

SPAIN

QUASI-FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 505 940 km²**Population:** 46.534 million inhabitants (2017), a decrease of -0.2% per year (2010-2015)**Density:** 92 inhabitants / km²**Urban population:** 80.1% of national population**Urban population growth:** 0.5% (2017 vs 2016)**Capital city:** Madrid (14.0% of national population)

ECONOMIC DATA

GDP: 1 769.6 billion (current PPP international dollars), i.e. 37 998 dollars per inhabitant (2017)**Real GDP growth:** 3.1% (2017 vs 2016)**Unemployment rate:** 17.2% (2017)**Foreign direct investment, net inflows (FDI):** 6 204 (BoP, current USD millions, 2017)**Gross Fixed Capital Formation (GFCF):** 20.6% of GDP (2017)**HDI:** 0.891 (very high), rank 26 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Constitution of Spain, enacted in 1978, established Spain as a unitary parliamentary monarchy. In reality, Spain, also referred to as “the State of Autonomies”, is a quasi-federation, with a three-tier system of SNGs whose autonomy is constitutionally recognised (article 137) that includes autonomous communities, provinces and municipalities. The right to self-government is enshrined in the Constitution (Article 2). The 17 autonomous communities (ACs) have a large autonomy, including the exclusive ability to decide on the organisation of municipalities and provinces within their territory. However, municipal and provincial functions and finances are determined within the framework of the national law and not by regional constitution or law, unlike federations.

At federal level, the Government is led by a Prime Minister and the Head of State is the Monarch. Spain's bicameral parliament comprises the Congress of Deputies (*Congreso de los Diputados*) and the Senate (*Senado*). 208 out of the 266 members of the Senate are directly elected by the population, while the remaining 58 senators are appointed by the regional assemblies (each AC appoints one senator, and an additional senator for every million inhabitants in their respective territories). The lower house can overrule the upper house (in the budget process notably).

At regional level, the deliberative bodies of the ACs are regional assemblies (*asamblea regional*). The assemblies have devolved legislative powers, and their members are elected by direct universal suffrage for a four-year term. Each assembly elects a President (*presidente*) from among its members who chairs the regional government council for a four-year term.

At the local level, local governments are governed jointly by the central government and the regions. The provinces' deliberative body is the provincial deputation (*diputación provincial*), which is composed of members elected by and from the municipal councillors of the province, following municipal elections. The deputation elects a president (*presidente de la provincia*) from among its members. The Balearic and Canary Islands are organised as “island councils”. The municipal deliberative body is the local council (pleno), whose members are elected every four years by direct universal suffrage. The council is chaired by a mayor (*alcalde*), appointed from amongst the local council member, who is the head of the executive body. The Constitution enshrines local autonomy, but the allocation of local powers is regulated by law. The 1985 Law setting the framework of the local government system (*Ley reguladora de las bases del régimen local* -LBRL) gives an indication of their powers. However, the devolution of powers to municipalities may differ substantially from one Autonomous Community to the next.

The first decentralisation process in Spain took place during the 1st Federal Republic in 1873, but the process was delayed and paralysed many times due to several periods of dictatorship and the civil war. The 1978 constitution that followed the end of the dictatorship finally paved the way for the development of ACs, which subsequently were created through complex procedures (“fast-track” or “low-track”) from 1979 to 1983.

A major decentralisation process took place in the 2000s with the transfer of education (2000) and healthcare (2002) to autonomous communities. During the same period, reforms of autonomous communities' status were carried out on a case-by-case. In 2009, the Law 22/2009 on the financing of autonomous communities (in effect since 2011), which amended the Organic Law 8/1980, had a major impact on regional finance. Following the global crisis, which severely affected Spanish SNGs, several laws were adopted to introduce stricter fiscal rules for SNGs (Organic Law 2/2012) and improve the multi-level governance framework (Law 27/2013 on the Rationalisation and Sustainability of Local Administration - LRSAL). Recently, federalism in Spain is being tested by independence claims in several autonomous communities (Catalonia in 2016).

