



Independent Authority  
*for* Fiscal Responsibility

# Elements for an assessment of the Stability Programme

Madrid, 18th April 2016

# SUMMARY

1. Context
2. Elements in the assessment of the macroeconomic scenario
3. Elements in the evaluation of the fiscal scenario
4. Fiscal policy orientation
5. Normative elements

# 1.- Context: Applicable legislation

## ❖ EU legislation

- Macroeconomic forecasts: made by or endorsed by an independent body.
- Stability Programme: preferably before 15th April and assessed by the National Fiscal Authority.

## ❖ Spanish legislation

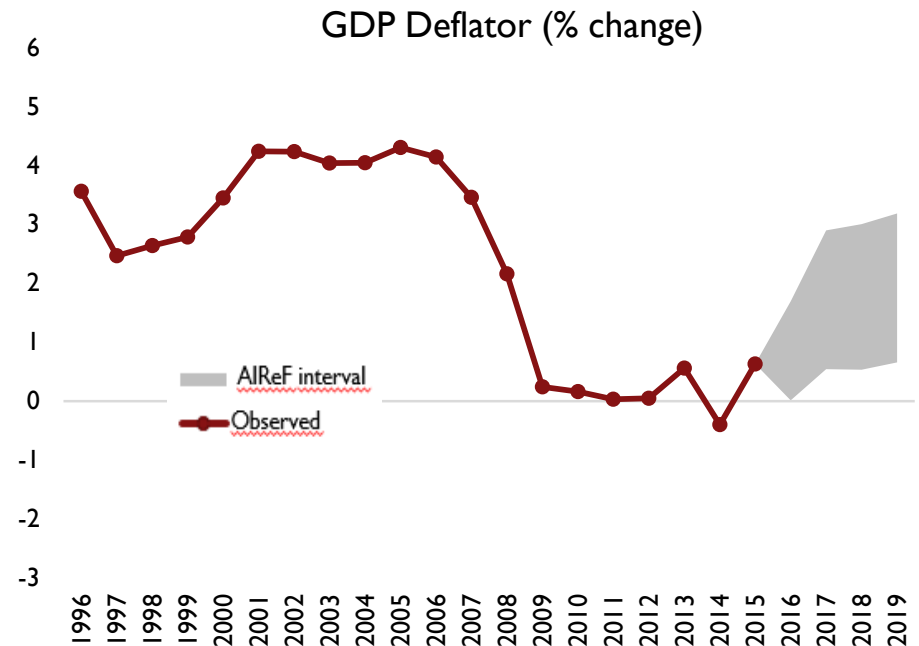
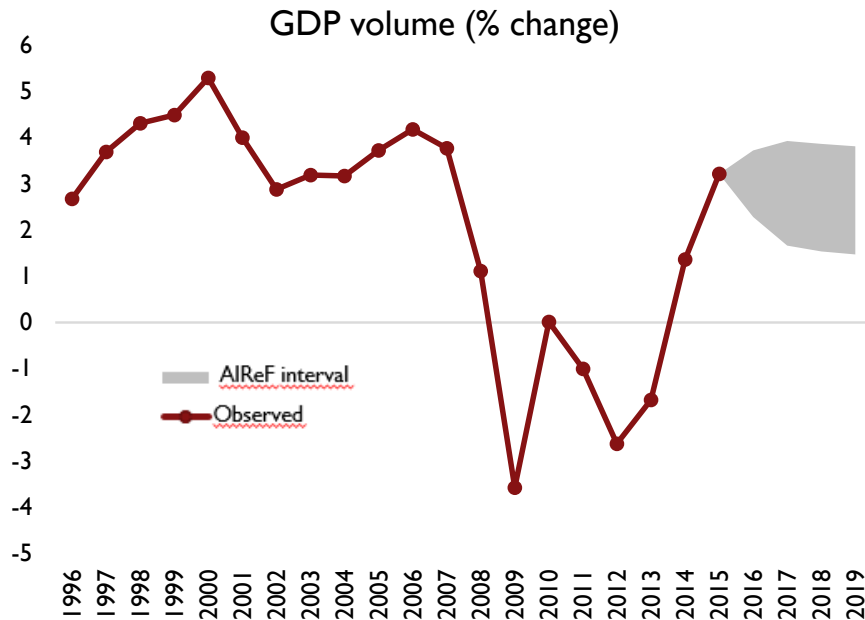
- The macroeconomic forecasts must be the subject of a report by AIReF and be endorsed by AIReF.
- *Before 15<sup>th</sup> April [?], AIReF will issue its report on the draft Stability Programme?* and AIReF should have received the draft Programme before 5th April.

