

**THE FINANCING
ARRANGEMENTS FOR
THE REGIONAL
(AUTONOMOUS)
GOVERNMENTS FOR
THE PERIOD 1997-2001**

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Banco de España

Banco de España — Servicio de Estudios
Documento de Trabajo n.º 0003

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(*) We wish to thank Rafael Álvarez, Colin Anderton, José María Bonilla, Philip Hill, Eloísa Ortega, Asunción Rubio and Beatriz Sanz for most helpful comments and suggestions. In addition, this document has benefited from the work done by the Statistical and Central Balance Sheet Office of the Banco de España on the regional (autonomous) governments.

ABSTRACT

Fiscal decentralisation has been one of the key features of developments in the Spanish public sector in recent decades. There has been a gradual shift of responsibilities for the management of certain services from the State to the regional (Autonomous) governments (RGs) along with development of the arrangements for financing these responsibilities. This paper focuses on analysing the financing arrangements for the RGs, describing those currently in force for the ordinary-regime RGs and for the specific-status RGs. In addition, the information available on the RGs' resources is discussed. This information shows that only about 30% of resources are obtained directly from taxpayers and, therefore, help to increase the degree of fiscal co-responsibility of the RGs, while the majority, the other 70%, come from other general government bodies. With the new agreement for the period 1997-2000, the relative weight of tax resources rose by almost 10 percentage points of GDP, especially as a consequence of the incorporation of the regional tranche of the personal income tax for the ordinary-regime RGs which accepted the agreement. The relationship between transfers and tax resources is the reverse in Navarre and in the Basque Country.

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1. INTRODUCTION

Fiscal decentralisation has been one of the key features of developments in the Spanish public sector in recent decades. This phenomenon is rooted in the 1978 Spanish Constitution, which changed the territorial organisation of the State by enabling the regional (autonomous) governments (RGs) to be created. Since then, there has been a gradual shift of responsibilities for the management of certain services from the State to the RGs along with development of the arrangements for financing these responsibilities. To give an idea of their importance, in 1988 the RGs were responsible for almost 18% of general government expenditure and obtained 11.6% of general government tax revenue.

It is worth analysing this process of fiscal decentralisation in Spain, not only due to its own importance but also because the achievement of the objectives set for the public sector depends largely on spending responsibilities and financing instruments being suitably distributed between central and regional government.

Studying decentralisation in Spain is not, however, a straightforward matter. The transfer of responsibilities and the development of the financing arrangements have not progressed at the same pace or had the same scope in all the RGs, with substantial differences persisting up to the present. These differences stem from the different constitutional provisions under which the regions were granted their autonomy¹.

In terms of powers assumed and their financing arrangements the RGs can be classified into several groups. As far as the assumption of powers is concerned the most important criterion for classification is whether the responsibility for managing health services has been assumed. The RGs granted autonomy under article 143 of the Spanish Constitution have not assumed the responsibility for managing health services. In contrast, Andalusia, the Canary Islands, Catalonia, Galicia and Valencia, along with the Basque Country and Navarre, that is to say, the regions which gained autonomy under article 151 of the Spanish Constitution, those assimilated and those with their own specific status due to their historical jurisdiction, have assumed this responsibility. Nonetheless, the RGs in the first group will progressively move onto an equal footing with those in the second². With regard to the financing arrangements applied, the RGs can be grouped into “ordinary-regime” RGs (all except the Basque Country and Navarre), which have limited fiscal autonomy, albeit with certain differences between them, and the “specific-status” RGs (Comunidades Autónomas de régimen foral) (the Basque Country and Navarre) which, besides having health responsibilities integrated into their overall financing arrangements, have extensive fiscal autonomy. The figure below shows the various groups of RGs that result from applying the above classification criteria.

¹ Tables 1 and 2 detail the RGs and the differences in their respective powers.

² In recent years these regions have assumed responsibility for education although, in some cases, the actual transfer of services, which the regions in the first group had previously assumed, has still not occurred.

FIGURE 1

CLASSIFICATION OF THE RGs ACCORDING TO THEIR FINANCING ARRANGEMENTS AND THE RESPONSIBILITIES THEY HAVE ASSUMED (*)

CLASSIFICATION CRITERIA		FISCAL AUTONOMY	RESPONSIBILITIES ASSUMED (1)
GROUPS OF RGs			
ORDINARY-REGIME	ARTICLE 143	LIMITED	ALL THOSE TRANSFERRED EXCEPT HEALTH
	ARTICLE 151	LIMITED	ALL THOSE TRANSFERRED
SPECIFIC-STATUS		FULL	ALL THOSE TRANSFERRED

(*) Table 1 indicates for each region which of the categories shown in the figure it falls into.

(1) The only powers which cannot be transferred by the State (or assumed by the RGs) are those specified by article 149 of the Spanish Constitution, which provides that the State has exclusive powers in certain areas, including defence and the armed forces, justice, international relations, etc.

The basic legal framework for the financing arrangements for the ordinary-regime regions is made up of the Spanish Constitution and Organic Law 8/1980 of 22 September 1980 on the financing of the RGs (LOFCA). The financing arrangements for the specific-status regions are also regulated by the respective Accords (*Conciertos*) and Agreements (*Convenios*) with the State. Further to this legislation, the Fiscal and Financial Policy Council (*Consejo de Política Fiscal y Financiera*, hereafter, CPFF) was set up. It is composed of the State ministers of Economy and Finance and of General Government and of the RG ministers of Finance, and acts as a consultative and discussion body with wide-ranging tasks relating to the co-ordination of the RGs' financial activity. The agreements reached within the CPFF form the basis for developing the RGs' financing arrangements.

This paper focuses on analysing the financing arrangements for the RGs. The following section describes the arrangements currently in force for the ordinary-regime RGs, following the 1996 CPFF Agreement, after first summarising the previous system. The third section analyses the financing arrangements for the specific-status RGs. Finally, the fourth section concludes by discussing the information available on the RGs' resources, within the framework of the National Accounts and the respective State and RG budgets.

2. FINANCING ARRANGEMENTS FOR THE ORDINARY-REGIME REGIONAL (AUTONOMOUS) GOVERNMENTS

On 23 September 1996 the CPFF approved the RG financing arrangements for the period 1997-2001. The Agreement was embodied in Organic Law 3/1996 of 27 December 1996 on partial amendment of the LOFCA (see above) and Law 14/1996 of 30 December 1996 on the assignment of taxes from the State to the RGs and complementary fiscal measures. The new arrangements are only applied to those RGs that accepted them, i.e. all except Andalusia, Castile-La Mancha and Extremadura, which remain subject to the previous system.

A brief summary of the financing arrangements in place before the 1996 Agreement came into force is given below. Thereafter, the main channels of financing for the ordinary-regime RGs under the current system are explained.

2.1. FINANCING ARRANGEMENTS IN FORCE UNTIL 1996

The development of regional government, in the case of the ordinary-regime RGs, commenced with the appearance of pre-autonomous entities (*entes preautonómicos*) and continued with the approval of the LOFCA, of the respective autonomy charters (*estatutos de autonomía*) and of the agreements on the financing arrangements signed within the CPFF. The various stages of this process up to 1996 are described below, indicating the main changes to the financing arrangements in each of them.

1. Pre-autonomous entities

The RGs did not emerge until the approval of the autonomy charters. Previously, certain administrative structures (pre-autonomous entities) intended as a basis for subsequent actual autonomy had been set up. These structures were financed by State transfers, not equivalent to a share of tax revenues.

2. Transitional period

This period ran from the approval of the respective autonomy charters to the CPFF agreement of 7 November 1986. During these years many responsibilities were transferred. As a result, new requirements for funds arose, which were met through the emergence of most of the current financing instruments. In addition, the RGs' share in State revenue (*participación en los ingresos del Estado*, hereafter, PIE) was defined, in terms of the actual cost of the responsibilities assumed, and in February 1982 the method of calculating this actual cost was approved in the CPFF. Until 1984, the calculation was carried out by means of negotiations on committees in which the State and RGs were represented on an equal footing. Between 1984 and 1987, the percentage shares were fixed annually by law for the RGs as a whole. Finally, Law 30/1983 on the assignment of taxes was passed in this period and the Inter-Territorial Compensation Fund (*Fondo de Compensación Interterritorial*, hereafter, FCI) was created in 1982³.

3. Agreement on regional financing for the period 1987-1991

The method for applying the regional financing arrangements for the period 1987-1991 (CPFF of 7 November 1986) came into force in this period. This radically changed the method for calculating the share in State revenue. It was now defined as a transfer of resources from the State to finance that part of the general responsibilities assumed,

³ The law regulating the FCI is Law 7/1984 of 31 March 1984.

excluding health care and social services responsibilities ⁴, not financed through assigned taxes. The distribution system and the rules governing its future evolution were established, most of which are still in force today. This system represented a significant advance in that it was objective and automatic, and the above-mentioned negotiations between the State and the RGs and the ad hoc calculations disappeared. As regards tax revenue, the assignment of taxes was extended to registration duties (*Impuesto sobre Actos Jurídicos Documentados*) and the Canary Islands' Economic-Fiscal Regime (*Régimen Económico Fiscal*) was reformed with the creation of the Canary Islands' General Indirect Tax (*Impuesto General Indirecto Canario*). Finally, the criteria for distributing the FCI were modified in 1990 (Law 29/1990 of 16 December 1990), and this fund was adapted to the new EU legislation on structural funds.

