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Developments in Spanish public debt in 2023

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Rationale

This article analyses Spanish general government debt in 2023 based on the statistics prepared and published by the Banco de España and drawing comparisons with other euro area countries.

Takeaways

- In 2023 Spain's public debt-GDP-ratio fell by 3.9 percentage points (pp) to 107.7%.
- The central government remained the most indebted sub-sector, with a debt-to-GDP ratio of 98.1%.
- The debt ratio for the euro area overall stood at 88.6% of GDP, down by 2.2 pp on 2022.

Keywords

Public debt, budget deficit, liabilities, financial assets.

JEL classification

H62, H63, H74, H81.

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General government debt according to Excessive Deficit Protocol (EDP)[1] criteria comprises general government liabilities in the form of currency and deposits, debt securities and loans, all at nominal value and in consolidated terms, i.e. excluding liabilities held as assets by other general government sectors.

In 2023, the Spanish general government debt-to-GDP ratio[2] according to EDP criteria continued the decline that began in 2021, following a sharp increase in 2020 driven by the effects of the pandemic. At end-2023 the ratio stood at 107.7%, down from 111.6% in 2022 and 116.8% in 2021 (see Table 1 and Chart 1), although it held above the levels seen before 2020. The total stock of EDP debt stood at €1,573.8 billion (see Chart 2). The 3.9 percentage point (pp) reduction in Spain's public debt ratio in 2023 was mainly driven by economic growth. This decline was in line with the trend in other European countries, with the ratio for the euro area overall falling by 2.2 pp to 88.6% (down from 90.8% in 2022), likewise owing primarily to nominal GDP growth and holding above pre-pandemic levels. Among the main EU economies, the debt-to-GDP ratio declined in 2023 by 2.4 pp in Germany (to 63.6%), by 1.3 pp in France (to 110.6%) and by 3.2 pp in Italy (to 137.3%) (see Chart 1).

For analysis purposes, it helps to break down the change in the debt-to-GDP ratio into its fundamental factors: a) the level of the primary budget deficit,[3] which needs to be financed; b) the interest expenses generated by public debt, which also have to be financed; c) the deficit-debt adjustment, which includes asset purchases (which need to be financed) and disposals (which finance the deficit), net liabilities incurred and not included in EDP debt (such as trade credits), and valuation adjustments and reclassifications; and d) the change in nominal GDP, where an increase (reduction) in this variable automatically drives down (up) the ratio as a result of the denominator effect.

According to this breakdown (see Table 1), the 3.9 pp[4] drop in the public debt ratio in 2023 can be explained by several factors. First, nominal GDP growth reduced the GDP ratio by 8.8 pp (10.8 pp in 2022). Second, the two components of the budget deficit – the primary balance and interest expenses – increased the ratio by 1.2 pp and 2.5 pp, respectively; this was significantly less than in 2022 in the case of the primary deficit and slightly more in the case of interest

1 This concept of debt is defined in European Union (EU) law and is the relevant one for the purposes of the ceilings set in the European Stability and Growth Pact and in the Spanish Law on Budgetary Stability and Financial Sustainability (LOEPSF by its Spanish acronym). The current definition of this debt is regulated by Commission Regulation (EU) No 220/2014 of 7 March 2014. Among other things, this Regulation requires that EU Member States report EDP debt data to the European Commission (specifically to Eurostat) twice per year (at the end of March and at the end of September). The information must be presented by sub-sector, detailing specific items and transactions. These submissions are known as EDP notifications.

2 The calculations in this article are based on the data for GDP at market prices published by the National Statistics Institute (INE) on 26 March 2024.

3 The primary deficit is the deficit excluding interest expenses.

4 The figures provided in the text are expressed to one decimal place. Due to rounding, some totals may not match the sum of the individual components of the change in debt.

