Fiscal discipline and decentralization: 
*the case of Spain*

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*Rome, 10 July 2008*
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- The process of fiscal decentralization
- Relevant issues
- The Spanish experience
- The fiscal rule
The process of fiscal decentralization
1. Three levels of government

- CENTRAL
- REGIONAL (Comunidades Autónomas)
- LOCAL
2. Expenditure assignments

Percentage of the total public expenditure for each level of government.
3. An ongoing process

Percentage of the total public expenditure

- Central
- Regional
- Local
- Social Security
4. Fiscal decentralization process

Percentage of the total public expenditure

1982

- Regional and Local Government: 15%
- Central Government: 53%
- Social Security: 33%

1996

- Regional and Local Government: 29%
- Central Government: 37%
- Social Security: 34%

2006

- Regional and Local Government: 29%
- Central Government: 22%
- Social Security: 49%
5. International comparison

Decentralization in a number of OECD countries
Sub-national governments’ share in general government revenues and expenditures

Source: World Bank, fiscal decentralization indicators
Relevant issues
The Spanish experience
6. Relevant issues

- Does decentralization lead to a higher level of expenditure?
- Does decentralization make difficult the fiscal consolidation?
- Territorial dimension: *economic efficiency*?
- Asymmetric decentralization
- One fiscal policy, 18 budgets
7.1. The Spanish experience: decentralization and public expenditure (I)
7.2. The Spanish experience: decentralization and public expenditure (II)

Percentage of GDP

7.3. The Spanish experience: decentralization and fiscal consolidation (I)
7.4. The Spanish experience: decentralization and fiscal consolidation (II)

General government net lending (+) or net borrowing (-)
Percentage of GDP

Source: European Commission, Economic forecast, spring 2008
7.5. The Spanish experience: decentralization and fiscal consolidation (III)

General government gross debt
Percentage of GDP

Source: European Commission, Economic forecast, spring 2008
7.6. The Spanish experience: decentralization and fiscal consolidation (IV)

Public finances in EU-15 (2007)
Percentage of GDP

Source: European Commission, Economic forecast, spring 2008
8. Territorial dimension

![Graph showing the relationship between Regional GDP (mill. €) and Population. The x-axis represents Regional GDP (mill. €) ranging from 0 to 180,000, and the y-axis represents Population ranging from 0 to 8,000,000. The graph contains several data points indicated by red diamonds.]
9. Assymetry between expenditures and revenues

Expenditures

Revenues

- Subnational governments
- Central Government
10. Fiscal autonomy

Regional governments revenues (2005)
11. The Central State budget

- Compensation of employees: 11%
- Interest: 11%
- Other items: 9%
- Transfers to sub-national government: 38%
- Other transfers: 31%
12. The role of the central State

- 18 budgets, 1 fiscal policy
- The Central State has a key role to guarantee:
  - minimum level of provision of the same public services for every region
  - mechanisms to ensure cohesion and solidarity
  - internal stability pacts
The fiscal rule
13. The Budgetary Stability Law Principles
14. Main drawbacks of the 2001 Law

- Didn’t take the economic situation into account
- Regional governments didn’t assume the Law
- Lack of involvement of the regional and local governments in the decision making process
15. The reform of the Stability Law

**GOALS**

- Take into account the economic cycle
- Improve the productivity
- Promote the involvement of the regional govs
16. Fiscal discipline mechanisms

Budgetary Stability Law

- Stability over the economic cycle
- Medium term objectives (3 years)
- Annual expenditure limit
- Contingency fund
17. The stability over economic cycle

Deficit (-) or Surplus (+) (% of GDP)

Growth rate

DEFICIT < 1% PIB

SURPLUS

BALANCE
18. Report on economic cycle

<table>
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<tr>
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<th>2009</th>
<th>2010</th>
<th>2011</th>
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<td>GDP (% change vs. previous year)</td>
<td>2.3</td>
<td>2.8</td>
<td>3.1</td>
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<td>GDP deflator</td>
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<td>2.8</td>
<td>2.8</td>
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<tr>
<td>Employment (% change vs. previous year)</td>
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<td>1.8</td>
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19. Budgetary objectives

<table>
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<td>Local Government</td>
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<td><strong>General Government</strong></td>
<td><strong>0.82</strong></td>
<td><strong>0.70</strong></td>
<td><strong>0.80</strong></td>
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</table>
20. Procedure for setting the budgetary stability objective

- Consulting period
- Approval overall objectives by the Central Gov.
- Approval overall objectives by the Parliament

- April
- May
- June
- July

Report on economic cycle

Report issued by the CPFF * and the CNAL**

Approval of the individual objectives for each of the Autonomous Communities

* Tax and Financial Council of the Self-Governing Communities
** Local Councils National Commission
21. Deficit for investments

- Exceptional
- Restrictions:
  - Financing: At least 30% with public savings
  - Maximum: 0.5% of GDP
22. Aggregate deficit

<table>
<thead>
<tr>
<th></th>
<th>CYCLICAL</th>
<th>INVESTMENTS</th>
<th>TOTAL</th>
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<td>REGIONAL GOV</td>
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<td>LOCAL COUNCILS</td>
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<tr>
<td>AGGREGATE</td>
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<td>0.50</td>
<td>1.50</td>
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</tbody>
</table>
23. Monitoring and Enforcement

- Central Government is responsible for monitoring
- On the basis of a report (submitted by the Ministry of Economic and Finance) on the degree of compliance with the stability objective
- Enforcement is based on the principle of co-responsibility
- Early warning mechanism
- Authorisation required for issue public debt take into account the compliance with the BSO
24. Actions taken in case of non-compliance

- Deficit is a exceptional situation
- Exceptional deficits must be justified in a medium-term corrective plan
25. Conclusion

- Spain in one of the most decentralized OECD countries
- The Central gov. has a key role to foster internal stability pacts
- The Stability Law has increased the credibility of the budgetary policy
- The Law has improved the coordination among the three levels of governments
THANK YOU VERY MUCH

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