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DEVELOPMENTS IN SPANISH PUBLIC DEBT IN 2018

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ABSTRACT

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

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

JEL codes: H61, H63, H74, H81.

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Introduction

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

This note describes the recent developments in Spanish general government indebtedness, drawing on the statistics compiled and published by the Banco de España, and from a comparative standpoint with the other euro area countries. For this purpose, the second section analyses public debt on the basis of the behaviour of its determinants and of its breakdown by tier of government, maturity, instrument and holder. The third section shows the main factors that have affected the deficit-debt adjustment,[3] which reconciles general government net borrowing (the deficit) to the changes in the stock of EDP debt. Lastly, the fourth section reviews the changes in 2018 in other variables related to general government indebtedness,[4] such as total liabilities, net debt, contingent liabilities and public corporations' debt.[5] The note also includes a box that describes local government deleveraging.

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

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

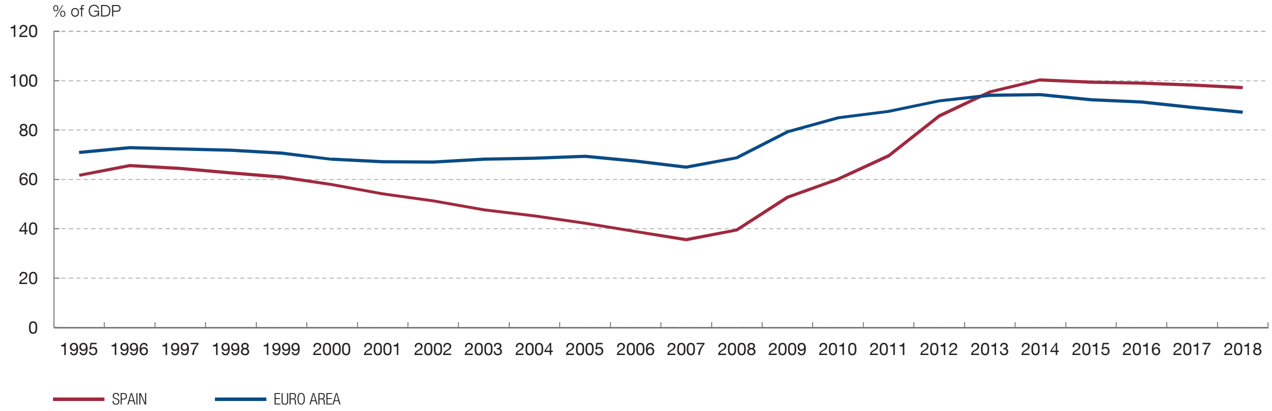
3 The deficit-debt adjustment reconciles the general government net borrowing or deficit figures to the changes in the stock of debt according to the EDP.

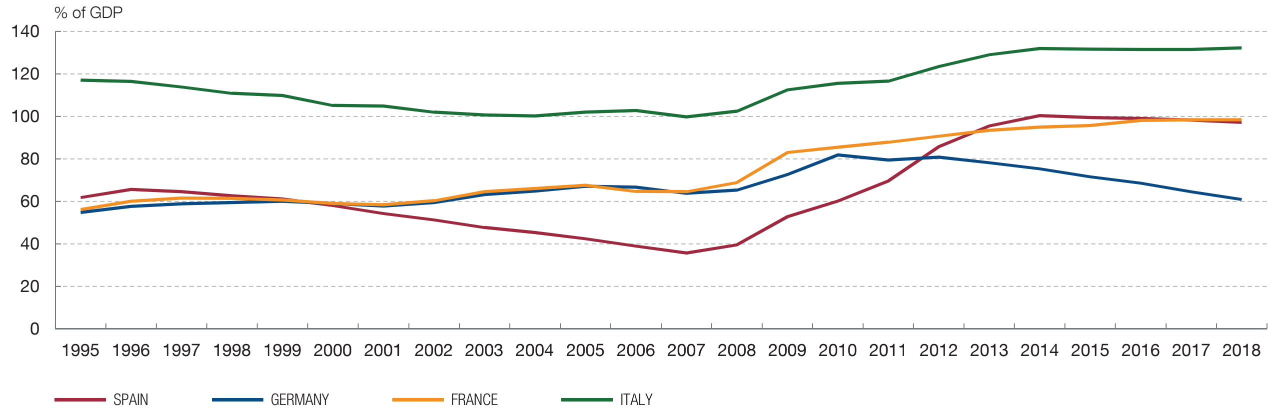
4 For a methodological discussion of the main concepts of general government indebtedness, see Gordo *et al.* (2013).

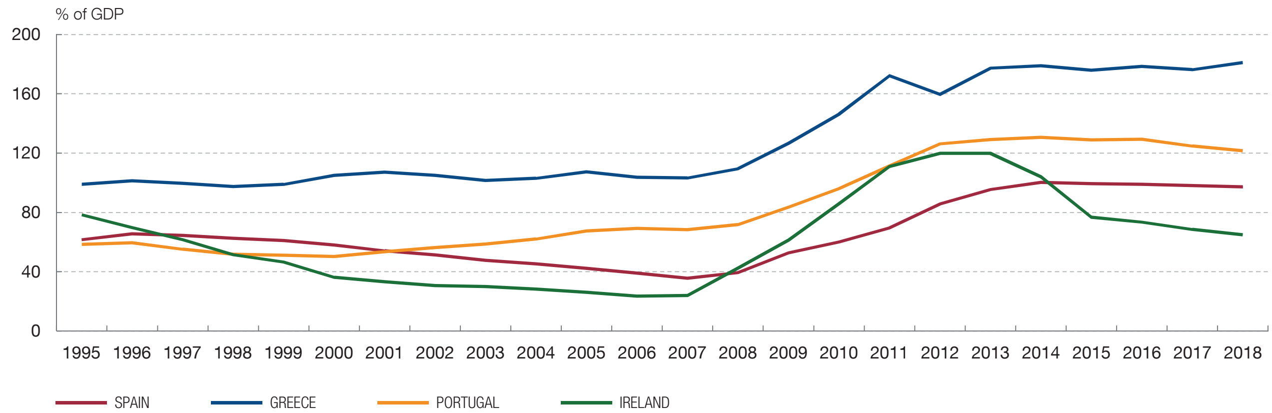
5 For a forward-looking analysis of Spanish public debt in the international setting, see Hernández de Cos *et al.* (2018).

Chart 1
EDP DEBT IN SPAIN AND IN THE EURO AREA (a)

Once again, both for Spain and for the euro area as a whole, public debt relative to GDP has declined, continuing the trend begun in 2015. The main euro area countries' debt has fallen, with the exceptions of Italy and Greece.







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

a Detailed quarterly data are published by the Banco de España in Table 2 of Chapter 11 of the Statistical Bulletin and in Table 2.16 of the *Financial Accounts of the Spanish Economy* (FASE).
http://www.bde.es/webbde/es/estadis/infoest/a1102e.pdf.
http://www.bde.es/webbde/es/estadis/ccff/cf_2_16ab.pdf.

Developments in Spanish public debt in 2018

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

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

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

As regards term structures, the outstanding balance of Spanish general government debt in 2018 remained concentrated in long-term instruments[7] (93.4% of the total), with an average life of around 7.5 years, and took the form mainly of debt securities (86.4% of the total), whose weight increased at the expense of loans (see Table 2). The weight of non-residents' debt holdings increased slightly (to 45.6%), consolidating the change in trend begun in 2012 (see Chart 3). The ECB's public sector purchase programme (PSPP), operating since 9 March 2015[8], continues to significantly affect the structure of general government debt holders. The outstanding balances of

6 The primary deficit is the deficit excluding interest expenses.

7 Securities with a duration of more than 12 months are considered long-term.

8 The description of the programme can be found on the ECB website.

Chart 2

DETERMINANTS OF THE CHANGE IN EDP DEBT IN THE EURO AREA AND IN SPAIN (a)

The 1 pp of GDP reduction in Spanish public debt is attributable to high economic growth. This has been partly offset by the interest burden. Euro area public debt has behaved similarly.

