Spanish Public Debt: myths and facts

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Key highlights

- The recent slide in economic growth has renewed the doubts about the future path of Spanish Public Debt.
- The Excessive Deficit Procedure (EDP) measure of public debt reached 68,5% of GDP in 2011. Satisfying the fiscal consolidation targets will allow to stabilize it around 85% of GDP.
- The items not included in the EDP definition of public debt added up to €171 bn in 2011 Q3, placing the total unconsolidated liabilities of the General Government at 82% of GDP. The weight of these items has slightly decreased during the 2007-2011 period.
- Spanish public debt as defined in the EDP is one of the lowest in the Eurozone. This is still the case when we consider the ratio of total liabilities of the General Government to GDP.
- Payable accounts doubled their size between 2006 and 2011 but the ratio with respect to total liabilities was 10% in September 2011, close to the level it was in September 2006.
- The increase in the level of payable accounts is not motivated by an increase in the funding of any particular public administration.
- The debt of public corporations which is not included in the EDP definition of public debt remained unchanged in 2011 at 5,2% of GDP.

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Introduction

The sustainability of public debt of many Eurozone countries is still under debate. In Spain, it departed from very low levels, public debt according to the Excessive Deficit Procedure (EDP) was 35% of GDP in 2007, but its rapid surge between 2008 and 2011 and the recent slide in economic growth have renewed the doubts about its future path.

In 2011, public debt reached 68,5% and the Spanish Government expects that it will go up to 79,8% at the end of 2012. At this stage, the Spanish Government determination in satisfying the fiscal consolidation targets is of utmost importance. Not only the credibility of the Spanish economy is at stake, but it is also an opportunity to stabilize it at a relatively comfortable level, around 85% of GDP, a value that is still below the figures of Germany, France and Italy.

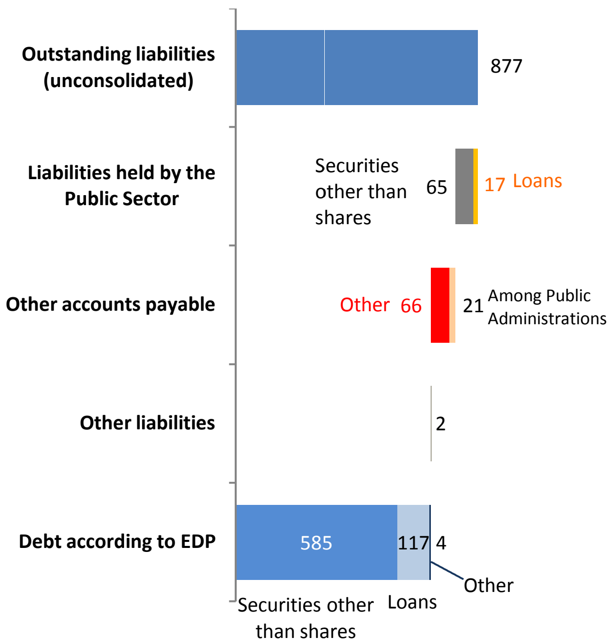
However, the complete evaluation of the sustainability of Spanish public finances must also take into account the items not included in the EDP definition of public debt. This is the focus of the current note. At first glance, the magnitude of the non-EDP items might seem a potential source of concern. They added up to €171 bn in 2011 Q3, placing the total liabilities of the General Government at 82% of GDP. However, a deeper and thorough analysis shows it should not.

General Government debt measures

According to the Excessive Deficit Procedure accounting standards fixed by the European Commission (EDP), Spanish public debt reached 66% of GDP in 2011 Q3. However, this measure does not include the payable accounts, nor the liabilities held by the General Government (fig. 1). Taking these into account, total liabilities add up to 82% of GDP.

