Isabel Argimón–Francisco Martí: Available data on-budget and off-budget activities of Spanish central, state and local governments[1]

In this paper we present an analysis of the informative content of available public sector data for Central, State (Regional) and Local Governments in Spain. We first review the framework that defines budgetary arrangements in place in Spain, with a special emphasis on the decentralization process. We then present official budgetary projections for the balance of the different levels of Government and compare them with both outturn and national accounts data. We assess the magnitude of the differences between budgetary and national accounts balance data and between the latter and a balance obtained with currently available data on a broad definition of public sector activity. We attempt to establish some regularities in the relations among the different accounting variables.

JEL classification: H62, H68,H72.
Keywords: Budget forecasts and monitoring; State and Local deficits; Off-budget activities.

1. INTRODUCTION

The forecast and monitoring of fiscal policy and fiscal accounts requires that data be released in a timely pattern. The quality and amount of data referring to public sector activity available in Spain depends on the level of Government in question. While the amount of information from the Central level of government[2] is rather large and is provided with regularity and short lags, information for the rest of the General Government is rather poor, as is provided with rather long lags. In particular, data for State (Regional)[3] and for Local Governments is rather scarce. Such scarcity is relevant when we take into account that, in 2006, State Governments expenditure in Spain accounted for 14.6% of GDP, while Local Governments accounted for 6.2%. The increasing importance of lower levels of Government in the determination of General Government expenditure has not been accompanied by an equivalent increase in the amount of information being published in relation to these decentralised institutions. In particular, national accounts data for State and Local Governments is released with a long delay and with very little disaggregation. Hence, its usefulness for forecasting purposes is rather limited. Information related to budgetary data is more easily available, at least for the Central and Regional Governments and with shorter delays than national accounts data. Therefore, in spite of the fact that such data cannot be directly integrated in the macroeconomic scenario, as the latter are necessarily in national account terms, it is worth considering its use for monitoring and forecasting.[4] The comparison between initial and final budgetary outcomes and final national accounts data could provide an indicator of the usefulness of cash data to recast the initial forecasts and monitor government's performance.

On the other hand, some information that cannot be considered as referring to General Government under the national accounting framework seem to be relevant for fiscal policy analysis. In particular, such data correspond to activities by public firms, and other public entities or are associated to financing activities. Such data could provide additional insight into the activity of the public sector, and thus, in a broader assessment of the incidence of the public sector, they should be taken into account.[5] However, the lack of data on Public Private Partnership (PPP) activities in Spain limits the scope of this approach.[6]

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[2] In fact, in all this paper, the term Central Government refers to central budgetary and non budgetary sections (Ministries, and the bodies and services reporting to them) and Public Corporations classified as General Government.

[3] In this paper, State (Regional) Governments include governing bodies of Regional (Autonomous) Governments (CCAA), their Administrative Agencies and similar, Universities and Public Corporations classified as General Government, and Social Security units managed by the Regional Governments.

[4] See J. Pérez (2005), for a model that integrates different public sector indicators to project fiscal outcomes.

[5] We would like to include information on public firms that carry out quasi-fiscal activities, public-private partnerships, contingent liabilities plus government asset funds. See the discussions carried out in the Fiscal Affairs Department of the International Monetary Fund on which activities to include to assess global fiscal risk.

[6] See L. Torres and V. Pina (2002), for an analysis of PPP initiatives in Local Governments.

This article presents the information currently available for the Spanish Central, State (Regional) and Local Government and tries to assess its relevance for forecasting, monitoring or structural analysis. In particular, by comparing the different trends in public finances provided by different accounting frameworks, it tries to assess their usefulness for short-term analysis, both in terms of forecasting and monitoring or for a more structural analysis. The article is structured as follows. In Section 2 we review the framework that defines budgetary arrangements in place in Spain. In the next two Sections we compare initial budgetary data, which is rather easy to obtain early in the fiscal year, with actual outturn and with national accounts data which is used to integrate government's activity with the rest of the economy. Section 5 moves away from national accounts, and assesses the inclusion in the analysis of information contained in public debt data, and other available data referring to public sector activity that is either carried out by institutions that are currently classified outside the Government sector in national accounts terms or that correspond to financial activity. Conclusions are drawn from the comparison between trends and levels in national accounts balances for the different levels of Government and the trends and levels resulting from such a broader approach.

2. INSTITUTIONAL FRAMEWORK FOR CENTRAL, REGIONAL AND LOCAL GOVERNMENT BUDGETS

The Central, Regional and Local Governments in Spain organize themselves in a general administration, which is composed of different administrative units, and an institutional administration that is composed of different autonomous organisms (administrative, financial, commercial…) and public entities and enterprises to provide some services. Both General administration and institutional administration are different from municipality to municipality and region to region in relation to the number of institutions, their denomination and functions. However, there are some common factors among all levels of government, such as the fact that budgets need parliamentary (or the municipal representatives') endorsement to be implemented and if they have not been approved by January 1st, they are automatically extended. Moreover, all levels of Government produce annual budgets that match natural years.

The Law that established the Autonomous financing system (Ley Orgánica 8/1980, of 22nd September) requires Regional Governments to produce budget laws that share homogeneous criteria in order for them to be able to be consolidated with the budget of the Central Government. The homogeneity is reflected in the fact that each regional and local budget and the Central budget share the same classification for revenue and expenditure chapters both for non financial and financial items. However, the institutional coverage does not need to be the same.[7]

The case of Regional Governments

The size of Regional Governments has been growing for many years. The recovery of democracy triggered a process of decentralization that, although it has already reached a rather mature stage, is still evolving and has not settled down. While the Constitution clearly specifies expenditure responsibilities across the different levels of government it only sets general principles as far as the financing system is concerned. Such asymmetric treatment has led to a periodic reconsideration of financing arrangements, starting in 1986 for Regional Governments, after an initial transitory period. Since that date, a series of agreements lasting five years each has defined a process, which has implied an increasing transfer to regions of responsibilities on the expenditure side, which has been ill matched with an equivalent transfer of resources or the capacity of raising them. In particular, the transfer of taxing capacity is still rather limited.

The process has not been homogeneous, neither through time nor among Regional Governments. In terms of powers assumed there have been major distinctions between those regions that had education and health responsibilities and those that had neither or only one of them. The last agreement, reached in 2002, when all regions assumed health care responsibilities, aimed at being the definitive one as, since then, all regions, with the exception of the Basque Country and Navarre, have the same expenditure responsibilities under a common financing system.

