



FINANCING OPTIONS FOR THE AUTONOMOUS COMMUNITIES

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Banco de España

Technical Workshop AIReF – IMF

“Budgetary policy in decentralized countries: design, implementation and coordination”

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The views expressed are our own and do not necessarily represent those of the Banco de España or the Eurosystem

CCAA CAN RESORT TO DEBT

- The extant legislation (Spanish Constitution, art. 157; LOFCA, art. 14) allows CCAA to recourse to short- and long-term debt

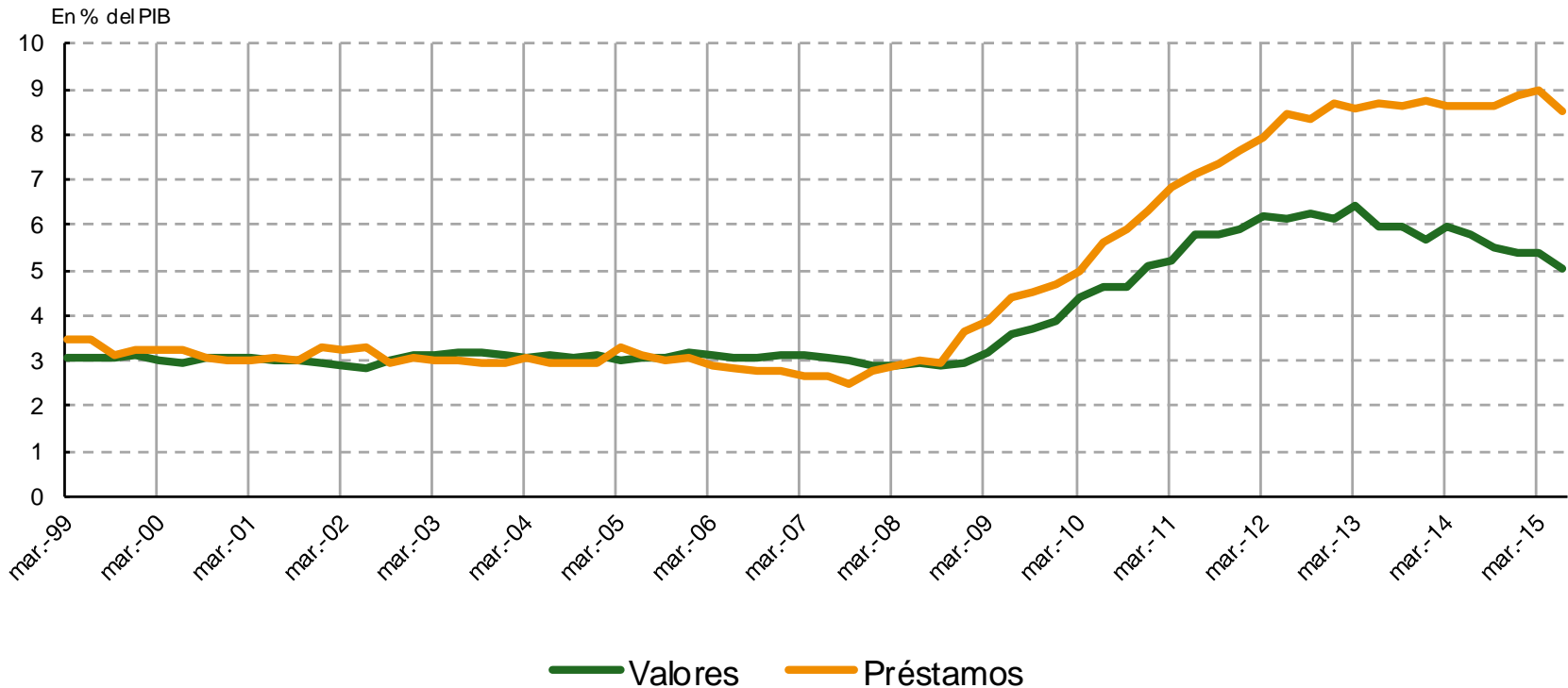
- *In normal times CCAA are empowered to take on debt, albeit subject to certain limits*
 - *Credit operations at less than 1 year are to be used to cover temporary treasury requirements*
 - *Credit operations at over one year, should meet the following requirements:*
 - *that the total amount of the credit is earmarked for financing investment spending*
 - *that the annual amount of debt repayments plus interest does not exceed twenty five percent of the CCAAs' current revenues*
 - *For the arrangement of credit operations abroad and for debt issuance and any other resort to public credit, the CCAAs require the authorization of the Central Government*
- *2012 BSL: public debt limit of 13% of GDP for all CCAA and each one individually*
- *2012 BSL: deviation only in “exceptional circumstances” → corrective plan,*

CCAA DO RESORT TO DEBT



- Until the beginning of the crisis, financing via loans and securities balanced
- During the crisis recourse to debt increases significantly, more reliance on loans
- In addition bilateral loans with the Central Government gained prominence as of 2012

