



Independent Authority
for Fiscal Responsibility

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AIReF PUBLISHES ITS REPORT ON EXPECTED COMPLIANCE BY SPAIN'S PUBLIC ADMINISTRATIONS WITH THEIR FISCAL TARGETS IN 2015

- Budget implementation to date and the expected trajectory of revenue and expenditure by the Central Government for the rest of the year seem compatible with the deficit target of 2.9% of GDP in 2015
- The Social Security Funds deficit in 2015 will record a similar figure to last year and so will overshoot the ambitious target set for this year
- There is also a risk of deviation from the target set for the Autonomous Regions subsector, although the situation varies from region to region
- The Local Corporations subsector will comfortably achieve the budget equilibrium target set. The surplus at year-end is estimated to be at least equal to the 0.5% of GDP figure recorded in 2014
- The deficit of the General Government sector overall is likely to be reduced by at least 1% of GDP but achievement of the target of 4.2% of GDP set for 2015 would require budget implementation of the different subsectors throughout the second half of 2015 to fall within the most favourable part of the range forecast by AIReF. This confirms the difficulty for the sector of compliance with the fiscal targets in 2015
- The AIReF scenario reflects the difficulties that exist for the debt/GDP ratio to be brought down to 60% before 2030.



The Independent Authority for Fiscal Responsibility (AIReF) has published on its website (www.airef.es) today its Report assessing expected compliance with the budget stability, government debt and expenditure rule targets by the different public administrations in Spain. In order to detect any risks of non-compliance AIReF has analysed mainly year-to-date budget implementation, the measures envisaged for this year and the measures adopted in previous years. It has also made its own estimates on the future development of revenue and expenditure and the impact of those measures.

The assessment has been made at subsector level and includes an individualised analysis of the 17 autonomous regions and of the six local governments in cities with a population of over 500,000, which are capitals of provinces.

Budget stability

According to the new report, “as far as the **Central Government** is concerned, budget implementation to May and its expected trajectory for the rest of the year seem compatible with achievement of a public deficit of 2.9% of GDP for 2015. Therefore, AIReF is of the view that there is no risk for the Central Government of failure to comply with its budget stability target”.

“The buoyancy observed in the key macroeconomic variables is driving revenue recovery. Nevertheless, the measures entailing lower revenue collection that have been adopted since the budget was approved mean revenue forecasts in the budget will barely be met. Expenditure, on the other hand, is being strictly implemented and the expectation is for this trend to be maintained, thus facilitating achievement of budget stability”, as AIReF explains in the report.

For the **Social Security Funds**, however, the report says that “there is already practical certainty this early in the year of non-compliance with the 0.6% of GDP deficit target in 2015”. Furthermore, “on the revenue side the Social Security budget contains a very ambitious revenue collection forecast driven by the efficiency measures put in place. In practice, however, these measures are having a very limited effect on collection figures”, according to AIReF.

“Social contributions are growing at a rate slightly below nominal GDP growth”, as AIReF says in its report. And it adds: “Although the improvement in employment is injecting buoyancy into contributions paid into the system there are factors, mostly associated with employment incentive policies, which are limiting this upward trend”.

“Expenditure on pensions is in line with the forecast growth rate and even though there is an early indication now that expenditure on unemployment benefits will perform significantly better than the budget forecast, at best the Social Security Funds deficit in 2015 will record a similar figure to last year and so will not meet the ambitious target set for this year”, AIReF states in its report.



Moreover, the report explains that “there is also a risk of deviation from the -0.7% of GDP target for the **Autonomous Regions** subsector”. According to AIReF, “meeting the target would require a reduction of one percentage point of GDP. This does not seem to be an achievable goal in a year in which the funds from the regional financing system are barely growing by two tenths of a percentage point of GDP”.

The report goes into further detail by saying, “according to the analysis made of budget implementation data, the measures adopted to date and the additional information furnished by the autonomous regions (ARs), the reduction in the deficit compared to 2014 would be around half a percentage point of GDP”.

“Although the situation varies from one region to another, the risk of non-compliance is essentially due to deviations observed in revenues from their own regional taxes, expected financial transfers from the State that are not included in the State General Budget (SGB) and the non-materialisation of a large part of the sales and administrative concessions forecast in the budgets. On the expenditure side, the interest rate saving stemming from new financing measures has not been reflected as yet in an equivalent reduction in the deficit”, AIReF highlights in this report.

In the individualised analysis, according to the report “a risk of non-compliance is identified in eleven of the seventeen regions. However, the possible failure to comply in 2015 by Andalusia, Aragón, Cantabria, Castilla-La Mancha, Madrid and Navarra might be corrected in 2016 by the forecast trend in the funds from the autonomous regional financing system, making it unnecessary a priori for any additional measures to be adopted”.

However, “Balearic Isles, Catalonia, Extremadura, Murcia and Valencia Region to a greater or lesser extent have a track record of significant and recurrent deviations from the annual targets set. That makes the preparation of an Economic-Financial Plan (EFP) for these regions especially important. Each EFP should be analysed in depth and contain a credible path for correction of the imbalance within a reasonable timeframe”, says AIReF in its report.

In the **Local Corporations** subsector, “the budget equilibrium target set is comfortably achieved. The surplus at year-end is estimated to be above 0.5% of GDP as a result of maintaining the levels of revenues forecast with no significant increases in expenditure”.

“The individualised analysis of the six local governments in provincial capital cities with a population of over 500,000 seems to point to the consolidation of the surplus recorded in previous years”, the report concludes.

All in all, “this analysis by subsector reflects a likely reduction in the deficit of the **General Government sector overall** of at least 1% of GDP in 2015”, AIReF asserts in its report. It adds that “the achievement of the target of 4.2% of GDP set for 2015 would require budget implementation of the different subsectors throughout the second half of 2015 to fall within the most favourable part of the range forecast by AIReF”.

“In its October 2014 report on budget drafts and the March 2015 report on the initial budgets AIReF already described this target as ‘very demanding’”, says the report.



The report makes the additional point that “since then, despite higher than forecast economic activity, the known data for budget implementation and AIReF’s estimate for the remainder of the year confirm the difficulty for the sector of compliance with the stability target set for 2015”.

Government debt

Government debt has been analysed from the standpoint of financial sustainability given that the way government debt targets are set mean that in general terms they are met by all the public administrations in Spain. From this perspective the AIReF scenario reflects the difficulties that exist for the debt/GDP ratio to be brought down to 60% before 2030.

For the six local governments in provincial capital cities with a population of more than 500,000, and in line with the specific legislation applicable to Local Entities, AIReF analysed debt developments compared to ordinary revenues and observed the continuation of the downward path of this ratio that started in 2012.

Expenditure rule

AIReF has not been able to obtain the necessary information to be able to take an adequate view on the expenditure rule in the different administrations. Nevertheless, the estimates made with regard to the key expenditure items indicate that growth in the expenditure eligible to be included in the calculation for the Central Government and the Autonomous Regions may outstrip the reference rate set for 2015.