4. Agreement on regional financing for the period 1992-1996

On 20 January 1992 the regional financing arrangements for the five-year period 1992-1996 were agreed in the CPFF, with the creation of the specific tranche of the share in State revenue, corresponding to the share of 15% of "territorial" personal income tax payments (those arising within each region). The financing of the RGs under the new agreement continued to be based essentially on the share in State revenue (PIE), with its amount being calculated as follows:

The PIE for the initial year was obtained starting from a total volume of resources for the RGs as a whole. This volume was determined principally by the resources transferred in 1990 under the previous system and was assumed to be sufficient to finance all the areas of responsibilities assumed and assumable. This overall volume of financing was divided into two blocks, one for the article 143 RGs and the other for the article 151 RGs, these being the two main groups of RGs, referred to by the articles of the Spanish constitution under which they gained autonomy. The aim was to treat regions with the same level of assumable powers equally when distributing the resources among the RGs. The volume included in each of the two blocks was distributed among the RGs in accordance with certain weighted socio-economic variables defined in article 13 of the LOFCA (population, insularity, area, administrative units, relative wealth, fiscal effort and geographical dispersion)⁵, following a number of adjustments⁶. The amount for each RG resulting from this distribution was reduced by an estimate of the revenue from assigned taxes and from

⁴ These responsibilities are financed independently of the PIE with specific transfers from the Social security Treasury Department, as will be analysed below.

⁵ The weights of each of these variables differed depending on whether the RGs had or had not assumed responsibility for education. Among the variables, population had the highest weight (64% in RGs that had not taken over education responsibilities and 94% in those that had), followed by area (16.6% and 3.5%, respectively).

⁶ Among other adjustments, a redistribution of 2.7% of the outcome was made on the basis of the relative poverty of the RGs as a whole.

the charges for services for which responsibility had been transferred⁷. The resulting amount represented the initial financing obtained by each RG from the share in State revenue.

Finally, to determine the PIE in the subsequent years of the five-year period, the percentage share in State revenue was obtained for each RG for the base year. This percentage share was defined as the RG's initial financing from the share in State revenue expressed as a percentage of the so-called "structurally adjusted tax revenue" (ITAE), namely State revenue from unassignable direct and indirect taxes, excluding resources from the EU, plus social security and unemployment insurance contributions. In subsequent years, the RGs received a State transfer calculated by applying the aforementioned percentages to the ITAE. In this way, the shares in State revenue in respect of the general tranche grew at the same rate as the ITAE, subject to a ceiling determined by the growth rate of GDP and a floor determined by the growth of Equivalent State Expenditure⁸ (the latter prevailing over the ceiling). These percentages were only revised in the event of transfers of new services or the assignment of new taxes.

Under this general system of transfers, as from 1994 the State transferred 15% of the estimated "territorial" personal income tax receipts (those arising within each region) to the RGs, in such a way that the previously calculated share in State revenue was split into two tranches: a) a general tranche, corresponding to the previous share in State revenue, less an annual estimate of 15% of territorial personal income tax receipts; b) a specific tranche, corresponding to the aforementioned annual estimate of 15% of territorial personal income tax receipts. As this channel of financing was based on estimated as opposed to actual amounts, it permitted, subject to certain limits (between 0.5% and 2%), the generation of additional personal income tax revenue, insofar as the net tax actually raised in each region was higher than initially estimated.

In addition to these unconditional transfers, the RGs received other conditional transfers. These were resources earmarked for a specific purpose, including most notably transfers from the Social security Treasury Department, from the Inter-Territorial Compensation Fund (FCI) and from the EU, those received under programme contracts and under joint investment agreements, and the resources arising from the share of local governments in State revenue, which seven RGs currently administer, and the subsidies managed by the RGs.

⁷ Moreover, the portion relating to responsibilities not taken over and included as assumable in the calculation of the amount to be financed was deducted from each RG, and the cost of the services not included in the distribution was added due to their being under the exclusive remit of certain RGs.

⁸ Equivalent State Expenditure encompasses the proportion of the expenditure of certain ministerial departments and independent agencies relating to the common responsibilities assumed and to education, and which are included in chapters I, II and IV of the Budget.

Finally, the RGs supplemented and completed their revenue through various taxes (taxes assigned by the State, own taxes and surcharges on State taxes) and borrowing⁹.

2.2. FINANCING ARRANGEMENTS FOR THE PERIOD 1997-2001

On 23 September 1996, the Fiscal and Financial Policy Council (CPFF) approved the content of the regional financing arrangements for the period 1997-20001. This agreement was embodied in Organic Law 3/1996 of 27 December 1996 on partial amendment of the LOFCA and Law 14/1996 of 30 December 1996 on the assignment of taxes from the State to the RGs and complementary fiscal measures. The core of the reform is as follows.

- Initially, 15% of personal income tax receipts are assigned, along with regulatory responsibilities for the tax rate schedule (including the tax-free allowance) and deductions. Once educational responsibilities have been fully transferred, at the end of the five-year period, 30% will be assigned to the RGs. In the meantime, the 15% tranche of territorial tax revenue under the previous arrangements remains in place.
- Regulatory powers are granted in respect of the taxes assigned and of the tranche corresponding to the shared personal income tax.

Consequently, under the new arrangements the resources of the RGs that accepted the Agreement¹⁰ are as follows:

2.2.1. Tax resources

The ordinary-regime RGs' tax revenue may be of two types: assigned taxes and own taxes and surcharges on assigned or assignable taxes. Assigned taxes are transferred from the State to the RGs, under certain legal conditions. As regards own taxes and surcharges, the RGs enjoy greater regulatory autonomy.

2.2.1.1. Assigned taxes

Before the 1997 reform, the taxes assigned were the wealth tax, the inheritance and gift tax, the tax on property transfers and documented legal acts and the tax on gaming. The RGs were empowered to administer and levy these taxes, but did not have regulatory powers.

Law 14/1996 made radical changes to the assignment of taxes. First, personal income tax was partially assigned. Second, certain regulatory powers were granted over these taxes. Finally, specific consumption taxes at the retail stage and VAT at the retail stage became assignable, although they were not actually assigned.

⁹ The conditional transfers, tax resources and borrowing are analysed in detail in the following section, when the new financing arrangements are studied.

As regards personal income tax, initially 15% of the revenue raised was **assigned** to those RGs that accepted the agreement. This percentage, as mentioned above, will rise to 30% once the transfer of educational responsibilities has been completed. Until then, the difference between the final target of 30% and the initially set figure of 15% will, as seen below, be handed over to the RGs in the form of a share in the territorial revenue from the tax, as under the previous arrangements.

The assignment of personal income tax has been implemented by dividing the tax rate schedule into two tranches: the first, equal to 85%, corresponds to the State, and the second, or regional schedule, is equal to the remaining 15%¹¹. The RGs have the power to regulate the regional tax rate schedule, subject to the constraint that the amount payable as a result of applying the individual or joint regional tax rate schedule to the ordinary final tax base may be neither 20% higher nor 20% lower than the amount payable when the State tax rate schedule is applied to the same tax base. 15% of the State tax deductions are applied to the regional tax rate schedule to obtain the regional net tax payable. Further, the RGs may create their own deductions for individuals and households, non-corporate investment and the application of income, provided that they should not directly or indirectly entail a reduction in the actual tax levied on any category of income¹². These deductions, if applied, are subtracted from the regional net tax payable.

In any event, and in contrast to the other assigned taxes, the management of personal income tax remains within the remit of the State.

Secondly, the 1997 reform introduced restricted regulatory powers over the rest of the assigned taxes. In particular, regulatory responsibilities were established: over the tax-free allowance and the tax rate schedule of the wealth tax (which must be progressive and have the same number of brackets as that of the State, with the amount of the first bracket of the final tax base and the marginal rate also being the same); over the rate structure (necessarily progressive) and, in the case of mortis causa acquisition, over reductions from the tax base for the inheritance and gift tax. In the case of the tax on property transfers and documented legal acts, the RGs may regulate the rate charged on property transactions, and on the establishment and assignment of real rights relating thereto, as well as the rate payable on notarial documents. Lastly, in relation to gaming tax, their powers extend to tax exemptions, applicable rates, fixed charges, allowances and accrual, and to management, settlement, tax-collection and inspection matters.

¹⁰ Table 3 gives an outline of the overall resources of the ordinary-regime RGs, distinguishing between the regions that accepted the new arrangements and those that have retained the previous financing arrangements.

¹¹ The CPFF agreement of April 1998 established that the reduction in income tax (Law 40/1999 of 9 December 1999) would only be applied to the State schedule and, consequently, the weight of the regional tranche is higher than 15% (between 17% and 18%).

The RGs that did not accept the Agreement remain subject to the previous arrangements, i.e. personal income tax has not been assigned to them and nor do they have regulatory powers over the other assigned taxes.

Finally, the Canary Islands Regional Government has a special economic-fiscal regime based on free trade and on duty- and tax-free arrangements for consumption, as the EU harmonised indirect tax system is not applied in this region¹³. This special regime was provided for under Law 20/1991 of 7 June 1991, and amended by Law 19/1994 of 6 July 1994, and consists of a differentiated and lesser indirect tax burden than in the rest of the state¹⁴.

