DEVELOPMENTS IN SPANISH PUBLIC DEBT IN 2018

Mario Alloza, Mar Delgado-Téllez, Blanca García-Moral and Víctor González-Díez
ABSTRACT

This note analyses the situation of Spanish general government debt in 2018. Public debt fell to 97.1% of GDP, owing mainly to high economic growth. The average life of the debt stood at 7.5 years, with securities representing 86.4% of total debt and with the holdings of non-residents accounting for a higher share. By sub-sector, central government continues to be the most indebted, with 86.7% of GDP, although financing to other sub-sectors has increased up to 18.9 pp of GDP. Lastly, this article offers a detailed description of the ongoing local government deleveraging.

**Keywords:** public debt, budget deficit, liabilities, assets.

**JEL codes:** H61, H63, H74, H81.
The authors of this article are Mario Alloza, Mar Delgado-Téllez, Blanca García-Moral and Víctor González-Díez of the Directorate General Economics, Statistics and Research.

Introduction

In 2018, the general government debt-to-GDP ratio according to the Excessive Deficit Protocol (EDP) fell for the fourth year running, to 97.1%, compared with 98.1% in 2017 (see Chart 1). The reduction in debt has been due to economic growth (3.4% in nominal terms), which was partly offset by the effect of the budget deficit. In the euro area this ratio stood at 87.1% in 2018, 2 pp down on 2017, while the ratios of the area’s main countries stood at 60.1%, 98.4% and 132.2%, respectively, in Germany, France and Italy.

This note describes the recent developments in Spanish general government indebtedness, drawing on the statistics compiled and published by the Banco de España, and from a comparative standpoint with the other euro area countries. For this purpose, the second section analyses public debt on the basis of the behaviour of its determinants and of its breakdown by tier of government, maturity, instrument and holder. The third section shows the main factors that have affected the deficit-debt adjustment, which reconciles general government net borrowing (the deficit) to the changes in the stock of EDP debt. Lastly, the fourth section reviews the changes in 2018 in other variables related to general government indebtedness, such as total liabilities, net debt, contingent liabilities and public corporations’ debt. The note also includes a box that describes local government deleveraging.

---

1 The relevant concept of indebtedness for the purposes of the ceilings set in the European Stability and Growth Pact and in the Spanish Budgetary Stability and Financial Sustainability Law, defined in EU regulations. Specifically, the current definition is regulated by Commission Regulation (EU) No 220/2014 of 7 March 2014. Inter alia, the Regulation obliges EU Member States to send twice yearly (in late March and late September) to the European Commission (specifically to Eurostat) the data corresponding to this definition of debt by sub-sector, with an extensive breakdown of certain concepts and operations. These data transmissions are known as EDP Notifications.

2 The debt figure for 2019 Q1, at 98.7% of GDP, was released in June 2019.

3 The deficit-debt adjustment reconciles the general government net borrowing or deficit figures to the changes in the stock of debt according to the EDP.

4 For a methodological discussion of the main concepts of general government indebtedness, see Gordo et al. (2013).

5 For a forward-looking analysis of Spanish public debt in the international setting, see Hernández de Cos et al. (2018).
Once again, both for Spain and for the euro area as a whole, public debt relative to GDP has declined, continuing the trend begun in 2015. The main euro area countries’ debt has fallen, with the exceptions of Italy and Greece.

**Chart 1**

**EDP DEBT IN SPAIN AND IN THE EURO AREA (a)**

Sources: Banco de España and European Commission (AMECO).

(a) Detailed quarterly data are published by the Banco de España in Table 2 of Chapter 11 of the Statistical Bulletin and in Table 2.16 of the Financial Accounts of the Spanish Economy (FASE).


Developments in Spanish public debt in 2018

General government debt, compiled in accordance with EDP criteria, is made up of general government liabilities consisting of currency and deposits, debt securities (excluding financial derivatives) and loans, all at nominal value and in consolidated terms, i.e. excluding liabilities that are assets of other general government sectors.

For purposes of analysis, it is advisable to break down the change in the debt-to-GDP ratio into its fundamental factors: a) the level of the primary budget deficit,⁶ which has to be financed; b) the interest expenses generated by public debt, which also have to be financed; c) the deficit-debt adjustment, which includes asset purchases and disposals that have to be financed or that finance the deficit, net liabilities incurred that are not included in EDP debt and valuation adjustments; and d) the change in nominal GDP, as an increase (decrease) in this variable automatically pushes the debt ratio down (up), as a result of the ratio denominator effect.