In terms of financing arrangements, the largest differences lays on the distinction between "ordinary regime" regions, with limited fiscal autonomy and "specific status" regions (the Basque Country and Navarre), with larger financial autonomy. Because of historical developments, the Basque Country and Navarre enjoy considerable freedom in establishing and administering personal and corporate income taxes. For these regions, most expenditure responsibilities have been devolved with the only notable exception of pensions, which are still administered by the central social security system. Both regions contribute to the central government with a fixed share of GDP to cover the expenditures that remain in the hands of the central government, including defence and nationwide infrastructure.

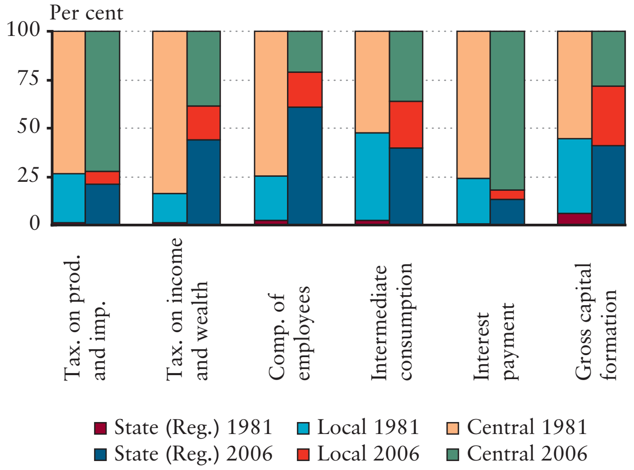
[7] This affects mainly health expenditure and its budgetary treatment.

The decentralization process has progressed in the direction of enhancing fiscal co-responsibility, although there is still considerable room for larger changes in this area. In particular, under the 2002 agreement, the one that prevails now, the sources of financing for the "ordinary regime" regions include shared taxes,[8] transferred taxes for which Regional Governments cannot change neither the tax rates nor the rules, but receive,[9] own taxes[10] and transfers from the Central government.[11]

The level of decentralization is rather large as shown in Figure 1, which presents the proportions of certain categories of revenue and expenditure in national accounts terms in the hands of State and Local Governments over the sum of these same expenditures and revenue channelled through State, Local and Central Governments. In all the categories analysed there has been an increase in the weight of State Governments. In particular, the increase has resulted in more than 40% of the sum being in the hands of State Government in the case of indirect taxation, and investment, while both components of consumption in the hands of State Governments account for more than 60% of the overall expenditure. The minor weight played by interest payments results from the fact that no transfer of debt in the hands of Central Government was made to State Governments when decentralization took place.

Figure 1

Devolution structure: 1981–2006[1]



Source: Ministry of Economy and Finance and Bank of Spain.

[1] Structure of 1981 based on ESA79. Structure of 2006 based on ESA2000.

Therefore, while in the 1980s the limited amount of information in relation to State Government budgetary data was not so relevant for the analysis of General Government developments, the decentralization process has implied that data for State and local Governments is growing more and more crucial for the analysis of fiscal policy in Spain

In 2002, the Budgetary Stability Laws (BSL, Leyes de Estabilidad Presupuestaria) were passed, establishing a rule that mandated a balanced budget or a surplus at the sub national level on a yearly basis. While in aggregate terms, the State Government sub sector managed to comply with the rule in 2003 (the first year of implementation), 11 out of the 17 regions ran a deficit that year, reflecting the low enforcement capacity of the Law. A reformed Law was passed in 2006, which aims at increasing ownership and observance by the regions, as well as providing explicit room for counter-cyclical action. It also requests the Central Government to run a balanced budget or a surplus, without allowing its consolidation with the Social Security Funds. It is still too early to assess its effectiveness.

The case of Local Governments

The Local Government Finance Act (Ley Reguladora de las Haciendas Locales (1988)) established the main elements which define the current local financing system for municipalities and other local organisms. Not only did it imply the end of the existing dependence based model, it also brought new resources into the system.[12] It introduced revenue autonomy for local governments as it allowed them to establish the rates of local taxes (with a lower and upper cap), which, moreover, were simplified and reduced in number. It also established a formula based transfer system that has been revised every five years. Moreover, the Act allowed Local governments to issue debt, within certain limits.

[8] In particular, 100 percent of the tax on retail sales of hydrocarbon fuels, 100 percent of special taxes on particular cars and 33 percent of personal income tax revenues. Moreover, Regional Governments are given the discretion of increasing by up to 20 percent the marginal personal income tax rate and may introduce new deductions.

[9] In particular, 35 percent of VAT revenues, 40 percent of some excises, 100 percent of taxes on electricity and vehicle registration and other minor indirect taxes.

[10] Regional Governments have exclusive power to tax gifts, wealth, legal documents, and gambling. Starting in 2002, the Regional Governments have freedom to set the rates and the exceptions for these taxes.

[11] The major part of central government transfers to the Regional Governments is channelled through the "Sufficiency Fund", which is intended to cover the gap between the mandatory expenditures and revenues accruing to the Regional Governments. The initial amount of the sufficiency fund was calculated as the difference between the estimated cost of the Regional Governments mandates and revenues calculated in the year 1999. Every year this amount is increased at the same rate as the central government's tax revenues. In addition to the "Sufficiency Fund", some Regional Governments also receive resources from other funds, including the Interregional Compensation Fund (Fondo de Compensación Interterritorial), which is the main instrument for regional development and is coordinated with regional transfers from the European Community.

[12] For a more detailed analysis, see Pedraja, F. Salinas J. and Suarez-Pandiello (2006)...

In 2002, the Law was reformed and the amended act is what is nowadays applicable. Currently, Spanish local authorities levy five taxes: property tax, business tax, vehicle tax, tax on buildings and tax on land value increase in urban areas. The first three taxes are compulsory in the sense that they have to be collected by all local councils. The remaining two are optional and municipalities may also collect fees and user charges.

The other main source of financing for local governments, representing around a fourth of total non financial local revenue, is transfers from other levels of Government, in particular the Central Government. The largest transfer from the central government to municipalities is the municipalities' sharing in central taxes (Participación Municipal en los Ingresos del Estado (PMIE)). It is a non conditional current transfer, whose total amount is revised every five years, and whose distribution is determined in relation to some specific criteria such as population, educational units, revenue raising capacity or tax effort.