2.2.1.2. Own taxes

The RGs are able to create taxes, levies and special contributions based on a series of conditions set in the LOFCA (organic law on RG financing). These conditions are of a technical nature and aimed, for example, at avoiding double taxation. In this case, the creation, regulation, management and administration of the taxes are the responsibility of the RGs.

Own taxes are highly diverse, and include the following: tax on bingo, tax on under-exploited agricultural estates, water infrastructure fees, tax on air pollution, dumping and water treatment fees, Canary Islands tax on oil-derived fuels, etc.

2.2.1.3. Tax surcharges

The LOFCA allows RGs to set surcharges on various taxes. Prior to the 1997 reform, it was established that the possibility of setting surcharges related to the assigned taxes. In any event, the State rate acted as a floor. In addition, the single-province RGs¹⁵ were authorised to set surcharges on the municipal tax on business activities. Generally, the RGs set surcharges on the tax on gaming and also on the business activity tax in the case of the single-province RGs.

¹² In 1998, many RGs used their regulatory powers, both in relation to personal income tax and to the other taxes transferred to them. As regards personal income tax, nine RGs introduced new deductions relating to promoting childbirth, making access to housing or the purchase of a second dwelling easier, encouraging specific donations and compensating certain family expenditure (on the disabled, custody, education).

¹³ Prior to the constitutional arrangements for the RGs being set in place, the Canary Islands government took over an “autonomous” entity, the JIAI (the Inter-Provincial Island Tax Board). This body used to raise and distribute among local governments entry and luxury taxes, which originate in the free-port status of the Canary Islands.

¹⁴ The taxes involved are the following: the Canary Islands indirect general tax, with a similar structure to that of VAT, albeit with fewer rates and without taxing the retail trade stage; the Canary Islands production and imports levy; and the special rate structure of the Islands levy on incoming goods.

¹⁵ The regions comprising a single province have taken over the financial resources of the now-defunct provincial authorities (except in the case of the Balearic Islands which, although a single-province region, has not taken over the resources of the Islands Authority Boards, which continue to exist)

Following the 1997 reform, the possibility of setting surcharges on taxes that were assignable but not actually assigned was extended, provided that this did not entail a reduction in State revenue or distort the nature of the tax.

2.2.2. Transfers from the State and from the EU

2.2.2.1. Share in State revenue

- Share in the net payable amount of personal income tax raised in the regional territory in question (the specific tranche).

As earlier indicated, the Fiscal and Financial Policy Council (CPFF) agreed in 1993 to split the share in State revenue (PIE) into two blocks. The first corresponded to the PIE in the strict sense (general tranche), and the second was set at 15% of the net amount payable in respect of personal income tax collected in each region, the so-called share in territorial personal income tax receipts (specific tranche). The latter was deducted from the previous PIE.

Following the 1997 reform, this **share** in 15% of personal income tax receipts remains in place, but only temporarily until the transfer of educational responsibilities has been completed. At that moment it will disappear and the **assigned portion** of personal income tax will rise from 15% to 30%.

In fact, as explained in detail in the Box, the 15% share in the net payable amount of personal income tax does not apply to those RGs for which the volume of financing calculated for the base year (1996) under the previous system (the sum of the receipts from assigned taxes and charges for services plus the share in State revenue), after deducting the receipts from assigned taxes and charges for services and the receipts from the regional tax rate schedule of the assigned personal income tax, is either negative or, if positive, is less than the amount of the 15% share in the net payable amount of personal income tax.

- The general tranche of the share in State revenue.

Following the 1997 reform, the general tranche of the share in State revenue acts as the element that balances the financing arrangements. This is because, for the base year (1996), it is calculated for each RG from the volume of total financing obtained for that year under the previous system, having deducted the receipts from assigned taxes and charges for services, the receipts from the regional tax rate schedule of the (**assigned**) personal income tax and the share of 15% in **territorial** personal income tax receipts (when established). Neutrality is thus ensured in the base year, in the sense that the financing by assigned taxes and charges for services and by the share in State revenue, calculated under the previous arrangements, must be equal to the financing by assigned taxes and charges for services plus the receipts from the regional tax rate schedule of the assigned personal income tax and plus the share in State revenue, calculated under the new arrangements (see Box). The value of the general tranche of the share in State revenue

may be positive or negative. In the latter case, the negative value represents the compensation that the RG must pay the State as a consequence of the excess financing received through the mechanisms of the arrangements.

Once the value of the general tranche of the share in State revenue is known for each RG in the base year, the percentage share in State revenue is calculated for the same year in order to determine the PIE in the following years of the five-year period. This percentage share is defined as the aforesaid value of the general tranche of the PIE expressed as a percentage of the value of the structurally adjusted State tax revenue in the same base year (ITAE¹⁶). In each subsequent year, the annual revenue under the general tranche of the PIE of each RG is such that, as a percentage of the ITAE¹⁷, it is the same as in the base year. For the RGs that accepted the new agreement, the percentages for the year 2000 are as follows:

FIGURE 2: PERCENTAGE SHARES IN STATE TAXES

REGIONAL (AUTONOMOUS) GOVERNMENT	PERCENTAGE SHARE IN STATE TAXES
ASTURIAS	0.0051549
BALEARIC ISLANDS	0.0900466
CANTABRIA	0.1764212
MADRID	0.2855747
MURCIA	0.3126853
LA RIOJA	0.0707610
ARAGÓN	0.2357855
CASTILE-LEON	0.8476505
CANARY ISLANDS	0.5328196
CATALONIA	0.6018842
GALICIA	0.9659995
VALENCIA	0.6236465

¹⁶ The ITAE is defined as the sum of State revenue from direct and indirect taxes (excluding those that are assignable), plus social security and unemployment insurance contributions.

¹⁷ During the five-year period, the PIE shall be revised in the case of transfer to the RG of new services (e.g. transfer to the Madrid RG of certain areas of responsibility for education), of assignment of taxes or fixing of the tranche of the share in the territorialised revenues of personal income tax, in the latter case in accordance with the previous rules.

BOX: DETERMINATION OF THE FINANCING IN THE BASE AND SUBSEQUENT YEARS OF THE ORDINARY-REGIME RGs WHICH ACCEPTED THE 1996 CPFF AGREEMENT

The amounts in the base and subsequent years are determined as follows:

The financing for each RG calculated under the previous arrangements (FT1) must be equal to the financing under the new arrangements (FT2), in the base year.

$$FT1 = FT2$$

FT1 includes the receipts from assigned taxes and the charges for the services transferred (TC1+TA1) and the share in State revenue (PIE1).

$$FT1 = (TC1+TA1)+PIE1$$

FT2 includes the receipts from assigned taxes and charges for services (TC2+TA2), the "receipts from the regional tax rate schedule of the assigned personal income tax (TIR2) and the share in State revenue (PIE2). The latter is in turn made up of the share in the territorial personal income tax revenue (PIR2) and of the share in general State revenue, strictly speaking (PIE2').

$$FT2 = (TC2+TA2) + TIR2 + PIE2$$

$$PIE2 = PIR2 + PIE2'$$

To establish the equivalence between the two types of financing in the base year, first FT1 is calculated for that year applying the criteria of the financing arrangements prior to the reform. Subsequently, TC2 and TA2 are subtracted from FT1, leaving FT', and TIR2⁽¹⁾ is subtracted from the latter, leaving a positive or negative value (FT'').

$$FT' = FT - (TC2 + TA2)$$

$$FT'' = FT' - TIR2$$

In the event that FT'' is negative or else positive but less than PIR2⁽²⁾, the latter shall not be set for the RG concerned⁽³⁾; otherwise, PIR2 (which shall be equal to TIR2 in the base year) shall be set and subtracted from FT'', to give PIE2'.

$$PIE2' = FT'' - PIR2$$

PIE2' (the share in general State revenue, strictly speaking) thus becomes the mechanism for balancing the system since, as has just been shown: a) in the case of the RGs for which PIR2 is set, PIE2' will be equal to FT'' - PIR2; b) in the case of the RGs which do not have a PIR2 set, PIE2' shall be equal to FT'' (positive or negative).

In order to determine PIE2' in subsequent years, once the value of PIE2' is known, the definitive percentage share for the five-year period in general State revenue (PPI) is calculated, this being defined as the value of PIE2' expressed as a percentage of the structurally adjusted State tax revenue (ITAE) in the same base year. The definitive value of the PIE2' tranche each year is equal to PPI (calculated in the base year) multiplied by the ITAE of each year.

During the five-year period, the ITAE shall be revised in the event that new services are transferred to the RG, that taxes are assigned or that the tranche of the share in the territorial personal income tax revenue is set, in accordance with the above rules (PIR2).