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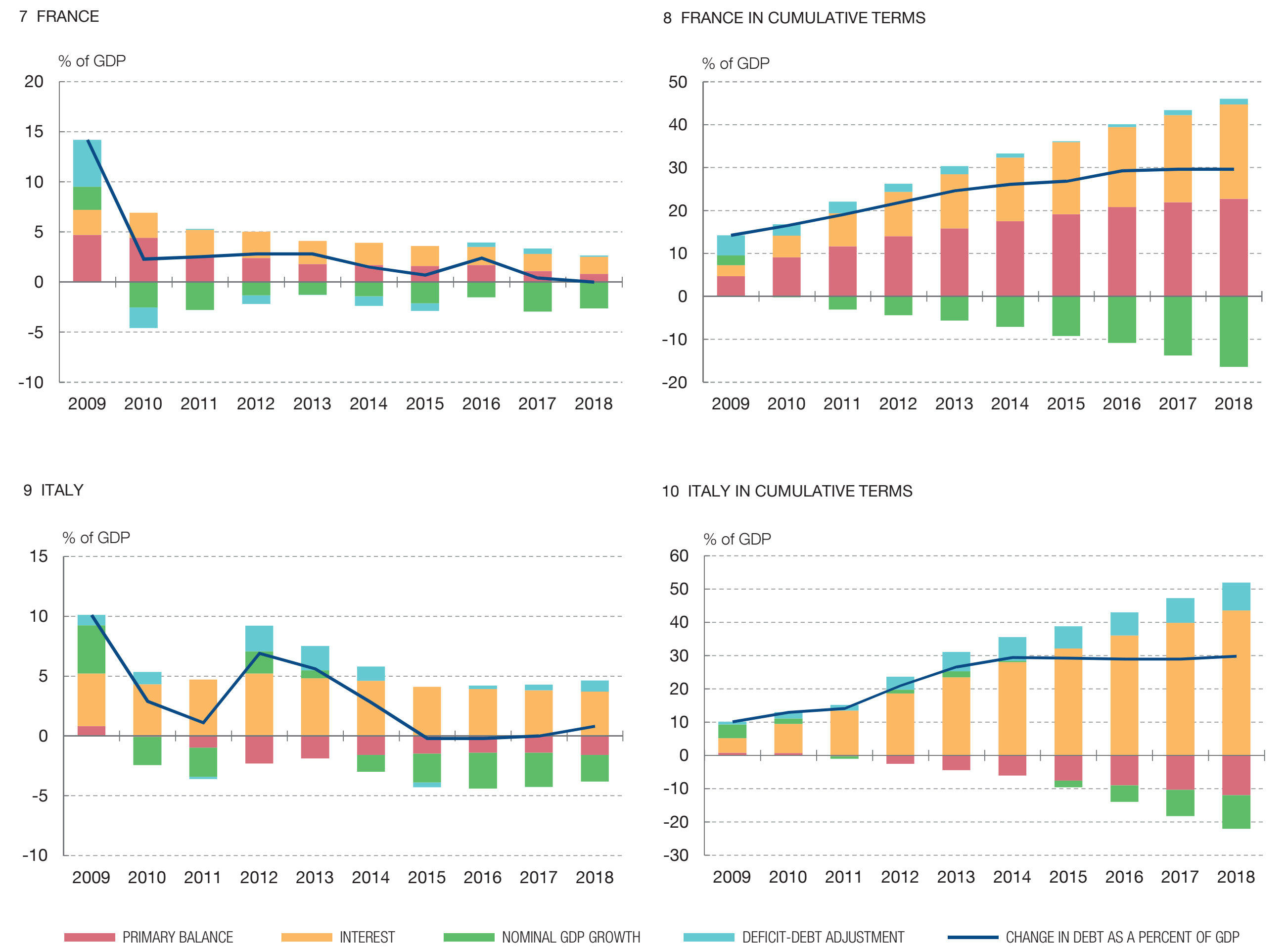
SOURCES: Banco de España and Eurostat.

a Detailed quarterly data are published in Table 9 of Chapter 11 of the Banco de España *Statistical Bulletin*. http://www.bde.es/webbde/es/estadis/infoest/a1109e.pdf.

Chart 2

DETERMINANTS OF THE CHANGE IN EDP DEBT IN THE EURO AREA AND IN SPAIN (a) (cont'd)

The 1 pp of GDP reduction in Spanish public debt is attributable to high economic growth. This has been partly offset by the interest burden. Euro area public debt has behaved similarly.



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SOURCES: Banco de España and Eurostat.

a Detailed quarterly data are published in Table 9 of Chapter 11 of the Banco de España *Statistical Bulletin*. http://www.bde.es/webbde/es/estadis/infoest/a1109e.pdf.

Eurosystem purchases of euro area countries' debt securities totalled €2.17 trillion at end-2018. That year, net purchases were €240 billion, 63% down on the previous year (see Chart 4).[9] As a result of the Eurosystem's operations, the Banco de España's Spanish public debt holdings stood at 19.3% of total public debt at end-2018 (18.8% of GDP) (see Table 2 once more).[10]

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

10 For a detailed analysis of the impact of the ECB's unconventional monetary policy programmes on Spanish public finances, see Burriel *et al.* (2017).

Table 1
CHANGE IN GROSS GENERAL GOVERNMENT DEBT (EDP) (a)

	2013	2014	2015	2016	2017	2018
Panel 1 Determinants of change in EDP debt/GDP ratio						
1 Change in EDP debt/GDP ratio (1 = 2 + 3 + 4)	9.7	4.9	-1.0	-0.4	-0.8	-1.0
2 Due to net borrowing (deficit) (2 = 2.1 + 2.2)	7.0	6.0	5.3	4.5	3.1	2.5
2.1 Primary deficit	3.5	2.5	2.2	1.7	0.5	0.0
2.2 Debt interest payment	3.5	3.5	3.1	2.8	2.6	2.5
3 Due to deficit-debt adjustment	1.5	0.1	-2.3	-1.5	0.1	-0.1
4 Effect of change in GDP	1.2	-1.1	-4.0	-3.3	-4.0	-3.4
Panel 2 Change in debt and breakdown of deficit-debt adjustment, in €m (b)						
A Change in EDP debt (A = B + C)	87,529	62,593	32,310	33,287	37,205	28,682
B Due to general government net borrowing (deficit)	71,687	61,942	57,004	49,996	35,903	29,982
C Due to deficit-debt adjustment	15,842	651	-24,694	-16,709	1,302	-1,300
C.1 Net acquisitions of consolidated financial assets	-10,141	4,798	-15,625	-11,998	12,716	9,174
Loans to Ireland, Greece and Portugal under the EFSF	4,800	1,224	-1,394	0	0	0
Spain's participation in the ESM	3,809	1,905	0	0	0	0
From the FROB (Fund for the Orderly Restructuring of the Banking Sector)	-801	-2,504	-1,357	-3,710	-2,409	-150
From the FADE (Electricity Deficit Amortisation Fund)	7,891	-851	-2,320	-1,418	-1,483	-1,414
Other assets	-25,839	5,024	-10,555	-6,870	16,607	10,738
Change in currency/deposits (excluding FROB and FADE)	-23,844	12,691	1,802	-4,848	13,995	9,933
Securities issued by foreign general government sectors (Reserve Fund)	0	-1,528	0	0	0	0
Change in other loans, shares and other equity	569	1,481	-1,231	2,747	1,116	661
Of which: privatisation of AENA	0	0	-3,439	-303	0	0
Other assets	-2,564	-7,620	-11,126	-4,768	1,496	143
C.2 Consolidated trade credits and other accounts payable	6,228	1,112	261	3,082	-4,623	-8,536
C.3 Valuation adjustments and other	19,755	-5,259	-9,329	-7,793	-6,791	-1,938

SOURCE: Banco de España.

a See Chapters 11 to 14 of the Banco de España *Statistical Bulletin* for detailed information by sub-sector.
http://www.bde.es/webbde/es/estadis/infoest/a1109e.pdf.
http://www.bde.es/webbde/es/estadis/infoest/a1203e.pdf.
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http://www.bde.es/webbde/es/estadis/infoest/a1303e.pdf.
http://www.bde.es/webbde/es/estadis/infoest/a1403e.pdf.
b A positive figure in this panel denotes an increase in nominal debt, and a negative figure a decrease.