3. BUDGETARY DATA: INITIAL PROJECTIONS AND OUTCOMES

Central Government

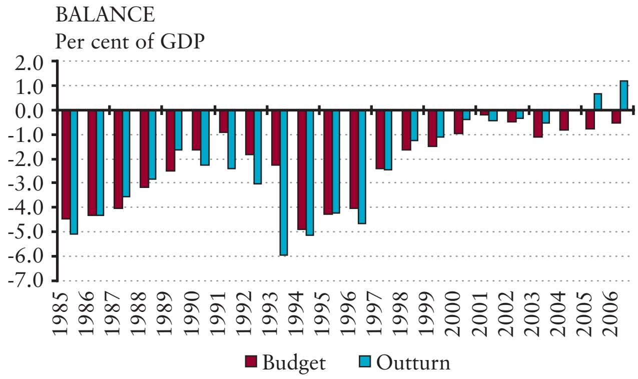
The information released for the Central Government budget and budgetary outturn does not suffer from large delays. In fact, the information referring to the closing of the previous fiscal year is available with a two month lag. Moreover, during the fiscal year, a large amount of budgetary data is released with a very short time lag, thus providing the opportunity for monitoring expenditure and revenue at the central level during the fiscal year.

As can be seen in Figure 2, the Central Government has been budgeting deficits in each and every year from 1985 to 2006, with a peak in 1994. The deficit trend was declining up to 1991, with an increasing trend since up to 1994, when a downward trend started again up to 2001. As for the outturn, the State shows a surplus in two out of six years of the current decade, with no other surplus being reached in the period under analysis. The peak deficit was attained in 1993 and the largest surplus in 2006.

The closing balance for the Central Government was much poorer than initially budgeted in most of the fiscal years in the decade of the 1990s, in 1985 and 2001. For the rest of the years, the outturn was better than initially budgeted. In

Figure 2

Central gov. initial budget and budget turn



SOURCE: Ministry of Economy and Finance and Bank of Spain.

fact, it may seem that there is a trend towards larger positive differences between outturn and initial budget since 2002, with the largest difference being the one observed in 2005.[13]

Regional Governments

The Ministry of Finance and in particular the Dirección General de Coordinación Financiera con las CCAA, gathers all the data referring to the annual budgets approved by each State Government and releases consolidated data for their General Administration and its different organisms, after its transformation. Moreover, it provides the consolidated budget for the aggregate State Government sector. The most recent data refers only to budgetary chapters (available with a three month lag, approximately), while a larger disaggregation of the data is published much later (one and a half years, approximately) so that a functional expenditure budget is also provided. Currently, the latest available information on consolidated regional budgets refers to 2007 and the detailed one to 2006.

As far as data on outturn are concerned, the Ministry of Finance publishes a first estimate, which is disaggregated by budgetary chapters with over a 18 month delay, so that currently the latest information available corresponds to 2005.[14] Even later, the Ministry releases more detailed information for regional finances, including a functional approach. The latest detailed information covers up to 2003.

Information referring to both initial budgets and outturns for State Governments is presented in Figure 3 for the period 1985 2006 (with the 2006 outturn being an estimate). As can

[13] The BSL in place since 2002 sets a ceiling on central government spending. It also sets a contingency fund to deal with unforeseen circumstances, and forces the dedication of any social security surplus to the pension reserve fund.

[14] To build the figures, we have projected the outturn for 2006, taking into account the data contained in the EDP Notification.

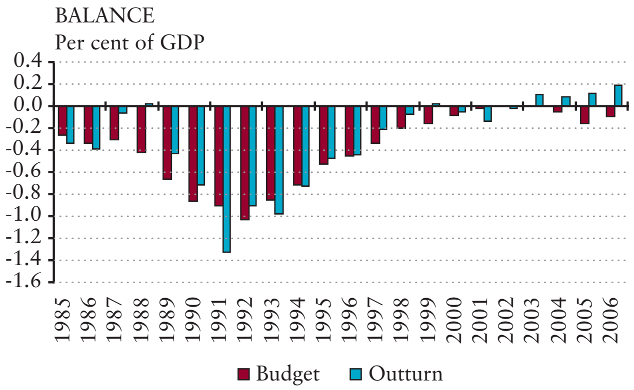
be seen, State Governments have always projected a budgetary deficit, the only exception being 2003. The budgeted deficit over GDP increased up to 1992 and then declined until 2003, when, after the projected surplus, a new upward trend started.

On the other hand, the budgetary outturn recorded a surplus in six years (1988, 1999, 2003 2006). It also followed a similar pattern to the one shown for the projections: an increasing deficit up to 1991 and a declining trend since, but not as systematic.

We observe that, in general, the closing balance attained was much better than the initial balance projection. Only in very few years, the balance was much worse than initially envisaged (1991, 1993 and 2001), while in very few others the negative difference (outturn budget) was rather small. The largest positive differences seem to show up at the end of the 1980s and 1990s, periods in which real GDP growth was relatively high. We must remember that the devolution process justifies some of the differences that we observe between projections and outcomes as the budgets were being designed before the transfer of responsibilities and thus of the associated expenditure and revenue had taken place during the fiscal year.[15]

Figure 3

State (regional) gov. initial budget and budget outturn



SOURCE: Ministry of Economy and Finance ("D.G. de Coordinación Financiera con las CCAA") and Bank of Spain.

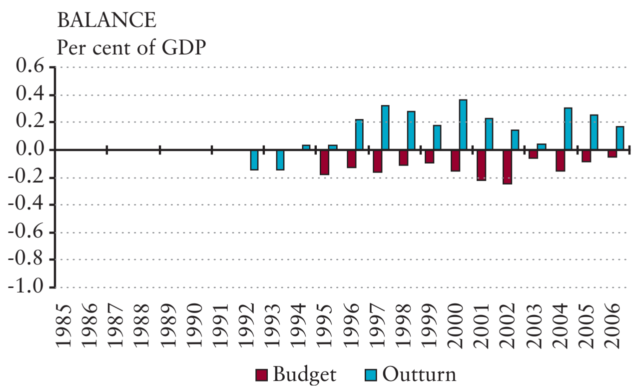
Local Governments

The Ministry of Finance and in particular the Dirección General de Coordinación Financiera con las EELL, gathers all the data referring to the annual budgets approved by large municipalities and publishes with a delay of two years a summary of the initial budgets and the outcomes.