Vertical coordination between the central government and the ACs is made, on a voluntary basis, through the Conference of Presidents (*Conferencia de Presidentes*), created in 2004. Chaired by the Prime Minister, it includes the presidents of the 17 regional governments and the two autonomous cities and the central government. Since its creation, the Conference of President held six meetings, the last one in January 2017. Vertical coordination also takes place through sectoral conferences such as the Council of Fiscal and Financial Policy (*Consejo de política fiscal y financiera*, CPFF) in economic, fiscal and financial matters. Vertical coordination between the central government and local governments takes place with the National Commission for local Administration (*Comisión Nacional de Administración Local*), which was created in 1985. Autonomous communities have their own fora for coordinating with local governments under their jurisdiction.

Horizontal cooperation is facilitated through the Conference of the Governments of the Autonomous Communities, which facilitates identifying shared positions of ACs in negotiations with the central government as well as through the Federation of Spanish Municipalities and Provinces at local level.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	8 124 municipalities (<i>municipios</i>) + 2 Autonomous Cities	50 provinces (<i>provincias</i>)	17 autonomous communities (<i>comunidades autónomas</i>)	
	Average municipal size: 5 728 inhabitants			
	8 124	50	17	8 191

OVERALL DESCRIPTION. Spain has a three-tier subnational government system characterised by an asymmetric organisation. It is composed of 17 Autonomous Communities (*Comunidades Autonomas*, CCAA) at the regional level, and 50 Provinces (*Provincias*), 8 124 Municipalities (*Municipios*) and two Autonomous Cities (Ceuta and Mellilla) at the local level. The structure of municipalities and provinces differs from one region to another. The two autonomous cities of Ceuta and Melilla located in North Africa have fewer powers than ACs, but more than municipalities. The Canary Islands have the Outermost Region status under the Treaty of the European Union.

REGIONAL LEVEL. Autonomous Communities each have their specific statute, allowing for some distinctive features, especially since the 2000s when several statutes were reformed on a case-by-case basis (Catalonia and Valencia in 2006, Andalusia, Aragon and Balearic Islands in 2007, etc.). The two “foral” autonomous communities of Basque Country and Navarra, in particular, retain more fiscal autonomy than the rest of the regions. ACs are quite diverse in terms of area, population size and socio-economic situation. While the average demographic size is around 2.5 million inhabitants, the least-populated region has 331 000 inhabitants (La Rioja) and the most populated 8.4 million (Andalusia). The AC of Castille & Leon encompasses 2 248 municipalities, whereas the region of Murcia only 45. The region with the highest GDP per capita (Madrid) is twice as wealthy as the region with the lowest GDP per capita (Extremadura). However, over the last 16 years, differences between regions of Spain in terms of GDP per capita have remained stable at relatively low levels compared to OECD countries.

PROVINCIAL LEVEL. Provinces exist since 1833. At that time, the division was made on a set of “rational” criteria including the area (based on the model for French *départements*), population (a province should include between 100 000 and 400 000 inhabitants) and geographical coherence. Since 1833, the provinces have undergone only minor changes, remaining almost the same until today. Today, provincial size is around 920 000 inhabitants on average, but it ranges from 19 000 inhabitants in Zamora to 6.5 million inhabitants in the province of Madrid. Provinces have been contested for a long time and suffer from a lack of democratic legitimacy. However, the 27/2013 law strengthened their role by recentralising some responsibilities of certain small municipalities (under 20 000 inhabitants) at the provincial level.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. The municipal level is quite fragmented. While the average size is 5 720 inhabitants (close to the EU average of 5 900 inhabitants but below the OECD average of 9 700 inhabitants), the median size of municipalities is among the lowest in OECD countries (565 inhabitants). Around 84% of municipalities have fewer than 5 000 inhabitants, and 72% less than 2 000 inhabitants. Spain also has a structured level of 3 719 sub-municipal entities smaller than municipalities, which are deconcentrated municipal entities of the municipalities without their own legal personality.