(1) TIR2 in the base year is calculated as the sum of: a) the net amounts payable, attributable to the residents of the RG (presented in 1997 and relating to 1996), under the regional tax rate schedule of the tax; b) 15% of the receipts from personal income tax obtained in 1996 through settlement or self-assessment, as well as the attributable part of the discretionary assessment. That part of the deduction for international double taxation made by taxpayers resident in the territory which is attributable to that territory (15% of the total deduction) is deducted from this sum. Subsequently, in the rest of the five-year period, the revenue to be paid to each RG shall include: a) the net amounts payable under the regional tax rate schedule of the tax which the residents in the territory of the RG have reported in the return presented in year t+1, corresponding to year t (if negative its value shall be zero); b) the personal-income-tax revenue raised in t through settlement or self-assessment which corresponds to the RG, with the same tax-rate-schedule criteria and deductions as indicated for a), as well as the attributable part of discretionary rebates of the same year. As the final amount of the receipts from the regional tax rate schedule of the personal income tax is only known the following year, the RGs shall share in the net receipts obtained each year through payments on account. These payments shall be determined as the amount of the budget forecast of personal-income-tax revenue for year t from withholdings, payments on account and partial payments, multiplied by the updating index for the RG's tax rate schedule of the tax and also by 0.98. One twelfth of this amount shall be handed over each month.

(2) The amount of the tranche of the share in territorial personal income tax revenue (PIR2) is determined, in the base year, as 15% of the net receipts from the personal income tax paid by the residents of the RG (which must be equivalent to PIR2). When FT'' <= PIR2, provided that the resulting value is not negative, reducing coefficients shall be applied to this 15%. The amount of the PIR2 in subsequent years is determined as the PIR2 of the base year multiplied by the modulation index or correcting coefficient (in the case mentioned above) and by the index updating the tranche between the base year and year t. This index is calculated by dividing the State personal income tax revenue raised from the residents of the RG in year t by that of the base year, and multiplying this by 0.85. Again, as the final settlement of the tranche of the share in territorial personal income tax revenue corresponding to each year can only be made for each year as a whole, the RGs shall receive from the State budget, payments on account of the final settlement equal to one twelfth of the estimated amount, which shall be handed over monthly.

(3) In the event that FT'' is positive but less than PIR2, a reducing coefficient shall be applied to PIR2 of 2/3 or 1/3, provided that the value of PIE2' calculated as the difference between FT'' and PIR2, calculated with such reducing coefficients, is not negative. In the event that the value of PIE2' obtained by applying the reducing coefficient 1/3 to PIR2 is negative, it shall not be set.

2.2.2.2. Inter-Territorial Compensation Fund

The aim of the Inter-Territorial Compensation Fund is to correct regional imbalances. It is endowed annually with a total amount of not less than 35% of the new civil investment approved in the central government budget. This annual endowment shall be at least PTA 128,845 million, the minimum endowment established in 1992. The recipient RGs of these funds are those whose per capita income is lower than 75% of the EU average. These RGs must earmark the resources from the funds to financing investment projects "which, directly or indirectly, promote the creation of income and wealth in the region". The share-out among the RGs is made in accordance with a series of variables and applying distributive weights.

2.2.2.3. Funds from the EU

The resources from the EU arise above all in connection with the EAGGF-Guarantee Fund and the Structural Funds, especially the FEDER (Regional Development Fund)¹⁸ and, to a lesser extent, the European Social Fund, the EAGGF-Guidance fund and other agricultural resources. Further, the RGs have been receiving resources from the Cohesion Fund since 1995.

2.2.2.4. Other channels of conditional financing

These include resources relating to programme contracts¹⁹, transfers in respect of joint investment agreements²⁰ and resources arising from the share of local governments in State revenue, which seven RGs currently administer²¹, and the subsidies managed by the RGs²².

2.2.3. The financing of social security responsibilities

The European System of National and Regional Accounts (ESA 95) defines social security funds as all **central, state and local** institutional units whose principal activity is to provide social benefits and whose basic resources consist of the obligatory social security

¹⁸ As the aim of the FEDER coincides with that of the Inter-Territorial Compensation Fund, the two are co-ordinated.

¹⁹ Programme contracts are a means of financing certain public services, by supplementing the financing of the firms that provide such services. Such services are mainly related to passenger transport, as this is subject to political pricing.

²⁰ What are involved here are investment projects undertaken on a RG's territory and financed jointly by the State and the RG in question.

²¹ These resources are only received by the RGs which have assumed financial stewardship of the local governments in their territory and which, therefore, act as intermediaries between the State and these local governments for their share in State taxes (Castile-La Mancha, Andalusia, Catalonia, Galicia, Valencia, Cantabria and Navarre).

²² The source of these lies in the relationship between certain subsidies and social benefits and the management of the services that have been transferred. The State agrees with the RG or RGs affected by the transfer to devolve the management of such subsidies and benefits and to provide the resources needed to finance them.

contributions paid by other units. The social benefits referred to in this definition may be classified in Spain's case and according to social security terminology as:

- a) Financial benefits. These basically comprise benefits and subsidies in respect of unemployment, pensions, temporary disablement, maternity, assistance to the elderly and disabled and others. If preceded by payment by those receiving them of an obligatory social contribution, these benefits are contributory; otherwise they are non-contributory.
- b) Social benefits. These comprise social security fund benefits relating to care of the handicapped, care of the elderly and other social services. All these benefits are non-contributory.
- c) Health benefits. These comprise medical and drugs-related assistance and are financed via taxes raised by the State and transferred to social security funds.

As indicated, the financing of these benefits is by means of the social contributions received by the Social security Treasury Department and the taxes raised by the State and transferred to this Department. Thus, the single-centre principle operates in the financing of social security funds, with the Treasury Department being the recipient and distributive centre for all resources.

The devolution process in Spain has entailed the transfer to certain RGs of the **management** of health benefits and of certain other non-contributory financial benefits, which in no case include unemployment benefits and contributory pensions. Until 1994, only those RGs subject to article 151 of the Spanish Constitution and those assimilated thereto (Andalusia, the Canary Islands, Catalonia, Galicia and the Valencian region) had had these powers transferred to them. That year, the regions subject to article 143 of the Spanish Constitution (i.e. all the others) assumed responsibility for social but not for health services. Before this transfer, responsibility for health and social services was in the hands of centralised social security funds, specifically INSALUD and IMSERSO, respectively. These two institutes are financed via the Social security Treasury Department, the body responsible for receiving all the resources with which social security funds are financed.

Following the transfer of social services and health to certain RGs, the Social security Treasury Department continues to receive all the resources earmarked for financing these services (social security contributions and transfers from the State). It transfers to the RGs concerned the portion of these resources corresponding to them in order to finance the transferred social security services. Some RGs allocate additional resources to these functions, out of their own funds or by increasing their indebtedness.

The health system is thus financed separately outside the financing arrangements for the RGs. As a result, when the transfer of this responsibility takes place, the associated financing will be determined in parallel via the annual transfer to the RG of a portion of the

INSALUD budget. The criterion applied when setting the percentage of the INSALUD budget to be transferred is that of resident covered population in the region in question, thus obtaining equality of per capita financing among the RGs. Nonetheless, certain health services are usually maintained in State centres, and therefore the cost of such centres is deducted from the INSALUD budget before calculating the portion to be transferred (the same is the case with the Health Research Fund, own revenue and the health programmes of the Ministry of Health and Consumption).

Further, at the time of transferring responsibilities to the RG in question, the actual spending of INSALUD in the region does not usually match that established under the covered population criterion. Accordingly, a transitory period is set (normally 10 years) for switching from one criterion to another, eliminating each year one-tenth of the difference.

Lastly, as deviations arise between the outturn and the initially budgeted amount, the RGs that have assumed responsibilities receive the final balance subsequently (with a lag of one or two years).

Given the significant financial problems with the arrangements in place, which meant that the RGs had to supplement the financing from the Social security Treasury Department with contributions of resources from their own budgets, the CPFF agreed in September 1994 on a new financing model for health assistance for the period 1994-97. This took real spending on health for the year 1994 as its basis and determined the growth of this spending in accordance with the nominal GDP for each year. Subsequently, in 1997, a new agreement for the period 1998-2001 was reached, meaning the arrangements are now defined as follows:

The resources earmarked for health financing shall grow over the period in accordance with the growth rate of nominal GDP.

Health financing shall be drawn from two funds: a general fund, equivalent to that existing previously, and another, specific fund, aimed at ensuring minimum financing to the RGs whose population shrinks, at covering needs relating to medical training and research, and at compensating RGs for the assistance provided to non-residents.

The share-out to the RGs that have assumed these responsibilities is made, in the case of the general fund, following the covered-population criterion, with updated data. And in the case of the specific fund, it is conducted ensuring that no RG whose population has shrunk should see the volume of its health financing fall by more than 0.25%, and financing extraordinary expenses relating to training and research and those arising from assistance provided to non-residents.

2.2.4. Borrowing

The RGs may incur debt, albeit subject to certain limits which are defined principally in article 14 of the LOFCA (organic law on RG financing), in the legal regulations common to all public-sector issuers and in the legislation governing RGs, in particular:

Credit transactions maturing at less than one year should be used for covering transitory treasury requirements.

Credit transactions at over one year, whatever the form in which they are documented, should meet the following requirements: a) the total amount of the loan should be used to finance investment expenses; b) the annual amount of repayments plus interest should not exceed 25% of RGs' current revenue.

To arrange credit transactions abroad and for the issuance of debt or any other resort to public credit, RGs require State authorisation.

RGs' credit transactions should be co-ordinated with each other and with the State's debt policy in the CPFF (Fiscal and Financial Policy Council).

RGs' public debt and the securities of an equivalent nature issued by them are subject, when not otherwise specified under the LOFCA, to the same regulations and enjoy the same benefits and conditions as State debt.