# 1.- Context: Stability Programme content recommended by AIReF

- ❖ Inertial macroeconomic scenario or no-policy change scenario (excl. measures)
  - Hypotheses and assumptions
  - Identification of upside and downside risks
- ❖ Fiscal scenario broken down by subsectors
- ❖ Description and quantification of measures
- ❖ Final scenario including the impact of measures on fiscal and macroeconomic variables

# 2.- Elements in the assessment of the macroeconomic scenario

Inertial scenario: relatively high growth rates although some slowdown moving through the four year programme horizon



Source: INE and AIReF estimates

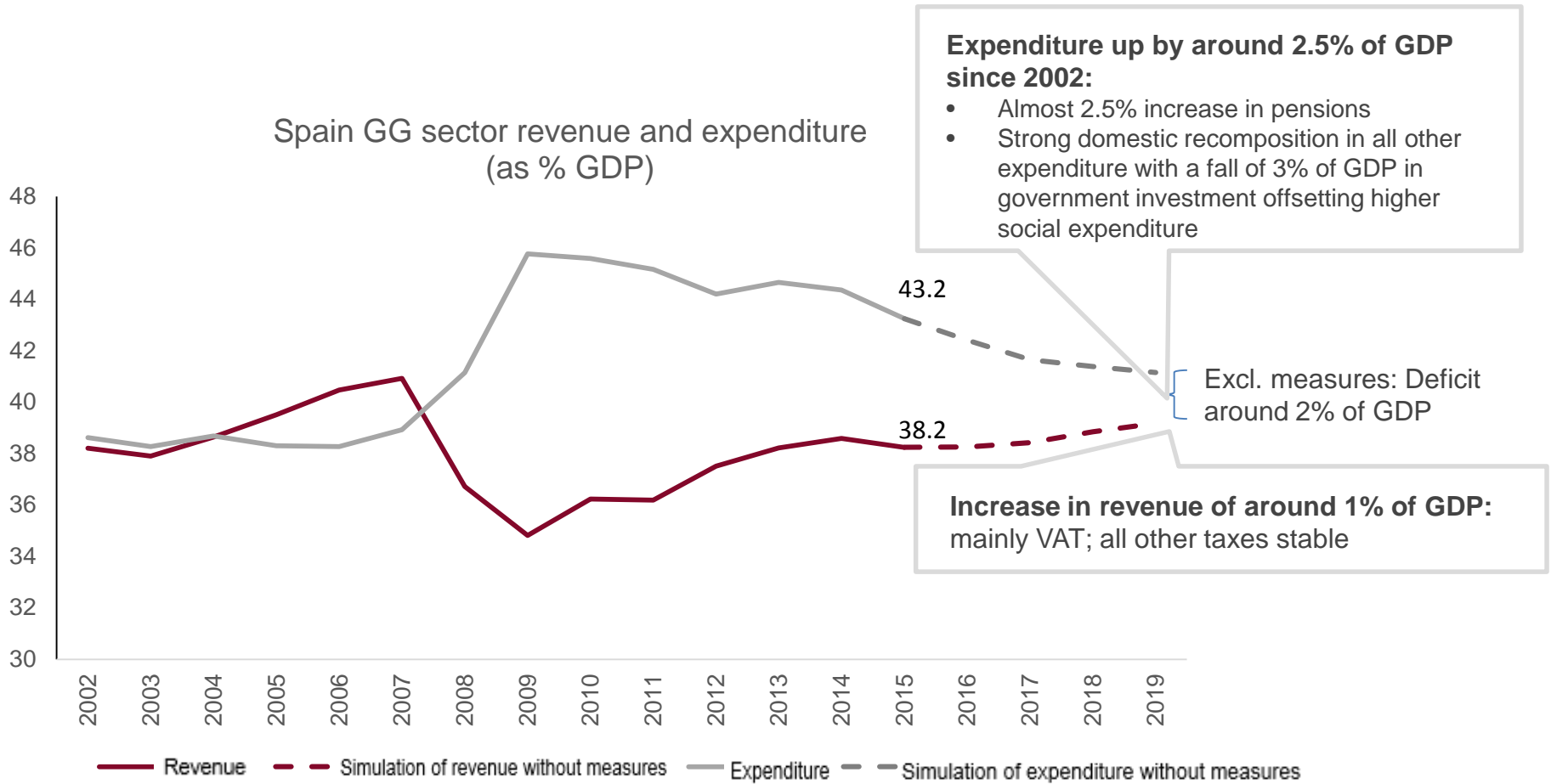
The outcome at the end will depend on the fiscal assumptions