Figure1. Differences between total liabilities of the General Government and public debt according to the EDP

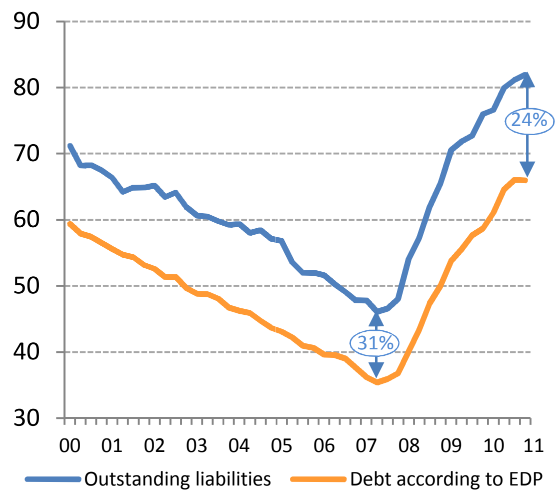
billion euros



Source: Bank of Spain and own calculations

Figure 2. Evolution of public debt measures

%GDP



Source: Bank of Spain and own calculations

The time-evolution of public debt and total liabilities is shown in figure 2. The relative difference between them has remained quite stable during the last decade. In 2000, the level of public debt was 59% of GDP according to the EDP, while total liabilities represented 71% of GDP -that is, they were 20% higher. Eight years later, when Spanish public debt recorded its minimum (35% of GDP), total liabilities were 31% higher. Both measures have increased markedly since then, but their relative size has not. In fact, the weight of the items excluded from the EDP definition of public debt slightly decreased during the 2007-2011 period (the latest data available -2011 Q3- shows total liabilities were 24% above public debt).

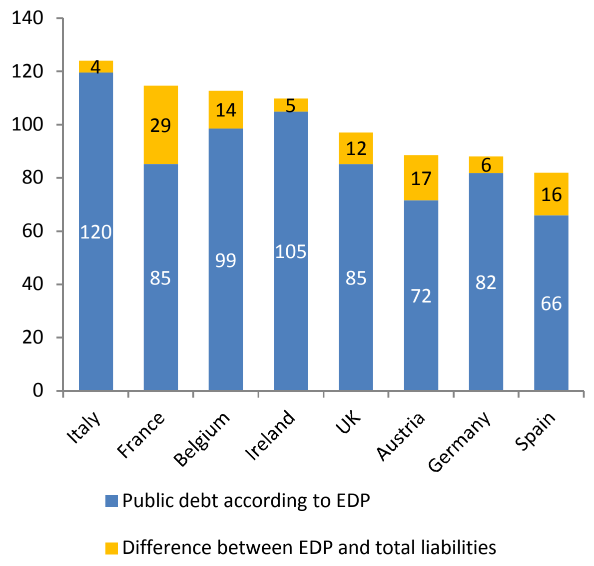
Despite the important increase in Spanish public debt observed between 2009 and 2011, its level as a percentage of GDP is still one of the lowest in the Eurozone (fig. 3). Remarkably, this value is still well below the figures of Germany, France and Italy, and this is still the case when we consider the ratio of total liabilities to GDP. In these terms, Germany is 6 pp above, France is 32 pp and Italy 42 pp.

The difference between total liabilities and public debt according to the EDP is small in the case of Germany, Italy and Ireland. Countries with a mid size gap include Spain, UK, Belgium and Austria. The most extreme case is France, where total liabilities are 34 pp above the EDP definition of public debt.

Another important issue is that the change in total liabilities is not the result of a change in the composition of the liabilities of the public administrations that Spain comprises (fig. 4). These are the Central Government, the Regional Autonomous Governments, and Local Governments. The share of total liabilities from Regional Autonomous Governments has been growing (it was 11%, 15% and 19% in 2000, 2005 and 2011, respectively), but the slope of this trend has not changed during the recent years. Most of the increase in total liabilities is due to the Central Government, but its weight relative to the total has slightly decreased.

