

Box: The impact of the 2012 national budget on the regions¹

State income transfers to the regions will remain constant in 2012 (+0.19%). Nevertheless, the regions will need to cut their budgets this year in the order of 18.80 billion euros to meet fiscal targets.

Constant levels of revenue transfers from the State this year relative to 2011 will help regional efforts towards fiscal consolidation. However, to correct last year's slippage and achieve this year's targets, the regions will have to make a significant expenditure adjustment. The Central Government has recently taken measures to help the regions achieve savings in the areas of health and education spending. However, further adjustment by the regions at both the income and expenditure level, together with Central Government oversight, will be necessary.

The draft bill for the National Budget Law for 2012 is currently in the process of parliamentary approval. This law will establish approximately 75% (74.7% in 2011) of the income that the 15 regions under the common system (all of the regions except the Basque Country and Navarre) will receive. In 2012, the State's income transfers to the regions will be in the order of 84.3 billion euros - an increase of 0.19% relative to 2011. In the context of the national budget, in which State level spending has been cut by 6.7%, transfers to the regions have remained virtually unchanged, which will provide them with additional support to meet their deficit target.

The 84.3 billion euro transfer is net of the expected refunds to the regions to account for negative settlements in 2008 and 2009, which amount to 2.4 billion euros. The regions under the common system will be able to spend this additional amount without increasing the deficit, because this amount has already been accounted for.

The deficit of the regions stood at 3.23% of GDP, or 34.6 billion euros, in 2011. A deficit target of 1.5% of GDP has been set for 2012, which means the deficit will need to be reduced by approximately 18.8 billion euros.

To help achieve this expenditure reduction target and increase the regions' income, on April 20th, the government approved Royal Decree-Law 14/2012 on urgent measures to rationalise public spending on education and Royal Decree-Law 16/2012 on urgent measures to guarantee the sustainability of the National Healthcare System and to improve the quality and safety of its services.

In the case of education, the main measures are:

- i) The maximum number of pupils per classroom has been raised from 27 to 30 in primary education, from 30 to 36 in compulsory secondary education, and from 37 to 42 in non-compulsory secondary education.

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- ii) Teachers' weekly classroom time has been increased (previously the maximum was 25 hours a week; this is now the minimum in primary education). The minimum number of teaching hours for secondary-school teachers has been set at 20 hours, having previously been in the 18 to 21 hours range.
- iii) The caps on university tuition fees have been raised, allowing the regions to charge up to 66% more in the 2012-13 academic year.

The Central government's competencies in education are limited to defining the regulatory framework, with each of the regions being responsible for applying the measures. According to government estimates, savings of up to three billion euros can be achieved.

The main measures affecting health-care are:

- i) The system of co-payments for medical products has been changed. Until now, pensioners under the social security regime received medicines free of charge, whereas under the new system, they will pay 10%, up to a maximum of 8, 18 or 60 euros per month, depending on income.
- ii) Also, the remainder of the population covered by the Social Security system will see their prescription drug charges rise as a function of income level, from 40% of the cost at present to up to 60% for people earning over 100,000 euros.
- iii) Undocumented immigrants lose the right to medical care, with the exception of emergency treatment, and health-care for children and pregnant women.
- iv) The public subsidy on certain drugs to treat mild symptoms has been withdrawn.

The aforementioned healthcare measures are the sole competency of the central government, so they will be applied in full. The government has estimated that the impact of these measures will be a reduction in the deficit of seven billion euros.

To date, 14 regions have approved their budgets for 2012, whereas three (Asturias, Castile-Leon and Castile-La Mancha) have extended their 2011 budgets. The regions budgeted for an increase in income that will now no longer take place, as the draft national budget has been announced.

The government has therefore required all of the regions to draw up rebalancing plans to match their income to the real situation and to implement the measures passed affecting education and healthcare services. These plans were accorded on May 17th (except for Asturias) and envisage a total reduction of 18.35 billion euros (5.28 billion euros of revenue increase and 13.07 billion euros of expenditure reduction).