As a result of the foregoing, the RGs are obliged to submit to the Government (through the CPFF) an annual debt schedule which, once agreed on by both parties (Government and RG), entails automatic authorisation by the State of all the operations contained therein²³. This schedule may be amended by the RG in the course of its execution, by means of a new proposal to the Government. Further, the State itself may provisionally suspend this schedule under exceptional circumstances if it were to hamper the Treasury's financial policy or involve imbalance in the foreign/domestic debt ratio.

2.2.5. The system of guarantees under the new regional government financing arrangements

As the basis for determining the resources initially allocated to each region, the new system takes the amount calculated under the prior procedure for fiscal year 1996. This means that "financial neutrality" is ensured for this base year, in the sense that the financing from the receipts from assigned taxes and charges for services, plus the share in State revenue, calculated under the previous system, is exactly equal to that obtained as the sum of receipts from assigned taxes and charges for services plus receipts from the regional tax

²³ As from 1992, following the publication of the March 1992 Convergence Programme for Spain, the so-called Budget Consolidation Scenarios (ECP) were signed by the central State and each RG, based on bilateral negotiations. These specified the maximum deficit and debt permitted in each RG. In March 1995, following the revision of the Convergence Programme in July 1994, the ECP commitments were also revised, specifying the limits for the period 1995-1997. Finally, they were again modified with the approval of the first Stability and Growth Programme in December 1998.

rate schedule of the assigned personal income tax, and plus the share in State revenue, calculated under the new arrangements (see Box).

The new system also sets the criteria for determining the minimum amounts to be received by each RG over time. As earlier stated, the benchmark index for the financing arising from the share in State revenue will be that of the ITAE, which was also used as a standard in the previous period. However, to avoid the risk of the behaviour of personal income tax in each region causing a loss of resources, a number of financial guarantees have been given.

The first guarantee sets a floor to the growth of personal income tax resources, ensuring that the growth during the five-year period of the resources provided by the personal income tax rate schedule (including both the receipts under the regional tax rate schedule of the assigned personal income tax and, where appropriate, the share in the territorial revenue from this tax) should be equal to the growth of nominal State GDP if this is lower than the growth of the State personal income tax revenue. Consequently, it is the State that assumes the risk of losing personal income tax revenue.

Although this guarantee refers to the overall results of each RG in the five-year period, it shall be applied each year, taking into account the cumulative financing to that year.

The second guarantee ensures for each RG that the growth of the resources obtained from personal income tax (the regional tranche assigned in the absence of changes in the regulatory powers and the share in territorial receipts) and from the share in State revenue during the five-year period shall be not less than 90% of that obtained by the RGs as a whole. The latest Council Resolution dated April 1998 adds a further guarantee whereby the minimum guaranteed increase in the share in State revenue is also set in line with the index resulting from the increase in nominal GDP. Consequently, the minimum increase in personal income tax and the share in State revenue guaranteed to each RG that has accepted the new arrangements is that of the growth rate of nominal GDP.

As in the previous case, although the guarantee covers a five-year period, annual assessments shall be made.

The third guarantee ensures the capacity to cover public services assumed (non-university education). In the last year of the five-year period, in the event of education services having been transferred, the financing per inhabitant of each region shall be not less than 90% of average per capita financing. To this end, only resources arising from receipts from taxes and charges for services, those obtained from personal income tax without the use of the regulatory power (including the share in territorial receipts) and those derived from the share in State revenue shall be considered included in this financing.

In addition, certain rules of priority are established between these guarantees: the first guarantee comes into operation first, and the amounts for each region are computed with

deduction of any additional revenue they may be entitled to under the second and third guarantees. These are in turn mutually exclusive, only the largest amount being received. These guarantee funds shall not be consolidated in the financing mechanisms of the system.

In consequence, under all these guarantees, the minimum increase in the financing received by each RG that has signed the agreement is the growth in GDP, unless by changing their tax rate schedules for personal income tax or by introducing new personal income tax deductions they cause a loss of receipts in the regional tranche. Note that this system of guarantees entails a significant change with respect to the system in force prior to the reform. Under the previous financing arrangements, as indicated in section II, the GDP growth rate was the ceiling not the floor for the growth in the general tranche of the share in State revenue.

3. FINANCING ARRANGEMENTS FOR THE SPECIFIC-STATUS REGIONAL (AUTONOMOUS) GOVERNMENTS

The financing arrangements for the specific-status RGs are based on the old municipal charters (*fueros*) and accords (*convenios*) of the historical territories of the Basque Country and Navarre that are recognised in the Constitution²⁴ and developed in subsequent legislation. Law 12/1981 approved the Economic Accord (*Concierto Económico*) between the State and the Basque Country RG and Law 38/1997 of 4 August 1997, adapted, modified and extended regulatory responsibilities under the Accord. Meanwhile, Organic Law 13/1982 on reintegration and improvement of the Navarre specific-status RG recognises the power of this RG to maintain, establish and regulate its own tax regime within the general system. The Agreement (*Convenio*) between the State and the Navarre RG was amended on 31 December 1997.

The general characteristics of the financing arrangements for these RGs are as follows:

The Basque Country provincial authorities (Álava, Guipúzcoa and Vizcaya) and the Navarre (specific-status) RG have the power to maintain, establish and regulate, inside their territory, the tax regime, taking into account the general structure of taxes of the State and the co-ordinating provisions established. Accordingly, they are responsible for the levying, management, settlement, collection and inspection of all the taxes known as “concerted taxes” (*tributos concertados*), except those included in Customs Revenue and those raised through Fiscal Monopolies. The regulatory power over the aforesaid concerted taxes of the administrations which raise them is limited in the Accord or Agreement by the rules and principles of tax harmonisation and collaboration with the State which are established generally and for each tax. In general, although there are differences in this area between

²⁴ The Álava municipal charter was the only one not repealed following the civil war (1936-1939) and was still in force in 1978.

the Basque Country Accord and the Navarre Agreement, the General Tax Law is applied in relation to terminology and concepts, the effective overall tax burden arising from this regulatory power must not be lower than that existing in the rest of the State, the international tax treaties and conventions must not be contravened and free movement and establishment of capital and persons within Spanish territory must be respected and guaranteed²⁵.

The 1997 Basque Country Economic Accord simplifies the fiscal harmonisation provisions, makes manufacturing excise duties concerted taxes and extends regulatory responsibilities over certain taxes, including personal income tax and corporate income tax.

Since the Basque Country RG has no power to levy the concerted taxes -the provincial authorities having this power²⁶- it is financed principally by means of a transfer of resources from the provincial authorities corresponding to its territory. These transfers are called contributions to the Basque Country Finance Department.

As a consequence of the fact that the concerted taxes include almost all those existing and that the State provides services, mainly of a general nature (for example, defence, diplomatic representation, etc), but has no tax-raising capacity in this territory, the Basque Country and Navarre specific-status RGs transfer some of their resources, by means of the so-called "Cupo", to the State in order to contribute to the financing of these services.

In the case of the Basque Country provincial authorities, the "Cupo" is currently determined using the methodology approved in law 37/1997 of 4 August 1997, and is calculated in accordance with the Basque Country relative capacity index (*índice de capacidad relativa*). The "Cupo" for the base year 1997 corresponds to a percentage of the value of the responsibilities not assumed reduced by unconcerted revenue:

$$C=iCNA-INC$$

Where *i* is the attribution index (*índice de imputación*), *CNA* is the cost, in the State budget, of the responsibilities not assumed, *INC* is the sum of the attributable part of the

²⁵ In this respect, the Basque Country provincial authorities have used their regulatory power to establish, for example, tax concessions for businesses setting up within their territory (e.g. deductions from corporate income tax payable, or reductions in the corporate income tax base of 99%, 75% and 25% in the four years following the first in which the business earns a profit). Such measures have in some cases been challenged by the State and/or by neighbouring RGs in the courts on the grounds that they undermine free competition. This question has even been referred to the European Court of Justice for a preliminary ruling by the Supreme Court of the Basque Country, and to the European Commission, which after various decisions (declaring illegal, for example, a large part of the aids granted to the Korean multinational Daewoo), opened general infringement proceedings in respect of these aids in 1999. Subsequently, in January 2000, the State government and the Basque Country executive and provincial authorities reached an agreement under which the State administration undertook to withdraw the actions filed and the provincial authorities to adapt their legislation, with the removal of some of these aids. This agreement shall remain in force until 31 December 2001, when the current Basque Economic Accord expires.

²⁶ The provincial authorities are considered local governments, not RGs, in the National Accounts sectorisation framework.

unconcerted taxes and of non-tax revenue, including the budget deficit, of certain withholdings on income from capital and of the corporate income tax levied by the State.

The attribution index, fixed at 6.24%, is obtained from the formula:

$$i = \sqrt{\frac{Y_{PV}}{Y_E} \times \frac{P_{PV}}{P_E}}$$

where Y_{PV} is the income of the Basque Country, P_{PV} is the population of the Basque Country, and Y_E and P_E are the same variables for the Spanish State as a whole.

The “Cupo” for the subsequent years of the current five-year period is determined by applying an updating index (*índice de actualización*) to the base year. This index is calculated by expressing the revenue from concerted taxes belonging to revenue chapters I and II of the State budget, excluding those assignable, for the year in question as a percentage of the revenue from the same tax items in the base year, having deducted the true cost of the regional police and having adjusted the services transferred by the Social security System.