VALORES Y PRÉSTAMOS DE LAS COMUNIDADES AUTÓNOMAS
(excluyendo préstamos con otras AAPP)



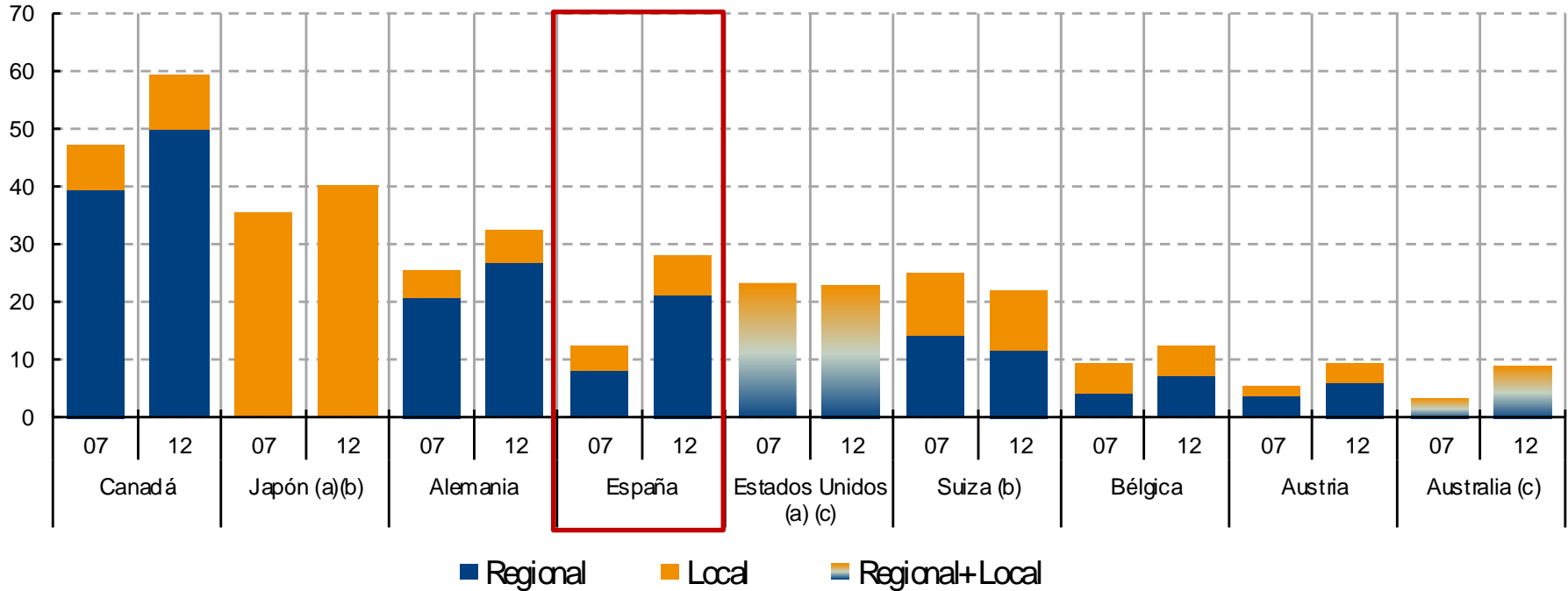
CCAA DO RESORT TO DEBT: RELEVANCE FROM AN INTERNATIONAL VIEWPOINT



- Quantitative relevance when compared to other “federations” (consolidated data)