According to this breakdown (see Chart 2 and Table 1), the 1 pp reduction in the public debt ratio in 2018 can be explained as follows. Firstly, the budget deficit contributed 2.5 pp (3.1 pp in 2017) exclusively on account of the interest burden, since the primary balance stood at 0% of GDP (compared with 0.5% in 2017). Secondly, the contribution of nominal GDP growth reduced the debt ratio by 3.4 pp of GDP (4 pp the previous year). Lastly, the contribution of the deficit-debt adjustment was negative but very low, at -0.1 pp of GDP. In the case of the euro area, the ratio fell by 2 pp in 2018, mainly owing to the course of nominal GDP, which entailed a decline of 2.9 pp, and, to a lesser extent, to the primary surplus, which contributed 1.3 pp to the decrease in the ratio. Both offset the counter-effect of the interest burden and of the deficit-debt adjustment, which respectively stood at 1.8 pp and 0.4 pp of GDP. There was marked heterogeneity among the larger countries, with a reduction of 3.6 pp of GDP in Germany, compared with the 0.8 pp increase in the case of Italy, while in France the figure held stable (0 pp).

As regards term structures, the outstanding balance of Spanish general government debt in 2018 remained concentrated in long-term instruments (93.4% of the total), with an average life of around 7.5 years, and took the form mainly of debt securities (86.4% of the total), whose weight increased at the expense of loans (see Table 2). The weight of non-residents’ debt holdings increased slightly (to 45.6%), consolidating the change in trend begun in 2012 (see Chart 3). The ECB’s public sector purchase programme (PSPP), operating since 9 March 2015⁸, continues to significantly affect the structure of general government debt holders. The outstanding balances of

---

⁶ The primary deficit is the deficit excluding interest expenses.
⁷ Securities with a duration of more than 12 months are considered long-term.
⁸ The description of the programme can be found on the ECB website.
The 1 pp of GDP reduction in Spanish public debt is attributable to high economic growth. This has been partly offset by the interest burden. Euro area public debt has behaved similarly.

**SOURCES:** Banco de España and Eurostat.

a Detailed quarterly data are published in Table 9 of Chapter 11 of the Banco de España *Statistical Bulletin*. http://www.bde.es/webbde/es/estadis/infoest/a1109e.pdf.
Eurosystem purchases of euro area countries’ debt securities totalled €2.17 trillion at end-2018. That year, net purchases were €240 billion, 63% down on the previous year (see Chart 4).9 As a result of the Eurosystem’s operations, the Banco de España’s Spanish public debt holdings stood at 19.3% of total public debt at end-2018 (18.8% of GDP) (see Table 2 once more).10

---

9  This decline is due to the change in the ECB’s asset purchase policy: in January 2018 purchases were scaled down to €30 billion per month, and in September to €15 billion per month. As from January 2019 the ECB solely purchases new assets to offset those maturing in its asset portfolio, in order to keep the size of its balance sheet stable.

10  For a detailed analysis of the impact of the ECB’s unconventional monetary policy programmes on Spanish public finances, see Burriel et al. (2017).
From a comparative standpoint, in 2018 the weight of short-term debt continued
to decline relative to total debt in the main euro area countries. The exception was
Italy, where it held stable (see Chart 5). The percentage of the volume of debt
maturing in less than one year increased by 0.1 pp in the euro area, breaking the
trend of recent years and entailing a slight reduction in the average life of the
stock of debt. However, the behaviour of the main euro area countries differed:
the volume of debt maturing in less than one year declined in Germany, France
and Spain, and increased in Italy. The proportion of total debt held by residents
rose slightly in the euro area (to 54.3%). There were increases in Germany, France
and Italy, while the proportion in Spain fell to 54.4%, following the trend of recent
years.
In a context such as Spain’s, in which general government is highly decentralised, it is worth analysing the distribution of public debt by sub-sector: central government, Social Security Funds, regional government and local government. It is important to bear in mind that there are also debts between the different sub-sectors, given that in some cases an increase observed at one tier of government arises to finance another. Although these operations are consolidated when the aggregate debt of the general government sector is calculated and, therefore, do not affect the aggregate, they must be considered in order to correctly interpret the debt levels of each tier of government.