The methodology followed to determine the contribution of Navarre to general State expenditure is similar to that established for the Basque Country and is based on two fundamental rules: a) Navarre’s contribution to the State is fixed every five years, in accordance with the amount, in that base year, of State expenditure on general services and an attribution index of 1.6%, which reflects the capacity of the RG to bear the same, based on its income relative to that of Spain as a whole; b) for the other years of the five-year period the contribution is determined by that set for the base year updated by an index reflecting the increase in State revenues from agreed taxes.

The responsibility for social security affairs is considered assumed by the Basque Country and Navarre when their respective “cupos” are calculated. However, the Social security Treasury Department, following the single-centre principle, receives the amount of the contributions and of the State transfers (the proportional part established in the State budget) to finance social security. Subsequently, the Social security Treasury Department transfers directly to the Basque Country and Navarre the amount of the spending on social security in their respective territories financed by means of contributions. As regards that part of the social security spending of these territories financed by State transfers, this is not transferred directly to the Basque Country and Navarre but is deducted from the “Cupo”.

Both the Basque Country RG and the Navarre RG receive other resources, in addition to the share in State revenue and the assigned taxes, which the ordinary-regime RGs also receive. These include resources received under investment agreements and programme contracts, subsidies managed by the RGs, the share of the local governments in State taxes and resources from the European Union.

As regards their capacity to borrow, the same rules apply as for ordinary-regime RGs.

4. THE REVENUE OF THE REGIONAL (AUTONOMOUS) GOVERNMENTS ACCORDING TO NATIONAL ACCOUNTS AND BUDGET ACCOUNTING INFORMATION

The structure of the regional (autonomous) governments revenue is analysed below, on the basis of Table 4, containing information supplied by the National Accounts and by budget accounts²⁷. This information has been compiled basically from the data provided by the income, use of income and capital account of the RGs. Two further sources were used: (i) the State budget, for the information on the transfers from the Social security Treasury Department to the RGs, since this information is not broken down in the social security funds account of the National Accounts, and (ii) the financial accounts, for the RGs' borrowing.

The following conclusions may be drawn from an analysis of Table 4:

The transfers from the Social security Treasury Department to finance the transferred health care and social services were the primary source of revenue of the RGs in 1998, accounting for 28.3% of their total resources. Moreover, it is foreseeable that the importance of these transfers will continue to grow in future, since the majority of the RGs have still not assumed responsibilities in relation to health.

State transfers represented 28% of the RGs' revenue in 1998, despite a sharp drop of more than 5 percentage points following the 1997 reform. Within State transfers, the share in State revenue (22.3% in 1998) is notable. This includes the share in the territorial personal income tax receipts and the share in State revenue strictly speaking. The funds from the Inter-Territorial Compensation Fund, in contrast, only represented 1.9% of the RGs' revenue. Other State transfers include, inter alia, the revenue received under programme contracts and joint investment agreements.

Tax resources were the third most important source of revenue for the RGs (26.5% in 1998), having risen sharply in weight since the 1997 reform, especially as a consequence of the incorporation of the regional tranche of the personal income tax for the ordinary-regime RGs which accepted the agreement. In fact, personal income tax revenue has become the third most important item of revenue (8.4% in 1998), behind the transfers to finance the transferred social security responsibilities and the share in State revenue. Notable among other tax resources is the revenue from the tax on property transfers and documented legal acts, which accounted for 7.5% of the total resources of the RGs in 1998.

²⁷ Annex 1 explains how the various items of revenue of the RGs are recorded in the National Accounts and budget accounting frameworks.

It should be noted that the total tax resources include tax revenues raised by the Navarre RG, but not those of the Basque Country RG. As mentioned above, the provincial authorities of the latter region are responsible for raising taxes and then transferring the relevant portion to the RG. In fact, revenue from VAT, excise duties and luxury taxes (on the consumption of domestic goods) and corporate income tax, included in Table 4, are only received by the Navarre RG. Likewise, revenue from Canary Islands taxes on domestic and imported goods is only received by the Canary Islands RG.

The other transfers item includes funds from the EU, with a weight of 4.3% in total resources in 1998, and transfers from local government, which basically include the funds transferred by the Basque Country provincial authorities to the RG.

Finally, in 1998, the change in the financial liabilities of the RGs (borrowing) represented 2.6% of their total resources, following a sharp fall of more than 10 percentage points since 1992, when the Budget Consolidation Scenarios were signed by the central State and each RG.

A memorandum item in Table 4 gives a breakdown of the resources by their origin, distinguishing between those raised directly from taxpayers and those obtained from other general government bodies. This shows that only about 30% of resources are obtained directly from taxpayers and, therefore, help to increase the degree of fiscal co-responsibility of the RGs, while the majority, the other 70%, come from other general government bodies. With the new agreement for the period 1997-2000, the relative weight of tax resources rose by almost 10 percentage points of GDP, but this did not result in a corresponding increase in the resources obtained directly from taxpayers owing to the reduction in the relative weight of borrowing.

Table 5 gives a breakdown of the revenue of the RGs in 1996 and 1998, distinguishing between the ordinary-regime and specific-status RGs and, among the former, between the RGs of article 143 and of article 151 of the Spanish Constitution. Unlike in Table 4, only the revenue of chapters I to VII of the budgets is included here. Social security transfers which, as mentioned above, come outside the general financing arrangements, and borrowing, which will be analysed later, are not included.

The following conclusions may be drawn from an analysis of Table 5:

The main means of financing the ordinary-regime RGs in 1998 is through current and capital transfers, mostly from the State, which represent more than 75% of all their revenue, while tax resources account for somewhat less than 25%. However, a comparison with the situation in 1996 shows that the reform of the financing arrangements has involved a reduction in the percentage of transfers and an increase in that of tax revenue (from 83.6% and 11.2% in 1996, respectively).

The relationship between transfers and tax resources is the reverse in the Navarre RG, where transfers represent little more than 5%, and in the Basque Country, where it must be taken into account that the percentage figure for transfers (98.5%) basically includes those from the provincial authorities which are responsible for raising tax resources and then transferring the established percentage thereof to the Basque Country RG. As in the case of the ordinary-regime RGs, comparing 1998 and 1997 shows an increase in tax resources at the expense of transfers.

Similarly important in the case of the ordinary-regime RGs is the difference between of the article 143 and of the article 151 RGs. In the former, the percentage of total revenue provided by tax resources in 1998 is much higher than in the case of the article 151 RGs (32.9% against 15.6%). This means that the RGs which have assumed greater responsibilities (the article 151 RGs) depend to a greater extent on transfers. Moreover, although the new financing arrangements have led, as mentioned above, to a reduction in the weight of transfers in both the article 143 and the article 151 RGs, this reduction has been greater in the case of the article 143 RGs.

Table 6 shows the debt (excluding trade credit) of each RG as a percentage of its regional GDP and the total debt of the RGs as a percentage of national GDP. First, the absolute importance of the debt of the RGs should be noted. It was equal to 6.3% of GDP in 1998, although in recent years there has been a fall in its rate of growth and, in 1998, the rate was even negative. Second, the most indebted RGs are those which have assumed greater responsibilities (specific-status and article 151 RGs).

Finally, Table 7 shows the relative importance of the RGs in terms of the revenue, expenditure and debt of general government as a whole. On 1998 data, the RGs obtained almost 18% of total general government resources, and 11.6% of the taxes raised by general government. Moreover, the RGs' debt represented 9.6% of total public-sector debt.

TABLE 1: CLASSIFICATION OF THE REGIONAL (AUTONOMOUS) GOVERNMENTS

TYPE ACCORDING TO FINANCING ARRANGEMENTS	TYPE ACCORDING TO THE CONSTITUTION	TERRITORIAL SCOPE		GDP at market prices (1)		Population (2)	
		SINGLE-PROVINCE	MULTI-PROVINCE	1996		1996	
ORDINARY-REGIME REGIONAL (AUTONOMOUS) GOVERNMENTS	ARTICLE 143 OF THE CONSTITUTION	ASTURIAS		1841,8	2,5%	1071,3	2,7%
		BALEARIC ISLANDS		1823,9	2,5%	729,5	1,9%
		CANTABRIA		952,6	1,3%	526,6	1,3%
		MADRID		11835,1	16,1%	5016,0	12,8%
		MURCIA		1755,2	2,4%	1084,4	2,8%
		LA RIOJA		549,0	0,7%	260,5	0,7%
		ARAGÓN		2468,0	3,4%	1180,2	3,0%
		CASTILE-LA MANCHA		2644,1	3,6%	1694,0	4,3%
		CASTILE-LEÓN		4455,7	6,1%	2509,8	6,4%
		EXTREMADURA		1373,8	1,9%	1075,3	2,7%
	TOTAL ARTICLE 143			29699,2	40,5%	15147,6	38,7%
	ARTICLE 151 OF THE CONSTITUTION	ANDALUSIA		9811,6	13,4%	7128,2	18,2%
		CANARY ISLANDS		2723,9	3,7%	1563,2	4,0%
		CATALONIA		14254,2	19,5%	6065,5	15,5%
		GALICIA		4070,1	5,6%	2723,8	7,0%
		VALENCIA		7038,8	9,6%	3913,2	10,0%
	TOTAL ARTICLE 151			37898,6	51,7%	21393,9	54,7%
SPECIFIC-STATUS REGIONAL (AUTONOMOUS) GOVERNMENTS	TOTAL ORDINARY REGIME			67597,8	92,2%	36541,5	93,4%
	Recognition of old municipal charters and accords or agreements with the State (additional provision one of the Constitution)	NAVARRE		1200,4	1,6%	526,6	1,3%
	TOTAL SPECIFIC-STATUS			5686,3	7,8%	2595,8	6,6%
TOTAL				73284,1	100%	39137,3	100,0%

(1) PTA billions and % of total. Preliminary INE (National Statistics Office) data.

