Fiscal Policy and Debt Management

Breakout Session 3. Coordination between fiscal and debt management policies – emerging issues. Sovereign Debt Management Forum

December 2014
Deficit Dynamics

- 2014 deficit target revised down to 5.5% of GDP in April
- Emphasis on expenditure reduction (4pp of GDP between 2014 and 2017), mainly driven by efficiency gains in the Public Administrations

### Net Lending(+) / Borrowing(-) of the General Government. Excl. Financial Sector One-Offs

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Government</td>
<td>-4.2</td>
<td>-3.5</td>
<td>-2.9</td>
<td>-2.2</td>
<td>-1.1</td>
</tr>
<tr>
<td>Autonomous Regions</td>
<td>-1.5</td>
<td>-1.0</td>
<td>-0.7</td>
<td>-0.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Local Governments</td>
<td>0.5</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Social Security Administrations</td>
<td>-1.1</td>
<td>-1.0</td>
<td>-0.6</td>
<td>-0.3</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>General Government</strong></td>
<td><strong>-6.33</strong></td>
<td><strong>-5.5</strong></td>
<td><strong>-4.2</strong></td>
<td><strong>-2.8</strong></td>
<td><strong>-1.1</strong></td>
</tr>
<tr>
<td><strong>Primary Balance</strong></td>
<td><strong>-3.1</strong></td>
<td><strong>-2.2</strong></td>
<td><strong>-0.8</strong></td>
<td><strong>0.6</strong></td>
<td><strong>2.3</strong></td>
</tr>
<tr>
<td><strong>Structural Primary Balance</strong></td>
<td><strong>2.2</strong></td>
<td><strong>2.7</strong></td>
<td><strong>2.9</strong></td>
<td><strong>2.8</strong></td>
<td><strong>3.0</strong></td>
</tr>
<tr>
<td><strong>Nominal Adjustment</strong></td>
<td><strong>0.3</strong></td>
<td><strong>0.8</strong></td>
<td><strong>1.4</strong></td>
<td><strong>1.3</strong></td>
<td><strong>1.7</strong></td>
</tr>
<tr>
<td><strong>Financial Sector one-offs</strong></td>
<td><strong>0.5</strong></td>
<td><strong>0.1</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Recent evolution of Government Debt

- Debt to GDP ratio to peak above 100% of GDP in 2015. Primary surplus to be reached in 2016, reversing the Debt to GDP trajectory.

- Lower structural deficit in 2017, ensures the decline in the ratio and reinforces the downward trend.
In 2012 a new budgetary framework was developed, considering the high degree of decentralisation of its political system

**AIMS OF THE REFORM**

- Implements Article 135 of the Spanish Constitution
- Spain's commitment to the EU by incorporating EU regulation requirements and allowing these to be continuously & automatically adapted
- Budgetary and financial sustainability are the guiding principles of all public administrations
Auxiliary Funding Mechanisms

- Together with the implementation of the budgetary framework two support mechanisms were established in order to eliminate the negative spillovers/feedback loops emanating from loss of access to affordable funding by sub-sovereign administrations.

- These new support mechanisms involve stricter conditionality for the Regions/Local governments.

**“Fund to Finance Supplier Payments”** aimed at paying the territorial administrations (both regions and municipalities) for outstanding invoices and regularising the arrears.

**“Regional Liquidity Fund”** created to provide to Spanish Regions the needed liquidity to cover redemptions in capital markets as well as the authorized deficit.

![Impact of Support Mechanisms](chart.png)
Implications for the Funding Programme of the Treasury (I)

Net Funding, Gross Funding and Medium- & Long-Term Redemptions (€ bn)

Non-Resident (%)

Holdings of Unstripped Government Debt

OCTOBER - NEW 5 YEAR BOND LINKED TO EA HICP EX. TOBACCO. NOVEMBER 2019

by Type of Investor (%)

Geographic Distribution (%)

Sovereign Debt Management Forum
Implications for the Funding Programme of the Treasury (II)

Cost of Debt Outstanding and Cost at Issuance
(*As of September 30th 2014, in percent)

Average Life of Debt Outstanding
(*As of September 30th 2014, in years)

Marginal Life at Issuance of Bonos and Obligaciones
(*As of September 30th 2014, in years)

Average Life at Issuance of Bonos and Obligaciones
(*As of September 30th 2014, in years)

Source: Secretaría General del Tesoro y Política Financiera.
Thank you for your attention

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The reform of the public sector builds on the structural reform process initiated in 2012.

**Reform of the Local Authorities**
- Undue expenditures
- Transfer of competences
- Mergers & integrated management
- Changes at minor local entities
- Resizing of the local public sector
- Temporary and exclusive staff of local governments

**Liquidity Measures for Regions & Local Governments**
- **FFPP**
  - Provision of liquidity to suppliers of Local & Regional Governments
  - 2012: €27.4 bn
  - 2013: €6.8 bn
  - 2014: €8.0 bn
  - The Programme has been ended by July 2014
- **FLA**
  - Enabling the centralisation of public debt issuance in Spain
  - Providing liquidity to Autonomous Regions
  - Ensuring fiscal and financial sustainability
  - Strict additional fiscal compliance
- **Embedded into the Treasury’s Funding Programme**
  - 2012: €16.6 bn
  - 2013: €23.0 bn
  - 2014: €23.0 bn
- **Stricter fiscal conditionality & issuance caps**

**Commission for the reform of the public administration**
- General measures
- Sub-commission for administrative simplification
- Sub-commission on administrative overlap
- Sub-commission for management of common services and resources
- Sub-commission for institutional administration

**Electronic Billing Law**

**De-indexation Law**

**Budgetary Sustainability Law, Fiscal supervisory rules**
- Fiscal discipline at all levels of the Administration
- Early-warning system, enforcement and sanction procedures
- Transparency: monthly and quarterly execution
- Assurance of compliance: coercive measures and enforced compliance
- Law for Transparency in the Public
- Administrations: accountability & governance

**New Regulatory Framework**

**Independent Authority for Fiscal Responsibility**