

# Spanish Regions Third-Quarter Results 2011

## Not Much Room for Slippage

**On Track:** Quarterly budgetary results published by Spain's Ministry of Economy and Finance indicate that overall the 17 Spanish autonomous communities complied with the deficit targets to September 2011. However fiscal slippage in the fourth quarter could result in an overshoot by the end of the year.

**Six Exceed Allowed Deficit:** Individual results indicate that six regions including Catalonia, with a reported deficit of 1.34% of regional GDP, Asturias (1.57%), Extremadura (1.98%), Valencia (2.32%), Murcia (3.03%) and Castile La Mancha (4.84%), have already exceeded the deficit limit for the year of 1.3%. But in aggregate, the autonomous communities reported overall deficits of 1.19%. The Basque Country was the only region to report an overall surplus before debt movement for the third quarter.

**Current Balance Still Negative:** Twelve regions reported a negative current balance (current revenues less current expenditure) in Q311 and the aggregate was EUR5.1bn versus a negative EUR3.6bn in Q310. Four regions made this amount – Valencia, Castile La Mancha, Catalonia and Murcia. Catalonia reported the weakest results with a negative current balance of EUR2.1bn but the Basque Country reported good fiscal discipline and the largest positive current balance at EUR 0.8bn.

**Further Measures Required:** The full-year budget of all regions indicated an aggregate negative current balance of EUR1.5bn so more has to be done in the final quarter to meet this target through higher current revenues, stricter cost controls or delaying capital expenditure.

**Transfers Can Make Difference:** The regions have budgeted EUR32bn in transfers from the state for the full year. These include transfers such as Fondo de Suficiencia Global (Sufficiency fund), Fondo de Garantía (Guarantee fund) and Fondo de Convergencia (Convergence fund). In total these three funds amounted to EUR14.5bn, of which only 61% had been received by Q311. If 75% of the total budgeted transfers had been received by Q311, then the negative current balance would have improved from EUR 5.1bn to EUR3.1bn, although still negative.

**Revenues Still Down:** Current revenues were down by just under 3% from a year earlier. The weak property market is reflected in the 17% decline in stamp duty and property transfer tax after a sharp fall in 2009 and 2010 and it will take time for this to recover. VAT receipts were up by 94% but this increase was largely the result of the change in the financing system, which transferred a larger portion of VAT to the regions. Fitch expects revenue growth to be muted in 2011 and 2012 given poor consumer confidence, high unemployment and flat housing market.

**Expenses Must Be Controlled:** Most of the regions have announced drastic measures to contain expenses, in particular Catalonia and Castile La Mancha. Further efforts will be needed given that the improvement in the current balance is not likely to come from revenue growth. Operating expenditure in Q311 was 1.3% down in aggregate from a year earlier and the regions had already spent around 73% of total budgeted annual expenditure.

**Capital Expenditure Cuts:** More costs have been cut in capital expenditure, with direct expenditure down by 14.8% in Q310, and capital transfers down by 2.8%. Fitch expects that capital expenditure will be flat or decline in 2012 to ensure that the regions meet the established overall deficit limit.

### Analyst

Fernando Mayorga  
+34 93 323 8407  
[fernando.mayorga@fitchratings.com](mailto:fernando.mayorga@fitchratings.com)

Guilhem Costes  
+34 93 323 8410  
[guilhem.costes@fitchratings.com](mailto:guilhem.costes@fitchratings.com)

**Liquidity Tensions:**

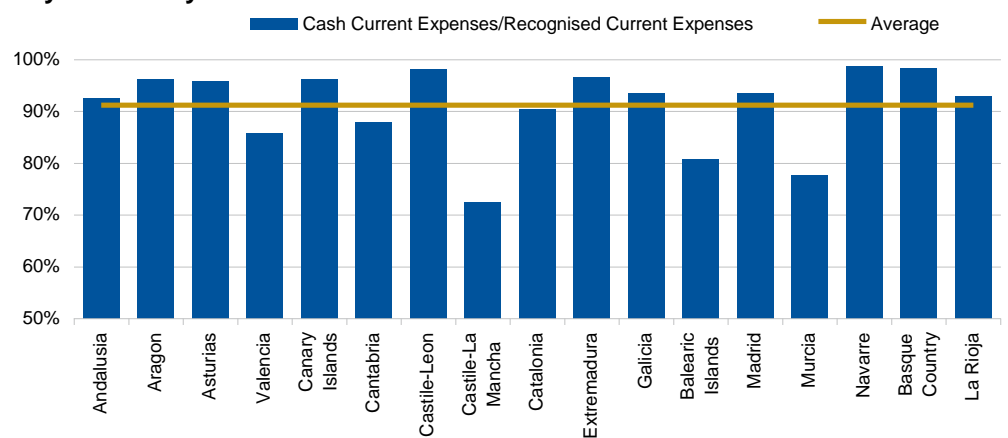
The difficult fiscal and economic conditions, the practical closure of the capital markets for the Spanish regions and the lack or delays in authorisation received from the central government to borrow long-term have hurt liquidity. This was demonstrated by the high and increasing proportion of short-term debt, which represented 10% of total debt of the regions at end-June 2011 and on the widening difference between accrued current expenditure and cash current expenditure (see chart below).

For the regions as a whole, actual cash current payments represented 91% of recognised expenditure at Q311 but in individual regions, there were signs of difficulties. The region of Castile La Mancha settled only 73% of recognised current expenditure, Murcia 78% and Balearic Islands 81%. This is an indication that the regions are funding themselves by extending the payment period to commercial creditors; the item within current expenditure that was paid with the greatest delay was goods and services. For example, the region of Castile La Mancha only paid 30% of the recognized amount of goods and services by Q311 and Murcia 44%. Delays were also seen in the payment of capital expenditure with again Castile La Mancha covering only 31%, Murcia 32% and Balearic Islands 35%, against a sector average of 68%.

The regions of Navarre and the Basque Country maintain their strong commitment to settling their operating expenditure with both regions paying 99% and 98% of their accrued expenditure respectively and 96% and 92% of their capital expenditure.

Figure 1

**Payment Delays**



Source: Ministerio Economía y Hacienda

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