Some recovery of inflation to levels close to the ECB target



# 3.- Elements in the assessment of the fiscal scenario

The economic situation has positive effects on government accounts although its impact decreases over time



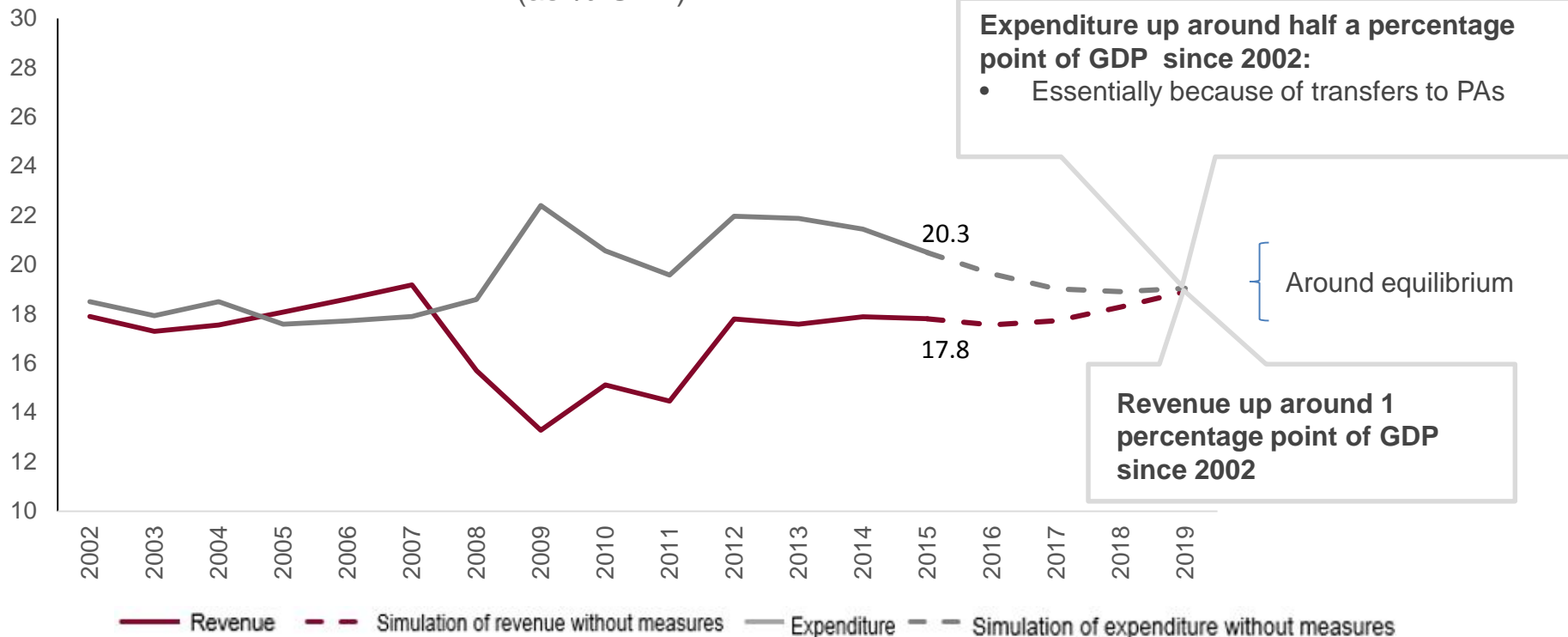
Source: IGAE and AIReF estimates



# 3.- Elements in the assessment of the fiscal scenario

The Central Government would almost achieve equilibrium at the end of the period

Central Government revenue and expenditure  
(as % GDP)