Figure 3. Public debt measures, international comparison

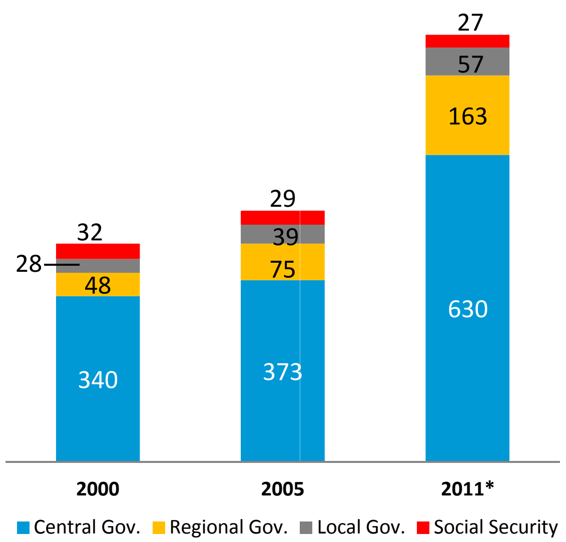
%GDP



Source: Eurostat and European Central Bank

Figure 4. Total liabilities by administration

billion euros



* 2011 Q3

Source: Bank of Spain

Payable accounts, credit and public corporations' debt in detail

The amount of payable accounts by public administrations was relatively stable between 2000 and 2006 (fig. 5) but it started to increase afterwards: it doubled its size in 5 years, being close to €40 bn in March 2006 and €80 bn in September 2011. This increase was accompanied by a change in the accounts receivable as well, both from public administrations and from other sectors, especially between 2010 and 2011. Summing up, the net payable accounts increased in the 2006-2009 period, but have remained stable since then.

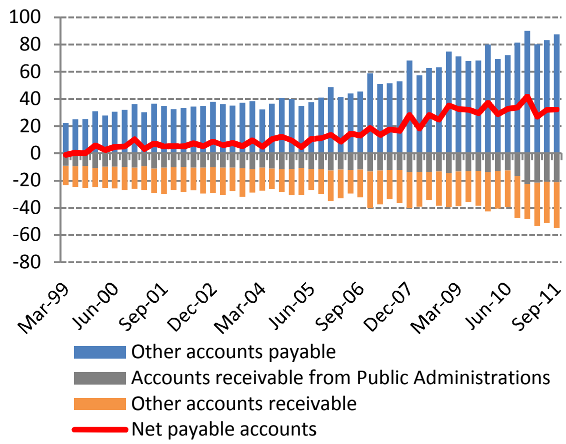
Most of the increase in the payable and receivable accounts was due to the increase in the level of total liabilities. For instance, the level of payable accounts to total liabilities increased between 2006 and 2007, reaching a maximum level of 13,6% in December 2007. However, it has reversed this trend since then, and this ratio was 10% in September 2011 (close to the level it was in September 2006).

The increase in the weight of payable accounts (as a percentage of total liabilities) placed this ratio close to the levels of France, especially between 2007 and 2010 (fig. 6). Note that when it stabilized in Spain in 2011, it experienced a sudden increase in France. In contrast, this ratio has been stable in Germany during the last decade, remaining below 5%.

In Spain, the increase in the level of payable accounts since 2006 is not motivated by an increase in the funding of any particular public administration (fig. 7). Regional Governments made an increasing use of it during the years prior to the recession. In 2007, payable accounts represented almost 30% of their total liabilities. But, since then, this ratio has experienced a clear negative trend that placed it in September 2011 at the same level of September 2006. Note that none of the other public administrations show a significant change in the use of payable accounts during the last five years.

Figure 5. Evolution of payable and receivable accounts

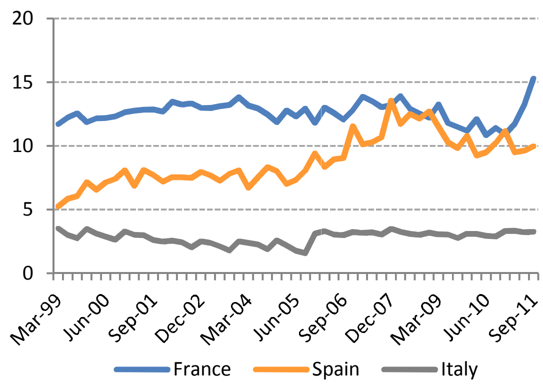
billion euros



Source: Bank of Spain and own calculations

Figure 6. Evolution of payable accounts in Spain, France and Germany

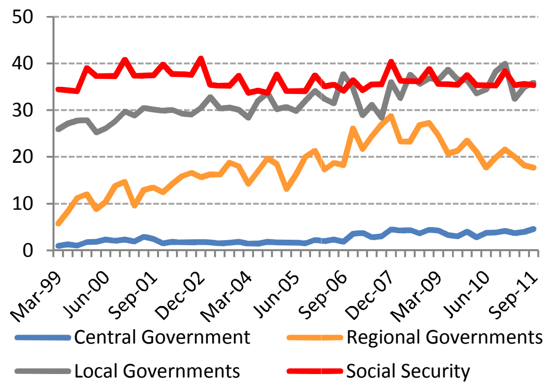
% of total liabilities



Source: Bank of Spain and own calculations

Figure 7. Payable accounts by administration

% of total liabilities



Source: Bank of Spain and own calculations

The total gross level of payable accounts by public administrations was €88bn in September 2011 (€21bn held by the General Government). In order to reduce it, the Spanish Government will place a credit line of €35bn to repay overdue bills held by Local (€15 billion) and Regional (€20 billion) Governments. These loans will be granted either by the Official Credit Institute (ICO) or by Spanish financial institutions.