From a comparative standpoint, in 2018 the weight of short-term debt continued to decline relative to total debt in the main euro area countries. The exception was Italy, where it held stable (see Chart 5). The percentage of the volume of debt maturing in less than one year increased by 0.1 pp in the euro area, breaking the trend of recent years and entailing a slight reduction in the average life of the stock of debt. However, the behaviour of the main euro area countries differed: the volume of debt maturing in less than one year declined in Germany, France and Spain, and increased in Italy. The proportion of total debt held by residents rose slightly in the euro area (to 54.3%). There were increases in Germany, France and Italy, while the proportion in Spain fell to 54.4%, following the trend of recent years.

Table 2
GENERAL GOVERNMENT DEBT BREAKDOWN (a)

	% of GDP						% of total		
	2013	2014	2015	2016	2017	2018	2017	2018	Difference 2018-2017
1 General government debt (1 = 2.1 + 2.2 + 2.3 = 3.1 + 3.2 + 3.3 = 4.1 + 4.2)	95.5	100.4	99.3	99.0	98.1	97.1			
2 By type									
2.1 Currency and deposits	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.0
2.2 Debt securities	74.2	79.2	80.8	82.2	83.2	83.9	84.8	86.4	1.6
2.2.1 Short-term	7.7	7.5	7.5	7.4	6.5	5.5			
2.2.2 Long-term	66.5	71.7	73.3	74.8	76.7	78.4			
2.3 Loans	20.9	20.8	18.2	16.4	14.5	12.8	14.8	13.2	-1.6
2.3.1 Short-term	1.2	1.1	1.0	0.8	0.8	0.6			
2.3.2 Long-term	19.7	19.7	17.1	15.5	13.8	12.3			
3 By maturity									
3.1 Currency and deposits	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.0
3.2 Short-term (3.2 = 2.2.1 + 2.3.1)	8.9	8.6	8.5	8.2	7.2	6.0	7.4	6.2	-1.2
3.3 Long-term (3.3 = 2.2.2 + 2.3.2)	86.2	91.4	90.4	90.4	90.5	90.7	92.2	93.4	1.1
4 By holder									
4.1 Residents	58.7	58.6	55.1	54.5	53.9	52.8	55.0	54.4	-0.5
Of which: Resident financial institutions	41.5	44.4	42.7	52.7	53.3	52.6	54.4	54.1	-0.2
Of which: Banco de España	3.7	3.9	8.2	12.8	17.5	18.8	17.8	19.3	1.5
4.2 Rest of the world	36.8	41.8	44.2	44.5	44.2	44.3	45.0	45.6	1.5

SOURCE: Banco de España.

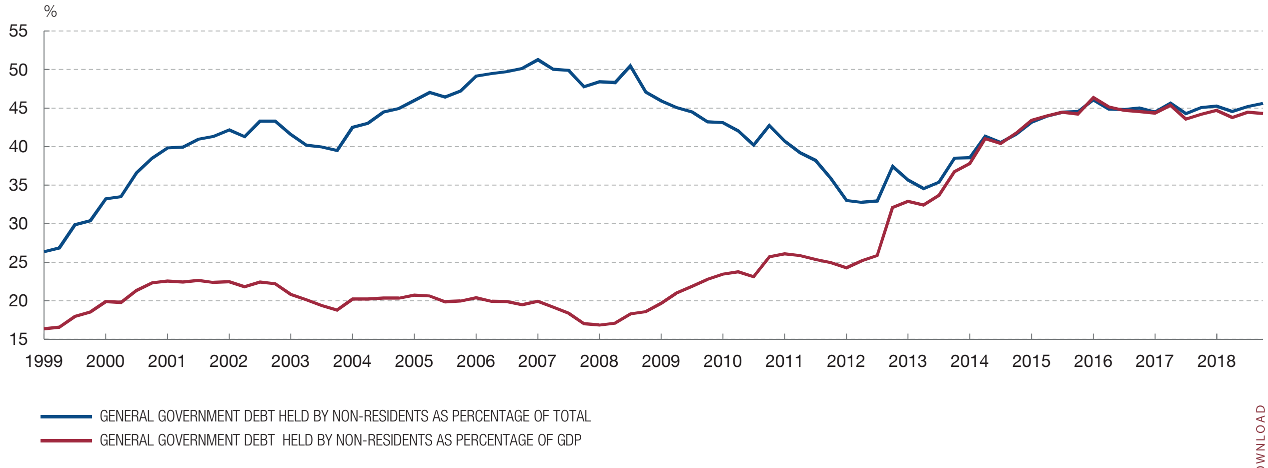
a Detailed quarterly data are published in Chapter 11 of the Banco de España *Statistical Bulletin.*
http://www.bde.es/webbde/es/estadis/infoest/a1112e.pdf.
http://www.bde.es/webbde/es/estadis/infoest/a1113e.pdf.

In a context such as Spain's, in which general government is highly decentralised, it is worth analysing the distribution of public debt by sub-sector: central government, Social Security Funds, regional government and local government. It is important to bear in mind that there are also debts between the different sub-sectors, given that in some cases an increase observed at one tier of government arises to finance another. Although these operations are consolidated when the aggregate debt of the general government sector is calculated and, therefore, do not affect the aggregate, they must be considered in order to correctly interpret the debt levels of each tier of government.

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

Chart 3
SPANISH GENERAL GOVERNMENT EDP DEBT HELD BY NON-RESIDENTS

General government debt held by non-residents as a percentage of total debt has continued growing since 2012, while practically stabilising as a percentage of GDP.



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SOURCE: Banco de España.

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

Central government debt held at 86.7% of GDP in 2018, unchanged on 2017 (see Chart 6). If account is taken of the fact that financing extended to other general government sectors has increased, up to 18.9 pp, mainly vis-à-vis regional government and Social Security Funds, the total volume of central government debt earmarked to financing this sector's activity, i.e. after stripping out the financial assets vis-à-vis other general government sectors, fell by 1.6 pp in 2018. Social Security debt stood at 3.4% of GDP, 1 pp up on 2017, and is virtually in its entirety in the form of State-granted financing.[11] However, in 2018 the Social Security Reserve Fund continued to reduce the State-issued debt it held to 0.5% of GDP, compared with the 2011 peak of 5.8%. Accordingly, Social Security debt, net of the Reserve Fund, accounted for 2.9% of GDP.

The overall regional government debt ratio fell to 24.3% of GDP in 2018[12], from 24.7% in 2017, albeit unevenly from region to region. The debt-to-GDP ratio thus declined

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

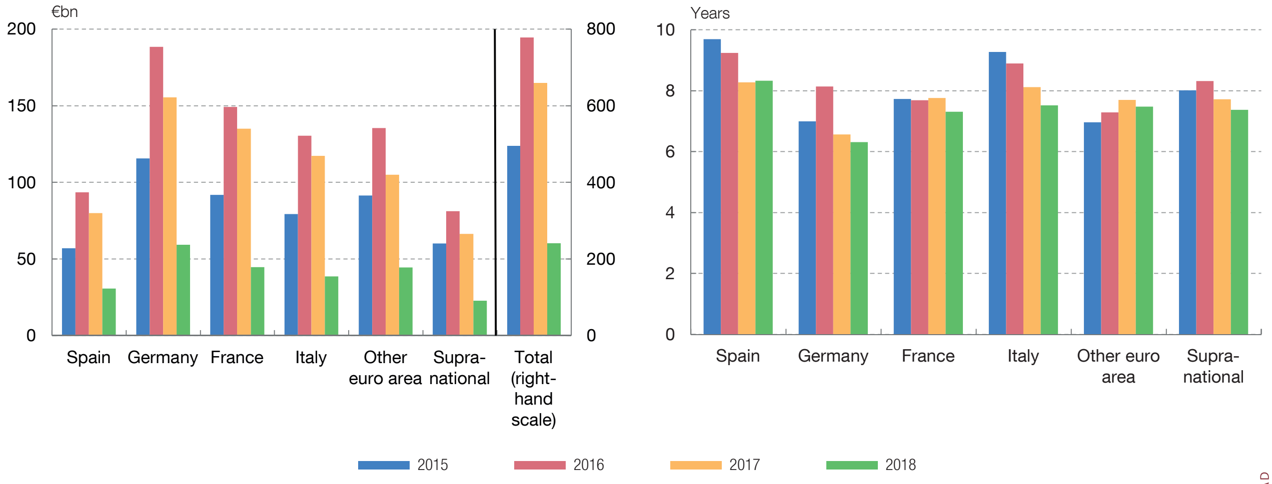
12 For a medium-term view of regional government debt, see Delgado-Téllez and Pérez (2018).

