



Independent Authority
for Fiscal Responsibility

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AIReF publishes its Report on the Projects and Main Budgetary Aspects of Public Administrations

THE 2015 STABILITY TARGET OF 4.2% IS ASSESSED TO BE VERY DEMANDING. ITS COMPLIANCE REQUIRES A STRICT EXECUTION OF THE BUDGETS

The Independent Authority for Fiscal Responsibility published today on its website (www.airef.es) a Report on the Projects and Main Budgetary Aspects of Public Administrations. It concludes that the general government deficit objective for 2015 of 4,2 (as a percentage of GDP) is “highly demanding” and that “attaining such objective requires a strict execution of the budgets, which should lead to realize savings in those sub-sectors that apparently have leeway, in order to offset the shortfalls found in other sub-sectors”

According to its Organic Law, AIReF has assessed the Project for the General State Budget (PGE, according to Spanish acronym) and main budgetary aspects regarding Regional Governments and Local Governments from the viewpoint of their adequacy to achieve the stability and debt objectives and compliance with the expenditure rule established for 2015.

For AIReF, “the stability objective for 2015, a General Government deficit amounting to 4.2% of GDP, is very demanding.

It also adds that “attaining such objective requires a strict execution of the budgets, which should lead to realize savings in those sub-sectors that apparently have leeway, in order to offset the shortfalls found in other sub-sectors. In particular, meeting the objective requires the contribution of a series of factors”.

In a nutshell, the institution concludes that “meeting the objective requires the contribution of a series of factors”:

- the execution of the 2014 budget guarantees that the stability objective for this year, a General Government deficit amounting to 5.5% of GDP, is met and, therefore, provides a sound starting point for the implementation of budgetary plans in 2015;



- the macroeconomic scenario of cyclical recovery of the economy materializes, and its main downside risks are not realized. If so, the revenue scenario, even though it is still ambitious, may be achieved;
- the collection of social security contributions, bolstered by the new direct settlement system and the widening of bases to include compensation in kind, fulfills the expectations reflected in the Social Security Funds budget. Likewise, unemployment benefits keep its current downward trend;
- the margin for retrenchment which apparently exist in the State's budget, mainly related to interest payments, generates actual savings in budgeted expenditure. In addition, new measures to control expenditure growth should limit the upward deviations with respect to the stability objective of 2015 which the sub-sector of the Regional Governments is likely to experience.

The report also signals that “on the basis of the information currently available, it is very likely that the budget outcome in 2014 estimated for Regional Governments exceeds by a wide margin the stability objective established for them, and that they reach a deficit similar to the one registered in 2013”. And it also points that a necessary condition to achieve the targets such a “negative deviation must be compensated by better than targeted results in the State and Local Governments sub-sectors, which seem to have some leeway”.

In the same vein, AIReF states that “the budgetary objective for 2014 as regards Social Security Funds seems to be within reach, although not without effort, as a consequence of offsetting a significant surplus in the Public State Employment Service (SEPE according to the Spanish acronym) and a shortfall in the Social Security”.

Assessment by sub-sectors

The Report also carries out a deeper analysis with greater detail each sub-sector of the General Government, assessing revenue and expenditure forecasts and national accounts adjustments for each of them.

According to the Report, “the main non-compliance risk with the stability objectives for 2015 is focused on the Regional Governments subsector, the deficit of which must reach 0.7% of GDP from 1% established for 2014”.

“However, as a consequence of the likely non-attainment of this year's stability objective, the efforts to deliver on the budgetary consolidation foreseen for 2015 will be more demanding”.



“Besides, unlike other sub-sectors, in 2015, Regional Governments will benefit only partially from the effects of the cyclical recovery of the economy, since most of their expenditure is not affected by the economic cycle, while their revenue is lagging the recovery, due to the structure of the regional financing system”.

“Finally, expenditure consolidation measures foreseen for 2015 in relation to this sub-sector are currently insufficiently defined”.

This Report will be completed by another assessing in greater detail Local Corporations and Autonomous Regions, including a region-by-region budgetary and macroeconomic analysis.

Debt target

As regards the debt target, in accordance with the information provided by MINHAP, “the debt ratio of the General Government in relation to GDP is foreseen to reach 97.6% in 2014 and around 100.3% in 2015. Since the objectives established for 2014 and 2015 were targeted at 99.5 % and 101.7% of GDP, respective, it is foreseeable that both objectives will be complied with, with a positive deviation amounting to 1.9% and 1.4%, respectively”.

As the projected debt-to-GDP ratio will reach 100% by 2015, AIReF mentions that “it does not seem likely that in 2020 such debt level will be reduced below 60% and that debt limits established for the different sub-sectors in article 13 of the LOEPySF will be met, as required by Transitional Provision One of that said law”.

Thus, in line with AIReF’s [Opinion on the Compliance with Deficit and Debt Targets](#) from last July, it is “it is advisable to review in 2015 the debt reduction path using the appropriate legal mechanisms”.

Recommendations

The AIReF recommends the following measures:

1. Application of those mechanisms foreseen by Organic Law 2/2012, of 27 April, on Budget Stability and Financial Sustainability (LOEPySF, according to the Spanish acronym) for the early detection of possible deviations and their correction;
2. Integration of the budgetary process within a medium-term horizon;
3. Improvement of transparency so as to extend the scope of the analysis and to examine the annual budget within the framework of the Stability Programme and the Budgetary Plan.



4. Coordination of the timeline for the presentation of the budget projects of the different Public Administrations.
5. Initiation of the works aimed at reviewing the debt reduction path so that such path may be used as a credible and demanding reference allowing General Government to guarantee financial sustainability.
6. Publication of the list of entities included in the General Government sector and within each one of the sub-sectors, in accordance with the current System of National and Regional Accounts (ESA 2012).

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