As can be seen in Figure 4, showing data on budgets and outturn from 1992 to 2006, at the aggregate level, Local Governments have always projected a deficit, which declined up to 2000 and then rose until 2002. Except for the first two years, the outcome has always recorded a surplus.

Figure 4

Local gov. initial budget and budget outturn



SOURCE: Institute for Fiscal Studies, Ministry of Economy and Finance ("D.G. de Coordinación Financiera con las EELL") and Bank of Spain.

4. NATIONAL ACCOUNTS DATA

Information in national accounts terms for the whole General Government is available with high frequency and very short delays. The updated Stability Programme, the Excessive Deficit Protocol (EDP) Notifications, and the economic objectives which the Government needs to announce in the first term of the previous year for which the projections are defined, are all set in national accounts terms, so that this accounting framework is central for monitoring purposes.

Detailed national accounts data for each State Government are not available until two and a half years after the end of the fiscal period, so that a comparison among the different State governments can only be done with a significant delay. Only the aggregate State and Local Governments balances, but not their composition, are known at an earlier date, with a three-month lag (at the time of EDP notification by the end of March).

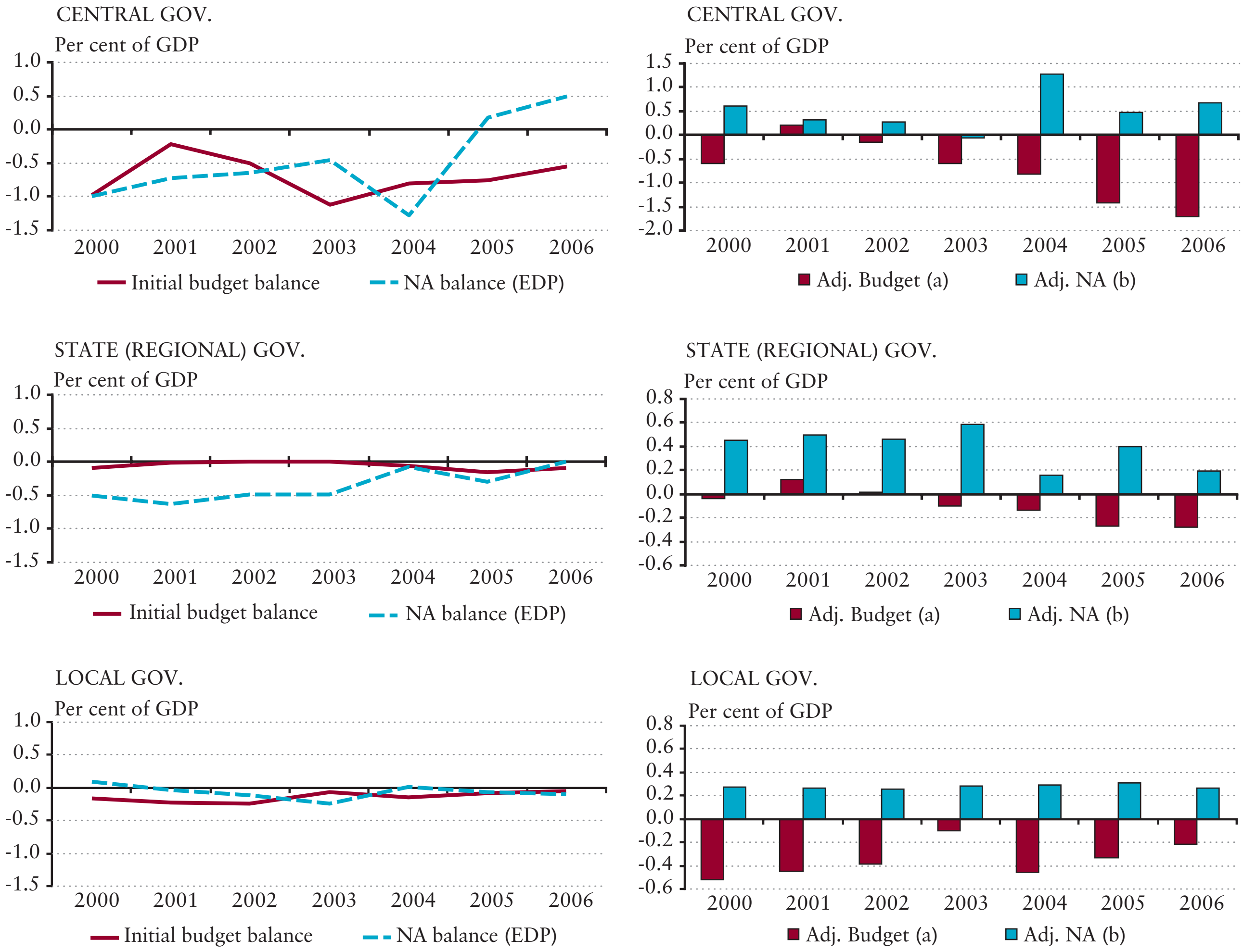
As for the Central Government, data in national accounts terms are available soon after the end of the fiscal year. In fact, during the year, monthly data on the balance are made available in both cash and national accounts terms, with more detailed information for the former.

During the 2000 2006 period, the Central Government recorded an improvement in its fiscal balance in national

[15] See Argimón, I. and Martí, F. (2006) for a more disaggregated analysis.

Figure 5

From initial budget balance to national accounts (EDP)



SOURCES: Ministry of Economy and Finance ("Estadísticas territoriales"), Institute for Fiscal Studies and Bank of Spain.

(a) Initial budget balance minus Budget outturn.

(b) Budget outturn minus NA balance.

accounts terms, expressed as a ratio over GDP (Figure 5). The exception to this trend took place in 2004, when exceptional circumstances, related mainly to the reorganization of the railways infrastructure system, resulted in temporary expenditures. In particular, they took the form of capital transfers, corresponding to the debt assumption from RENFE, the national railway company (0.7% of GDP) and the public television broadcaster RTVE (0.1% of GDP). In 2005, a surplus was attained and in 2006 this was even improved upon.

As for State Governments, the balance in national accounts terms has been slightly improving, except in 2004, but showing negative values except for 2006 when a balanced budget was recorded.

A rather different pattern from State Governments emerges for the national accounts balance data of Local Governments, as they record a tiny deficit over GDP or even a small surplus in 2000 and 2004. Since 2004 a worsening can be observed.