In recent years, then, these types of operations have led to an increase in the market issuance of central government debt, which has been used mainly to finance regional and local governments through the Regional and Local Government Financing Funds, respectively. Also, the increase in pensions spending has been financed by operations between central government and Social Security Funds: on one hand, through the granting of State loans to the Social Security System General Treasury; and on the other, by the disposal of the Social Security Reserve Fund’s holdings of State-issued

### Table 2

**GENERAL GOVERNMENT DEBT BREAKDOWN (a)**

<table>
<thead>
<tr>
<th></th>
<th>% of GDP</th>
<th>% of total</th>
<th>Difference 2018-2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. General government debt (1 = 2.1 + 2.2 + 2.3 = 3.1 + 3.2 + 3.3 = 4.1 + 4.2)</td>
<td>95.5</td>
<td>100.4</td>
<td>99.3</td>
</tr>
<tr>
<td>2. By type</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1 Currency and deposits</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>2.2 Debt securities</td>
<td>74.2</td>
<td>79.2</td>
<td>80.8</td>
</tr>
<tr>
<td>2.2.1 Short-term</td>
<td>7.7</td>
<td>7.5</td>
<td>7.5</td>
</tr>
<tr>
<td>2.2.2 Long-term</td>
<td>66.5</td>
<td>71.7</td>
<td>73.3</td>
</tr>
<tr>
<td>2.3 Loans</td>
<td>20.9</td>
<td>20.8</td>
<td>18.2</td>
</tr>
<tr>
<td>2.3.1 Short-term</td>
<td>1.2</td>
<td>1.1</td>
<td>1.0</td>
</tr>
<tr>
<td>2.3.2 Long-term</td>
<td>19.7</td>
<td>19.7</td>
<td>17.1</td>
</tr>
<tr>
<td>3. By maturity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1 Currency and deposits</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>3.2 Short-term (3.2 = 2.2.1 + 2.3.1)</td>
<td>8.9</td>
<td>8.6</td>
<td>8.5</td>
</tr>
<tr>
<td>3.3 Long-term (3.3 = 2.2.2 + 2.3.2)</td>
<td>86.2</td>
<td>91.4</td>
<td>90.4</td>
</tr>
<tr>
<td>4. By holder</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.1 Residents</td>
<td>58.7</td>
<td>56.6</td>
<td>55.1</td>
</tr>
<tr>
<td>Of which: Resident financial institutions</td>
<td>41.5</td>
<td>44.4</td>
<td>42.7</td>
</tr>
<tr>
<td>Of which: Banco de España</td>
<td>3.7</td>
<td>3.9</td>
<td>8.2</td>
</tr>
<tr>
<td>4.2 Rest of the world</td>
<td>38.8</td>
<td>41.8</td>
<td>44.2</td>
</tr>
</tbody>
</table>

**SOURCE**: Banco de España.

a Detailed quarterly data are published in Chapter 11 of the Banco de España Statistical Bulletin.

Finally, there have also been financial transactions between regional governments and other general government sub-sectors, such as the Social Security’s mutual insurance companies which hold regional government debt securities.

Central government debt held at 86.7% of GDP in 2018, unchanged on 2017 (see Chart 6). If account is taken of the fact that financing extended to other general government sectors has increased, up to 18.9 pp, mainly vis-à-vis regional government and Social Security Funds, the total volume of central government debt earmarked to financing this sector’s activity, i.e. after stripping out the financial assets vis-à-vis other general government sectors, fell by 1.6 pp in 2018. Social Security debt stood at 3.4% of GDP, 1 pp up on 2017, and is virtually in its entirety in the form of State-granted financing. However, in 2018 the Social Security Reserve Fund continued to reduce the State-issued debt it held to 0.5% of GDP, compared with the 2011 peak of 5.8%. Accordingly, Social Security debt, net of the Reserve Fund, accounted for 2.9% of GDP.

The overall regional government debt ratio fell to 24.3% of GDP in 2018, from 24.7% in 2017, albeit unevenly from region to region. The debt-to-GDP ratio thus declined

---

11 In 2017, under the State Budget Law for 2017, the Ministry of Employment and Social Security granted a loan to the Social Security System General Treasury for €10.2 billion. In 2018 this financing was rolled over under the State Budget Law for 2018, with disbursements of €7.5 billion in June and €6.3 billion in November.