To reduce municipal fragmentation, law 27/2013 introduced incentives to promote municipal mergers on a voluntary basis; however, this initiative has had little impact thus far. Nevertheless, inter-municipal cooperation has contributed to reducing the impact of municipal fragmentation in Spain. *Mancomunidades* and *comarcas* create entities, on a voluntary basis, called ‘associations of municipalities’, which carry out joint projects or provide common services. They may be used by municipalities to better reflect their historic borders and common identities (Tierra de Campos, Manchuela) or for economic purposes. There were around 1 000 inter-municipal cooperation entities in 2016. The law 27/2013 also promotes the integration or coordination of municipal services (e.g. education, social services, healthcare) through financial incentives. Municipalities that use cooperation to cut costs are granted more transfers from the central authorities.

The municipalities of Madrid and Barcelona have a specific organisation due to their population size (law 1/2006 regulating the special organisation of the municipality of Barcelona, and law 22/2006 on Capital Status and Special Regime of Madrid).

Overall, 41% of the Spanish population lives in a metropolitan area with more than 500 000 inhabitants, compared to 55% in the OECD area. Barcelona is the country’s richest metropolitan area, and the metropolitan area of Madrid generated one-fourth of the country’s GDP growth over the period 2000-2016. To improve metropolitan governance, both central and regional governments have developed initiatives. For example, the Spanish central government created a Metropolitan Corporation of Barcelona in 1975, which became a metropolitan authority in 2011 by law 31/2010 passed by the Parliament of Catalonia. The *Àrea Metropolitana de Barcelona* (AMB) brings together 36 municipalities to work on planning, transport, water, waste treatment, social cohesion and economic development issues.

The central government has a state territorial administration. General Delegates represent deconcentrated central government administration at the regional level. The provincial level also comprises a central government territorial administration composed of sub-delegates.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The responsibilities of ACs are defined in their autonomous statute but, as a general rule, 23 areas are listed in the Constitution as responsibilities not expressly attributed to the central state and therefore devolved to ACs. In addition, there are also shared competencies between the central state and the regions, such as general regulation of education, social services, universities, municipal and provincial supervision. Conflicts on the overlap of competences between the central and regional governments are settled by the Constitutional Court.

Provinces are responsible for ensuring the provision of municipal public services as well as investment projects of a supra-municipal character. They are in charge of the overall coordination of local government with the AC and the State, and guaranteeing compliance with solidarity and budget-balance principles among the municipalities they are comprised of. They must provide technical, legal, and economic assistance to small municipalities (fewer than 5 000

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inhabitants). The law 27/2013 aimed at clarifying competences between municipalities and provinces and preventing duplications, strengthened their role in 2013 by recentralising (to provinces) some of the responsibilities of municipalities with fewer than 20 000 inhabitants.

Municipal responsibilities vary between mandatory “core competencies” and optional tasks (clarified by the law LRSAL), according to their population size. All municipalities are responsible for local services including local public utilities, public lighting, road maintenance and municipal police. Larger municipalities (more than 20 000 inhabitants) have additional responsibilities such as social service allowances, civil protection, public transport and environmental protection.