In the lower part of Figure 5 for each level of government, we include a comparison between the initial and final outcomes in budgetary terms and between the actual budgetary outcome and the national accounts data. A green positive value indicates that the actual deficit (surplus) in budgetary terms was higher (lower) than initially budgeted and the value measures the difference in GDP terms. A red positive value indicates that the deficit (surplus) in national accounts terms was larger (smaller) than actual budgetary deficit (surplus).

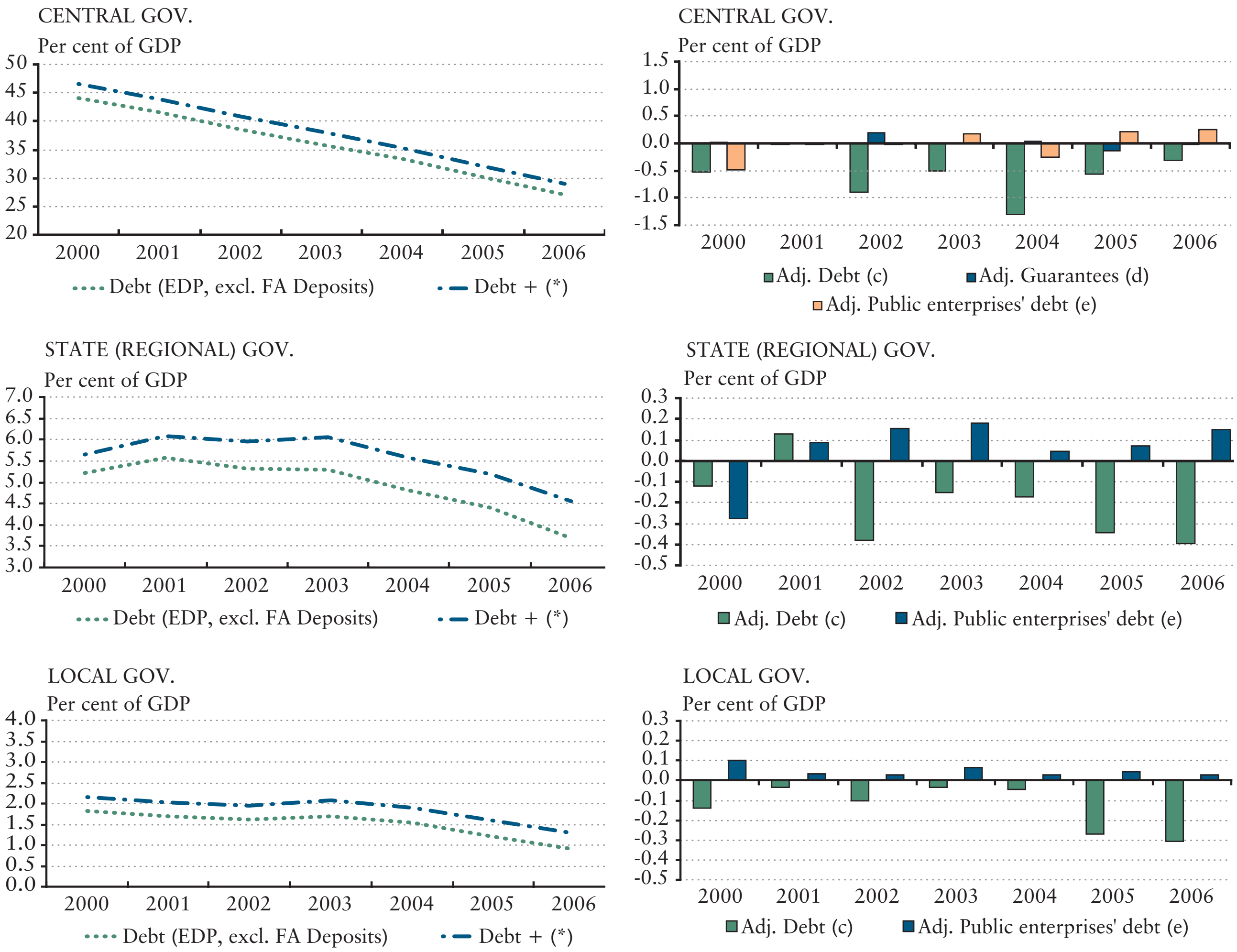
The comparison between the budgetary outturn and the national accounts data shows that the outcome is always worse in national accounts terms than in budgetary terms, for the three levels of Government, with the exception of 2003 for the Central Government. The major items that usually explain the adjustment between the two accounting methodologies are capital injections into public enterprises and cancellation of taxes. In some years, the advances to State Governments can also play an important role in the adjustment corresponding to the Central Government. In particular, while in the case of Local Governments and State (Regional) Governments the adjustment was always below 0.4% and 0.6% of GDP, respectively, in the case of the Central Government it reached over 1% in 2004 due to the already mentioned RENFE effect. For the rest of the years in the Central Government the adjustment was below 0.5 pp. of GDP.

5. BEYOND NATIONAL ACCOUNTS

Up to here, we have been analysing information that is contained within the limits established by the national accounts framework. It is, however, worth analysing the public sector activity beyond the limits set by such an approach, not only because some of these activities may imply contingent public liabilities that in the future will show up in those accounts, but also because public intervention adopts different approaches, which can be channelled through means and institutions not well aligned with the national accounts framework. Moreover, institutions evolve over time so that it could be the case that there is a change in the statistical classification of units from the government to the non government sector, and the other way round. The reclassification of such units would imply that the liabilities they were holding would be transferred inside or outside the

Figure 6

From initial budget balance to national accounts (EDP)



SOURCES: Ministry of Economy and Finance ("Estadísticas territoriales"), Institute for Fiscal Studies and Bank of Spain.

(*) Debt (EDP, excl. FA Deposits) plus Guarantees plus Public enterprises´debt. (c) NA balance plus change in Debt (EDP, excl. FA Deposits). (d) Change in Guaratees. (e) Change in Public enterprises´debt.

government following the change (as in the RENFE) case. Public enterprises tend to be one of the units more often affected by such reclassification, as the conditions of their previous classification within the private sector (unit mainly financed by the market) are not fulfilled anymore.[16] But public firms are not the only source of discrepancies.

Deficit debt adjustments

When the government budget records a deficit in the non financial accounts, the equivalent amount should be found in its financial accounts where its increase of liabilities should exceed the increase in financial assets to finance this deficit. In case of a surplus, the accumulation of financial assets should exceed its transactions in liabilities at the same value as the surplus.[17] The deficit debt adjustment records the variation in debt that is not accounted for by the deficit and surplus and may thus reflect part of the activity carried out by public sector which is not reflected in the data recorded in national accounts terms. In fact, its analysis may reveal inconsistencies between the financial and non financial data which could be used to assess weaknesses in the fiscal data.