Table 1
Change in gross general government (EDP) debt (a)

	2018	2019	2020	2021	2022	2023
Panel 1 Determinants of the change in the EDP debt-to-GDP ratio						
1 Change in EDP debt-to-GDP ratio (1 = 2 + 3 + 4)	-1.4	-2.2	22.0	-3.4	-5.2	-3.9
2 Due to net borrowing (deficit) (2 = 2.1 + 2.2)	2.6	3.1	10.1	6.7	4.7	3.6
2.1 Primary deficit	0.2	0.8	7.9	4.6	2.4	1.2
2.2 Debt interest payments	2.4	2.3	2.2	2.1	2.4	2.5
3 Due to deficit-debt adjustment	-0.5	-1.9	0.8	0.0	0.8	1.2
4 Effect of change in GDP	-3.5	-3.4	11.1	-10.2	-10.8	-8.8
Panel 2 Change in debt and details of deficit-debt adjustment, in €m (b)						
A Change in EDP debt (A = B + C)	25,449	14,495	122,430	82,347	74,666	70,954
B Due to general government net borrowing (deficit)	31,224	38,116	113,199	82,262	63,736	53,159
C Due to deficit-debt adjustment	-5,775	-23,621	9,231	85	10,930	17,795
C.1 Net acquisitions of consolidated financial assets	6,471	-12,311	12,166	37,139	15,477	4,519
Change in currency and deposits	8,144	-7,821	14,508	32,622	15,096	-1,470
of which: Deposits at the Banco de España	-3,974	-4,534	3,104	18,104	15,671	-549
Change in debt securities	702	903	758	623	368	92
Change in loans	-3,892	-5,167	-2,951	-3,183	-3,125	-4,183
Change in other accounts receivable	1,144	44	-540	7,205	3,183	10,609
Other assets	371	-271	391	-128	-45	-528
C.2 Trade credits and other consolidated accounts payable	-10,206	-3,957	-1,928	-30,664	-14,583	-2,361
C.3 Valuation adjustments and other	-2,040	-7,354	-1,007	-6,391	10,036	15,637

SOURCE: Banco de España.

a See Chapters 11 to 14 of the Banco de España *Statistical Bulletin* for more detailed information by sub-sector.
https://www.bde.es/webbe/en/estadisticas/compartido/datos/pdf/a1109e.pdf.
https://www.bde.es/webbe/en/estadisticas/compartido/datos/pdf/a1203e.pdf.
https://www.bde.es/webbe/en/estadisticas/compartido/datos/pdf/a1213e.pdf.
https://www.bde.es/webbe/en/estadisticas/compartido/datos/pdf/a1303e.pdf.
https://www.bde.es/webbe/en/estadisticas/compartido/datos/pdf/a1403e.pdf.
b A positive (negative) value in this panel indicates that nominal debt increases (decreases).

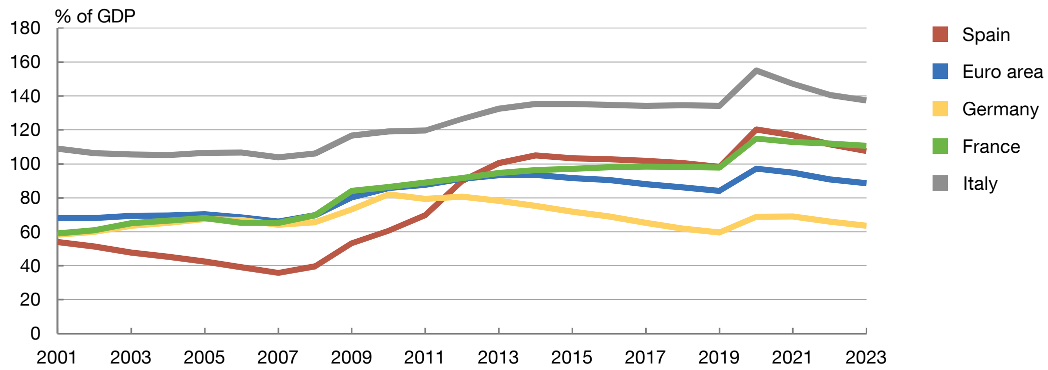
expenses (2.4 pp for both items in 2022). Lastly, the deficit-debt adjustment increased the ratio by 1.2 pp of GDP.

