2012, the FROB has conducted most of its interventions through the purchase of contingent convertible bonds (known as COCOs).

In the National Accounts, operations involving the conversion of preference shares into ordinary shares and capital contributions to public financial institutions by the FROB are recorded as public expenditure (capital transfers paid by general government) with ef-

¹⁶ In Table 7, the contributions to the FROB by the Deposit Guarantee Funds have a negative sign because these funds were not part of the general government sector in 2009 and their contributions were used to finance interventions without increasing public debt.

fects on the budget deficit as at the time at which the conversion actually takes place or the contribution of funds is made, and only up to the amount enabling coverage of the losses accumulated at financial institutions whose own funds have been unable to absorb them. Capital contributions exceeding accumulated losses are recorded as financial operations without effect on the budget deficit, but with an effect on public debt, if it is considered that the financial institution receiving the contribution is economically viable and the future profitability of the operation is foreseen to be sufficient.

Overall, FROB interventions have entailed an increase in the general government deficit of €5,136 million (0.5% of GDP) in 2011, and of €38,343 million in 2012 (3.7% of GDP) (see Table 7). In addition, FROB operations gave rise to an effect – in this case only on public debt – of €9,750 million in 2009, €2,809 million in 2011 and €6,369 million in 2012.

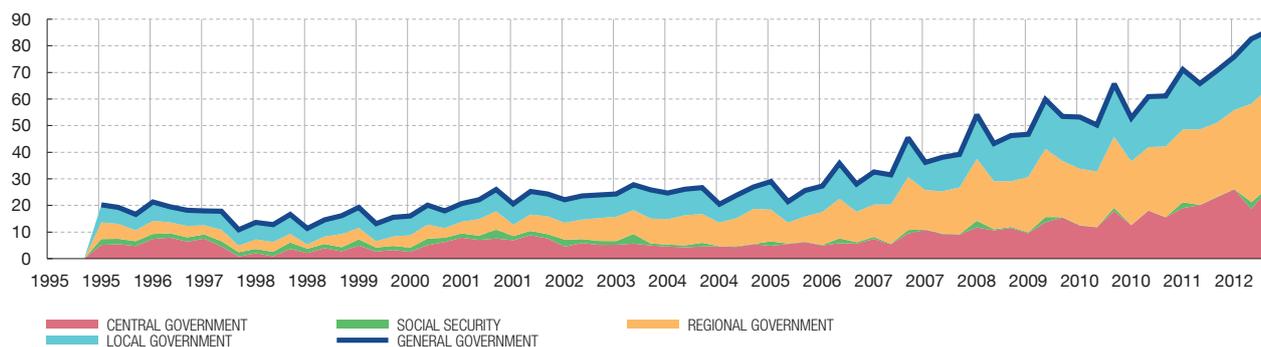
Fund for the Acquisition of Financial Assets (FAFA)

In October 2008, at the height of the international financial crisis, the Fund for the Acquisition of Financial Assets (FAFA) was created in order to promote lending by financial institutions. It was later officially dissolved in June 2012. The FAFA was classified under the general government sector and, consequently, its activity affects debt (and the deficit). The FAFA's objective was to provide liquidity to financial institutions by acquiring liabilities issued by them. The mechanism used by the FAFA to acquire financial assets was auctions. Thus, during 2008 and 2009 the FAFA called a total of four auctions in which it acquired claims on financial institutions resident in Spain totalling €19,335 million (around 2% of GDP). Since the FAFA was included under general government, the funds raised to acquire those bank assets increased EDP debt in these years (see Table 6). The assets acquired by the FAFA were redeemed between 2010 and 2012 and the previously generated increases in public debt were reversed. Given that the last assets held by the FAFA matured at the beginning of 2012, and that the Fund was established strictly on a temporary basis, it was officially wound down in June 2012.

Social Security Reserve Fund and other acquisitions by Social Security Funds of securities issued by the State

The creation of a reserve fund to meet future needs in respect of contributory benefits was specifically regulated for in Spain. Under this regulation most of the surplus revenue from the social security budget outturn of each year must be allocated mainly to acquiring highly liquid Spanish and foreign public debt with a high credit rating. For accounting purposes, the Reserve Fund's activities are included in the Social Security Funds' operations. Specifically, this means that, if the Reserve Fund buys securities issued by the State, the EDP debt of the whole general government sector would decrease, upon consolidation; however, if it acquires securities issued by foreign general government, the EDP debt would not vary. In recent years, in addition to continuing to buy Spanish public debt, the Reserve Fund has also sold most of the foreign public debt it owned, which has been replaced by domestic public debt, thereby reducing EDP debt (see Table 6).¹⁷ Overall, the amount of securities issued by the State and held by Social Security Funds amounted to €59,794 million (5.7% of GDP) in December 2012.