Moreover, the Financial Assets (FA) Deposits that are included in the definition of EDP debt can hardly be regarded as corresponding to any activity carried out by the public sector, as these assets can be more associated with cash management needs. Therefore, we propose to exclude them from debt data (see upper part of Figure 6, continuous line) and analyse the dynamics of the remaining deficit-debt adjustment ratio. A positive (negative) value of the adjustment implies that the increase (decline) in debt that we have observed is larger (smaller) than the deficit (surplus) that has been recorded in national accounts terms.

Contrary to what we might expect, we observe mostly negative values for the adjustment in all levels of Government data (lower part of Figure 6). The main difference between the different levels of Government lays on the size of the adjustment. In the case of the Central Government it can reach just over 1 pp of GDP (in 2003 in negative terms) while in the case of State Governments its highest value is below 0.4 pp of GDP (in 2002) and in the case of Local Governments it is just above 0.4% of GDP in 2006. However, given that the debt ratios for State and Local Governments are much smaller than the corresponding ratio for the Central Government, the deficit debt adjustment has a marginally larger impact on regional and local accounts. In particular, while the deficit debt adjustment for the Central Government accounts only for less than 3% of the debt ratio, it reaches over 10% in the case of State and Local Governments.

Other data

An assessment of the fiscal activity carried out by a broader definition of the public sector unit could also include the debt held by all public firms, which are currently classified in the private corporate sector. This does not prejudge that these enterprises are going to be reclassified within the General government sector. In fact, such reclassifications are rather rare. However, the analysis of such units may provide some further insight into public sector activity, as national accounts are nothing else but a very useful accounting convention.

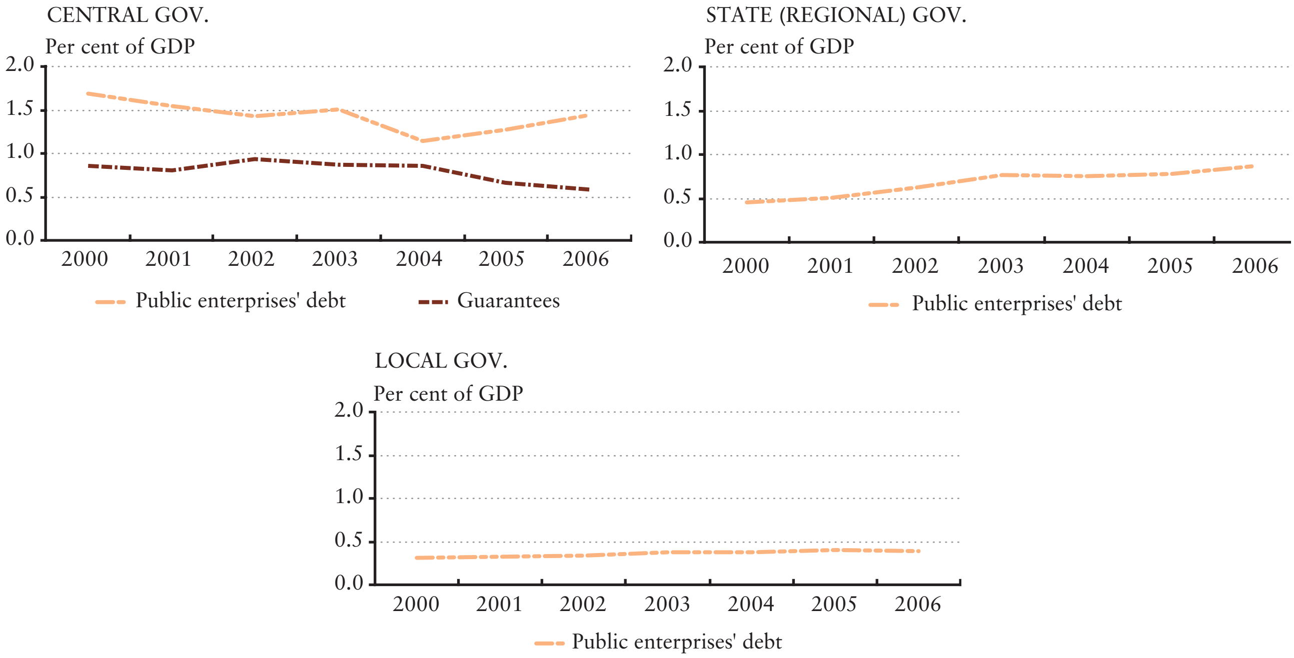
In any case, the weight of public enterprises debt over GDP is below 2% for the Central Government, below 1% for Regional Governments and below 0.5% for Local Governments (Figure 7). It seems that the State Government public enterprises debt ratio shows an increasing trend and the Local one a constant trend that are partially in contrast with a declining debt ratio for Central Government enterprises up to 2004, when we observe an increase in the latter. The relevance of public enterprise debt is large for State Governments as this debt reaches above 13% of the sum of both EDP and public enterprises debt. In the case of the Central Government, such debt accounts for less than 5% of the total amount of debt.

[16] It could be argued that the reliance on public firms or the use of PPP for the provision of goods and services aims at hiding public expenditure from published accounts. However, it could also be argued that different functional forms or property arrangements can deliver different outcomes, so that the real aim is to enhance efficiency in the provision of goods and services.

[17] To sum up, one can say that the deficit debt adjustments (DDA) are the variation in debt that is not accounted for by the deficit/surplus. Therefore, they include elements such as (1) the statistical discrepancy between financial and non-financial accounts, (2) the net acquisition of financial assets minus the net incurrence of liabilities that are not EDP instruments, (3) the market to face value adjustment, (4) the foreign exchange holding gains and losses and (5) other changes in volume of the debt.

Figure 7

Other liabilities



SOURCES: Ministry of Economy and Finance ("Estadísticas territoriales"), Institute for Fiscal Studies and Bank of Spain.

In Figure 6 (lower part), we include for each one of the three different levels of government the change in the total amount of debt over GDP held by public enterprises as an additional but independent element for consideration. In the case of the Central Government, the changes in the ratio of public enterprises debt go in both directions so that there are increases and decreases in outstanding debt by public enterprises. That is no so in the case of State and Local Governments, where we observe a positive contribution to debt by public firms, except in 2000 for State Governments.