12 For a medium-term view of regional government debt, see Delgado-Téllez and Pérez (2018).
The outstanding balances of Eurosistem purchases totalled €2.17 trillion at end-2018. This was a much lower contribution, connected with the conclusion of the Asset Purchase Programme at the end of the year. Average maturity periods declined in 2018.

**Chart 4**

**ECB PUBLIC SECTOR PURCHASE PROGRAMME (a)**

The outstanding balances of Eurosystem purchases totalled €2.17 trillion at end-2018. This was a much lower contribution, connected with the conclusion of the Asset Purchase Programme at the end of the year. Average maturity periods declined in 2018.

**SOURCE:** ECB.

**a** Monthly information available on the ECB website: https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html. Supranational bodies are institutions made up of two or more national governments. Purchases include, for example, securities of the European Stability Mechanism (ESM), the European Financial Stability Facility (EFSF) and the European Union.

in 12 regions, increased in four and held stable in one. In terms of the level of debt, the ratio stood between 13.6% (Basque country) and 41.8% (Valencia region) of regional GDP (see Chart 7.1). The level of local government debt fell for the sixth year running in 2018 by 0.4 pp of GDP to 2.1%. From an international standpoint, Spanish regional and local government debt was higher than that of its European Union counterparts in 2018 (see Chart 7.2). Regional and local government hold no financial assets that are liabilities of other general government sectors, i.e. they have not financed other tiers of government. Conversely, both sub-sectors have in recent years, received funds from central government, which in 2018 accounted for 14.8% of GDP for regional government and 0.5% of GDP for local government. As from 2015, regional government debt held by central government is mainly part of the Regional Government Financing Fund. In 2018, regional government as a whole

13 Organic Budgetary Stability and Financial Sustainability Law 2/2012 of 27 April 2012 establishes in its first additional provision that regional and local governments may apply to the State for access to extraordinary liquidity support measures. Under these provisions, since 2012 the State has set in train several arrangements, such as the Fund for Financing of Payments to Suppliers (FFPP), the Regional Government Liquidity Fund (FLA) or the extraordinary support measures for municipalities with financial difficulties. All have the common aim of providing liquidity to regional and local governments. Under Royal Decree-Law 17/2014 of 26 December 2014 the Regional Government Financing Fund was created, assuming the debt, as at December 2014, of the FFPP and the FLA, both of which were dissolved.
continued to increase its dependence on financing granted by central government, with the percentage of its total debt held by central government rising from 57.7% in 2017 to 61.1% in 2018 (see Chart 8 for region-by-region developments).

**Deficit-debt adjustment in 2018**

The so-called “deficit-debt adjustment” is a significant factor in public debt dynamics in Spain (and in other countries) and it was of particular importance during the crisis (see Chart 2 and Table 1, panel 2). Specifically, these adjustments increased the stock...
of debt from 2012 to 2014 by 5.3 pp of GDP, whereas they reduced it by 3.8 pp from 2015 to 2016 (with a cumulative contribution of 5.3 pp of GDP). In the past two years the related amounts have been negligible (0.1 pp of GDP in 2017 and -0.1 pp in 2018).

For illustrative purposes, the following conceptual categories may be distinguished in the deficit-debt adjustment: Net acquisitions of consolidated financial assets (block C.1 of Table 1), Consolidated trade credits and other payables (block C.2 of Table 1), and Valuation adjustments and other (block C.3 of Table 1).

In 2018, net acquisitions of consolidated financial assets (block C.1 of Table 1) totalling €9.2 billion were made, which contributed to the increase in debt for the second year running, although this is the only positive category to the deficit-debt adjustment in 2018. Of note is the increase in holdings of currency and deposits in all the general government sub-sectors, and especially in local government. In addition to reducing its debt in recent years, the local government sub-sector has allocated a sizable portion of its successive budgetary surpluses to the accumulation of deposits, rather than stepping up deleveraging (see accompanying box). At the same time, the divestment of assets related to the operations of the Electricity Deficit Amortisation Fund (FADE) and of the Fund for the Orderly Restructuring of the Banking Sector (FROB) continued.
The behaviour of the debt ratio across the different regions has been uneven, with some showing a significant level of debt in 2018. At the international level, Spanish regional and local government debt exceeds that of other euro area countries.