Chart 4
ECB PUBLIC SECTOR PURCHASE PROGRAMME (a)

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

1 TOTAL AMOUNT PURCHASED, BY DEBT-ISSUING COUNTRY

2 AVERAGE MATURITY (AT DECEMBER), BY DEBT-ISSUING COUNTRY



SOURCE: ECB.

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

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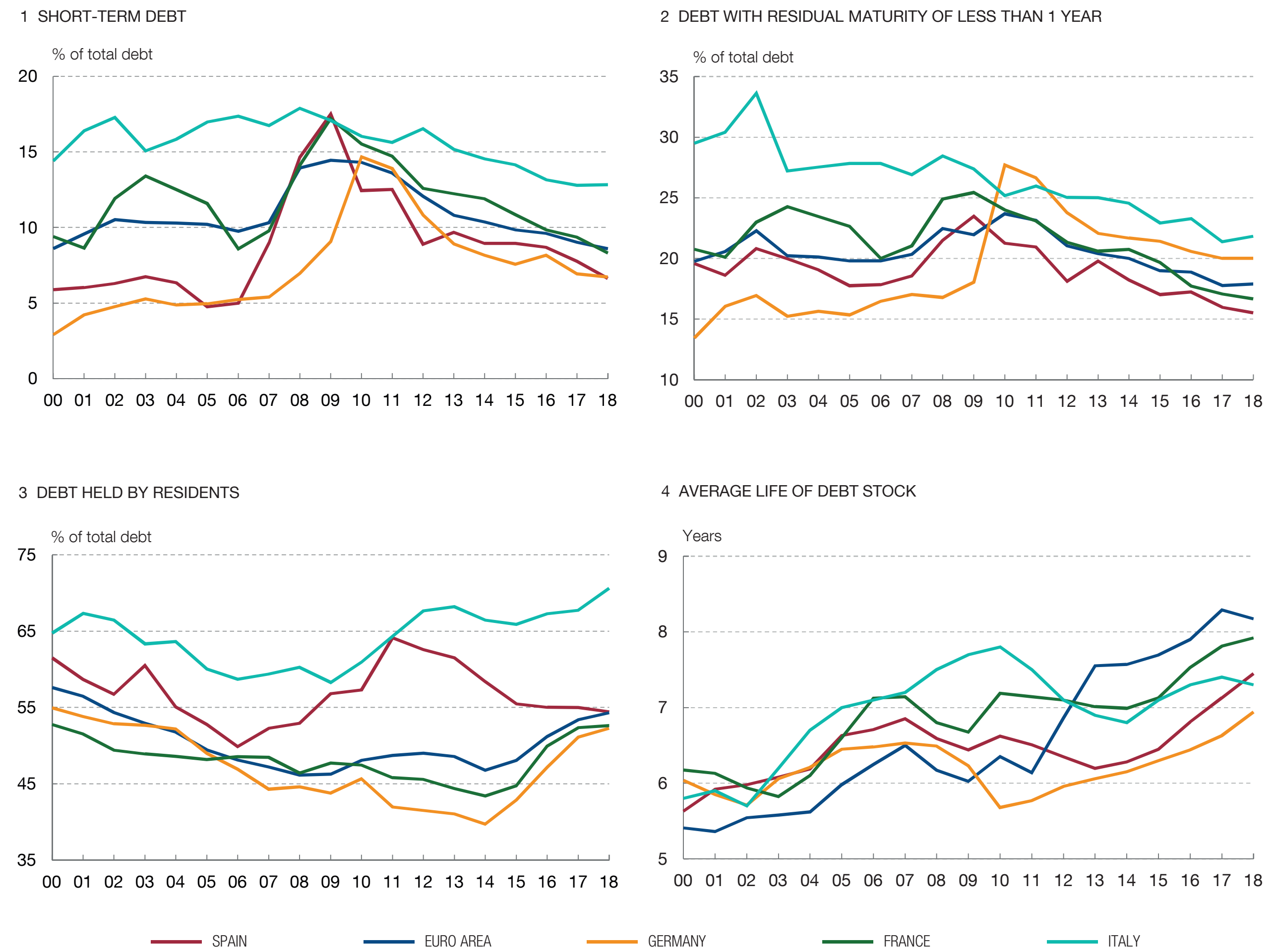
in 12 regions, increased in four and held stable in one. In terms of the level of debt, the ratio stood between 13.6% (Basque country) and 41.8% (Valencia region) of regional GDP (see Chart 7.1). The level of local government debt fell for the sixth year running in 2018 by 0.4 pp of GDP to 2.1%. From an international standpoint, Spanish regional and local government debt was higher than that of its European Union counterparts in 2018 (see Chart 7.2). Regional and local government hold no financial assets that are liabilities of other general government sectors, i.e. they have not financed other tiers of government. Conversely, both sub-sectors have in recent years, received funds from central government, which in 2018 accounted for 14.8% of GDP for regional government and 0.5% of GDP for local government. As from 2015, regional government debt held by central government is mainly part of the Regional Government Financing Fund.[13] In 2018, regional government as a whole

13 Organic Budgetary Stability and Financial Sustainability Law 2/2012 of 27 April 2012 establishes in its first additional provision that regional and local governments may apply to the State for access to extraordinary liquidity support measures. Under these provisions, since 2012 the State has set in train several arrangements, such as the Fund for Financing of Payments to Suppliers (FFPP), the Regional Government Liquidity Fund (FLA) or the extraordinary support measures for municipalities with financial difficulties. All have the common aim of providing liquidity to regional and local governments. Under Royal Decree-Law 17/2014 of 26 December 2014 the Regional Government Financing Fund was created, assuming the debt, as at December 2014, of the FFPP and the FLA, both of which were dissolved.

Chart 5
EDP DEBT STRUCTURE, COMPARISON WITH SELECTED EURO AREA COUNTRIES (a)

The weight of short-term debt has continued to decline in the main euro area countries, while debt maturing at less than one year has broken the aforementioned negative trend, with a subsequent slight reduction in the average life of the stock of debt.



SOURCES: Banco de España, Eurostat, Spanish Treasury and French Treasury.

a Detailed quarterly data are published in Chapter 11 of the Banco de España *Statistical Bulletin.*
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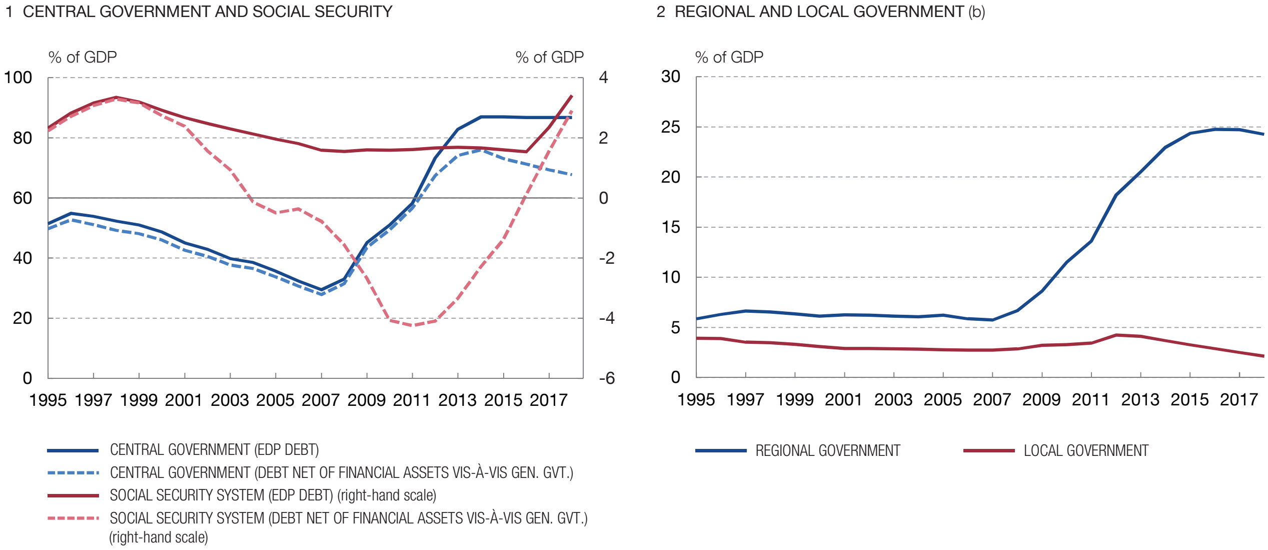
continued to increase its dependence on financing granted by central government, with the percentage of its total debt held by central government rising from 57.7% in 2017 to 61.1% in 2018 (see Chart 8 for region-by-region developments).

