

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - HIGH INCOME: OECD Local currency - Euro (EUR)

#### POPULATION AND GEOGRAPHY

AREA: **501 757** km<sup>2</sup>

POPULATION: **46.464** million inhabitants (2014), a decrease of -0.1% per year (2010-14)

DENSITY: **93** inhabitants/km<sup>2</sup>

URBAN POPULATION: **79.4%** of national population

CAPITAL CITY: **Madrid** (13% of national population)

Sources: OECD, Eurostat, World Bank, UNDP, ILO

#### ECONOMIC DATA

GDP: **1 562.9** billion (current PPP international dollars) i.e. 33 638 dollars per inhabitant (2014)

REAL GDP GROWTH: **1.4%** (2014 vs 2013)

UNEMPLOYMENT RATE: **24.4%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **34 233** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **20%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.876** (very high), rank **26**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
<b>8 119</b>	<b>50</b>	<b>17</b>	<b>8 186</b>
MUNICIPALITIES (MUNICIPIOS)	PROVINCES (PROVINCIAS)	AUTONOMOUS COMMUNITIES (COMUNIDADES AUTÓNOMAS)	
AVERAGE MUNICIPAL SIZE: <b>5 605 INHABITANTS</b>			

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** According to the 1978 Constitution, Spain is a unitary state having a three-tier system of SNG whose autonomy is constitutionally recognised (article 137). In reality, Spain is a quasi-federation with autonomous communities (ACs) having a large autonomy, including the exclusive ability to decide on the organisation of municipalities and provinces within the regional territory. However, municipal and provincial functions and finances are decided in the framework of the national law and not by regional constitution or law, unlike federations. As a result, local governments are governed jointly by the central government and the regions. At regional level, decentralisation is asymmetric, with two distinct regimes: the common regime (15 ACs) and the "foral" regime (Basque Country and Navarra) which is characterised by an almost complete spending and revenue autonomy. In addition, ACs of the common regime each have their specific statute, allowing for some distinctive features, especially since the 2000s (several statutes have been reformed case by case). Municipal and provincial organisation differs from one region to another. Recently, the 27/2013 Law on the Rationalisation and Sustainability of Local Administration (LRSAL) introduced incentives to promote municipal mergers on a voluntary basis. Spain also has a structured level of 3 719 sub-municipal entities which are deconcentrated municipal organs of the municipalities without own legal personality. Spain also counts two autonomous cities in North Africa (Ceuta and Melilla), with less powers than ACs but with more than municipalities. Finally, there is a central government territorial administration including General Delegates at regional level and Sub-delegates at provincial level.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** ACs responsibilities are defined in their autonomous statute but, as a general rule, all responsibilities not expressly attributed to the central state by the Constitution are devolved to ACs, for which 23 areas of responsibilities are listed. In addition, there are also shared competencies between the centre and the regions (education, social services, universities, municipal and provincial supervision). ACs have large responsibilities which typically include education (since 2000), healthcare (since 2002), public order, planning, urbanism and housing, transport, environmental protection, agriculture, culture, social assistance, etc. Provinces are responsible for public services and investment projects of supra-municipal character as well as technical, legal, and economic assistance to small municipalities (less than 5 000 inhabitants). The LRSAL strengthened their role by recentralising some tasks of municipalities under 20 000 inhabitants at the provincial level. Municipal responsibilities vary according to their demographic size and they have mandatory "core competencies" and optional tasks (clarified by the LRSAL). They are all responsible for local public utilities (waste and water supply), public lighting, road maintenance and municipal police. Larger municipalities have additional responsibilities, including markets, public parks, social services, environmental protection, public transport, culture, sport facilities, emergency and fire-fighting services, etc.

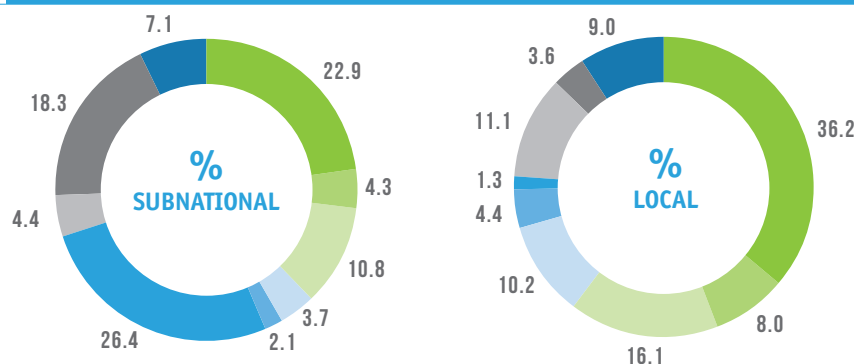
### SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP		% GENERAL GOVERNMENT (same expenditure category)		% SUBNATIONAL GOVERNMENT	
	SUBNATIONAL DATA		LOCAL DATA ONLY			
<b>TOTAL EXPENDITURE (2013)</b>	<b>21.2%</b>	<b>5.8%</b>	<b>48.0%</b>	<b>13.1%</b>	<b>100%</b>	<b>100%</b>
<b>CURRENT EXPENDITURE</b>	19.4%	5.2%	-	-	91.2%	90.5%
<b>STAFF EXPENDITURE</b>	8.4%	1.9%	77.2%	17.8%	39.7%	33.5%
<b>INVESTMENT</b>	1.4%	0.5%	64.5%	23.0%	6.5%	8.5%

Spain has undergone a deep process of decentralisation, shifting from a highly centralised system before 1978 to a highly decentralised one, which is reflected in the change in the share of SNG expenditure in GDP and public expenditure, which increased by respectively 5.4 and 13 percentage points between 1995 and 2013. Spain is now one of the most decentralised countries of the OECD. SNGs, in particular ACs, are key public employers in key sectors (education, healthcare). They are also key public investors, although the SNG investment as a percentage of GDP is lower than in the OECD on average (1.4% vs 1.9% in the OECD). ACs represented almost three-quarters of SNG expenditure in 2013.

## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



The primary area of SNG spending is by far health (5.6% of GDP) followed by education, general public services and economic affairs/transport. Health represented 36% of ACS' expenditure and education, 23% in 2013. Municipal and provincial main categories of spending include general public services, economic affairs and transport, recreation and culture and environmental protection.

## REVENUE BY TYPE

### % GDP

### % GENERAL GOVERNMENT (same revenue category)

### % SUBNATIONAL GOVERNMENT

	SUBNATIONAL DATA		LOCAL DATA ONLY			
<b>TOTAL REVENUE (2013)</b>	20.3%	6.3%	54.0%	16.8%	100%	100%
<b>TAX REVENUE</b>	7.7%	3.2%	35.8%	14.8%	38.0%	50.4%
<b>GRANTS AND SUBSIDIES</b>	10.7%	2.4%	-	-	52.7%	37.7%
<b>OTHER REVENUES</b>	1.9%	0.7%	-	-	9.3%	11.9%

Recent fiscal decentralisation reforms modified the SNG financing structure, resulting in a significant increase of tax revenue in total SNG revenue. In particular, the Law 22/2009 on the financing of the ACs in effect since 2011 has introduced major changes. The revision of the law on funding municipalities and provinces was adopted in December 2013.

**TAX REVENUE.** Basque Country and Navarra have autonomy and benefit from all taxes except import duties, payroll taxes, VAT and excise duties. Other ACs benefit from taxes shared with the central government, on which they have some leeway. They receive 33% of the PIT, 35% of VAT receipts, 40% of excise taxes on tobacco, alcohol and petrol and 100% of revenues from tax on electricity and certain means of transport. They have autonomy over the wealth tax, inheritance and gift tax, tax on capital transfers, gambling tax, vehicle excise and hydrocarbons retail sales tax. In 2013, PIT represented 68% of ACs tax revenue. Municipalities derive a significant part of their tax revenue from own-source taxes but also from shared taxes (PIT, VAT and excise taxes) for the larger one (more than 75 000 inhabitants). 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. Taxes on immovable properties represented 38% of municipal tax revenue i.e. 1.4% of GDP. Provinces only 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, PIT and VAT represented respectively 13% and 15% of municipal and provincial tax revenue and the local business tax, 10%.

**GRANTS AND SUBSIDIES.** Basque Country and Navarra do not receive transfers from the central government but, on the contrary, they transfer funds to central government to participate to national general expenses. Other ACs receive general unconditional equalisation grants and conditional grants. The law 22/2009 modified substantially the grants and equalisation system, in order to reinforce interregional solidarity. There are two main funds: 1) the Guarantee of Basic Public Services Fund, non-earmarked, is intended to ensure equal funding for basic public services (health care, education and social services). It is made up of 75% of the tax revenue assigned to ACs and an extra contribution by the central government. It is redistributed by ACs according to "adjusted population criteria"; 2) the Global Sufficiency Fund is based on the assessment of the fiscal gap between expenditure needs and fiscal capacity. In addition, regions receive conditional grants aimed at fostering regional development, such as the compensation fund. 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.

**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 (8.3% of SNG revenue but 10.6% for local governments) as well as income for property assets (rents, sales).

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

	SUBNATIONAL DATA		LOCAL DATA ONLY	
<b>OUTSTANDING DEBT (2013)</b>	29.3%	5.7%	28.7%	5.6%

Spanish SNG debt has significantly increased after the 2008 global financial crisis, in particular regional debt, to reach levels significantly above the OECD average. This situation led to profound reforms regarding fiscal rules. A constitutional reform was adopted in 2011 to underpin the fiscal consolidation targets for all Spanish administrations from 2020 onward. Moreover, an Organic Law on Budgetary Stability and Financial Sustainability passed in 2012 introduces a structural balanced budget rule and debt ceilings for all levels of governments, as well as expenditure rules for SNGs. The regional Liquidity Fund (FLA) was also established in 2012. Finally, an independent authority for Fiscal Responsibility was set up to monitor and report on compliance of all levels of government. ACs hold 80% of SNG debt. Outstanding debt is made up of financial debt (around 83%) and other account payable (17%). Bonds represented 20% of SNG debt but only 2.5% for local governments.

A joint- study of:



**Sources:** OECD National Accounts Statistics • Ministry of Finance and Public Administrations (2016), Financing mechanisms of subnational governments, <http://www.minhap.gob.es> • OECD (2016 and 2015), Subnational Governments in OECD Countries : Key data • Chatry I., Hulbert C. (2016), "Multi-level governance reforms: Overview of OECD country experiences" OECD publishing • OECD (2015), The State of Public Finances 2015, Strategies for Budgetary Consolidation and Reform in OECD Countries • Nicol S. (2014), Fiscal Devolution • Some Comparative Examples, SPICe paper • European Committee of the Regions (2014), "Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities: Fiscal Decentralisation or Federalism • Congress of Local and Regional Authorities (2013) Local and regional democracy in Spain, CG(24)6FINAL.