(2) Thousands and % of total. Population as at July 1st. Preliminary INE data.

TABLE 2: SOCIAL SECURITY AND EDUCATIONAL RESPONSIBILITIES ASSUMED BY THE REGIONAL (AUTONOMOUS) GOVERNMENTS

TYPE ACCORDING TO FINANCING ARRANGEMENTS	TYPE ACCORDING TO THE CONSTITUTION	REGIONAL (AUTONOMOUS) GOVERNMENTS	RESPONSIBILITIES ASSUMED					EDUCATION (2)
			SOCIAL SECURITY			SOCIAL BENEFITS		
			HEALTH CARE INSALUD (3)	FINANCIAL BENEFITS		OTHERS		
				IMRSO (4)	INEM Y OTHERS (5)			
ORDINARY- REGIME REGIONAL (AUTONOMOUS) GOVERNMENTS	ARTICLE 143 OF THE CONSTITUTION	ASTURIAS	X					X
		BALEARIC ISLANDS	X					X
		CANTABRIA (1)	X					X
		MADRID	X					X
		MURCIA	X					X
		RIOJA	X					X
		ARAGÓN	X					X
		CASTILE-LA MANCHA (1)	X					X
		CASTILE- LEÓN	X					X
		EXTREMADURA	X					X
		ANDALUSÍA (1)	X					X
		CANARIAS	X					X
		CATALONIA (1)	X					X
		GALICIA (1)	X					X
VALENCIA (1)	X					X		
	ARTÍCULO 151 OF THE CONSTITUTION							

TYPE ACCORDING TO FINANCING ARRANGEMENTS	TYPE ACCORDING TO THE CONSTITUTION	REGIONAL (AUTONOMOUS) GOVERNMENTS	RESPONSIBILITIES ASSUMED						EDUCATION (2)
			SOCIAL SECURITY						
			HEALTH CARE	FINANCIAL BENEFITS		SOCIAL BENEFITS			
				INSALUD (3)	INSERSO (4)	INEM AND OTHERS (5)	OTHERS		
SPECIFIC-STATUS REGIONAL (AUTONOMOUS) GOVERNMENTS	Recognition of old municipal charters and accords or agreements with the State (additional provision one of the Constitution)	NAVARRRE (1)	X						X
		BASQUE COUNTRY	X	X					X

(1) These RGs have been transferred the responsibility for distribution of the share of the local governments (provincial governments, local councils and minor local authorities) in State taxes. In practice, this responsibility means that the RGs receive from the State, and distribute among the local government within their territory, the shares of the latter in State taxes. i.e. they act as intermediaries for these transfers.

(2) In some cases educational responsibilities have not actually been transferred, even though the autonomy charters have been amended to enable them to assume these responsibilities.

(3) National health service

(4) Migration and social services institute

(5) National employment office

TABLE 3: FINANCING OF THE ORDINARY-REGIME REGIONAL (AUTONOMOUS) GOVERNMENTS

RESOURCES	ORDINARY-REGIME RGs	
	That have accepted the CPFF agreement of 23 September 1999 (All except Andalusia, Castile-La Mancha and Extremadura)	That have not accepted the agreement (Andalusia, Castile-La Mancha and Extremadura)
ASSIGNED TAXES	Previous arrangements + assignment of 15% of personal income tax + regulatory power	Previous arrangements
OWN TAXES	Previous arrangements	Previous arrangements
TAX SURCHARGES	Previous arrangements + possibility of establishing surcharges on taxes that are assignable but have not actually been assigned	Previous arrangements
SHARE IN STATE REVENUE	Previous arrangements + calculation changed due to the assignment of 15% of personal income tax	Previous arrangements
INTER-TERRITORIAL COMPENSATION FUND	Previous arrangements	Previous arrangements
FUNDS FROM THE EU	Previous arrangements	Previous arrangements
FINANCING OF SOCIAL SECURITY RESPONSIBILITIES	CPFF agreement for the period 1998-2001	Previous arrangements
BORROWING	Previous arrangements	Previous arrangements
OTHER RESOURCES	Previous arrangements	Previous arrangements

TABLE 4. STRUCTURE OF THE RESOURCES OF THE REGIONAL (AUTONOMOUS) GOVERNMENTS (a)

	1992	1993	1994	1995	1996	1997	1998
1. TAX RESOURCES							
VAT (Navarre)	15.5	15.7	16.5	16.7	15.9	24.7	26.5
Taxes on imports, excluding VAT	0.9	1.1	1.3	1.5	1.4	1.5	1.8
Canary Islands taxes on imported goods (Canary Islands)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on production, excluding VAT	0.0	0.0	0.0	0.0	0.0	0.0	0.0
On the consumption of domestic goods (excise duties and luxury taxes) (Navarre)	10.1	9.7	10.1	10.0	9.2	10.5	11.7
Tax on property transfers and documented legal acts	0.5	0.5	0.6	0.6	0.6	0.6	0.6
Taxes on gaming	6.4	6.1	6.6	6.6	6.1	6.8	7.5
Business activities tax	3.1	2.8	2.7	2.7	2.5	3.1	3.5
Canary Islands taxes on domestic goods (Canary Islands)	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Taxes on income, net worth and capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Corporate income tax (Navarre)	3.7	4.1	4.4	4.4	4.3	11.8	12.2
Personal income tax (Navarre and the assigned 15% of personal income tax)	0.3	0.3	0.2	0.3	0.3	0.4	0.4
Wealth tax	1.0	1.0	1.0	1.1	1.0	1.0	1.0
Inheritance and gift tax	1.0	1.0	1.1	1.0	1.0	1.0	1.0
Miscellaneous and penalties	1.5	1.9	2.1	2.0	2.0	2.2	2.4
	0.8	0.7	0.7	0.9	0.9	0.9	0.9
2. STATE TRANSFERS							
RG's share in State revenue (includes 15% share in personal income tax)	33.4	33.8	32.7	32.7	33.1	28.4	28.0
Inter-territorial Compensation Fund	24.0	27.2	27.5	27.6	27.5	23.9	22.3
Others	3.7	2.1	2.2	1.7	1.5	1.7	1.5
	5.6	4.5	3.0	3.5	4.1	2.8	4.1
3. TRANSFERS TO FINANCE THE TRANSFERRED SOCIAL SECURITY RESPONSIBILITIES							
Health care	26.3	27.3	28.9	29.6	28.8	28.1	28.3
Social services	25.3	26.1	27.8	28.3	27.2	26.5	26.6
	1.0	1.2	1.2	1.3	1.6	1.7	1.7
4. OTHER TRANSFERS							
EU funds	10.0	9.8	10.1	12.6	12.6	12.1	12.8
Local governments (b)	3.2	2.7	2.2	4.7	4.7	4.8	4.3
Social security funds (except INSALUD and IMSERSO)	5.5	5.4	5.6	5.4	5.7	5.4	5.7
Autonomous central government agencies	0.5	0.9	1.4	1.6	1.3	1.4	1.4
Other	0.1	0.1	0.1	0.1	0.1	0.2	0.3
	0.7	0.8	0.8	0.7	0.9	0.2	1.0
5. OTHER REVENUE							
	2.0	2.2	2.1	2.1	2.8	1.9	1.9
6. BORROWING							
	12.7	11.2	9.7	6.4	6.7	4.7	2.6
TOTAL RESOURCES (=100)							
(% GDP at market prices)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	(10.2)	(10.4)	(10.4)	(9.9)	(10.4)	(10.4)	(10.5)
MEMORANDUM ITEM: STRUCTURE OF THE RESOURCES ACCORDING TO THEIR ORIGIN							
TOTAL RESOURCES (=100)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Resources obtained directly from taxpayers	28.3	26.9	26.2	23.1	22.6	29.4	29.0
Resources originating in the budgets of other general government bodies	71.7	73.1	73.8	76.9	77.4	70.6	70.9
MEMORANDUM ITEM: GDP at market prices (ESP billions)							
	60746	62643	66666	71763	75823	80008	84902

(a) Including the resources received by the RGs to finance the transferred social security responsibilities, which appear in the National Accounts as resources of the social security funds, not the RGs.

(b) Basically includes the transfers received by the Basque Country RG from the Basque Country provincial authorities.