Deuda Territorial

% del PIB

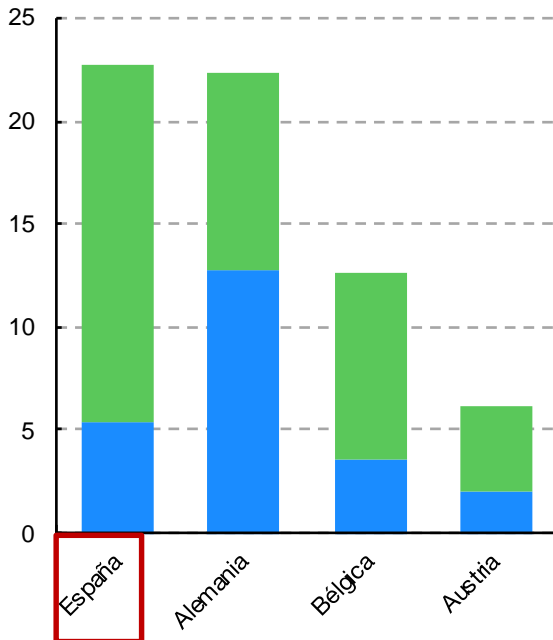


CCAA DO RESORT TO DEBT: RELEVANCE FROM AN INTERNATIONAL VIEWPOINT

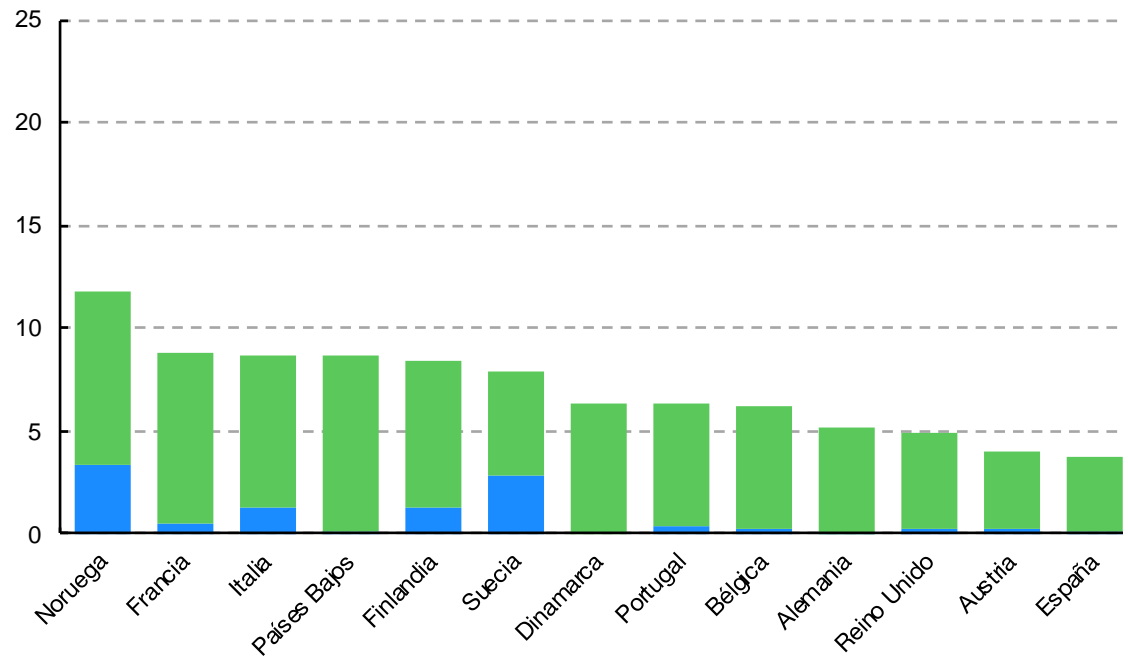


- Quantitative relevance when compared to other “federations” (non-consolidated data)

