

CATALONIA BACKGROUND INFORMATION [SERIES E / 2014 / 4.1 / EN]

Date: 20/06/2014

THE FISCAL CONSOLIDATION PROCESS IN CATALONIA (2010-2014)

Catalonia, the autonomous community which has contributed most to reducing the deficit

Catalonia is the autonomous community (AC) which has contributed most to reducing the global deficit of the Spanish state. **It has borne 28.5% of the adjustment achieved by the autonomous communities in the period 2010-2013, and almost 16% of the entire adjustment made by the State administrations.** The deficit of Catalonia has fallen by 5,163M€ since 2010.

At the start of the previous term (December 2010), the present Government of the Generalitat saw that the Catalan deficit was well above the assigned objective of 2.4%. Specifically, the Spanish Government Comptroller's Office (IGAE) placed the 2010 deficit at 4.6% of GDP. This starting point has conditioned all the Generalitat's actions of the following years and has imposed a much swifter and more intense pace of adjustment than that endured both by the State central Administration and the rest of the autonomous communities.

Thus, during 2010-2013 Catalonia has reduced public spending by 20%, while expenditure per inhabitant has receded to the levels of 10 years ago. It is the only community which has cut bonuses for public servants for three years and, in the case of technical and administrative temporary officials, there has been an additional reduction in working hours and wages of 15%. In addition, the Government of the Generalitat has carried out an active policy of selling off assets and concessions so as to increase revenue.

Despite these efforts, the fiscal consolidation process of Catalonia faces two obstacles:

- An arbitrary, inefficient financing system. Catalonia is one of the ACs which most contributes to the Spanish treasury via public taxes, but is also one of the ACs which receives least resources after applying the financing system. Over the last two years settled (2010 and 2011), Catalonia went from being the third AC in tax capacity to the tenth in resources received. In 2014, and despite the improvement of the economic outlook announced by the Spanish government, the ministry of Finance and Public Administrations has reduced the resources assigned to Catalonia under the current model by 550M€.

- The inability to administer own resources. The Generalitat of Catalonia has a highly limited regulatory power in tax matters and, when it seeks to exercise it, this is systemically blocked by the State.

The autonomous entities, protagonists of the consolidation effort

Over the past four years, all the public administrations of the State (central Administration, Social Security, autonomous communities and local corporations) have carried out a fiscal consolidation process which has brought down the deficit from 9.57% of GDP in 2010 to 6.62% by the end of 2013.

However, the consolidation effort which the Spanish government requires from each administration is highly unequal. In 2014, the **central Administration takes 81.8% of the global deficit target for Spain and leaves only 18.2% to the autonomous communities.** Additionally, the State government has unilaterally decided to reduce from -5.8% to -5.5% the deficit target initially assigned to Spain for 2014. It is surprising that the State government should discard these three decimal points without considering the possibility of using them to alleviate the burden on the ACs, which have made the major part of the fiscal consolidation effort over recent years and which are also the major providers of the essential public services.

The inequality in the distribution of the deficit objective has been a constant feature since the fiscal consolidation process commenced. Over 2010-2013, **the autonomous communities undertook 56% of the overall adjustment and local corporations 31.6%, while the central Administration and the Social Security bore only the remaining 12.4%.** The intensity of the efforts made by the autonomies is even clearer when taking into account that they carry out 31.6% of the public expenditure in Spain while achieving 56% of the adjustment. In absolute figures, of the 32,361M€ deficit that the administrations of the State have reduced during 2010-2013, 18,126M€ are due to the efforts of the communities.

Administrative level	Deficit 2010	Deficit 2013	Adjustment		Distribution of adjustment 2010-2013	% of public spending
			%GDP	M€		
Total Public administrations	-9.57	-6.62	-2.95	-32,361	100%	100
Central Administration and Social Security	-5.76	-5.49	-0.26	-3,998	12.36%	57,29
Autonomous Communities	-3.24	-1.54	-1.70	-18,126	56.01%	31,63
Local Corporations	-0.58	0.41	-0.99	-10,237	31.63%	11,08
Catalonia	-4.60	-1.96	-2.64	-5,163	15.95	5,49

During the fiscal consolidation process, average spending of the autonomous communities and local corporations has fallen by 14% and 22.5% respectively, while spending by the central Administration and the Social Security has increased by 4.6% over the same period.

The autonomous communities are responsible for rendering the basic welfare state services as they are responsible for health, educational and social welfare matters. In the case of Catalonia, the Generalitat also has powers over other public services such as the justice system and autonomic police force.

In the current scenario of an incipient economic recovery, maintaining this intense pace of fiscal consolidation is a threat to the public services of the welfare state.

Government of Catalonia
Ministry of Economy and Knowledge