The commission on the Reform of the Spanish Public Administration (CORA) was established in 2012, to improve public-sector efficiency at all levels. Together with the LRSAL, it led to a large-scale drive to clarify the allocation of responsibilities across levels of government, reduce duplication and overlap across jurisdictions and limit the creation of new public entities or agencies at local level. It also reduced the number of agencies (*Entidades Dependientes del Sector Público*) in the regional administration by 34% between 2012 and 2016. The Spanish Urban Agenda, to be approved in 2019, shall provide an assessment of urban and rural conditions in Spain as well as associated priority objectives.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	AUTONOMOUS COMMUNITIES	PROVINCES	LOCAL GOVERNMENTS (DEPENDING ON THE SIZE OF THE MUNICIPALITIES)
1. General public services	Municipal and provincial supervision (shared with the central government)	Internal administration; Coordination of local government with the AC and the State; Technical assistance to municipalities	Internal administration
2. Public order and safety	Public order		Public safety; Municipal police; Civil protection and firefighting (larger municipalities)
3. Economic affairs / transports	Regional and rural development; Fisheries, hunting, aquaculture, agriculture and forestry; Regional tourism; Regional railway and road networks; Regional transport; Ports and airports not engaged in commercial activities	Cooperation in the promotion of economic and social development and in planning of the provincial territory	Traffic management; Road maintenance; Tourism; Public transport (municipalities above 50 000 inhabitants); markets
4. Environmental protection	Environmental protection		Environmental protection (municipalities above 50 000 inhabitants); Waste management; Waste water; Parks and gardens
5. Housing and community amenities	Urban planning; Housing		Urban policies; Water supply; Public lighting; Cemeteries and funeral services
6. Health	Health		Participation in the management of first healthcare
7. Recreation, culture & religion	Museums; Libraries; Music conservatories of regional interest; Cultural heritage; Promotion of culture and of the regional language (when relevant)		Cultural facilities; Sport facilities (larger municipalities)
8. Education	Education (shared); Universities (shared)		Participation in the design of education programmes and facilities
9. Social protection	Social welfare; Social services (shared)		Social services allowances (larger municipalities); Promotion of social reinsertion

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: at regional level, autonomous communities, regional administrative agencies, regional universities, regional corporations which are non-market producers; at local level, local authorities (municipal, provincial and island), associations and groupings of municipalities, autonomous cities (Ceuta and Melilla) and bodies reporting to them (e.g. public organisations, corporations and foundations).

SNA 2008

Availability of fiscal data:
HighQuality/reliability of fiscal data :
High

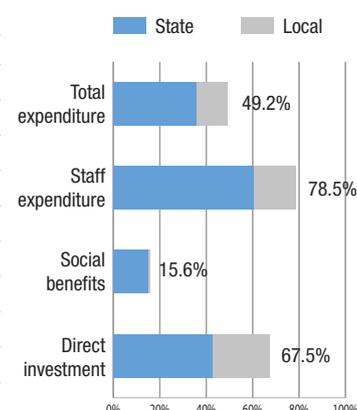
GENERAL INTRODUCTION. Provisions on fiscal issues on subnational governments are detailed in Article 135 of the Constitution, in law 22/2009 on the financing of ACs and the Basic Law on Local Government 7/1985, revised in 2013, as well as in Budgetary Stability Acts (2001, 2006, 2009 and 2012). However, most fiscal powers are concentrated in the ACs, to the detriment of local governments.

At regional level, fiscal decentralisation is asymmetric, with two distinct regimes: the common regime (which concerns 15 of the Autonomous Communities) and the “foral” regime (for Basque Country and Navarra) which is characterised by an almost complete spending and revenue autonomy. Besides, within the common regime, the Canary Islands has a specific economic and tax system due to historical and geographic reasons and its status as an EU “outermost region”. The two autonomous cities are included in the autonomous financing framework. The particularities of the “foral” territories and of the Canary Islands are mentioned in the Articles 156 to 158 of the Spanish Constitution, which refers to the Funding System of the Autonomous Communities.

Despite the profound changes to AC financing brought about by reform 22/2009, which has been in effect since 2011, a new regional financing reform is currently under discussion. It would cut intergovernmental transfer funds and reduce regional revenue distribution.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE			% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
	SNG	State	Local	SNG	State	Local	SNG	State	Local	
Total expenditure	7 548	5 452	2 096	20.8%	15.0%	5.8%	100%	100%	100%	
Inc. current expenditure	6 910	5 028	1 882	19.0%	13.8%	5.2%	91.6%	92.2%	89.8%	
Staff expenditure	3 093	2 382	711	8.5%	6.6%	2.0%	41.0%	43.7%	33.9%	
Intermediate consumption	1 540	889	651	4.2%	2.4%	1.8%	20.4%	16.3%	31.1%	
Social expenditure	1 028	987	40	2.8%	2.7%	0.1%	13.6%	18.1%	1.9%	
Subsidies and current transfers	1 072	616	456	3.0%	1.7%	1.3%	14.2%	11.3%	21.7%	
Financial charges	167	145	22	0.5%	0.4%	0.1%	2.2%	2.7%	1.1%	
Others	11	9	2	0.0%	0.0%	0.0%	0.1%	0.2%	0.1%	
Incl. capital expenditure	637	423	214	1.8%	1.2%	0.6%	8.4%	7.8%	10.2%	
Capital transfers	148	115	33	0.4%	0.3%	0.1%	2.0%	2.1%	1.6%	
Direct investment (or GFCF)	489	308	181	1.3%	0.8%	0.5%	6.5%	5.6%	8.6%	