ADMINISTRACIONES REGIONALES (2014)
% del PIB



ADMINISTRACIONES LOCALES (2014)
% del PIB



■ Valores

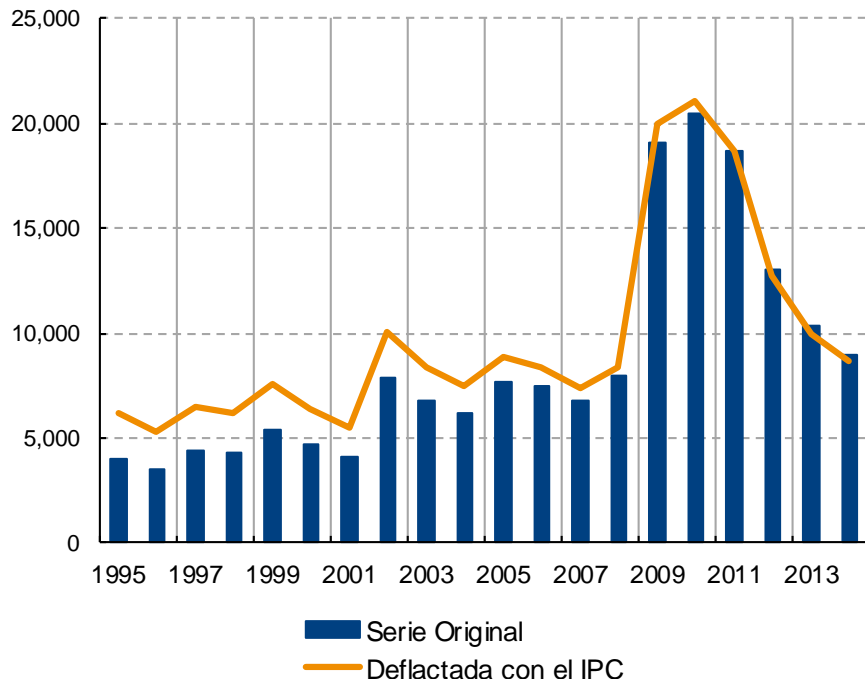
■ Préstamos

CCAA DO RESORT TO DEBT: SECURITIES MARKETS

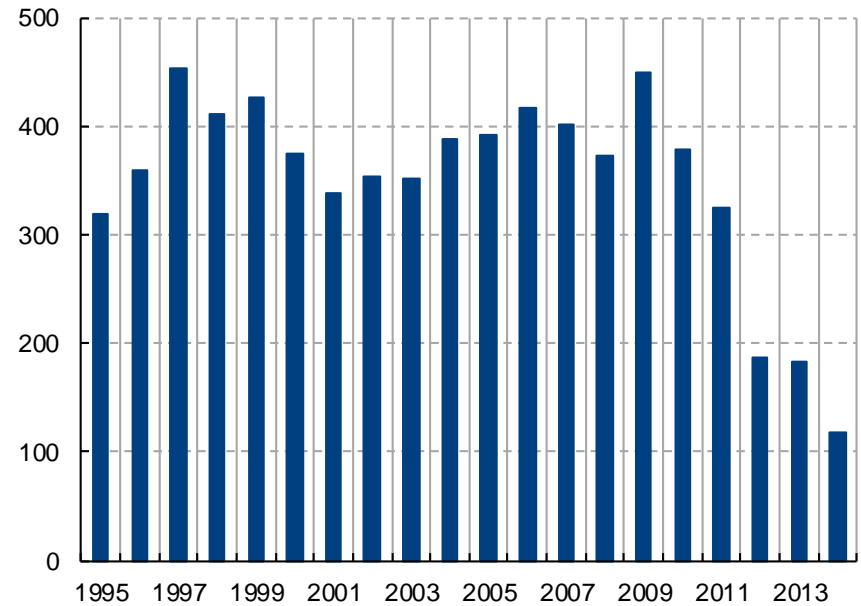


- Regular issuance (gross issuance) of securities since 1995
- Significant heterogeneity between CCAA

Volumen anual de emisiones de las CCAA (millones de euros)



Número anual de emisiones de las CCAA

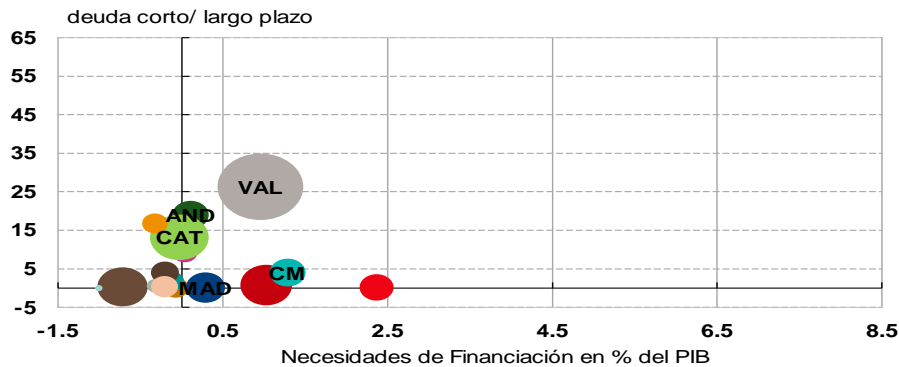


THE IMPACT OF THE CRISIS

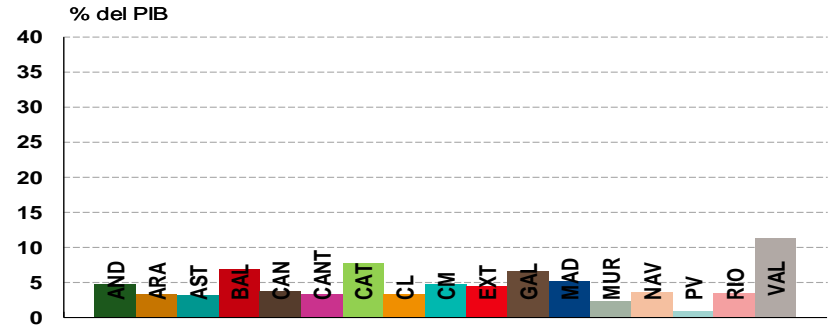


- Liquidity or fiscal sustainability crisis?
- Since 2012 a number of liquidity-support funds started to be provided by the Central Government, mainly under the “FLA”
- CCAA under FLA (until end-2014): AND, AST, BAL, CAN, CANT, CAT, CLM, MUR, VAL

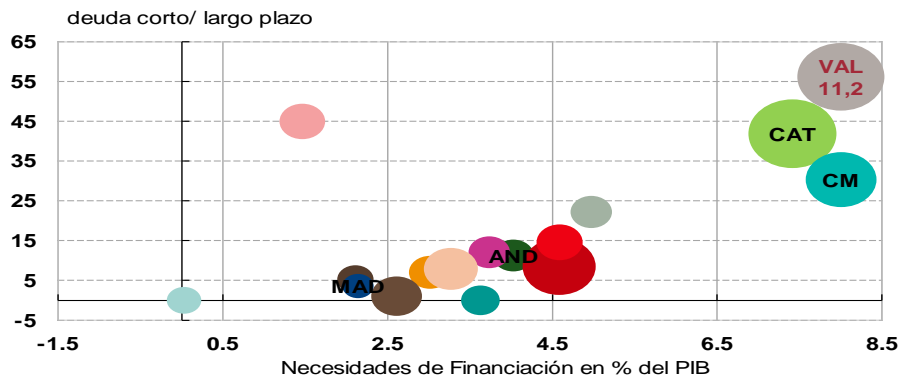
Total de deuda en porcentaje de PIB 2007 (b)