The effect of this measure is twofold. On the one hand, public sector payable accounts will be reduced around 3 pp of GDP and, in consolidated terms, General Government payable accounts will shrink below its receivable assets. On the other hand, this measure will increase loans to the public sector in the same amount. Hence, in terms of the financial accounts, this will not represent a change in general government total liabilities. Actually, this will just have a composition effect, moving €35 bn from one line of the balance sheet to another.

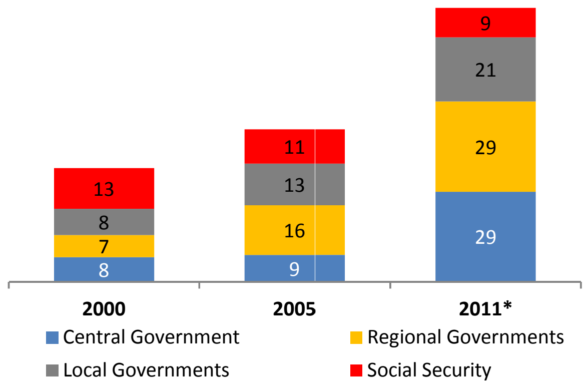
After applying this measure, loans will become the main financing source for Regional and Local Governments. Their weight over total financial liabilities will increase considerably in both, Local and Regional Governments (up to 83% and 56% respectively).

The effect of this measure on public debt according to the EDP standards is noteworthy. Loans are included in both indicators of public sector indebtedness, but payable accounts are only taken into account in total financial liabilities. Therefore, the difference between total public liabilities and public debt according to the EDP is going to decrease.

The debt of public corporations which is not included in the EDP definition of public debt, reached 5,2% of GDP in December 2011 (fig. 10). This is 3 pp above the minimum level reached in 2004. The upward trend has been driven mainly by the increase in the debt of the corporations related to the Central Government (such as RENFE or AENA). Most of the increase occurred between 2007 and 2010 while in 2011 it remained unchanged.

Figure 8. Payable accounts by administration

billion euros

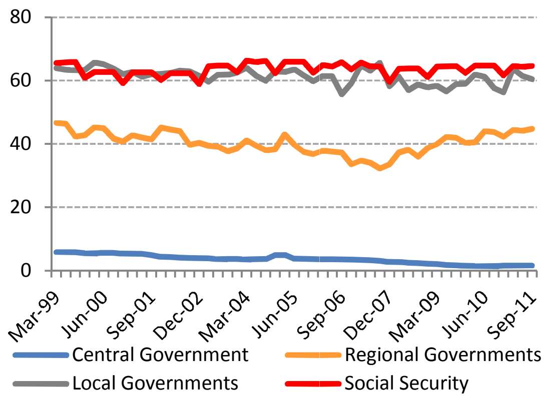


* Third term 2011

Source: Bank of Spain and own calculations

Figure 9. Loans by public administration

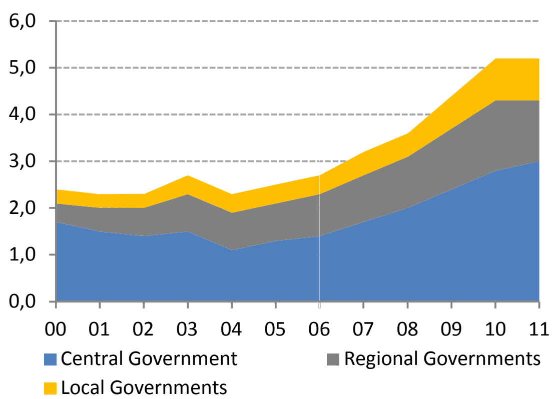
% of financial liabilities



Source: Bank of Spain and own calculations

Figure 10. Debt of public corporations*

% of GDP



* Not included in the EDP definition of public debt.

Source: Bank of Spain and own calculations