**Chart 7**

**REGIONAL GOVERNMENT DEBT AND INTERNATIONAL COMPARISON OF SUB-NATIONAL DEBT**

The behaviour of the debt ratio across the different regions has been uneven, with some showing a significant level of debt in 2018. At the international level, Spanish regional and local government debt exceeds that of other euro area countries.

1. **REGIONAL GOVERNMENT DEBT**

   - % of regional GDP
   - DEBT/REGIONAL GDP 2007
   - DEBT/REGIONAL GDP 2016
   - DEBT/REGIONAL GDP 2017
   - TOTAL REGIONAL GOVERNMENT DEBT 2018

2. **REGIONAL/LOCAL GOVERNMENT DEBT, INTERNATIONAL COMPARISON (a)**

   - % of GDP

3. **REGIONAL/LOCAL GOVERNMENT DEBT, INTERNATIONAL COMPARISON (a)**

   - % of total debt

**SOURCES:** Banco de España, Eurostat and OECD.

- Total liabilities consolidated only within each of the three sectors: Central, which consolidates Social Security Funds and Central Government; Regional (consolidated); and Local (consolidated). The United States, Switzerland and Japan are not consolidated owing to non-availability of data.
- Only the sum of Regional plus Local is available.
The category of Consolidated trade credits and other payables, instruments that can be used to finance the deficit but that are not included in EDP debt, increased considerably in 2018, posting a negative contribution of €8.5 billion to the deficit-debt adjustment (block C.2 of Table 1). Along these same lines, the Valuation adjustments and other (block C.3 of Table 1) contributed negatively to the deficit-debt adjustment, which was due in the main to the effect of positive issue premia.\textsuperscript{14}

### Financial assets and liabilities and other types of government debt

This section describes the financial assets and liabilities from an accounting standpoint (which differs slightly from the EDP methodology), certain general government contingent liabilities and public corporations’ debt.

\textsuperscript{14} The positive issue premium is the amount additional to the nominal value paid by purchasers of debt securities. These premia are not included in the valuation of EDP debt since, according to EDP methodology, only the face value of issues is taken into account.
According to the Financial Accounts of the Spanish Economy (FASE), the total liabilities incurred by general government include, in addition to the above-mentioned EDP debt, the general government liabilities held by other general government sectors and trade credits and other accounts payable. These reflect, inter alia, deferrals of payments that general government sectors owe to their suppliers of goods and services.15

In 2018 Spanish general government liabilities fell by 0.5 pp of GDP to 137% of GDP, compared with 111.6% in the euro area (see Table 3 and Chart 9). However, once financing between the different tiers of general government is taken into account, general government consolidated liabilities are notably lower (113.3% of GDP), although higher than in the euro area (102.2% of GDP). The difference between this figure for consolidated liabilities and EDP debt is largely due to the market-price valuation of these liabilities. Specifically, valuation adjustments have risen from €6.9 billion in 2012 (0.7 pp of GDP) to €131.1 billion in 2018 (10.9 pp of GDP), owing

---

15 The valuation of liabilities in the Financial Accounts of the Spanish Economy is based on ESA 2010 methodology. This employs market prices in the stocks and flows of liabilities in the form of debt securities, while debt calculated according to the EDP is based on nominal values which, in the EDP methodology, are equivalent to face values.
to the impact that the significant fall in interest rates at all terms has had on the price of government debt.

The stock of general government trade credits and other accounts payable increased in 2018 to 8.1% of GDP (see Table 4 and Chart 10). This was due to an increase of some €5 billion in accounts payable, mainly vis-à-vis non-financial corporations and households, with significant increases both for central government and the Social Security Funds. Both regional and local government slightly increased their stock of trade credits in 2018.

**Net general government debt**

In the analysis of public indebtedness, the concept of “net public debt” is generally also used; this is obtained by subtracting the stock of financial assets from gross general government debt. Table 5 shows the total financial assets of general government in Spain in recent years, amounting in 2018 to 33.3% of GDP in terms of

---

16 Changes in the trade debt of the general government sector are attributable in part to the introduction of various support arrangements for regional and local governments to normalise general government payment periods to suppliers [see Delgado-Téllez et al. (2015)].
Consolidated assets, a percentage that has held fairly stable in recent years. If total consolidated financial assets were subtracted from total consolidated liabilities, the resulting net liability would amount to 80% of GDP at end-2018, below the 2017 figure (81.2%).