¹⁷ In Table 6, the purchase or sale by the Reserve Fund of foreign public debt is recorded under heading 3.1, "Net purchases of consolidated financial assets: shares, other equity and other assets and securities issued by foreign general government (Reserve Fund)", with a positive sign (purchase of foreign public debt) or a negative sign (sale of foreign public debt).



SOURCE: Banco de España.

NOTE: Quarterly data for each general government sub-sector are published in Chapters 11 to 14 of the Banco de España *Boletín Estadístico*.

<http://www.bde.es/webbde/es/estadis/infoest/a1101e.pdf>.

<http://www.bde.es/webbde/es/estadis/infoest/a1201e.pdf>.

<http://www.bde.es/webbde/es/estadis/infoest/a1211e.pdf>.

<http://www.bde.es/webbde/es/estadis/infoest/a1301e.pdf>.

<http://www.bde.es/webbde/es/estadis/infoest/a1401e.pdf>.

Fund for the Financing of Payments to Suppliers (“FFPP” by its Spanish abbreviation)

As detailed in Box 1, in March 2012 the Fund for the Financing of Payments to Suppliers (FFPP) was created with the aim of facilitating the payment of the debt that regional and local governments had built up vis-à-vis their suppliers (see Chart 7 and Table 8). In order to understand the recording of FFPP transactions and their impact on EDP debt, note that, as indicated above, general government trade credits to its suppliers are not generally included in the definition of EDP debt, although they are included in the total liabilities of general government.¹⁸ To repay regional and local government trade debts in 2012 through the FFPP, the latter had to be provided with the necessary funds, which transformed trade liabilities into EDP debt. Specifically, in 2012 funds totalling €27,781 million (2.7% of GDP) were available to the FFPP, which increased the EDP debt of general government, whereas the general government consolidated total liabilities remained unchanged (see Table 6).¹⁹

Trade credits and non-recourse factoring transactions

As a result of a decision by Eurostat in July 2012, the methodological treatment of certain trade credits in the National Accounts was modified. According to this decision, when a supplier of goods or services fully and irrevocably transfers its trade credits vis-à-vis general government to a financial institution so as to bring forward payment, these liabilities, which were initially recorded in the National Accounts as trade credits, must be reclassified as loans extended to general government.²⁰ The importance of Eurostat’s decision

18 At the same time, the trade credits do finance the budget deficit in the various years in which they are generated, since the payments in National Accounts follow the accrual method (i.e. the expense is recorded in the financial year in which the goods or services are acquired, irrespective of the actual payment being made in a subsequent period). Therefore, in the years that the trade credits of general government are generated, they contribute to a negative deficit-debt adjustment (since they permit a deficit to be incurred without generating EDP debt). The opposite occurs in the year in which the trade credits are paid, unless financing needs to be raised on the markets in order to make such payment.

19 In 2013 the FFPP continued to operate and a second phase of this mechanism was implemented in February, extending its objective and subjective scope and providing it with €2,600 million. More recently, in June, a third phase of the FFPP was approved. Among other changes, this extends the time covered by the mechanism to trade debts prior to 31 May 2013, therefore lengthening the previous period which was limited to trade liabilities prior to 1 January 2012.

20 The reason for this decision is that, in Eurostat’s opinion, when this type of financial operation is formalised the nature of the trade credits affected is altered, with the result that from when the obligation to pay is irrevocably transferred, said trade credits should be considered as ordinary loans.