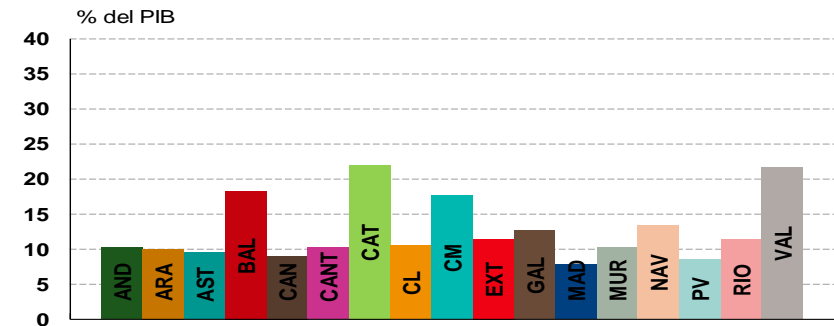
Deuda Pública en porcentaje del PIB 2007 (b)



Total de deuda en porcentaje de PIB 2011 (a)



Deuda Pública en porcentaje del PIB 2011

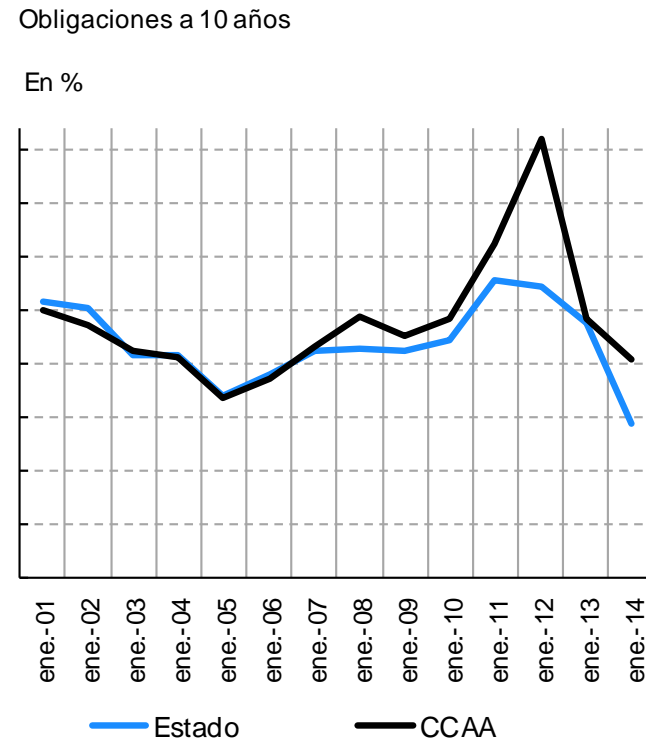
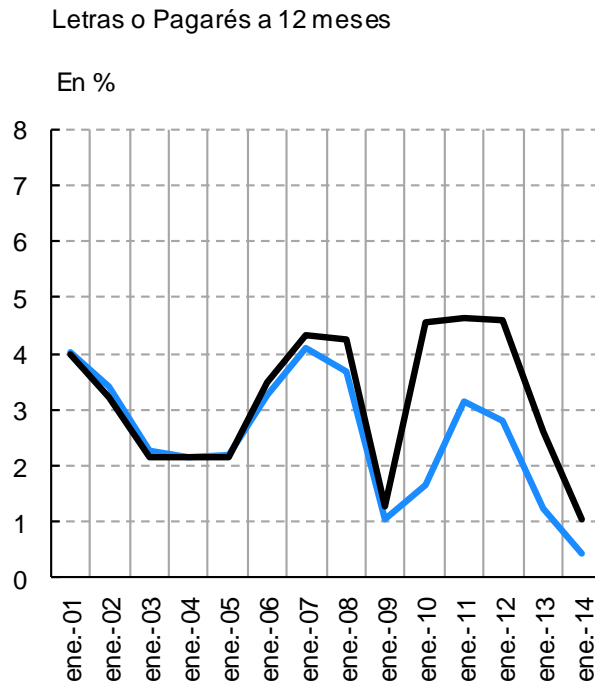