Deficit-debt adjustment in 2018

The so-called “deficit-debt adjustment” is a significant factor in public debt dynamics in Spain (and in other countries) and it was of particular importance during the crisis (see Chart 2 and Table 1, panel 2). Specifically, these adjustments increased the stock

Chart 6
EDP DEBT BY GENERAL GOVERNMENT SUB-SECTOR (a)

The central government, regional government and local government reduced their consolidated debt in 2018, unlike the Social Security. The growing difference between central government consolidated and non-consolidated debt is mainly due to the loans granted to regional and local government.



SOURCE: Banco de España.

a Detailed quarterly information by instrument and tier of government published in Chapters 11 to 14 of the Banco de España *Statistical Bulletin.* http://www.bde.es/webbde/es/estadis/infoest/a1107e.pdf.
b At the regional and local government level, EDP debt coincides with debt net of financial assets vis-à-vis general government.

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of debt from 2012 to 2014 by 5.3 pp of GDP, whereas they reduced it by 3.8 pp from 2015 to 2016 (with a cumulative contribution of 5.3 pp of GDP). In the past two years the related amounts have been negligible (0.1 pp of GDP in 2017 and -0.1 pp in 2018).

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

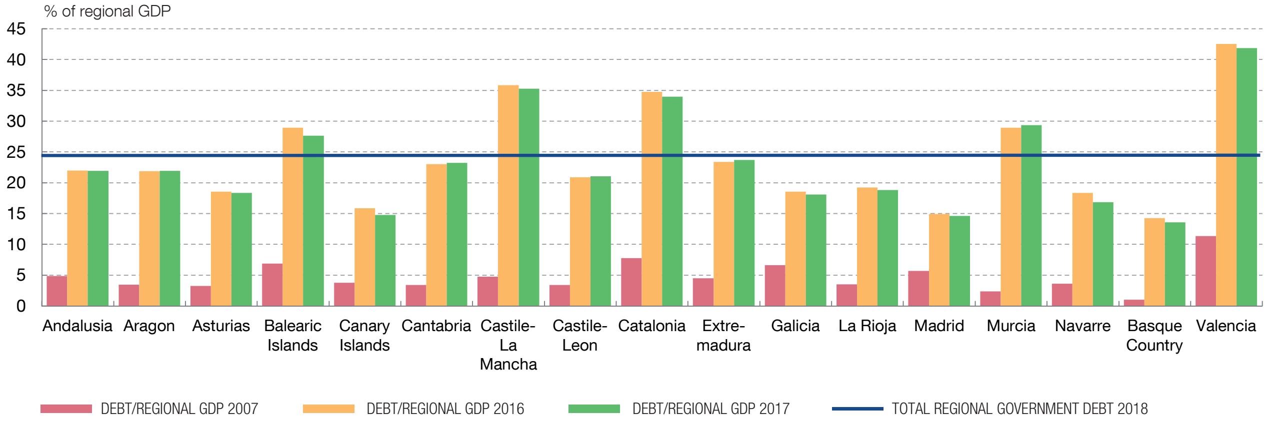
In 2018, net acquisitions of consolidated financial assets (block C.1 of Table 1) totalling €9.2 billion were made, which contributed to the increase in debt for the second year running, although this is the only positive category to the deficit-debt adjustment in 2018. Of note is the increase in holdings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

Chart 7

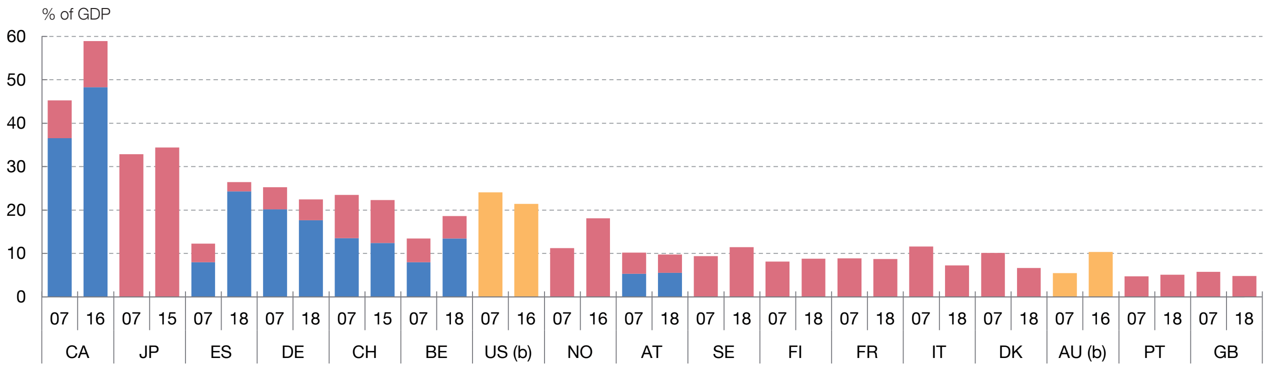
REGIONAL GOVERNMENT DEBT AND INTERNATIONAL COMPARISON OF SUB-NATIONAL DEBT

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

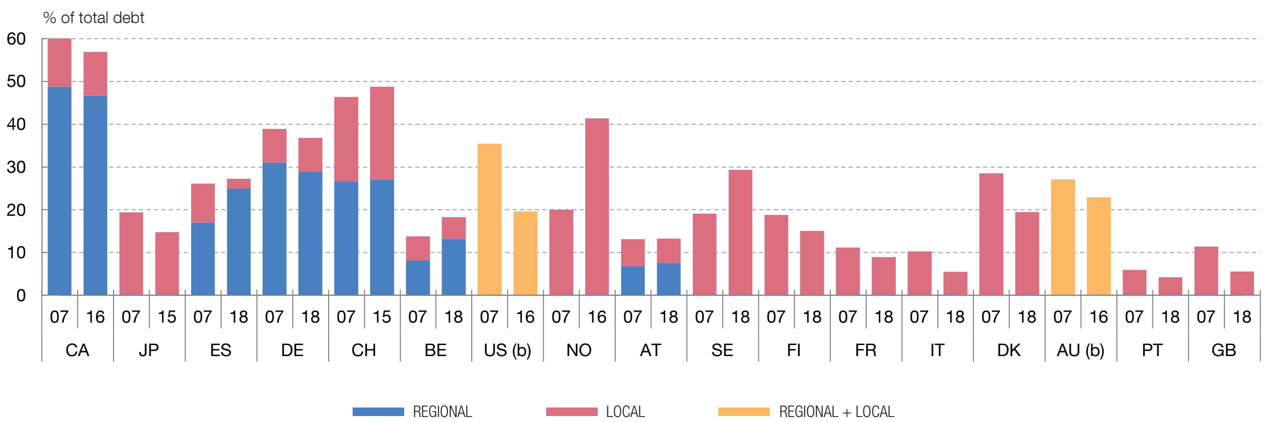
1 REGIONAL GOVERNMENT DEBT



2 REGIONAL/LOCAL GOVERMENT DEBT, INTERNATIONAL COMPARISON (a)



3 REGIONAL/LOCAL GOVERMENT DEBT, INTERNATIONAL COMPARISON (a)



SOURCES: Banco de España, Eurostat and OECD.

a Total liabilities consolidadated only within each of the three sectors: Central, which consolidates Social Security Funds and Central Government; Regional (consolidated); and Local (consolidated). The United States, Switzerland and Japan are not consolidated owing to non-availability of data.

b Only the sum of Regional plus Local is available.