Another element that can be analysed is the provision of public guarantees to private firms, which the different levels of government can offer. These can be regarded as contingent liabilities, as they may need to be made use of in the future.[18]

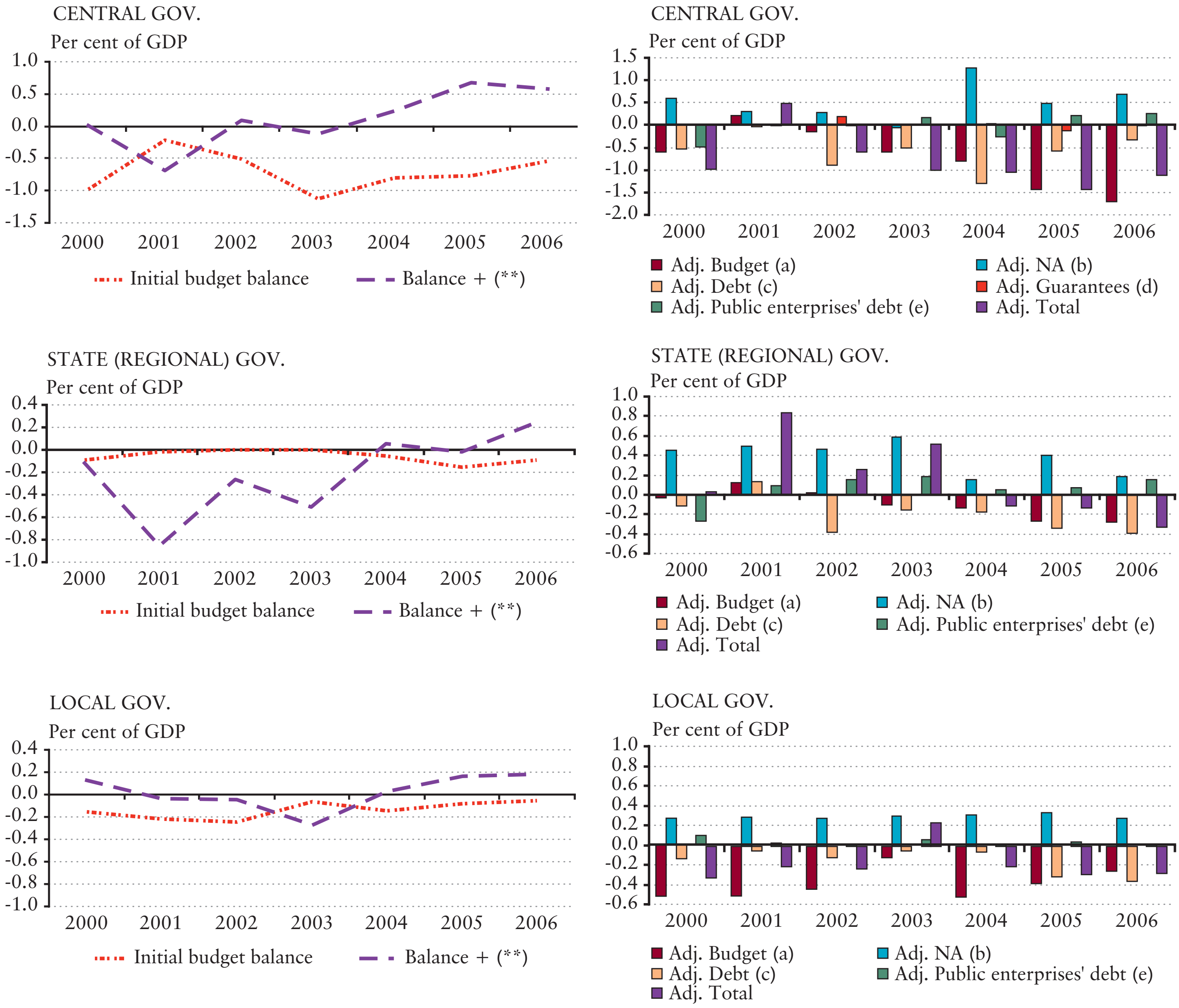
As the only available data refers to the Central Government, Figure 6 only includes the changes in the amount of these guarantees for this level of government: a positive value implies that the volume is growing in GDP terms. As the figure shows, the changes are rather small and have both signs. The volume of such guarantees is reflected in Figure 7, where it can be seen that they are on a declining trend.

The dotted line in Figure 6 reflects the sum of the newly defined debt ratio plus public enterprise debt plus guarantees that the government has provided to private firms at full value (the latter only for the Central Government). As we can see, the difference between the two series is not large, especially for the Central Government, especially if we take into account the total weight of the debt.

[18] In fact, in the case of Spain, such resource was required in relation to an Argentinean guarantee in 2004.

Figure 8

From initial budget balance to change in debt



SOURCES: Ministry of Economy and Finance ("Estadísticas territoriales"), Institute for Fiscal Studies and Bank of Spain.
(**) Initial budget balance plus adjustmens (a+b+c+d+e). (a) Initial budget balance minus Budget outturn. (b) Budget outturn minus NA balance. (c) NA balance plus change in Debt (EDP, excl. FA Deposits). (d) Change in Guaratees. (e) Change in Public enterprises' debt.