THE IMPACT OF THE CRISIS



- Treasury access to the market...
- ... at an affordable cost

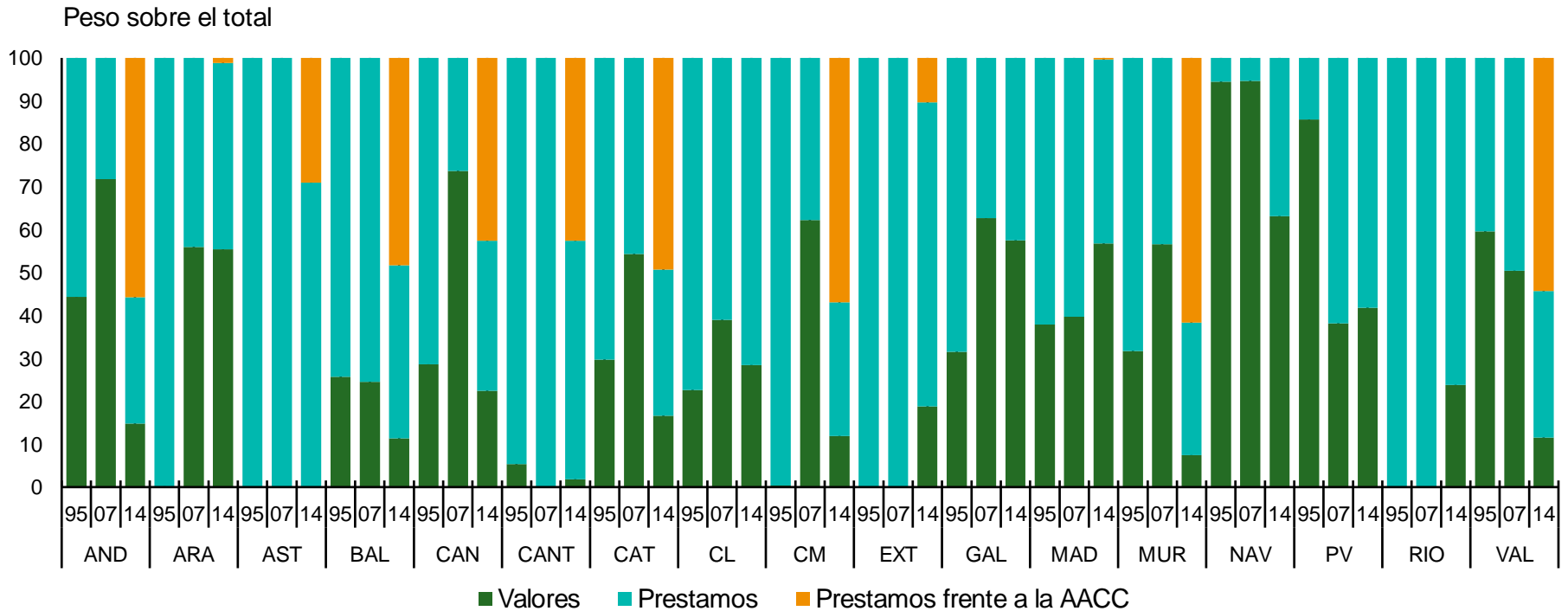
RENDIMIENTO ANUAL PROMEDIO DE EMISIÓN DE DEUDA DEL ESTADO Y DE LAS CCAA



CCAA DID RESORT TO THE SECURITIES MARKETS



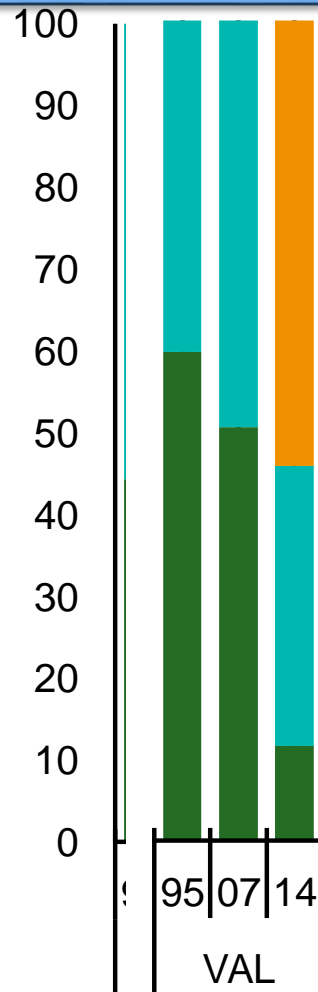
- The structure of FLA-CCAA debt changed: increased weight of Central Government loans
- Funds were provided in exchange of fiscal discipline to avoid moral hazard problems