As regards term structures, in 2023 long-term debt accounted for 94.8% of Spanish general government debt (84.3% in the form of long-term debt securities and 10.5% in the form of loans maturing in more than one year). The average life of debt was 8 years (see Chart 1), in line with the figures for other European countries: 8.8 years for the euro area as a whole, 8 years for Germany, 8.5 years for France and 7.8 years for Italy. In 2023, the share of government debt held by non-residents increased by a marginal 0.1 pp (to 42.6% of the total) relative to 2022, while such holdings grew more markedly in the main European countries and in the euro area overall (see Chart 1).

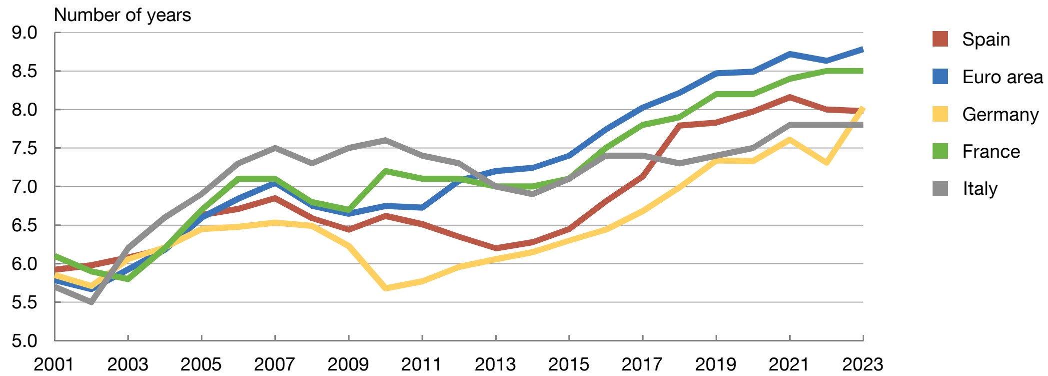
Debt with a residual maturity of less than one year (i.e. all short-term debt and the portion of long-term debt that will be repaid within twelve months) represented 13.3% of the total debt at end-2023. Of this percentage, 12% was in the form of debt securities and 1.3% in the form of other instruments

Chart 1
EDP debt in Spain and in the euro area

1.a EDP debt



1.b Average life of EDP debt



SOURCES: Banco de España and ECB.

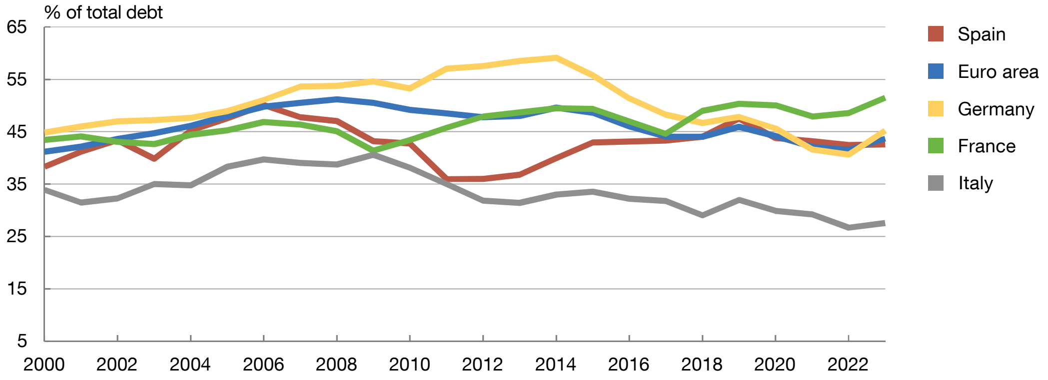
(loans, currency and deposits). From an international standpoint, the proportion of debt maturing within one year was lower in Spain than in the other geographical areas analysed (17.4% in the euro area as a whole, 19.8% in Germany, 15.6% in France and 21.9% in Italy) (see Chart 1).

