

AIREF'S REPORT ON EXPECTED COMPLIANCE WITH 2015 FISCAL TARGETS INCLUDES SIX RECOMMENDATIONS FOR SPAIN'S PUBLIC ADMINISTRATIONS

- The *comply or explain* principle is the key tool available to AIReF to effectively fulfil its remit as the institution responsible for ensuring the financial sustainability of public finances in Spain
- Every quarter AIReF publishes on its website all the recommendations it has made to the competent levels of government in Spain together with their response as part of a constructive, transparent and public dialogue

In its Report on expected compliance with 2015 fiscal targets, AIReF includes a total of six recommendations addressed primarily to the public administrations for which it assesses whether or not there is a risk of non-compliance with their budget stability targets.

The **comply or explain** principle is the key tool available to AIReF to fulfil its remit. Under this principle public administrations must follow the recommendations made by AIReF or explain the reasons why they depart from them.

Implementation of the recommendations made by AIReF should give rise to a constructive, transparent dialogue between the independent fiscal institution and the competent levels of government.

Anyone can access the recommendations made by AIReF in 2014 and in the first quarter of 2015 through the institution's website. The information published includes details of the status of each recommendation and the response received from the public administrations concerned in each case.

In fact, there has been a significant increase in this public dialogue in the first quarter of 2015, as explained in the quarterly briefing published by AIReF on the recommendations made in that period.



As regards the report published today by AIReF, the key recommendations made and the public administrations they are addressed to are listed below. AIReF has made the recommendations following its appraisal of compliance by all the subsectors in the General Government sector in Spain with the budget stability, government debt and expenditure rule targets in 2015.

In addition to the new recommendations relating to each one of the fiscal discipline targets in this report, AIReF also recaps on the recommendations already issued on the same subject in previous reports published by the institution.

Budget stability

AIReF's assessment is that there is a risk of non-compliance with the budget stability target set for 2015 in the Social Security Funds and Autonomous Regions subsectors.

- **Recommendation regarding the deviation detected in the Social Security Funds**

1.- An evaluation should be made of measures that could be adopted to ensure on a permanent basis the financing of Social Security deficits through the State General Budget, or for other decisions to be adopted to balance the Social Security system.

- **Recommendations regarding the deviation detected in the Autonomous Regions (ARs) and the Economic-Financial Plans (EFPs) still to be submitted due to non-compliance with the 2014 targets**

2.- EFPs should be adapted to the actual circumstances of each region in a way that guarantees the substantive aspects of the Organic Law on Budget Stability and Financial Sustainability (LOEPySF). The procedure for approval of the EFPs as well as their content should be made more flexible as and where necessary.

With that aim in mind, AIReF is of the view that:

- ***2.1. The strategic lines underpinning the EFPs that have to be prepared because of non-compliance with the 2014 targets should be presented at the meeting of the Fiscal and Financial Policy Council (CPFF) likely to be held at the end of July. The detailed plans would then be submitted and approved at a new Council meeting that could be held in September or October. That would give the new regional governments the time they need to examine the circumstances in the region and prepare on this basis an EFP with a credible path for the correction of the existing imbalance.***

In addition, they would be able to incorporate into the budget scenario for 2016 the funds to be paid to them by the regional financing system because the Ministry of Finance & Public Administrations (MINHAP) will release that information at the end of July.

- *2.2. The autonomous regions should adapt the content of the EFPs in line with aspects such as the size and recurrent nature of the deviation, including the possibility of automatic correction without the need for any additional measures on top of those already adopted.*
 - *2.3. Additionally, the ARs of Balearic Isles, Catalonia, Extremadura, Murcia Region and Valencia Region, which show recurrent deviations from targets, should prepare their EFPs within a multi-year framework coinciding with the timeframe set in the Stability Programme Update (SPU). These plans should contain the annual correction commitments and identify the economic and financing assumptions underpinning their revenue and expenditure forecasts, as well as the concrete fiscal measures that are going to be taken.*
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- Recommendation regarding the asymmetrical situation of the subsectors within the General Government sector with regard to compliance with the budget stability target
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3.- The whole financing system for the different subsectors should be analysed so that it can be brought into line with the level of expenditure (assessed on the basis of efficiency parameters) associated with the competences exercised by each of them and with compliance with the expenditure rule regulated by the LOEPySF.

Expenditure rule

In general terms the information received has not been sufficient for AIReF to evaluate compliance with the expenditure rule. Nevertheless the available information has been used to carry out an analysis of the risk factors that point to non-compliance with the expenditure rule by the Central Government and difficulties for the Autonomous Regions to comply at the subsector level.

This rule is of mounting importance now, in a context of economic growth, when several public administrations are close to reaching a position of budgetary equilibrium that would not require any reduction in public spending for reasons of fiscal consolidation.



4. MINHAP should approve through a ministerial order a methodology to calculate the expenditure rule and develop the content and procedure for the information required to be sent so that each administration can make its own a priori calculation and monitor the expenditure rule which limits its spending.

Other recommendations

AIReF reiterates in this report the following recommendations for which it has not received any response from MINHAP.

5. Provide additional information with the sufficient level of detail broken down by subsector so that the Stability Programme Update (SPU) can be considered as the EFP for the Social Security Funds and Central Government subsectors.

6. Draw up an initial budget and forecasts for the current year for the Central Government, Social Security Funds, Autonomous Regions and Local Corporations in national accounting terms.