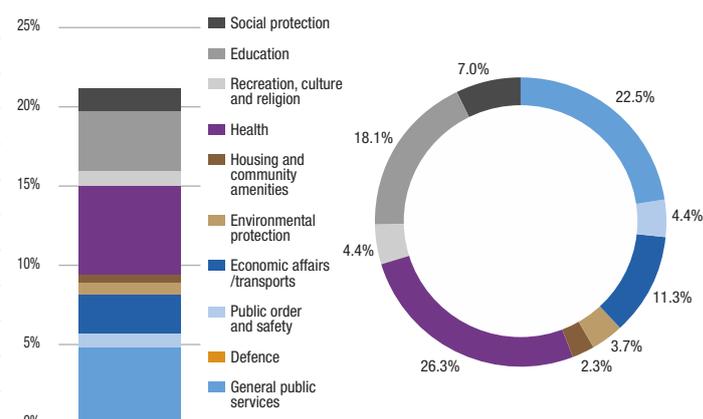
EXPENDITURE. Spain has undergone thorough decentralisation in recent decades, shifting from a highly-centralised system before 1978 to a highly-decentralised one. This is reflected in the change in the share of SNG expenditure in GDP and public expenditure, which increased by respectively 5 and 13 percentage points between 1995 and 2016. Today, Spain is one of the most decentralised countries of the OECD, with SNGs being responsible for almost half of total public spending in 2016, above the OECD average (16.2% of GDP and 40.4% of public expenditure), and in line with the average for OECD federal countries (19.2% of GDP and 50.0% of public expenditure). ACs represented 72%, hence almost three-quarters of total SNG expenditure in 2016, while provinces and municipalities accounted for the remaining 28%. Staff expenditure represents on average 41% of SNG expenditure (compared to 38% on average among OECD federal countries) and 78.5% of all public staff expenditure. ACs are key public employers, due to their high degree of involvement in key sectors (education, healthcare), accounting for 60% of total public staff expenditure while local authorities accounted for only 18% of total public staff expenditure.

DIRECT INVESTMENT. Spanish SNGs, and particularly ACs play a crucial role in infrastructure investment, research and development, and development policies. SNG direct investment represented 67.5% of total public investment in 2016, above the OECD average (56.9%), including the OECD average for federal countries (62.3%). As a share of GDP, SNG investment is, however, below the OECD average for federal countries (1.8%) and investment accounted for only 6.5% of expenditure, which is quite low by international comparison. In addition, SNG investment has declined substantially following consolidation measures taken after the global crisis. SNG investment decreased by 7.8% per year in real terms between 2007 and 2017. Within SNG investment, ACs accounted for 63% and local government for 37%.

ACs are primarily responsible for regional development, and most SNG investment is dedicated to economic affairs, in particular public work and infrastructure of local/regional interest, followed by general public services, housing and community amenities and healthcare. Regional governments are supported by the central government for investment through the Inter-territorial Compensation Fund and the Regional Incentives Programme, which are measures to finance development projects in less developed regions. The 2030 Industrial Strategy and the 2017-27 Internationalisation Strategy of the Spanish Economy 2017-27 provide the framework for the long-term economic development strategies for regions. For instance, future investment priorities are progressively shifting away from infrastructure and towards climate change and innovation.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