Contingent liabilities

General government occasionally gives guarantees on debt incurred by other institutional sectors. These operations are not recorded as liabilities in the general government accounts, as the guaranteed debt is already recorded among the

![Table 4](http://www.bde.es/webbde/es/estadis/infoest/a1101e.pdf)
In 2018, following the increase the previous year, the declining trajectory in other accounts payable initiated in 2012 resumed, thanks to greater control of trade credits.

In the case of guarantees given by the Spanish general government sector, the Banco de España publishes information on the outstanding balance of debt guaranteed by the State and by regional and local government. According to this information, the volume of these guarantees given by the State has fallen by 8.4 pp of GDP from the 2012 peak, down to 7.7% of GDP in 2018. This has been, above all, as a result of the decline in the outstanding guarantees with credit liabilities of the agent receiving the guarantee. However, they do represent contingent liabilities for public finances, insofar as the guarantee could be fully or partly enforced. Were this to occur, a capital transfer paid to the original debtor would be recorded as a balancing entry and, therefore, both the general government deficit and debt would increase.

17 In addition to the guarantees given by the general government sector on liabilities incurred by other sectors of the economy, there are other general government contingent liabilities of a different kind or with an associated risk that is difficult to measure. These include, most notably, future payment commitments linked to pensions and the guarantees to depositors up to the ceilings established at credit institutions that are members of the Deposit Guarantee Scheme, which since 1 January 2012 has been part of the general government sector.

## Table 5

**GENERAL GOVERNMENT FINANCIAL ASSETS (a)**

<table>
<thead>
<tr>
<th>€m and % of GDP</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Non-consolidated general government financial assets ( (1 = 1.1 + 1.2 + 1.3 + 1.4 + 1.5) )</td>
<td>644,269</td>
<td>671,024</td>
<td>631,522</td>
<td>623,976</td>
<td>657,199</td>
<td>688,504</td>
</tr>
<tr>
<td>As % of GDP</td>
<td>62.8</td>
<td>64.7</td>
<td>58.4</td>
<td>55.8</td>
<td>56.3</td>
<td>57.0</td>
</tr>
<tr>
<td>1.1 Currency and deposits</td>
<td>72,709</td>
<td>83,925</td>
<td>85,453</td>
<td>79,287</td>
<td>92,939</td>
<td>102,891</td>
</tr>
<tr>
<td>1.2 Debt securities</td>
<td>86,921</td>
<td>69,866</td>
<td>52,383</td>
<td>27,810</td>
<td>23,755</td>
<td>19,929</td>
</tr>
<tr>
<td>Short-term</td>
<td>2,445</td>
<td>580</td>
<td>1,918</td>
<td>375</td>
<td>3,578</td>
<td>4,273</td>
</tr>
<tr>
<td>Long-term</td>
<td>84,476</td>
<td>69,286</td>
<td>50,464</td>
<td>27,235</td>
<td>20,177</td>
<td>15,666</td>
</tr>
<tr>
<td>1.3 Loans</td>
<td>224,655</td>
<td>254,250</td>
<td>225,808</td>
<td>247,276</td>
<td>270,642</td>
<td>296,726</td>
</tr>
<tr>
<td>1.4 Shares and other equity</td>
<td>150,741</td>
<td>155,036</td>
<td>164,818</td>
<td>172,593</td>
<td>171,009</td>
<td>173,825</td>
</tr>
<tr>
<td>1.5 Financial derivatives</td>
<td>0</td>
<td>275</td>
<td>603</td>
<td>584</td>
<td>302</td>
<td>126</td>
</tr>
<tr>
<td>1.6 Other accounts receivable</td>
<td>109,243</td>
<td>107,673</td>
<td>102,458</td>
<td>96,626</td>
<td>98,552</td>
<td>95,007</td>
</tr>
<tr>
<td>2 Consolidated general government financial assets ( (2 = 1 - 3) )</td>
<td>372,583</td>
<td>383,605</td>
<td>381,261</td>
<td>377,612</td>
<td>390,439</td>
<td>402,924</td>
</tr>
<tr>
<td>As % of GDP</td>
<td>36.3</td>
<td>37.0</td>
<td>35.3</td>
<td>33.8</td>
<td>33.5</td>
<td>33.3</td>
</tr>
<tr>
<td>3 Consolidation ( (3 = 3.1 + 3.2 + 3.3) )</td>
<td>271,685</td>
<td>287,419</td>
<td>250,261</td>
<td>246,364</td>
<td>266,759</td>
<td>285,580</td>
</tr>
<tr>
<td>3.1 Debt securities</td>
<td>72,968</td>
<td>61,365</td>
<td>48,549</td>
<td>24,643</td>
<td>21,041</td>
<td>17,123</td>
</tr>
<tr>
<td>3.2 Loans</td>
<td>161,299</td>
<td>189,709</td>
<td>163,665</td>
<td>186,386</td>
<td>210,896</td>
<td>237,364</td>
</tr>
<tr>
<td>3.3 Other accounts receivable</td>
<td>37,418</td>
<td>36,346</td>
<td>38,048</td>
<td>35,335</td>
<td>34,823</td>
<td>31,093</td>
</tr>
</tbody>
</table>

