

Box 2. Finances of the autonomous regions in 2015 and the impact of the financing system and of some atypical factors

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1. Introduction

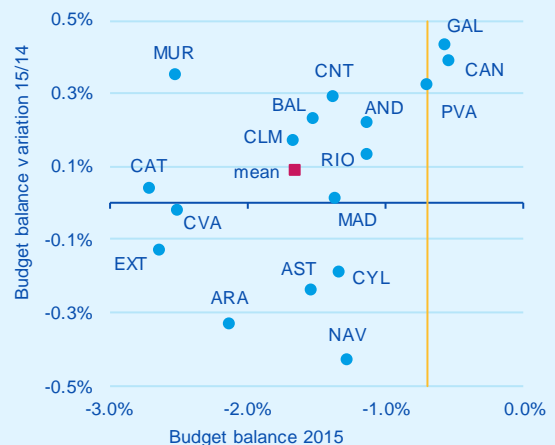
Regional budget balances improved only slightly in 2015, despite a fall of nearly €3.5 billion in interest charges as a result of the improved conditions offered by central government through the various financial facilities. The stagnation of the regional deficits is partly due to a “technical” weakness in revenues under the regional financing system; they declined by some €2.7 billion due to the inertia of payments on account at times of changes in the cycle, and also in part to the atypical increase in certain items of expenditure which practically absorbed all the savings on interest. After correcting for all these factors, the regions’ *underlying* deficit fell by an additional quarter of a percentage point, from 1.66% of GDP to 1.40%, which is still double the stability target.

2. Analysis of autonomous regions’ finances in 2015

The IGAE (*Intervención General de la Administración del Estado* or Comptroller General of the State Administration), (IGAE, 2016a and b) recently published of the autonomous regions’ accounts for 2015. Figure B.2.1 shows the budget balance of each region according to this source, together with the change in the balance relative to the previous year. The vertical orange line indicates the budgetary stability target, which was set at 0.7% of GDP for 2015 for all the autonomous regions, and the red square corresponds to all the regional governments as a whole.

In 2015 the autonomous regions as a whole presented a budget deficit of 1.66% of Spain’s GDP, 0.09 pp below the provisional figure for 2014. Since the deficit target for 2015 was 0.3 pp less than that for 2014, this result means that on average the autonomous regions came nearer to meeting it. However there is great disparity among the situations of the various regions. As can be seen in the Figure, only three of them (the Canary Islands, the Basque Country and Galicia) met their deficit targets. These three regions and eight others managed to reduce their budget deficits relative to the previous year. The remaining six regions not only did not meet the stability target but saw their deficits increase. Prominent in this group are Navarre, Asturias and Aragón, whose public account imbalances grew by more than 0.2 pp of GDP compared with the year before.

Figure B.2.1
Budget balance by region in 2015 and change relative to 2014



Source: In-house based on MINHAP data

The effects of the financing system and of atypical factors

In order to assess the effect of the regional financing system on recent trends in regional deficits, we need to restate the accounts of the autonomous regions as a whole, as in Table B.2.1, by making “transfers to other public administrations” a deduction from revenues instead of an expense. The transfer is logical because the item comprises transfers from the autonomous regions to the State in respect of items related to the regional financing system (such as the Navarre contribution³⁹ and the negative balances of the Sufficiency Fund of certain “common regime” regions) which reduce the net revenues available to the regional governments. Also included here are transfers to local authorities, which are largely financed by State transfers for specific purposes, so that they too should be deducted from regional revenues.

Looking at Table B.2.1, in 2015 we see a very slight improvement in the aggregate budget balance of the autonomous regions as a whole, amounting to 0.09 pp of GDP. This improvement represents just one quarter of the reduction in interest expense (-0.35% of GDP in the national accounts), which was cut almost in half as a result of the improvement in the financial conditions of the liquidity mechanisms. The remaining expenditure items contributed little or nothing to the reduction of the deficit, and the same is true of revenues, which were down as a proportion of GDP, basically as a result of the weakness of net revenues from transfers from other administrations.

However, things are not as bad as might appear at first sight, for two reasons. The first is that the relatively slow growth in revenues of the regional financing system has more to do with the inertia of

payments on account than with any real weakness in tax revenues. The second is that the relatively fast growth in expenditure which we see in 2015 was partly the result of certain atypical and in principle non-recurring items. As well as certain investment items for a total amount of nearly €1.8 billion which the Comptroller General of the State Administration has reclassified as public expense,⁴⁰ we must include here some €1 billion earmarked for new treatments for hepatitis C and another €800 million linked to the return - in a year in which elections took place in most of the autonomous regions - of half of the extra payment withheld from civil servants in 2012.