2016	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT			SNG EXPENDITURE AS A % GDP	% OF TOTAL SNG EXPENDITURE
	SNG	State	Local	SNG	State	Local		
Total expenditure	21.1%	15.3%	5.8%	100%	100%	100%		
1. General public services	4.8%	2.7%	2.1%	22.5%	17.5%	35.6%		
2. Defence	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
3. Security and public order	0.9%	0.5%	0.5%	4.4%	3.1%	7.8%		
4. Economic affairs / transports	2.4%	1.5%	0.9%	11.3%	9.7%	15.4%		
5. Environmental protection	0.8%	0.2%	0.6%	3.7%	1.2%	10.0%		
6. Housing and community amenities	0.5%	0.2%	0.3%	2.3%	1.0%	5.7%		
7. Health	5.6%	5.5%	0.1%	26.3%	35.9%	1.3%		
8. Recreation, culture and religion	0.9%	0.3%	0.7%	4.4%	1.8%	11.4%		
9. Education	3.8%	3.6%	0.2%	18.1%	23.6%	3.5%		
10. Social protection	1.5%	0.9%	0.5%	7.0%	6.1%	9.3%		



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In health, education, environmental protection and housing and community amenities, Spanish SNGs are responsible for almost all public spending at the national level. Health and education are prime regional competences, with almost no contributions from municipalities, whereas for environmental protection and housing and community amenities, funding responsibilities are shared between regional and local governments, with the latter being responsible for the larger share, respectively 70.3% and 66.5% of SNG total spending in each category. The primary area of regional spending is by far health (35.9% of regional spending, accounting for 5.6% of GDP against 2.9% on average in the OECD), followed by education (23.6% of regional spending accounting for 3.6% of GDP), general public services (17.5%) and economic affairs and transport (9.7%). Municipal and provincial main category of spending is general public services (35.6%), followed by economic affairs and transports (15.4%), recreation, culture and religion (11.4%), social protection (9.3%) and security and public order (7.8%) and housing and community amenities (5.7%).

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	% GDP			% GENERAL GOVERNMENT (SAME REVENUE CATEGORY)			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE
	SNG	State	Local	SNG	State	Local	
Total revenue	20.6%	14.2%	6.4%	54.5%	37.6%	16.9%	
Tax revenue	8.2%	4.9%	3.3%	37.2%	22.2%	14.9%	
Grants and subsidies	10.5%	8.1%	2.4%				
Tariffs and fees	1.7%	1.1%	0.6%				
Property income	0.1%	0.1%	0.0%				
Other revenues	0.1%	0.0%	0.0%				

OVERALL DESCRIPTION. Recent fiscal decentralisation reforms modified the SNG financing structure, resulting in a significant increase in tax revenue as a percentage of total SNG revenue. In particular, law 22/2009 on the financing of the CCAA has introduced major changes including an increase in the share and discretion of ACs in shared tax, a reform of the equalisation system and a change in intergovernmental transfers. The revision of the law on funding municipalities and provinces was adopted in December 2013. In 2016, tax revenue accounted for almost 40% of SNG revenue, slightly below the OECD average (44.6%) but well below the OECD average for federal countries (47.5%). Consequently, the share of grants and subsidies in SNG revenue remain quite high compared to other OECD federations (51% vs 31.5% in OECD federal countries). Taken together, tariffs and fees, property income and other revenues accounted for less than 10% of SNG revenues in 2016.

Despite the high degree of revenue decentralisation, the share of tax revenue in AC revenue is much lower than the share of grants (34.6% vs 57.3%) while this is the reverse at local government level (51.6% vs 37.2%). In addition, ACs have limited participation in tax collection, which undermines their ability to fight tax evasion and generate tax revenue.

TAX REVENUE. All three levels of SNGs in Spain have tax revenue (own-source and shared for ACs and municipalities, and only shared-taxes for provinces). The Superior Council of Tax Coordination, established by the state tax authority and regional governments, coordinates tax management under the common regime, together with Territorial Councils for Tax Coordination and Management that operate within each autonomous community's territory. Overall, SNG tax revenue amounted to 8.2% of GDP and 37.2% of public tax revenue, slightly below the OECD average for federal countries (8.8% of GDP and 42.4% of public tax).