€m

	2007	2008	2009	2010	2011	2012
Trade credits and other general government accounts payable	67,993	74,451	79,607	93,308	126,042	101,549
As % of GDP	6.5	6.8	7.6	8.9	11.9	9.7
Vis-à-vis non-financial corporations and households	53,775	59,523	65,474	70,763	81,933	58,834
As % of GDP	5.1	5.5	6.2	6.7	7.7	5.6
Vis-à-vis general government (consolidation)	13,867	14,574	13,853	22,189	43,378	39,759
As % of GDP	1.3	1.3	1.3	2.1	4.1	3.8
Vis-à-vis other economic sectors	351	354	280	356	731	2,956
As % of GDP	0.0	0.0	0.0	0.0	0.1	0.3
Central government	15,805	18,511	21,948	24,411	23,384	26,826
Vis-à-vis non-financial corporations and households	11,740	13,676	17,901	18,997	18,406	19,683
Vis-à-vis general government (consolidation)	4,049	4,818	4,034	5,399	4,768	4,613
Vis-à-vis other economic sectors	16	17	13	15	210	2,530
Regional governments	23,755	26,034	27,156	33,306	60,856	38,309
Vis-à-vis non-financial corporations and households	23,164	25,488	26,612	27,184	36,663	16,709
Vis-à-vis general government (consolidation)	455	403	430	5,949	23,893	21,340
Vis-à-vis other economic sectors	136	143	114	173	300	260
Local governments	16,608	18,620	19,972	24,020	29,774	25,737
Vis-à-vis non-financial corporations and households	16,389	18,400	19,770	22,393	24,213	21,142
Vis-à-vis general government (consolidation)	20	26	49	1,459	5,340	4,429
Vis-à-vis other economic sectors	199	194	153	168	221	166
Social Security Funds	11,825	11,286	10,531	11,571	12,028	10,677
Vis-à-vis non-financial corporations and households	2,482	1,959	1,191	2,189	2,651	1,300
Vis-à-vis general government (consolidation)	9,343	9,327	9,340	9,382	9,377	9,377
Vis-à-vis other economic sectors	0	0	0	0	0	0

SOURCE: Banco de España.

NOTE: Quarterly data are published for each general government sub-sector in Chapters 11 to 14 of the Banco de España Boletín Estadístico.
<http://www.bde.es/webbde/es/estadis/infoest/a1101e.pdf>.
<http://www.bde.es/webbde/es/estadis/infoest/a1201e.pdf>.
<http://www.bde.es/webbde/es/estadis/infoest/a1211e.pdf>.
<http://www.bde.es/webbde/es/estadis/infoest/a1301e.pdf>.
<http://www.bde.es/webbde/es/estadis/infoest/a1401e.pdf>.

rests on the fact that loans, unlike trade credits, are a financial instrument which is part of EDP debt. The reclassification as loans of trade credits affected by non-recourse factoring transactions meant that in 2012 the EDP debt of regional and local governments increased by a total of €4,511 million (0.5% of GDP). This, however, does not change the total liabilities of general government since these operations had already been recorded as other liabilities (see Table 6).

Electricity Deficit Amortisation Fund ("FADE" by its Spanish abbreviation)

Over recent years a gap has arisen between electric utilities' generation costs recognised by the government and the revenue received by these companies from consumers (through access tariffs and regulated prices). This mismatch has been called the "tariff deficit". Until 2007, this deficit was financed by the State recognising a claim favourable to generating companies (a long-term financial claim which is a percentage of the monthly billings from access tariffs) vis-à-vis future electricity consumers for the amount of the deficit generated during that year. The generating companies could thus assign these financial claims to third parties for the purpose of obtaining liquidity. Subsequently, from 2008 the

decision was taken to reform the mechanism and, as a result, in January 2011 the Electricity Deficit Amortisation Fund (FADE) was created. The aim of this fund is to facilitate the securitisation of the deficit tariff that has built up and is held by electricity generation companies. The electric utilities, which are the holders of the financial claims vis-à-vis future electricity consumers, obtain liquidity through the assignment of these claims to the FADE in exchange for transfer prices. The FADE finances the claims acquired by issuing liabilities guaranteed by the State.

The FADE is classified under the general government sector because it is considered that it does not have decision-making autonomy since it reports to an inter-ministerial commission and, therefore, its debt issues increase EDP debt. Until December 2012, the FADE had issued €15,800 million of debt which raised EDP debt by 1.5% of GDP (see Table 6). These debt issues were used mainly to finance the acquisition of financial claims which were recorded as financial assets.

Conclusions

The economic and financial crisis has prompted an expansionary dynamic in the public debt levels of the main developed countries, a dynamic which still persists. Spain, too, has been affected by this, with the result that its public debt/GDP ratio, in accordance with the Excessive Deficit Procedure (EDP), has increased significantly since 2007 to 84% of GDP in 2012, although it still remains below the related figure for the euro area (91%). Persistently high primary deficits built up during the period are the main explanation for this deterioration, to which the interest burden has also contributed, albeit to a lesser degree. The implementation of the various State funds to pay regional and local government suppliers, together with the funds earmarked for the financial system restructuring process and the contributions to European bail-out mechanisms, have likewise increased the EDP debt ratio.

With a view to the future, the Updated Stability Programme has the consolidation process continuing between 2013 and 2016, allowing public debt to stabilise in 2016 at around 100% of GDP and then to begin to decline thereafter. Achieving these budget targets requires considerable effort but it is essential to strictly comply with them to ensure the credibility of the consolidation process and to lower debt to more moderate levels.

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