**SOURCE:** Banco de España.

(a) Additional and detailed quarterly data are published in Table 2.16 of the FASE. [http://www.bde.es/webbde/es/estadis/ccff/cf_2_16ab.pdf](http://www.bde.es/webbde/es/estadis/ccff/cf_2_16ab.pdf).

## Table 6

**DEBT OF PUBLIC CORPORATIONS (a)**

<table>
<thead>
<tr>
<th>€m and % of GDP</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 EDP debt of public corporations ( (1 = 1.1 + 1.2 + 1.3) )</td>
<td>47,472</td>
<td>45,824</td>
<td>43,646</td>
<td>43,322</td>
<td>39,702</td>
<td>38,233</td>
<td>36,116</td>
</tr>
<tr>
<td>As % of GDP</td>
<td>4.6</td>
<td>4.5</td>
<td>4.2</td>
<td>4.0</td>
<td>3.5</td>
<td>3.3</td>
<td>3.0</td>
</tr>
<tr>
<td>1.1 Public corporations controlled by central government</td>
<td>33,436</td>
<td>33,270</td>
<td>33,054</td>
<td>33,189</td>
<td>30,900</td>
<td>30,752</td>
<td>29,380</td>
</tr>
<tr>
<td>As % of GDP</td>
<td>3.2</td>
<td>3.2</td>
<td>3.2</td>
<td>3.1</td>
<td>2.8</td>
<td>2.6</td>
<td>2.4</td>
</tr>
<tr>
<td>1.2 Public corporations controlled by regional government</td>
<td>7,106</td>
<td>6,133</td>
<td>5,520</td>
<td>4,997</td>
<td>4,457</td>
<td>3,750</td>
<td>3,259</td>
</tr>
<tr>
<td>As % of GDP</td>
<td>0.7</td>
<td>0.6</td>
<td>0.5</td>
<td>0.5</td>
<td>0.4</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>1.3 Public corporations controlled by local government</td>
<td>6,930</td>
<td>6,421</td>
<td>4,972</td>
<td>5,137</td>
<td>4,345</td>
<td>3,731</td>
<td>3,477</td>
</tr>
<tr>
<td>As % of GDP</td>
<td>0.7</td>
<td>0.6</td>
<td>0.5</td>
<td>0.5</td>
<td>0.4</td>
<td>0.3</td>
<td>0.3</td>
</tr>
</tbody>
</table>

**SOURCE:** Banco de España.

institutions\textsuperscript{21} and of the fall in guarantees to other general government sectors. The sum of regional and local government guarantees is significantly lower, amounting to 0.1% of GDP overall in 2018, down on the 2017 figure.

**Public corporations’ debt**

According to the information published by the Banco de España, the debt of Spanish public corporations, which are not part of the general government sector and, therefore, not included in EDP debt, stood at 3% of GDP at end-2018 (see Table 6), down in nominal terms for the seventh consecutive year. In consequence, the cumulative decline since 2011 amounts to €13.1 billion and is especially marked in the case of public corporations controlled by regional and local governments.

\textsuperscript{21} Against the backdrop of the financial crisis, guarantees were given to a number of credit institutions for issuance of securities, pursuant to Royal Decree 7/2008 of 13 October 2008 on urgent economic and financial measures in connection with the Concerted European Action Plan of the Euro Area Countries. These guarantees were terminated in March 2017.
REFERENCES


As occurs in other general government sectors, albeit to a lesser extent, local government resorts to debt to cover a portion of its financing needs. While its liabilities are concentrated mainly in loans from financial institutions (or from other general government sectors), the largest local governments have also resorted to the securities markets.