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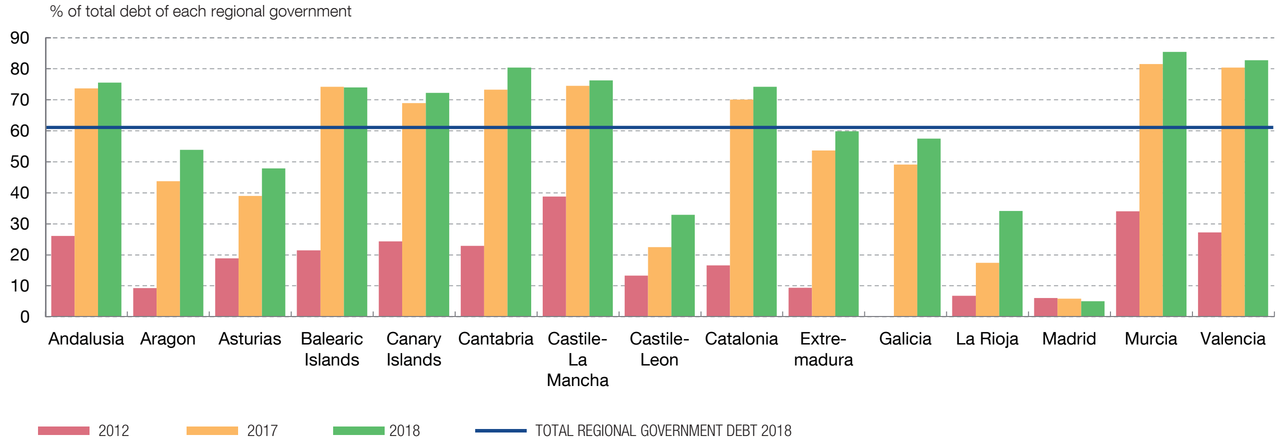
Chart 8

REGIONAL GOVERNMENT DEBT VIS-À-VIS CENTRAL GOVERNMENT ARISING FROM ADDITIONAL LIQUIDITY SUPPORT FACILITIES (a)

Regional government dependence on central governement financing has increased relative to the previous year: Murcia and Valencia show the greatest dependence, and Madrid and Castile-Leon the least.



SOURCE: Banco de España.

a The Navarre and Basque Country regional governments have not received any amount in the form of loans from central government. At present, the sole liquidity support mechanism for the regional governments is the Regional Government Financing Fund, which is divided into three facilities: the Financing Facility, of which the regional governments that meet budgetary stability targets may voluntarily avail themselves; the new Regional Government Liquidity Fund, for regional governments that have not met such targets, similar to its predecessor (FLA); and the Social Fund, to finance regional governments' outstanding debts with local governments, in order to ensure compliance with the agreements on social spending. In addition, the Regional Government Financing Fund acquired the assets and liabilities of the Fund for Financing of Payments to Suppliers, now defunct.

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The category of Consolidated trade credits and other payables, instruments that can be used to finance the deficit but that are not included in EDP debt, increased considerably in 2018, posting a negative contribution of €8.5 billion to the deficit-debt adjustment (block C.2 of Table 1). Along these same lines, the Valuation adjustments and other (block C.3 of Table 1) contributed negatively to the deficit-debt adjustment, which was due in the main to the effect of positive issue premia.[14]

Financial assets and liabilities and other types of government debt

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

14 The positive issue premium is the amount additional to the nominal value paid by purchasers of debt securities. These premia are not included in the valuation of EDP debt since, according to EDP methodology, only the face value of issues is taken into account.

Table 3
DIFFERENT GENERAL GOVERNMENT DEBT CONCEPTS (a)

€m and % of total	EDP debt		Liabilities *FASE*		Consolidated liabilities *FASE*	
1 Currency and deposits	4,707	0.4	4,707	0.3	4,707	0.3
2 Debt securities	1,013,392	86.4	1,160,112	70.1	1,142,989	83.5
Securities held by general government	—	—	17,123	1.0	—	—
Other securities (short and long-term)	1,013,392	86.4	1,142,989	69.1	1,142,989	83.5
3 Long-terms loans between different tiers of government	—	—	237,364	14.3	—	—
4 Other long-term loans	148,338	12.6	148,338	9.0	148,338	10.8
5 Short-term loans	6,669	0.6	6,669	0.4	6,669	0.5
6 Trade credits and other liabillities between different tiers of government	—	—	31,093	1.9	—	—
7 Other trade credits and other liabilities	—	—	66,566	4.0	66,566	4.9
8 TOTAL (8 = 1 + 2 + 3 + 4 + 5 + 6 + 7)	1,173,107	100.0	1,654,850	100.0	1,369,270	100.0
Percentages of GDP mp	—	97.1	—	137.0	—	113.3
Memorandum item: 2018 GDP mp	1,208,248					

SOURCE: Banco de España.

a Detailed data are published quarterly by the Banco de España in Table 1 of Chapter 11 of the *Statistical Bulletin* and in Tables 2.16.a and 2.38.a of the FAS.
http://www.bde.es/webbde/es/estadis/infoest/a1101e.pdf.
http://www.bde.es/webbde/es/estadis/ccff/cf_2_16ab.pdf.
http://www.bde.es/webbde/es/estadis/ccff/cf_2_38ab.pdf.

Total general government liabilities

According to the *Financial Accounts of the Spanish Economy* (*FASE*), the total liabilities incurred by general government include, in addition to the above-mentioned EDP debt, the general government liabilities held by other general government sectors and trade credits and other accounts payable. These reflect, inter alia, deferrals of payments that general government sectors owe to their suppliers of goods and services.[15]

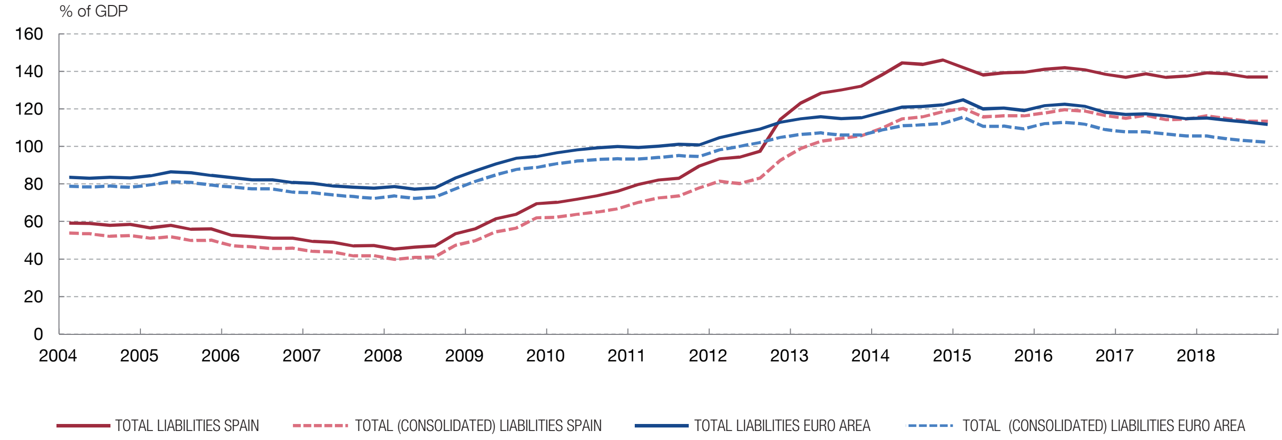
In 2018 Spanish general government liabilities fell by 0.5 pp of GDP to 137% of GDP, compared with 111.6% in the euro area (see Table 3 and Chart 9). However, once financing between the different tiers of general government is taken into account, general government consolidated liabilities are notably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

15 The valuation of liabilities in the *Financial Accounts of the Spanish Economy* is based on ESA 2010 methodology. This employs market prices in the stocks and flows of liabilities in the form of debt securities, while debt calculated according to the EDP is based on nominal values which, in the EDP methodology, are equivalent to face values.