Source: Spanish National Accounts (INE), National Audit Office, Social Security System budgets and Banco de España

TABLE 5. STRUCTURE OF THE RESOURCES (EXCLUDING BORROWING) OF THE ORDINARY-REGIME AND SPECIFIC-STATUS REGIONAL (AUTONOMOUS) GOVERNMENTS

	ORDINARY-REGIME				SPECIFIC-STATUS		%		
	TOTAL		ARTICLE		TOTAL			BASQUE COUNTRY	
	(1) = (2) + (5)	(2) = (3) + (4)	143 (3)	151 (4)	(5) = (6) + (7)	(6)		(7)	
1998									
STRUCTURE: TOTAL RGS=100									
1. REVENUE	100.0	89.4	24.2	65.2	10.6	3.3	7.4		
1.1. Taxes (a)	100.0	85.8	37.6	48.2	14.2	14.1	0.1		
1.2. Transfers (a)	100.0	90.0	19.5	70.6	10.0	0.2	9.8		
1.3. Property income, fees and charges and other income	100.0	95.4	39.4	56.0	4.6	2.4	2.2		
STRUCTURE: TOTAL REVENUE=100									
1. REVENUE	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
1.1. Taxes (a)	21.1	20.3	32.9	15.6	28.2	91.5	0.2		
1.2. Transfers (a)	74.5	75.1	60.0	80.6	69.9	5.3	98.5		
1.3. Property income, fees and charges and other income	4.4	4.7	7.2	3.8	1.9	3.2	1.3		
1996									
STRUCTURE: TOTAL RGS=100									
1. REVENUE	100.0	88.6	21.9	66.7	11.4	3.1	8.3		
1.1. Taxes (a)	100.0	79.4	28.4	51.0	20.6	20.5	0.1		
1.2. Transfers (a)	100.0	89.8	20.3	69.5	10.2	0.5	9.8		
1.3. Property income, fees and charges and other income	100.0	92.8	32.7	60.1	7.2	3.5	3.8		
STRUCTURE: TOTAL REVENUE=100									
1. REVENUE	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
1.1. Taxes (a)	12.5	11.2	16.2	9.6	22.7	82.4	0.2		
1.2. Transfers (a)	82.6	83.6	76.4	86.0	74.2	12.1	97.6		
1.3. Property income, fees and charges and other income	4.9	5.2	7.3	4.4	3.1	5.5	2.2		

(a) The Basque Country RG receives a transfer from the Basque Country provincial authorities in respect of the "concerted" taxes raised by the latter
Source: Ministry of Economy and Finance, Directorate General of Co-ordination with territorial finance departments, the budgets of the RGs and administrative agencies reporting to the RGs.

TABLE 6. DEBT OF THE REGIONAL (AUTONOMOUS) GOVERNMENTS (% regional GDP at market prices) (a)

	1992	1993	1994	1995	1996	1997	1998
TOTAL	3.6	4.5	5.3	5.8	6.2	6.5	6.3
ORDINARY - REGIME	3.6	4.6	5.3	5.8	6.3	6.6	6.5
ARTICLE 143	2.7	3.3	3.8	3.8	3.9	3.9	3.8
Aragon	2.2	3.5	4.3	4.6	4.9	5.6	5.4
Asturias	3.0	2.9	3.5	3.8	3.7	3.9	4.2
Balearic Islands	2.2	2.7	2.7	2.6	2.4	2.7	2.6
Cantabria	5.7	5.7	4.9	4.0	2.7	2.9	2.6
Castile-La Mancha	1.7	2.1	2.8	2.8	3.0	3.0	3.3
Castile-Leon	1.6	2.2	3.0	3.1	3.2	3.4	3.2
Extremadura	3.4	4.8	5.6	5.9	6.4	6.0	6.1
Rioja	3.8	4.1	3.9	4.2	3.7	3.4	3.4
Madrid	2.6	3.3	3.8	3.9	4.0	4.0	3.7
Murcia	5.1	5.6	5.6	5.4	5.2	5.0	4.9
ARTICLE 151	4.4	5.6	6.6	7.4	8.3	8.7	8.6
Andalusia	5.3	6.6	7.2	7.7	8.8	9.5	9.4
Canary Islands	2.9	4.1	4.8	4.7	6.1	4.9	5.0
Catalonia	3.9	4.9	6.2	7.7	8.5	9.2	8.9
Galicia	5.6	7.4	8.5	9.0	9.5	9.6	9.4
Valencia	4.1	5.2	6.1	6.5	7.2	7.7	7.8
SPECIFIC-STATUS	4.1	5.8	7.2	7.8	8.0	8.0	7.3
Navarre	4.2	7.8	10.4	11.5	10.8	9.9	8.6
Basque Country	4.1	5.3	6.3	6.8	7.3	7.5	6.9
MEMORANDUM ITEM: GDP at market prices used for the total (ESP billions)	60746	62643	66666	71763	75823	80008	84902

(a) Only debt in the form of securities and credit other than trade credit is included.

Sources: debt, Banco de España; GDP at market prices (used for the TOTAL), EU Commission; regional GDP at market prices (used for the RGS), INE, Spanish Regional Accounts (series 1986-1996). For 1997 and 1998 national GDP at market prices has been used, distributed in accordance with the latest available Spanish Regional Accounts.

TABLE 7. IMPORTANCE OF THE REGIONAL (AUTONOMOUS) GOVERNMENTS RELATIVE TO GENERAL GOVERNMENT AS A WHOLE

	1992	1993	1994	1995	1996	1997	1998
RESOURCES OF THE RGS AS A PERCENTAGE OF TOTAL GENERAL GOVERNMENT RESOURCES	15.0	15.3	15.6	16.1	16.5	17.1	17.9
TAX REVENUE RAISED BY THE RGS AS A PERCENTAGE OF TOTAL GENERAL GOVERNMENT TAX REVENUE	6.4	6.8	7.1	7.0	6.8	10.7	11.6
USES OF RGS AS A PERCENTAGE OF TOTAL GENERAL GOVERNMENT USES	15.8	15.4	15.4	15.0	16.3	16.7	17.7
DEBT OF THE RGS AS PER THE EXCESSIVE DEFICIT PROTOCOL AS A PERCENTAGE OF TOTAL GENERAL GOVERNMENT DEBT	7.6	7.7	8.7	9.0	9.1	9.7	9.6

Source: resources, taxes and uses, Ministry of Economy and Finance (National Audit Office); debt as per Excessive Deficit Protocol, Banco de España

ANNEX 1: THE REVENUE OF THE REGIONAL (AUTONOMOUS) GOVERNMENTS IN THE NATIONAL AND BUDGET ACCOUNTS

ITEM	NATIONAL ACCOUNTS	BUDGET ACCOUNTS
<ul style="list-style-type: none"> ■ Share in State revenue (including the share in territorial personal income tax receipts) ■ Inter-territorial Compensation Fund ■ EU funds ■ Joint investment agreements ■ Programme contracts ■ Managed subsidies ■ Assigned taxes, charges for services, own taxes and surcharges on State taxes ■ Resources to finance health care and social services ■ Share of local governments in State revenue ■ Concerted taxes (specific-status RGs) ■ "Cupo" (specific-status RGs) ■ Contributions from the Basque Country provincial authorities to the Basque Country Finance Department ■ Transfers to finance health care and social services (specific-status RGs) ■ Borrowing 	<ul style="list-style-type: none"> ■ Current transfers from the State to the RGs ■ Capital transfers from the State to the RGs ■ Capital transfers (revenue) of the RGs ■ Capital transfers from the State to the RGs ■ Current or capital transfers from the State to the RGs ■ Current transfers from the State to the RGs ■ Revenue received by the RGs ■ Resources of the social security and employment funds, only in the case of transfers from the State and RGs to social security ■ Current transfers paid by the State to the local governments ■ Taxes of the Navarre RG and the Basque Country provincial authorities ■ Current transfers received by the State and paid by the Basque Country provincial authorities and the Navarre RG ■ Current transfers paid by the provincial authorities of Álava, Guipuzcoa and Vizcaya to the Basque Country RG ■ Resources corresponding to the percentage represented by the contributions of the State to the Social security Treasury Department to finance these services: reduction of the "Cupo" ■ Resources corresponding to the percentage financed with contributions: transfers from the social security funds to the Basque Country and Navarre RGs ■ Change in financial liabilities (Financial Accounts) 	<ul style="list-style-type: none"> ■ Current transfers under expenditure in the State budget and under revenue in the RGs' budgets ■ Capital transfers under expenditure in the State budget and under revenue in the RGs' budgets ■ Capital transfers originating in the EU budget, and recorded as revenue in the RGs' budgets ■ Transfers under expenditure in the State budget and transfers received in the RGs' budgets ■ Current or capital transfers under expenditure in the State budget and under revenue in the RGs' budgets ■ Current transfers under expenditure in the State budget and under revenue in the RGs' budgets ■ Revenue in the RGs' budgets (chapters I, II and III) ■ Revenue in the budget of the Social security System and expenditure, in the case of the transfers, in the State budget ■ Expenditure in the State budget, revenue and expenditure in the RGs' budget and revenue in the local governments' budget ■ Revenue in the budgets of the Navarre RG and of the Basque Country provincial authorities ■ Current transfers under expenditure in the budgets of the Basque Country provincial authorities and of the Navarre RG and revenue in the State budget ■ Expenditure in the Basque Country provincial authorities' budgets and revenue in the RGs' budgets ■ Expenditure (transfers) and revenue (lower "cupo") in the State budget and revenue (contributions and transfers) and expenditure (part of contributions) in the budget of the Social security System, and expenditure (lower "cupo") and revenue (part of contributions) in the specific-status RGs' budgets ■ Revenue in the RGs' budgets (chapter VIII)

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