Based on Table B.2.1 and some of the figures referred to, it is easy to calculate an *underlying deficit* which would show the situation of the regional accounts after normalising revenues from the regional financing system and deducting various atypical items that affected the results of 2015. To do so, in Table 2 we calculate the deficit that would have been observed in 2015 if the autonomous regions' revenues from net transfers from other public administrations had grown at the same rate as the central government's tax revenues corrected for uncertain collection, namely 5.15% p.a. According to data of the Comptroller General of the State Administration (IGAE 2016b). In Table B.2.2 we also eliminate the atypical expenditure items, including the substantial subsidy implicit in the favourable financial conditions of the regional liquidity funds and for payments to suppliers which, pending detailed analysis, we approximate by the reduction in the interest burden recorded in 2015 according to the national accounts (€3,453 million).

39: Not however including the *cupo vasco* (the amount the Basque government pays for services provided by central government), which does not go through the budgets of the autonomous regions but through those of the *diputaciones forales* (provincial governments).

40: The adjustments to the national accounts for 2015 include components of investment for a total of €1,777 million, of which €1,542 million relate to Catalonia, €121 million to the Balearic Islands and €114 million to Asturias. The bulk of the projects are for road building, but in the case of Catalonia they also include the construction of prisons, courthouses and police stations. These items correspond to expenses from other fiscal years linked to public-private cooperation projects which has hitherto been booked under the private sector. Upon review, the Comptroller General of the State Administration considered that, given the stipulated division of risks, such projects actually belong in the public administration sector, and proceeded to allocate them accordingly with effect from 2015.

Box B.2.1

Net revenue and expenditure of the autonomous regions as a whole and components of their budget balance, situation observed

	(% of GDP)			€ millions		
	2014	2015	diff.	2014	2015	chge. %
Net revenues	12.61	12.52	-0.09	131.294	135.316	3.06
Taxes	4.62	4.73	+0.11	48.086	51.127	6.32
Transfers from other public administrations	7.82	7.75	-0.07	81.420	83.795	2.92
Other revenue	1.63	1.59	-0.04	16.941	17.182	1.42
Transfers to other public administrations	-1.46	-1.55	-0.10	-15.153	-16.788	10.79
Net expenditure (excl. tfrs to other pub. admins)	14.36	14.18	-0.18	149.476	153.278	2.54
Capital expenditure	1.36	1.56	+0.20	14.165	16.833	18.84
Interest	0.74	0.39	-0.35	7.672	4.219	-45.01
Other current expenses	12.26	12.23	-0.03	127.639	132.226	3.59
Budget balance	-1.75	-1.66	+0.09	14.165	16.833	18.84
Note: net transfers received	6.36	6.20	-0.17	66.267	67.007	1.12

Source: In-house based on MINHAP data

Table B.2.2

Net revenues and expenditure of the autonomous regions as a whole and components of their budget balance, alternative 2015 scenario: calculation of the underlying deficit without atypical items and with net revenues from transfers growing at the same rate as central government's tax revenues

	(% of GDP)			€ millions		
	2014	2015	diff.	2014	2015	chge. %
Net revenues	12.61	12.76	0.15	131.294	137.989	5.1
Taxes	4.62	4.73	0.11	48.086	51.127	6.32
Net tfrs. from other pub. admins.	6.36	6.44	0.08	66.267	69.680	5.15
Other revenue	1.63	1.59	-0.04	16.941	17.182	1.42
Net expenditure (excl. tfrs to other pub. admins)	14.36	14.16	-0.19	149.476	153.131	2.45
Capital transactions	1.36	1.39	0.03	14.165	15.056	6.29
Interest	0.74	0.71	-0.03	7.672	7.672	0
Other net current expenses	12.26	12.06	-0.2	127.639	130.403	2.17
Budget balance	-1.75	-1.4	0.35	-18.182	-15.143	-16.72

Source: In-house based on MINHAP data

With these adjustments, the regions' deficit would have fallen by 0.35 pp of GDP in 2015 instead of only 0.09, bringing it to 1.40% of GDP, still double the target. In the corrected accounts in Table B.2.2, for the first time in several years, we see healthy growth in revenues, but also a certain upturn in expenditure, including capital items which, after excluding atypical items, grew by about 6%, although still far below pre-crisis levels.

3. Conclusion

As has been shown in this box, once we correct for the technical distortions generated by the structure of the regional financing system and certain atypical components of expenditure recognised in 2015, we see an appreciably greater improvement in the regional governments' *underlying* budget balance than that seen in the gross balance. Despite that, the situation of the regional accounts is still delicate, because the

underlying deficit is still double the stability target and because the improvement in the regions' balances seen in the past few years comes largely from a reduction in the investment components to historically very low levels which will not be possible to maintain for long without them starting to affect the quality of public services. Although the expected recovery in revenues over the next few fiscal years should lead to an appreciable improvement in the situation, *ceteris paribus*, it would be advisable for the autonomous regions to continue working on containing current expenditure items, which are starting to move upwards even after the elimination of atypical items.

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