Chart 9

TOTAL GENERAL GOVERNMENT LIABILITIES IN SPAIN AND THE EURO AREA (a)

Total general government liabilities in Spain fell once again in 2018, in line with the euro area. However, the amount of central government loans to regional and local government increased.



SOURCES: Banco de España and Eurostat.

a Detailed quarterly data are published by the Banco de España in Table 1 of Chapter 11 of the *Statistical Bulletin* and in Table 2.16 of the *FASE.*
http://www.bde.es/webbde/es/estadis/infoest/a1101e.pdf
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to the impact that the significant fall in interest rates at all terms has had on the price of government debt.

The stock of general government trade credits and other accounts payable increased in 2018 to 8.1% of GDP (see Table 4 and Chart 10).[16] This was due to an increase of some €5 billion in accounts payable, mainly vis-à-vis non-financial corporations and households, with significant increases both for central government and the Social Security Funds. Both regional and local government slightly increased their stock of trade credits in 2018.

Net general government debt

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

16 Changes in the trade debt of the general government sector are attributable in part to the introduction of various support arrangements for regional and local governments to normalise general government payment periods to suppliers [see Delgado-Téllez *et al.* (2015)].

Table 4
TRADE CREDITS AND OTHER GENERAL GOVERNMENT ACCOUNTS PAYABLE (a)

€m and % of GDP	2013	2014	2015	2016	2017	2018
Total general government	96.546	93.643	94.278	88.585	92.703	97.510
As % of GDP	9,4	9,0	8,7	7,9	7,9	8,1
Vis-à-vis non-financial corporations and households	58.221	55.869	54.499	50.272	55.245	63.325
As % of GDP	5,7	5,4	5,0	4,5	4,7	5,2
Vis-à-vis general government (consolidation)	37.418	36.346	38.048	35.335	34.823	31.093
As % of GDP	3,6	3,5	3,5	3,2	3,0	2,6
Vis-à-vis other economic sectors	907	1.429	1.732	2.978	2.635	3.093
As % of GDP	0,1	0,1	0,2	0,3	0,2	0,3
Central government	32.514	36.339	36.980	34.638	38.855	41.305
Vis-à-vis non-financial corporations and households	26.883	28.309	26.282	23.362	26.965	31.482
Vis-à-vis general government (consolidation)	5.192	7.081	9.270	8.560	9.468	6.969
Vis-à-vis other economic sectors	439	948	1.427	2.716	2.422	2.854
Regional government	35.640	28.732	25.293	22.370	20.514	20.950
Vis-à-vis non-financial corporations and households	16.489	11.827	9.207	7.102	6.461	7.809
Vis-à-vis general government (consolidation)	18.901	16.605	15.867	15.079	13.897	12.961
Vis-à-vis other economic sectors	250	301	219	189	157	180
Local government	17.292	17.558	17.914	17.784	18.479	18.715
Vis-à-vis non-financial corporations and households	13.151	14.099	14.333	15.313	16.263	16.792
Vis-à-vis general government (consolidation)	3.923	3.280	3.496	2.399	2.160	1.865
Vis-à-vis other economic sectors	218	180	85	72	56	59
Social Security Funds	11.101	11.014	14.091	13.793	14.855	16.539
Vis-à-vis non-financial corporations and households	1.698	1.634	4.676	4.495	5.557	7.242
Vis-à-vis general government (consolidation)	9.403	9.380	9.415	9.298	9.298	9.298
Vis-à-vis other economic sectors	0	0	0	0	0	0

SOURCE: Banco de España.

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

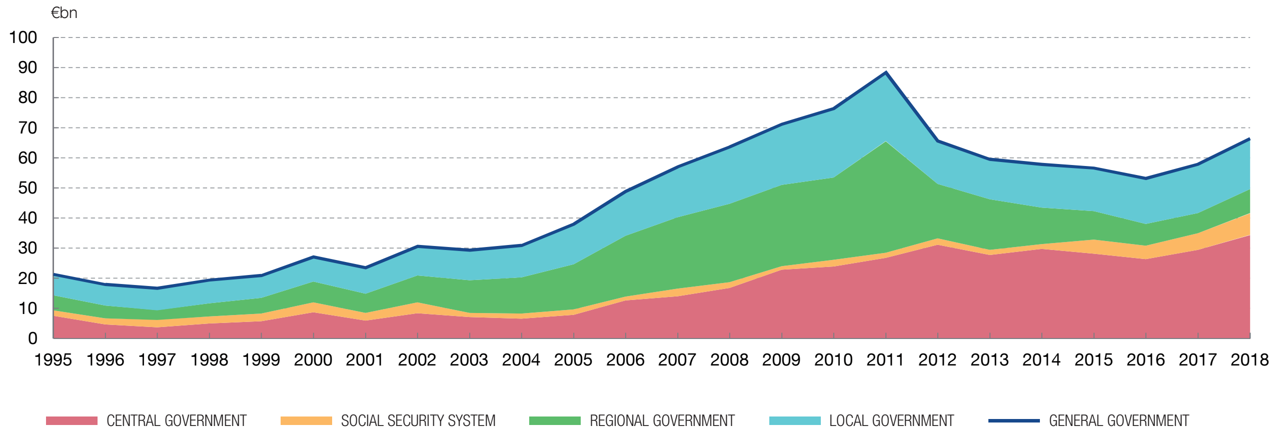
consolidated assets, a percentage that has held fairly stable in recent years. If total consolidated financial assets were subtracted from total consolidated liabilities, the resulting net liability would amount to 80% of GDP at end-2018, below the 2017 figure (81.2%).

Contingent liabilities

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

Chart 10
TRADE CREDITS AND OTHER CONSOLIDATED ACCOUNTS PAYABLE (a)

In 2018, following the increase the previous year, the declining trajectory in other accounts payable initiated in 2012 resumed, thanks to greater control of trade credits.



SOURCE: Banco de España.

a The chart includes the amounts accumulated at year-end. Quarterly data for each general government sub-sector are published in Chapters 11 to 14 of the Banco de España *Statistical Bulletin.*
http://www.bde.es/webbde/es/estadis/infoest/a1101e.pdf.
http://www.bde.es/webbde/es/estadis/infoest/a1201e.pdf.
http://www.bde.es/webbde/es/estadis/infoest/a1211e.pdf.
http://www.bde.es/webbde/es/estadis/infoest/a1301e.pdf.
http://www.bde.es/webbde/es/estadis/infoest/a1401e.pdf.

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liabilities of the agent receiving the guarantee.[17] However, they do represent contingent liabilities for public finances, insofar as the guarantee could be fully or partly enforced. Were this to occur, a capital transfer paid to the original debtor would be recorded as a balancing entry and, therefore, both the general government deficit and debt would increase.

In the case of guarantees given by the Spanish general government sector, the Banco de España publishes information on the outstanding balance of debt guaranteed by the State[18] and by regional[19] and local[20]government. According to this information, the volume of these guarantees given by the State has fallen by 8.4 pp of GDP from the 2012 peak, down to 7.7% of GDP in 2018. This has been, above all, as a result of the decline in the outstanding guarantees with credit

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

18 http://www.bde.es/webbde/es/estadis/infoest/e0605e.pdf.

19 https://www.bde.es/webbde/es/estadis/infoest/a1307e.pdf.

20 https://www.bde.es/webbde/es/estadis/infoest/a1407e.pdf.