Public debt developments by sub-sector

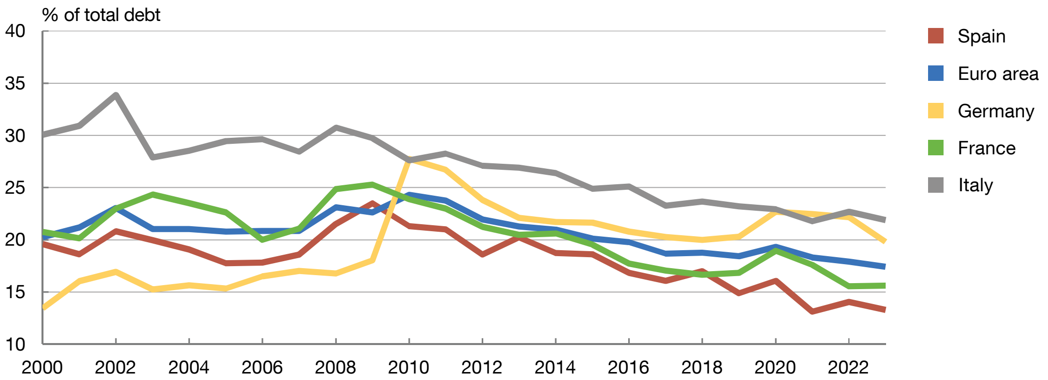
In a context such as Spain's, with a highly decentralised general government sector, it is important to analyse the distribution of public debt across the component sub-sectors: central government, social security funds, regional governments and local governments. To accurately interpret the debt level of each of the different sub-sectors, it is important to consider the debt transactions conducted between them and which are consolidated when overall general government EDP debt is calculated. In 2023, such financing between sub-sectors decreased slightly to 23.6% of GDP (23.7% in 2022) (see Chart 2).

Chart 1
EDP debt in Spain and in the euro area (cont'd)

1.c Debt held by non-residents



1.d Debt with a residual maturity of less than one year



SOURCES: Banco de España and ECB.

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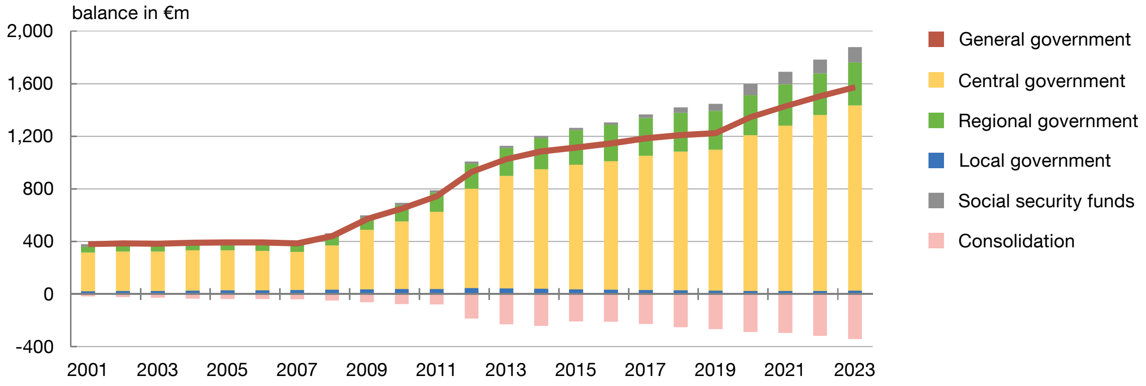
Central government is the most indebted sub-sector, with a debt-to-GDP ratio of 98.1% in 2023, down by 2.8 pp on 2022 (see Chart 2). Taking into account the financing extended by this sub-sector to other general government units (mainly to regional governments and social security funds), the total volume of central government debt not used to finance other general government sub-sectors declined in 2023 by 2.6 pp (to 76.1%). Social security debt stood at 7.9% of GDP (unchanged on 2022), almost entirely in the form of State financing granted to the social security system to cover its budget shortfall.