6. CONCLUSION

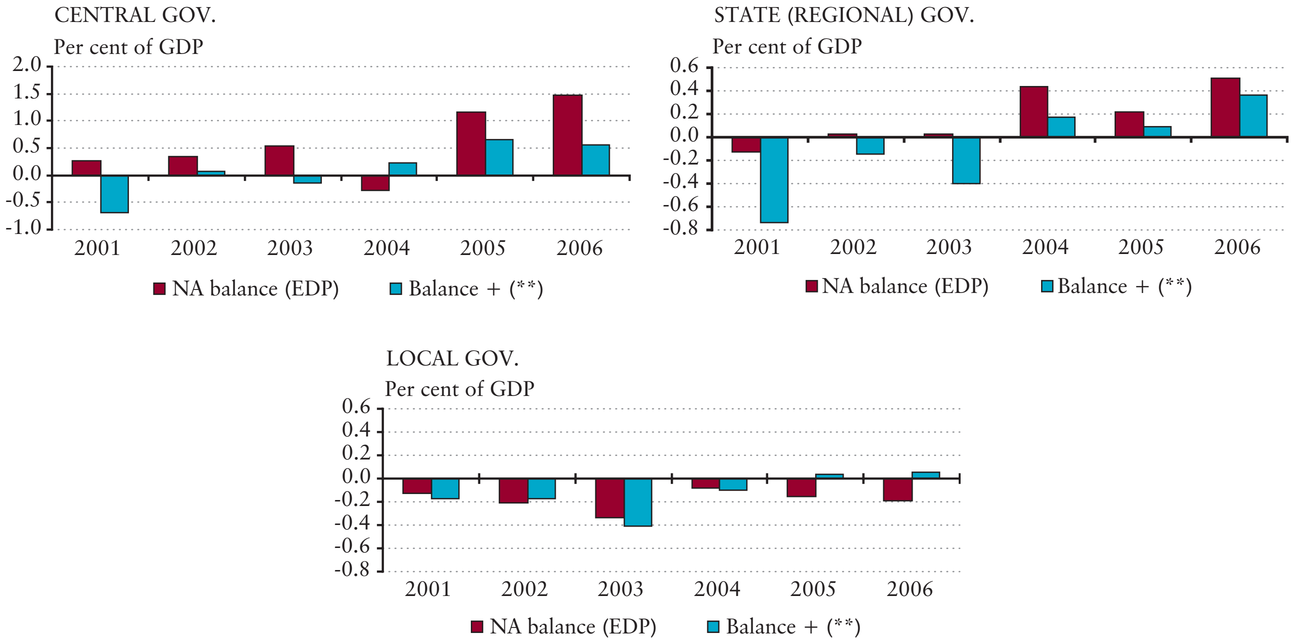
From all the information gathered and presented so far a new measure for the budgetary balance could be built and compared with the initial budgetary projections. This is done by adding to the initial budget, the final outturn, the national accounts adjustment, the deficit debt adjustment defined on debt net of FA deposits, the changes in public enterprise debt and the changes in public guarantees (only in the case of the Central Government).[19]

The new budgetary balance thus built for a very broadly defined public sector tends to record a surplus in the case of the Central Government that may be said to show an increasing trend (Figure 8). State (Regional) Governments show a completely different pattern, so that the budget for the broad public sector is in deficit during most of the years, but also on an improving trend, so that it also shows a surplus in 2004 and 2006. The balance for Local Governments show a declining trend up to 2003, when it starts improving again. In fact, a surplus is observed in 2000 and from 2004 to 2006.

[19] In other words, we add to national accounts data the deficit-debt adjustment, the changes in public enterprise debt and the changes in public guarantees.

Figure 9

Other liabilities



SOURCES: Ministry of Economy and Finance ("Estadísticas territoriales"), Institute for Fiscal Studies and Bank of Spain.

(**) Initial budget balance plus adjustmens (a+b+c+d+e, see Figure 8).

On the other hand, the new budget figure obtained is over the initial budget projection in the cases of the Central and Local Government and below such projection in the case of State (Regional) Governments. That is, the budgetary projection released by Local and Central Governments shows a deficit that when the public sector at large is taken into account does not materialise, so that the final balance records a surplus or at least a lower deficit. The contrary occurs with aggregate State (Regional) Government accounts, so that the projected deficit in budgetary terms is surpassed by the deficit computed with a broad definition of the public sector.

The role played in the difference between initial budgetary projections and the budget thus obtained by each of the components we have analysed is reflected in the lower part of Figure 8, where the total and an additive decomposition is shown. As can be seen, in the cases of the Central and Local Governments the main source of the difference is the discrepancy between the initial budget and the final outcome in cash terms (green bar). The deficit debt adjustment (blue bar) has also played an important role in some years, reinforcing the difference. In the case of State (Regional) Governments, the adjustment between cash outturn and national accounts data (red bar) drives most of the difference, being usually reinforced by the change in public enterprise debt ratio.

We could then conclude that a broader approach to public sector data than the one provided by the national accounts data shows that in the case of Spain, the different levels of government seem to respond to different patterns of budgeting.

The Central Government seems to overestimate the deficit, in the sense that when we consider a broad public sector which includes public enterprises and even public guarantees, the computed deficit turns out to be much lower than initially budgeted, or even a surplus is reached. In the case of the Central Government, the main factor which explains this difference can be found in actual revenue being larger than initially expected or expenditure turning out to be much lower (mainly interest payments) than initially programmed. A similar pattern seems to reflect Local Government budgeting. State (Regional) Governments seem to show a completely different pattern, so that the final computed deficit which a broadly defined public sector would attain is larger than the one initially budgeted. The main factor explaining such difference is the necessary adjustment between budget outturn and national accounts data. Capital injections into public enterprises and increases in the debt of these firms are at the root of the discrepancy. State (Regional) Governments are responsible for the management of large expenditure items related to public services that are relevant for potential growth, such as education and health. In fact, they account for 90% of the expenditure that the General Government devotes to such matters. Therefore, the need to increase efficiency in the provision of such services is in their hands and need to be reflected in their accounts.

In cumulative terms, initial budgets have projected an improvement in the Central Government finances of 0.4 pp of GDP between 2000 and 2006, which has amounted to 1.6 pp in national accounts terms (Figure 9). With the broad definition of public sector, the improvement is only 0.6 pp of GDP. A similar pattern emerges from State (Regional) Government accounts: in national accounts an improvement amounting to 0.5 pp of GDP was recorded, while the broad definition shows a 0.3 pp improvement. In the case of Local Governments, national accounts record a worsening of 0.3 pp while the broad definition records an improvement of less than 0.1 pp. Therefore, a broad definition of public sector seems to record a smaller improvement in budgetary accounts both for Central and State (Regional) Governments than when national accounts figures are taken into account, while the opposite happens with Local accounts.

The new framework set by the Budgetary Stability Laws asks for regions to attain a budget balance or a surplus in national accounts terms, thus involving these decentralized units with the compromise set by the Stability and Growth Pact. Budgetary data could be used as a proxy to carry out the analysis of regional fiscal policy, both ex ante and ex post and thus, of assessing the feasibility of the targets set, before and during the year when they are operative. In any case, a broader definition of the public sector could help understand part of the activity which is carried out by public units and which the current accounting framework does not cover. However, it would be better to improve the availability of timely information on the activities carried out by decentralised units. The lack of timely and comprehensive information makes it difficult to ensure fiscal discipline at lower levels of government, where we observe that the budget tends to underestimate the activity carried out by a broad definition of public sector with a negative impact on the accounts.

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