All ACs except Basque Country and Navarra benefit from tax revenues shared with the central government on which they have some leeway (ceilings, tax exemptions and exemptions, etc.). Law 22/2009 increased their share of shared-taxes, and gave regions increased fiscal autonomy. In 2016, they received 50% of the PIT receipts (instead of 33% previously), 50% of VAT receipts, 58% of excise taxes on tobacco, alcohol and petrol and 100% of revenues from tax on electricity and certain means of transport. The rest of tax receipts directly go to the Guarantee of Basic Public Services Fund. ACs are able to increase or decrease tax exemptions on the regional share (max. of 10% greater/less than the State's level) and have discretion regarding the number of tax brackets, although they must have a progressive rate scale. Moreover, they have autonomy over the wealth tax, inheritance and gift tax, tax on capital transfers, gambling tax, vehicle excise tax and the Hydrocarbon Retail Sales Tax. Basque Country and Navarra, under special foral regime, enjoy a higher degree of fiscal autonomy than other ACs. They benefit from all taxes, except import duties, payroll taxes, VAT and excise duties, under the condition that the overall effective tax burden does not fall below that of the rest of Spain.

Overall, in 2016, PIT represented 69% of AC tax revenue while the tax on capital transactions represented 13.4%, plus excise taxes and VAT receipts (each accounting for 3.5% of regional revenue). However, despite the creation of the Territorial Councils of Tax Coordination and Management, autonomous communities are still only marginally involved in tax collection.

Municipalities generate a significant portion of their tax revenue from own-source taxes, and larger municipalities (more than 75 000 inhabitants) have a special status, derived from their extended scope of responsibility, and benefit from additional shared taxes (PIT, VAT and excise taxes). Own-source taxes include a property tax (IBI), a vehicle tax (IVTM), a local business tax and two optional taxes: a tax on real estate transactions in urban areas and a tax on construction, facilities and infrastructure. Municipalities can also levy environmental taxes, but this is rarely used. Recurrent immovable property taxes represented 37% of municipal tax revenue in 2016, i.e. 1.2% of GDP (compared to 1.1% on average in OECD countries in 2016). Provinces have the power to levy a surtax on the local business tax and are also entitled to some shared tax revenue (PIT, VAT and CIT). Overall, revenues from VAT and PIT represented respectively 8.5% and 6.8% of municipal and provincial tax revenue in 2016 and the local business tax, 10%.

GRANTS AND SUBSIDIES. Spain has a highly-developed system of transfers from the central government to ACs and local governments, which primarily consist of current, non-earmarked grants that are dedicated to equalisation purposes.

ACs under the ordinary regime receive general unconditional equalisation grants and conditional grants. Law 22/2009 substantially modified the grants and equalisation system, in order to reinforce interregional solidarity. There are two main funds: 1) The Guarantee of Basic Public Services Fund (*Fondo de Garantía de Servicios Públicos Fundamentales*), non-earmarked, is the main fund intended to ensure equal funding for basic public services (in the sectors of health care, education and social services). All ACs contribute up to 75% of their tax revenue to this fund, in addition to an extra contribution by the central government. It is redistributed to each AC according to an “adjusted population criterion”, and is adjusted yearly. 2) The Global Sufficiency Fund (*Fondo de Suficiencia Global*) is based on the assessment of the fiscal gap between expenditure needs and fiscal capacity of each AC. In addition, regions receive conditional grants aimed at fostering regional development, such as the convergence fund (*Fondos de Convergencia*). These conditional grants include a Competitiveness Fund, for regions whose per capita funding/fiscal capacity is less than the national average, and a Cooperation Fund to help less dynamic regions. Basque Country and Navarra do not receive transfers from the central government; they do, however, transfer funds to the central government and thus participate in the country’s general expenses. Grants and subsidies represented more than half of regional government revenue in 2016.