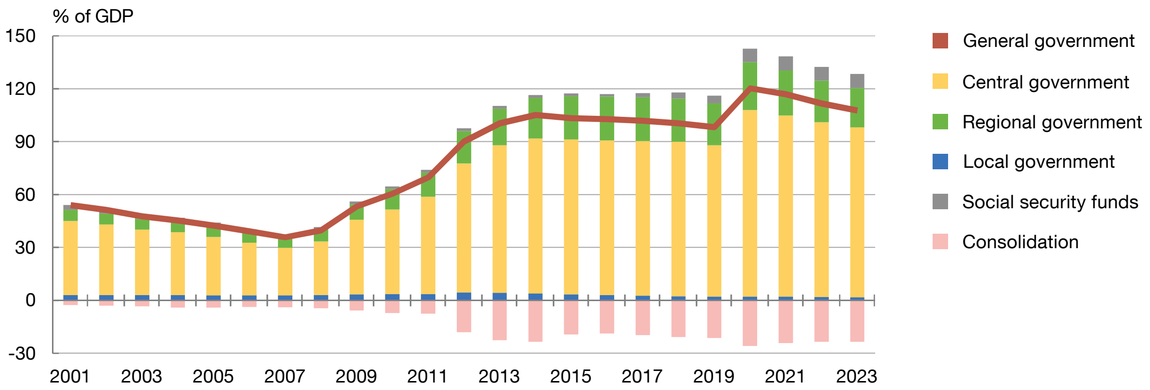
The overall regional government debt ratio fell by 1.3 pp in 2023 to 22.2% of GDP (see Chart 2), with an even reduction across the regions. The regions with the highest debt ratios are Valencia (42.2%), Castile-La Mancha (31.9%), Murcia (31.2%) and Catalonia (31%). Conversely, those with a GDP ratio below the 13% threshold laid down in the Organic Law on Budgetary Stability and Financial Sustainability (LOEPSF) are Navarre (12%), the Canary Islands (12.2%), the Basque Country (12.4%) and Madrid (12.6%). Local government debt declined by 0.1 pp of GDP in 2023 to 1.6% (below the 3% threshold laid down in the LOEPSF).

Chart 2
EDP debt in Spain by sub-sector

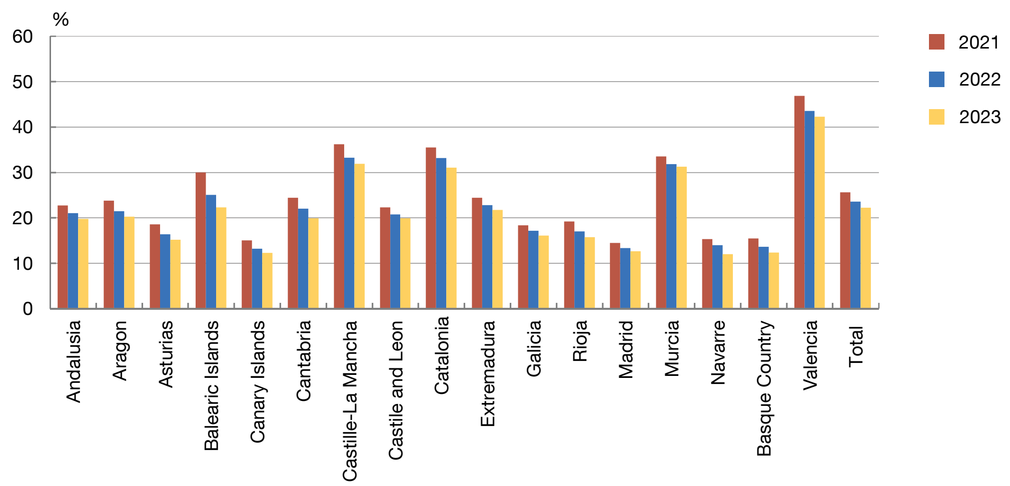
2.a EDP debt by sub-sector



2.b EDP debt by sub-sector



2.c Debt-to-GDP ratio. Regional government



SOURCE: Banco de España.

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Both regional and local governments have received financing from the central government. Between 2012 and 2023 this financing cumulatively represented 13.5% of GDP for regional governments and 0.4% of GDP for local governments. Since 2015, regional government debt held by the central government has been included in the different component facilities of the Regional Government Financing Fund (the Regional Government Liquidity Fund, the Financial Facility, the Fund for the Financing of Payments to Suppliers, the Social Fund and the REACT-EU fund).[5] The regional governments' overall reliance on central government debt was unchanged in 2023, with 60.9% of their debt held by the central government, again close to the all-time high of 61.1% recorded in 2018 and 2019.