CCAA DID RESORT TO THE SECURITIES MARKETS



- Since 2012 a number of liquidity-support funds started to be provided by the Central Government, mainly under the “FLA”
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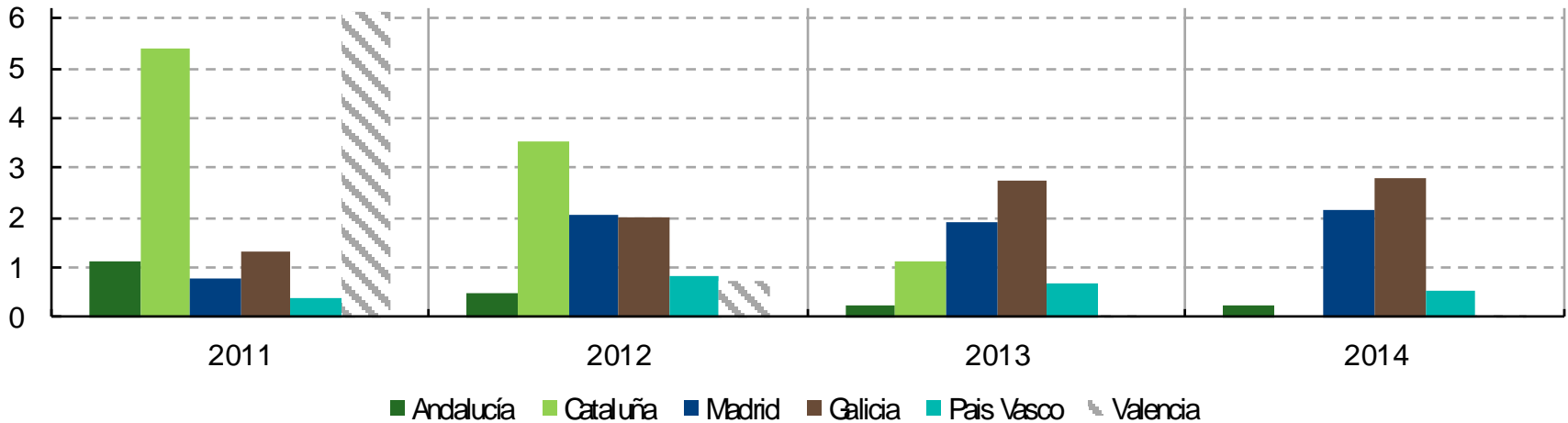


CCAA DID RESORT TO THE SECURITIES MARKETS



- In practice, FLA CCAA moved out of the securities markets
- Since 2015, only NAV and PV not covered by financial-assistance funds of the Central Government

Volumen anual de valores emitido por las CCAA
% del PIB

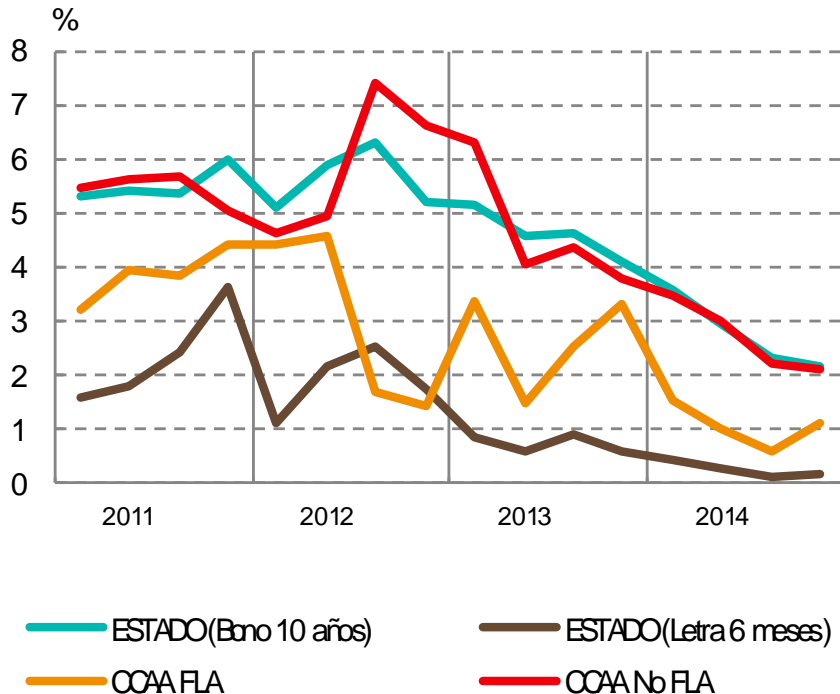


CENTRALIZED ISSUANCE BY THE CENTRAL GOVERNMENT: IS IT WORTH IT?

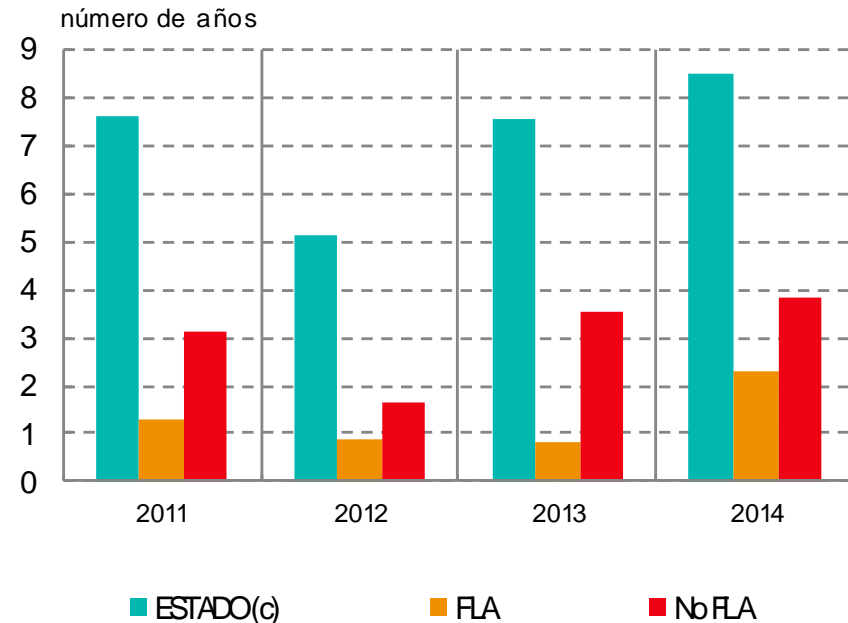


- Liquidity funds were instrumental to deal with tensions under the “sovereign debt crisis”
- Financing costs get reduced from an aggregate and individual point of view
- But: (i) CCAA lost market Access; (ii) moral hazard problems?