Central government transfers to local governments include the State Revenues’ municipal and provincial Participation (PIE) that are current equalisation non-earmarked transfers to bridge the gap between municipal/provincial expenditure needs and revenue capacities. Local governments also receive transfers from autonomous communities. Finally, they also received earmarked grants for specific investment projects. In 2016, intergovernmental transfers represented 37.2% of provincial and municipal revenue.

OTHER REVENUES. The share of other revenues in total SNG revenue is lower than in the OECD on average. They include mostly user charges or fees, such as the sanitation charge received by regional governments, which was transferred from municipalities to regions in the 1980s. Tariffs and fees represented, in 2016, 7.6% of regional revenues and 10.2% for local governments. In addition, SNGs received a very small share of income from property assets (rents, sales), and the latest fiscal reforms did very little to change the situation.

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt	8 065	6 922	1 142	31.8%	27.3%	4.5%	27.3%	23.4%	3.9%	100%	100%	100%
Financial debt*	7 154	6 419	735	28.2%	25.3%	2.9%	25.2%	22.6%	2.6%	88.7%	92.7%	64.3%

* Currency and deposits, loans and bonds

FISCAL RULES. A constitutional reform adopted in 2011 underpinned the fiscal consolidation targets for all Spanish administrations from 2020 onward. Targets from 2020 include structural deficits of central and regional governments restricted to the limits set by the EU and balanced budgets for local governments. Moreover, the Organic Law on Budgetary Stability and Financial Sustainability 2/2012 introduced strict fiscal rules for subnational governments, including a structural balanced budget rule and debt ceilings for all levels of governments, as well as expenditure rules for SNGs (increases in expenditures may not exceed medium-term GDP growth, calculated over ten years). An independent authority for Fiscal Responsibility was set up in November 2013 by an Organic Law, and is operational since July 2014, to monitor and report on compliance of all levels of government. The *Autoridad Independiente de Responsabilidad Fiscal* (AIREF) is composed of central and regional finance and treasury ministers.

DEBT. The Organic Law 2/2012 established that regional and local governments may apply to the State for access to extraordinary liquidity support measures. As such, several arrangements were set up with the aim to provide liquidity to regional and local governments, such as the Fund for Financing of Payments to Suppliers (FFPP), the Regional Government Liquidity Fund (FLA), as well as extraordinary support measures for municipalities encountering financial difficulties. Those were replaced in 2014 by the creation of the Regional Government Financing Fund by The Royal Decree-Law 17/2014. It is divided into three facilities: the Financing Facility, in which regional governments that meet budgetary stability targets may voluntarily participate; the new Regional Government Liquidity Fund, for regional governments that have not met such targets (replaces the former FLA); and the Social Fund, to pay regional government outstanding debts with local governments order to ensure compliance with agreements on social spending. Besides, Law 2/2012 set a debt ceiling of 13% of regional GDP for each region, and new supervisory mechanisms were introduced, including the possibility of sanctions and automatic adjustment of regional expenditure in case of non-compliance.

Spanish SNG debt has significantly increased after the 2008 global financial crisis, in particular the regional debt, to levels significantly above the OECD average. This situation led to profound reforms regarding fiscal rules, and to large efforts to reduce public deficit since 2012. This continued until regional debt levels stabilised starting in 2016. ACs hold 86% of SNG debt in 2016, against 14% for provincial and municipal governments. Regional debt, which accounted for 27.3% of GDP in 2016, is composed primarily of loans (75.5%) and bonds (17.2%), and the rest is made up of other accounts payable (7.3%, a decrease in the past years). Overall, 97.6% of bonds were issued by regional governments, and most of the regional debt was held by the central government (53.6% in 2016). Debt ratios vary greatly across regions. As of 2017, debt levels as a percentage of regional GDP ranged from 14% (Basque Country) to 42% (Valencia), and the Navarre and Basque Country regional governments have not received funds in the form of loans from the central government.

Local debt, on the other hand, accounted for 4.5% of GDP as of 2016, as local governments reduced their debt level for the fifth consecutive year. Local debt includes financial debt (64.3%) and other accounts payable (35.7%). Local financial debt is primarily made up of loans (96%).



Lead responsible: OECD
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