The deficit-debt adjustment in 2023

The deficit-debt adjustment is a significant factor in public debt dynamics, which contributed to increasing public debt by 1.2 pp in 2023, following a somewhat smaller impact of 0.8 pp in 2022. For explanatory purposes, the deficit-debt adjustment can be divided into the following items: net acquisition of consolidated financial assets (Table 1, section C.1); trade credits and other consolidated accounts payable (Table 1, section C.2); and valuation adjustments and other (Table 1, section C.3).

In 2023 there were net acquisitions of consolidated financial assets (Table 1, section C.1) amounting to €4.5 billion, which drove up debt and were mainly the result of the increase in other accounts receivable (€10.6 billion), partly offset by a decrease in loans (€4.2 billion) and in currency and deposits (€1.5 billion). By sub-sector, the central government and regional governments reduced their deposits by €3 billion and €1.7 billion, respectively, while deposits by social security funds and local governments increased by €2 billion and €1.2 billion, respectively. Other accounts receivable, mainly linked to tax settlements and social security contributions, increased strongly in 2023, both for non-financial corporations (€5 billion) and for households and non-profit institutions (€3.6 billion) and the rest of the world (€1.6 billion). Moreover, the negative change in loans is explained, inter alia, by the disposal and foreclosures made by the asset management company for assets arising from bank restructuring (Sareb) in its loan portfolio (€1.2 billion) and also by the reduction in loans to the resident sector and the rest of the world that are assets of the central government (€2 billion) and regional governments (€1 billion).

The trade credits and other consolidated accounts payable[6] category increased again in 2023, albeit much more moderately than in the previous year, making a negative contribution to the deficit-debt adjustment of €2.4 billion (Table 1, section C.2). The central government accounted for the largest share of the change in this item (€8.7 billion), whose main counterpart sectors were the rest of the world and non-financial corporations, as a result of the receipt of funds from the European NextGenerationEU (NGEU) programme. Regional governments (-€6.5 billion), local

5 The Regional Government Liquidity Fund and the Fund for the Financing of Payments to Suppliers were dissolved in 2014, when they became sub-funds of the Regional Government Financing Fund.

6 These reflect, inter alia, deferrals of payments due by general government sectors to their goods and services providers or other creditors.

governments (-€2.7 billion) and social security funds (-€2 billion) contributed in the opposite direction.

Finally, the valuation adjustments and other category (Table 1, section C.3) pushed up debt by €15.6 billion. Primary market government bond yields exceeded coupon rates on issued debt, resulting in a greater volume of bonds issued at a discount than at a premium. This was also the case last year, but the impact was lower (€10 billion).

Total general government liabilities

According to the Financial Accounts of the Spanish Economy (FASE), the total liabilities incurred by general government include, in addition to the EDP debt mentioned in previous sections, other instruments such as insurance, pension and standardised guarantee schemes; trade credits and other accounts payable. They also include liabilities held by other general government sectors. These amounts are eliminated (consolidated) when calculating EDP debt, but not in the FASE, where the gross figure is presented. There is a further methodological difference between the two: in the FASE the stocks and flows of liabilities in the form of debt securities are recorded at market prices, making the figures more sensitive to external factors, such as interest rate changes, whereas the EDP method uses nominal or face value, which is more stable over time.[7]

In 2023, Spanish general government liabilities decreased by 2.4 pp relative to the previous year to 141.5% of GDP, compared with 109.7% in the euro area (see Table 2). This reduction is mainly explained by the effect of GDP, since the change in the numerator was positive (it increased by €132 billion). If we take into account transactions between the various tiers of general government, the consolidated liabilities of the sector as a whole are significantly lower (114.1% of GDP), although they are above the euro area aggregate (95.9%).