Promedio de los rendimientos de las emisiones de deuda



Promedio anual del periodo medio de emisión



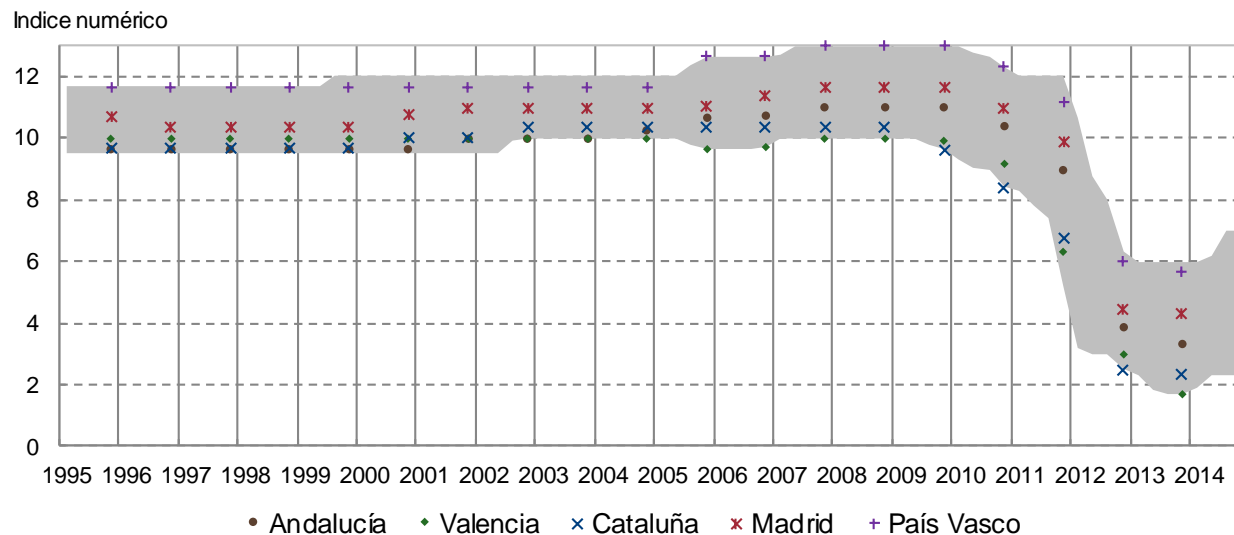
WHAT CAN BE LEARNT FROM THE LITERATURE?



- In highly fiscally-decentralized countries disciplining devices should play a role: (i) market discipline; (ii) citizens awareness
- Soft Budget constraint and moral hazard problems: which is the best solution?
- No-bail-out clauses: fiscal rules, “fiscal watchdogs”, debt resolution mechanisms?
- Euro-wide proposals: red/blue bonds, “ESM”-like device (increased coordination)

EVOLUCIÓN DE LOS RATINGS DE LAS COMUNIDADES AUTÓNOMAS

Promedio de la equivalencia numérica de los ratings (a)



FUENTES: Fitch, Standards and Poors y Moody's.

a. Se establece una equivalencia numérica entre los ratings de las tres agencias de rating principales para poder hacer el promedio.

De manera que se otorga el máximo valor de todas las agencias el número 13 y llegando sólo dicha clasificación hasta el límite de los bonos basura: B+ para Fitch, B+ para S&P y B1 para Moody's

WHAT CAN BE LEARNT FROM INTERNATIONAL EXPERIENCES?



- Where should we head to?

- *Market-based approaches: US, Canada, ...*
- Partial mutualization: individual, joint by groups of regions, central gov'n't
 - *Germany*
 - *Länderjumbos*
 - *KfW - guaranteed by Federal Government*
 - *Local agencies: joint issuance by municipalities (Finland, Norway, Sweden, ...)*
- *Euro area experience: operation of ESM loans – strong conditionality and “programme” in exchange for funds*

CONCLUDING REMARKS

- Which financing option should we target?

- Is centralized issuance consistent with a highly fiscally-decentralized country?
- Centralized issuance:
 - Pros: better market Access, lower financing costs
 - Cons: moral hazard problems, inconsistent with “quasi-federal” country
- Individual issuance, need for strong safeguards
- Key challenge: stable and sufficient financing arrangements

THANKS FOR YOUR ATTENTION



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ADDITIONAL SLIDES



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