Table 5
GENERAL GOVERNMENT FINANCIAL ASSETS (a)

€m and % of GDP	2013	2014	2015	2016	2017	2018
1 Non-consolidated general government financial assets (1 = 1.1 + 1.2 + 1.3 + 1.4 + 1.5)	644,269	671,024	631,522	623,976	657,199	688,504
As % of GDP	62.8	64.7	58.4	55.8	56.3	57.0
1.1 Currency and deposits	72,709	83,925	85,453	79,287	92,939	102,891
1.2 Debt securities	86,921	69,866	52,383	27,610	23,755	19,929
Short-term	2,445	580	1,918	375	3,578	4,273
Long-term	84,476	69,286	50,464	27,235	20,177	15,656
1.3 Loans	224,655	254,250	225,808	247,276	270,642	296,726
1.4 Shares and other equity	150,741	155,036	164,818	172,593	171,009	173,825
1.5 Financial derivatives	0	275	603	584	302	126
1.6 Other accounts receivable	109,243	107,673	102,458	96,626	98,552	95,007
2 Consolidated general government financial assets (2 = 1 – 3)	372,583	383,605	381,261	377,612	390,439	402,924
As % of GDP	36.3	37.0	35.3	33.8	33.5	33.3
3 Consolidation (3 = 3.1 + 3.2 + 3.3)	271,685	287,419	250,261	246,364	266,759	285,580
3.1 Debt securities	72,968	61,365	48,549	24,643	21,041	17,123
3.2 Loans	161,299	189,709	163,665	186,386	210,896	237,364
3.3 Other accounts receivable	37,418	36,346	38,048	35,335	34,823	31,093

SOURCE: Banco de España.

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

Table 6
DEBT OF PUBLIC CORPORATIONS (a)

€m and % of GDP	2012	2013	2014	2015	2016	2017	2018
1 EDP debt of public corporations (1 = 1.1 + 1.2 + 1.3)	47,472	45,824	43,546	43,322	39,702	38,233	36,116
As % of GDP	4.6	4.5	4.2	4.0	3.5	3.3	3.0
1.1 Public corporations controlled by central government	33,436	33,270	33,054	33,189	30,900	30,752	29,380
As % of GDP	3.2	3.2	3.2	3.1	2.8	2.6	2.4
1.2 Public corporations controlled by regional government	7,106	6,133	5,520	4,997	4,457	3,750	3,259
As % of GDP	0.7	0.6	0.5	0.5	0.4	0.3	0.3
1.3 Public corporations controlled by local government	6,930	6,421	4,972	5,137	4,345	3,731	3,477
As % of GDP	0.7	0.6	0.5	0.5	0.4	0.3	0.3

SOURCE: Banco de España.

a In Tables 11.14, 12.10 and 13.11 of the Banco de España *Statistical Bulletin,* additional information is published quarterly, broken down by corporation and controlling tier of government.
http://www.bde.es/webbde/es/estadis/infoest/a1114e.pdf.
http://www.bde.es/webbde/es/estadis/infoest/a1210e.pdf.
http://www.bde.es/webbde/es/estadis/infoest/a1311e.pdf.

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

Public corporations' debt

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

3.7.2019.

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

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Box 1

LOCAL GOVERNMENT DELEVERAGING

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

The Organic Law on Budgetary Stability and Financial Sustainability (LOEPSF by its Spanish abbreviation)[1] provides the broad framework for the management of all Spanish general government finances. In particular, this law restricts overall local government indebtedness to a maximum of 3% of national GDP (or, at the individual level, to 110% of each local government's current revenues).[2] The LOEPSF further regulates the end-use of the local government budget surplus. Article 32 of this law acknowledges that, generally, the surplus should be assigned to reducing debt incurred, provided that the entity has a positive cash balance for general expenses. The amount of this balance acts as a ceiling on the amount of surplus that can be assigned to repaying debt. Further, the sixth provision of Article 32 sets criteria for alternative uses of the budget surplus. As a result, entities that meet these requirements can assign a portion of their surplus to financially sustainable investments.[3]

Local government debt accounted, on average, for close to 3% of GDP in 1995-2007, matching the ceiling set by the LOEPSF. However, in the past decade, the sector's debt increased significantly, exceeding 4% of GDP in 2012 (see Chart 1). This higher local government debt was mainly due to the growth of financing with the State (0.9%

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

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

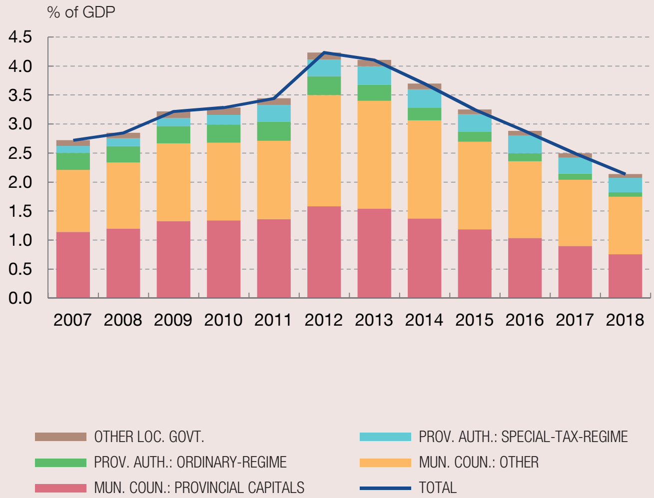
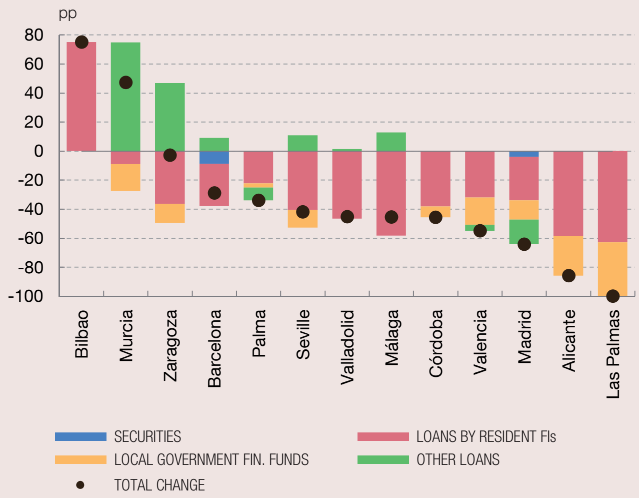


Chart 2
CHANGE IN EDP DEBT STOCK FROM 2012 TO 2018, BY INSTRUMENT (b)



SOURCE: Banco de España.

a Other local government includes island authorities and autonomous cities.
b Other loans includes loans from non-resident institutions and from public-private associations.

1 Organic Law 2/2012 of 27 April 2012. See Gordo, Hernández de Cos and Pérez (2013) for a detailed analysis of this legislation.

2 The authorisation of debt above this level is conditional upon membership of the Management Fund (subject to conditionality measures) within the Local Government Financing Fund. Local governments with a debt ratio between 75% and 110% have to request authorisation from the oversight body to take on debt.

3 Financially sustainable investments are those geared to improving the quality of life and the long-term economic growth of the local government entity. The law stipulates the groups of programmes that can make these investments.

of GDP). It was a consequence of the set of measures aimed at reducing the liquidity problems of local government suppliers, which had seen their payables increase most significantly during the crisis.[4] Since 2012, local government as a whole has undergone a substantial and prolonged deleveraging process, in step with its improved budget balance and with an increase in its financial assets.[5] Deleveraging has reduced its stock of public debt by almost 40% from its 2012 peak (a reduction of 2% of GDP). Currently, the local government debt/GDP ratio stands at 2.1%, below both the 3% debt ceiling set by the LOEPSF and the ratio of financial assets (chiefly in currency and deposits) to GDP, which is also at 3%.

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

The ongoing reduction in debt of the overall local government sector evidences some heterogeneity across its constituent entities.[6] Among the set of municipalities with more than 300,000 inhabitants (see Chart 2), most municipal councils have lowered their stock of debt, with some achieving a reduction of 60% since 2012 (e.g. Madrid, Alicante and Las Palmas). Conversely, other councils have recorded deleveraging on a smaller scale, or have even recorded net increases in their public debt. In terms of its composition, deleveraging has been centred on the repayment of loans with resident financial institutions (FIs), although larger municipalities have also reduced their exposure on financial markets.

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

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

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