The Organic Law on Budgetary Stability and Financial Sustainability (LOEPSF by its Spanish abbreviation) provides the broad framework for the management of all Spanish general government finances. In particular, this law restricts overall local government indebtedness to a maximum of 3% of national GDP (or, at the individual level, to 110% of each local government’s current revenues). The LOEPSF further regulates the end-use of the local government budget surplus. Article 32 of this law acknowledges that, generally, the surplus should be assigned to reducing debt incurred, provided that the entity has a positive cash balance for general expenses. The amount of this balance acts as a ceiling on the amount of surplus that can be assigned to repaying debt. Further, the sixth provision of Article 32 sets criteria for alternative uses of the budget surplus. As a result, entities that meet these requirements can assign a portion of their surplus to financially sustainable investments.

Since 2012, local government deleveraging has been significant and across the board, with some exceptions. The level of overall local government debt stands below the ceiling set by the LOEPSF (3% of GDP).

---

**Box 1
LOCAL GOVERNMENT DELEVERAGING**

Since 2012, local government deleveraging has been significant and across the board, with some exceptions. The level of overall local government debt stands below the ceiling set by the LOEPSF (3% of GDP).

---

**Chart 1
EDP DEBT, BY LOCAL GOVERNMENT SUB-SECTOR (a)**

**Chart 2
CHANGE IN EDP DEBT STOCK FROM 2012 TO 2018, BY INSTRUMENT (b)**

---

2 The authorisation of debt above this level is conditional upon membership of the Management Fund (subject to conditionality measures) within the Local Government Financing Fund. Local governments with a debt ratio between 75% and 110% have to request authorisation from the oversight body to take on debt.
3 Financially sustainable investments are those geared to improving the quality of life and the long-term economic growth of the local government entity. The law stipulates the groups of programmes that can make these investments.
of GDP). It was a consequence of the set of measures aimed at reducing the liquidity problems of local government suppliers, which had seen their payables increase most significantly during the crisis. Since 2012, local government as a whole has undergone a substantial and prolonged deleveraging process, in step with its improved budget balance and with an increase in its financial assets. Deleveraging has reduced its stock of public debt by almost 40% from its 2012 peak (a reduction of 2% of GDP). Currently, the local government debt/GDP ratio stands at 2.1%, below both the 3% debt ceiling set by the LOEPSF and the ratio of financial assets (chiefly in currency and deposits) to GDP, which is also at 3%.

The local government sector comprises a relatively heterogeneous set of entities. It encompasses more than 8,000 municipal councils, 52 provincial authorities (which include ordinary-regime, special-tax-regime and island authorities) and the autonomous cities of Ceuta and Melilla, along with the government units they control. Currently, around 82% of the sector’s EDP public debt is concentrated in municipal councils (see Chart 1). Of the remainder, almost two-thirds relate to special-tax-regime authorities and one-third to ordinary-regime authorities.

The ongoing reduction in debt of the overall local government sector evidences some heterogeneity across its constituent entities. Among the set of municipalities with more than 300,000 inhabitants (see Chart 2), most municipal councils have lowered their stock of debt, with some achieving a reduction of 60% since 2012 (e.g. Madrid, Alicante and Las Palmas). Conversely, other councils have recorded deleveraging on a smaller scale, or have even recorded net increases in their public debt. In terms of its composition, deleveraging has been centred on the repayment of loans with resident financial institutions (FIs), although larger municipalities have also reduced their exposure on financial markets.

Box 1
LOCAL GOVERNMENT DELEVERAGING (cont’d)

4 Originally, these arrangements were implemented through the Fund for Financing of Payments to Suppliers (FFPP). Since December 2014, the Local Government Financing Fund has assumed this debt. See Delgado-Téllez et al. (2015) for a detailed description of these measures and of their effects on the economy.

5 See Alloza and Burriel (2019) for a more detailed analysis of the impact of the improved local government surplus on its financial situation.

6 Table 14.6 of the Banco de España Statistical Bulletin presents a summary of local government EDP debt, broken down by groupings and debt instruments.