Looking at the differences due to instruments not included in EDP debt (see Table 2), these are mainly attributable to general government's stock of trade credits and other accounts payable. In 2023 this stock increased to €182.5 billion (12.5% of GDP), up from the previous year's peak of €179.9 billion (13.4% of GDP). This increase occurred primarily vis-à-vis non-financial corporations and households, partly offset by a reduction in accounts payable vis-à-vis the rest of the world. Unlike in previous years, movements under this heading within the general government sector have been very small. In 2023, trade credits themselves accounted for 7% of the overall trade credits and other accounts payable heading, continuing the downward trend that began in 2010.

The stock of the insurance, pension and standardised guarantee schemes heading increased slightly in 2023. This was due, on the one hand, to an increase in the Insurance Compensation Consortium's non-life insurance technical reserves (€0.3 billion) and, on the other hand, to the small reduction in provisions for calls under the standardised guarantee scheme that was

7 For a more detailed methodological description of the main concepts of general government indebtedness, see Gordo, Hernández de Cos and Pérez (2013).

Table 2
Different items of general government debt (a)

€m and % of total	EDP debt		FASE liabilities		FASE consolidated labilities	
1 Currency and deposits	5,286	0.3	5,286	0.3	5,286	0.3
2 Debt securities	1,397,719	88.8	1,380,713	66.7	1,355,617	81.3
Securities held by general government	—	—	25,095	1.2	—	—
Other securities (short and long-term)	1,397,719	88.8	1,355,617	65.5	1,355,617	81.3
3 Loans	170,748	10.8	493,045	23.8	170,748	10.2
Loans granted by general government	—	—	322,297	15.6	—	—
Other loans (short and long-term)	170,748	10.8	170,748	8.3	170,748	10.2
4 Insurance, pension and standardised guarantee schemes	—	—	7,186	0.3	7,186	0.4
5 Financial derivatives	—	—	75	0.0	75	0.0
6 Trade credits and other liabilities	—	—	182,482	8.8	129,528	7.8
Other liabilities vis-à-vis the general government	—	—	52,955	2.6	—	—
Other liabilities	—	—	129,528	6.3	129,528	7.8
7 TOTAL (7 = 1 + 2 + 3 + 4 + 5 + 6)	1,573,754	100.0	2,068,787	100.0	1,668,440	100.0
Percentages with respect to GDP (memorandum item)	—	107.7	—	141.5	—	114.1
Memorandum item: GDP in 2023	1,461,889					

SOURCE: Banco de España.

a See Tables 1 and 14 in Chapter 11 of the Banco de España *Statistical Bulletin* and Tables 2.16.a and 2.38.a of the Banco de España *Financial Accounts,* published quarterly, for more detailed information.
https://www.bde.es/webbe/en/estadisticas/compartido/datos/pdf/a1101e.pdf
https://www.bde.es/webbe/en/estadisticas/compartido/datos/pdf/a1114e.pdf
http://www.bde.es/webbde/es/estadis/ccff/cf_2_16ab.pdf
http://www.bde.es/webbde/es/estadis/ccff/cf_2_38ab.pdf.

established in 2021 to register the State guarantees that were granted in the context of the pandemic (€0.1 billion).[8]

Other types of commitments of interest for general government are contingent liabilities, i.e. those that arise in transactions where general government acts as guarantor on debts incurred by other institutional sectors and which are not recorded as liabilities in government accounts, given that the secured debt is already registered under the liabilities of the agent receiving the guarantee.[9] These liabilities are contingent for public finances, as the guarantee could be fully or partly enforced at some point. If this were to happen, a capital transfer paid to the original debtor would be recorded as a balancing entry and, therefore, the general government deficit and debt would increase.

As regards guarantees granted by Spanish general government, whose aggregate level stood at 10.1% of GDP in 2023 (the same ratio as in the previous year), the Banco de España publishes

8 For more information on the registration of standardised guarantees, see the box in Forte-Campos, García-Moral and Laporta-Corbera (2022).

9 In addition to the above-mentioned guarantees, there are other types of general government contingent liabilities, including most notably future payment commitments in respect of spending on pensions and depositor guarantees up to the established ceilings at credit institutions that participate in the Deposit Guarantee Fund, which has been included in the general government sector since 1 January 2012.

