FOCUS · A return to the markets for Spain's Autonomous Communities

The level of general government debt has been anchored at around 100% of GDP for the past five years and, so far, the recovery in economic activity has not been enough to bring public administration out of the red. Although most of this public debt comes from the central government, Spain's Autonomous Communities (AC) hold a significant proportion, equivalent to 25% of the country's GDP,[1] well above the 16% reached just five years ago. Debt has increased across all the Autonomous Regions although the levels are very different (see the enclosed chart). This article explains the deficit financing mechanisms and debt maturities in the case of the Autonomous Communities.

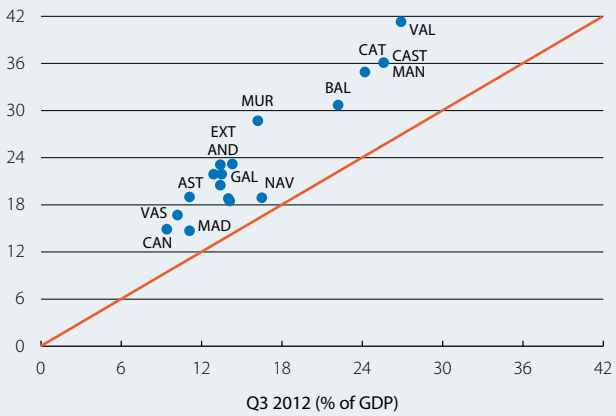
According to Spain's Organic Act on Autonomous Community Financing (LOFCA in Spanish), passed in 1980, ACs can issue debt to meet debt maturities or finance their deficit permitted according to principles of budget stability. Until 2012, ACs issued debt directly on the markets, albeit subject to central government authorisation. However, the economic and financial crisis made it difficult for the ACs to access markets. In view of this situation, the central government set up various mechanisms to improve the financial capacity of the ACs. The most important was the Autonomous Liquidity Fund (FLA in Spanish), set up in 2012. Through this mechanism, it was the central government that accessed the markets to raise funds, which were then passed on to the ACs via long-term loans.[2]

However, membership of the FLA entailed certain commitments: the AC in question must draw up an adjustment plan to ensure the deficit and debt targets are met. It must also report monthly on how the budget is being spent.

In 2015, the FLA was integrated within the Autonomous Financing Fund (FFA in Spanish).[3] The aim of this mechanism was twofold: continue to support ACs with liquidity problems and enable ACs without liquidity problems to take advantage of the lower financing costs enjoyed by central government. The fund was therefore divided into two parts. The first is the continuation of the FLA, compulsory for ACs that do not meet the stability targets. The second acts as a Financial Facility for those ACs that are on target in terms of stability.[4]

Public debt by Autonomous Community

Q3 2017 (% of GDP)



Source: *CaixaBank Research, based on data from the Bank of Spain.*

How much has the FLA been used?

Difficulties in accessing markets at costs similar to those available to the central government have led to these mechanisms being extensively used, to the extent of the state becoming their biggest lender (56% of AC debt is owed to the central government). In fact, 70% of the total debt from the FFA and the former FLA has been used to cover the financing needs of three communities: Catalonia (33%), Valencia (22%) and Andalusia (15%).

Despite the favourable conditions offered by these financing mechanisms,[5] they also create significant rigidities for ACs. The financing has highly standardised repayment and is subject to numerous budget conditions. As a result, given the current environment of low interest rates and lower public deficits in the autonomous regions, various ACs are reconsidering their financing strategy, turning increasingly to the markets. Several ACs issued debt on the market in 2017, such as Asturias, La Rioja and Castile & Leon. For 2018, the Community of Madrid has already announced it will dispense with the FFA. In fact, in February it issued a 10-year bond with an interest rate 21 bp above the Spanish Treasury's equivalent benchmark bond. Given the relatively low costs, other ACs are also considering going back to the markets, such as Andalusia and Aragon, and this trend will most likely increase.

1. In Q3 2017.
2. Royal Decree-Law 21/2012.
3. Article 21 of Royal Decree-Law 17/2014.
4. A Social Fund was also created to pay AC obligations regarding local authorities resulting from social spending agreements.
5. The total cumulative savings of ACs between 2012 and 2016 is estimated at EUR 15 billion. See De la Fuente, Á. (2017) «Los mecanismos adicionales de financiación: cantidades desembolsadas, subvenciones a los intereses y efectos sobre la financiación efectiva de las CCAA», FEDEA and IAE.