Table 3
Debt of public corporations (a)

	2018	2019	2020	2021	2022	2023
1 EDP debt of public corporations, €m (1= 1.1 + 1.2 + 1.3)	36,126.5	35,364.8	38,231.7	39,550.7	37,519.2	40,657.2
As a % of GDP	3.0	2.8	3.4	3.2	2.8	2.8
1.1 Public corporations controlled by central government	29,379.6	29,319.4	32,129.5	34,284.3	32,311.4	34,161.0
As % of GDP	2.4	2.4	2.9	2.8	2.4	2.3
1.2 Public corporations controlled by regional government	3,260.2	2,781.3	2,811.0	2,682.9	2,735.8	4,151.3
As % of GDP	0.3	0.2	0.3	0.2	0.2	0.3
1.3 Public corporations controlled by local government	3,486.7	3,264.1	3,291.2	2,583.5	2,471.9	2,345.0
As a % of GDP	0.3	0.3	0.3	0.2	0.2	0.2

SOURCE: Banco de España.

a See Tables 11.15, 12.10 and 13.11 of the Banco de España *Statistical Bulletin,* published quarterly, for more detailed information by corporation and tier of government.
https://www.bde.es/webbe/en/estadisticas/compartido/datos/pdf/a1115e.pdf.
https://www.bde.es/webbe/en/estadisticas/compartido/datos/pdf/a1210e.pdf.
https://www.bde.es/webbe/en/estadisticas/compartido/datos/pdf/a1311e.pdf.

information on the value of the outstanding balance of debt guaranteed by the State,[10] and by regional[11] and local[12] governments. State-guaranteed debt decreased by €46 billion in 2023, to €146.4 billion, breaking the upward trend that started in 2020. There was a notable reduction in the guarantees granted in the context of the COVID-19 health crisis,[13] mainly owing to the partial repayment of the loans, and in the guarantees granted to other tiers of general government. In the case of regional and local governments, the amounts of the guarantees were significantly lower, standing, overall, at 0.1% of GDP in 2023. From an international standpoint, contingent liabilities are also predominantly in the form of guarantees in the main euro area countries. On 2022 data,[14] the guarantees extended accounted for 15.5% of GDP in Germany, 13.5% in France and 16.3% in Italy, exceeding the 10.1% figure for Spain.

The debt of public corporations

The debt of Spanish public corporations which are not part of the general government sector and therefore not included in EDP debt stood at 2.8% of GDP at end-2023, the same as last year (see Table 3). In nominal terms, this meant a €3 billion increase, largely concentrated in public corporations controlled by the central government, whose outstanding debt reached €34.2 billion. Public corporations controlled by regional and local governments had a smaller outstanding debt:

10 https://www.bde.es/webbe/en/estadisticas/compartido/datos/pdf/a12ce.pdf.

11 https://www.bde.es/webbe/en/estadisticas/compartido/datos/pdf/a1307e.pdf.

12 https://www.bde.es/webbe/en/estadisticas/compartido/datos/pdf/a1407e.pdf.

13 Guarantees granted under the COVID-19 ICO guarantee facility for the self-employed and firms (Royal Decree-Law 8/2020 of 17 March 2020), the COVID-19 guarantee facility to cover rental payments (Royal Decree-Law 11/2020 of 31 March 2020) and the COVID-19 guarantee facility for new investments (Royal Decree-Law 25/2020 of 3 July 2020).

14 Latest information published by Eurostat available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Contingent_liabilities_and_non-performing_loans_-_statistics.

€4.2 billion in the case of the former (up €1.4 billion on 2022) and €2.3 billion for the latter (largely unchanged from last year).

For the purposes of international comparison, it should be borne in mind that the latest available information published by Eurostat is for 2022. There are also methodological differences compared with that published by the Banco de España, since the Eurostat data includes, in addition to the figures already mentioned, the debt of other units, such as the Official Credit Institute (ICO) or the Spanish official export credit company (Cesce). Taking this into account, in 2022 the debt of Spanish public corporations was 4.2% of GDP, the lowest ratio of the European Union, far below that of Germany (88.4%), France (67.5%) and Italy (63.8%). In interpreting these data, it is important to bear in mind that the ratios include the liabilities of public financial institutions, which are significantly higher in these other countries.

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