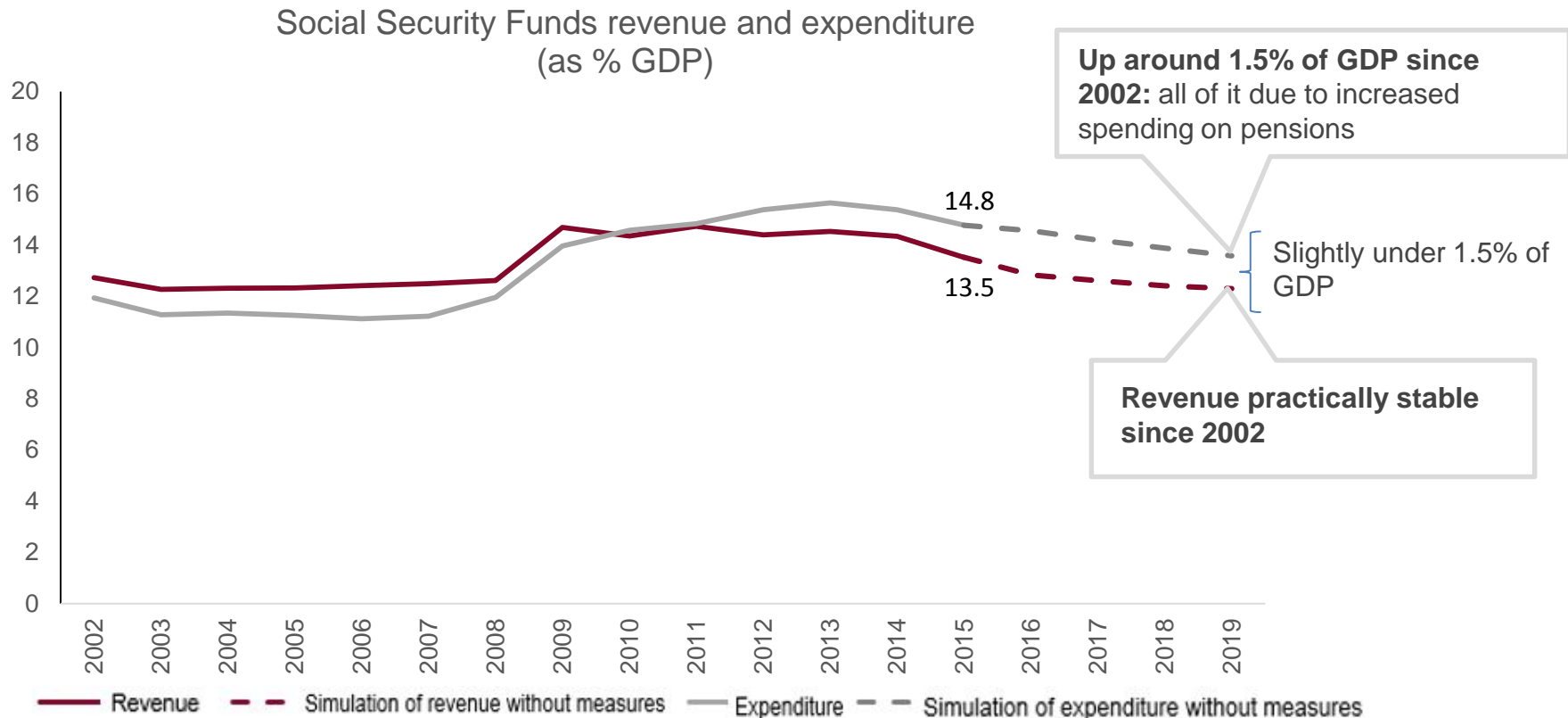


Source: IGAE and AIReF estimates



# 3.- Elements in the assessment of the fiscal scenario

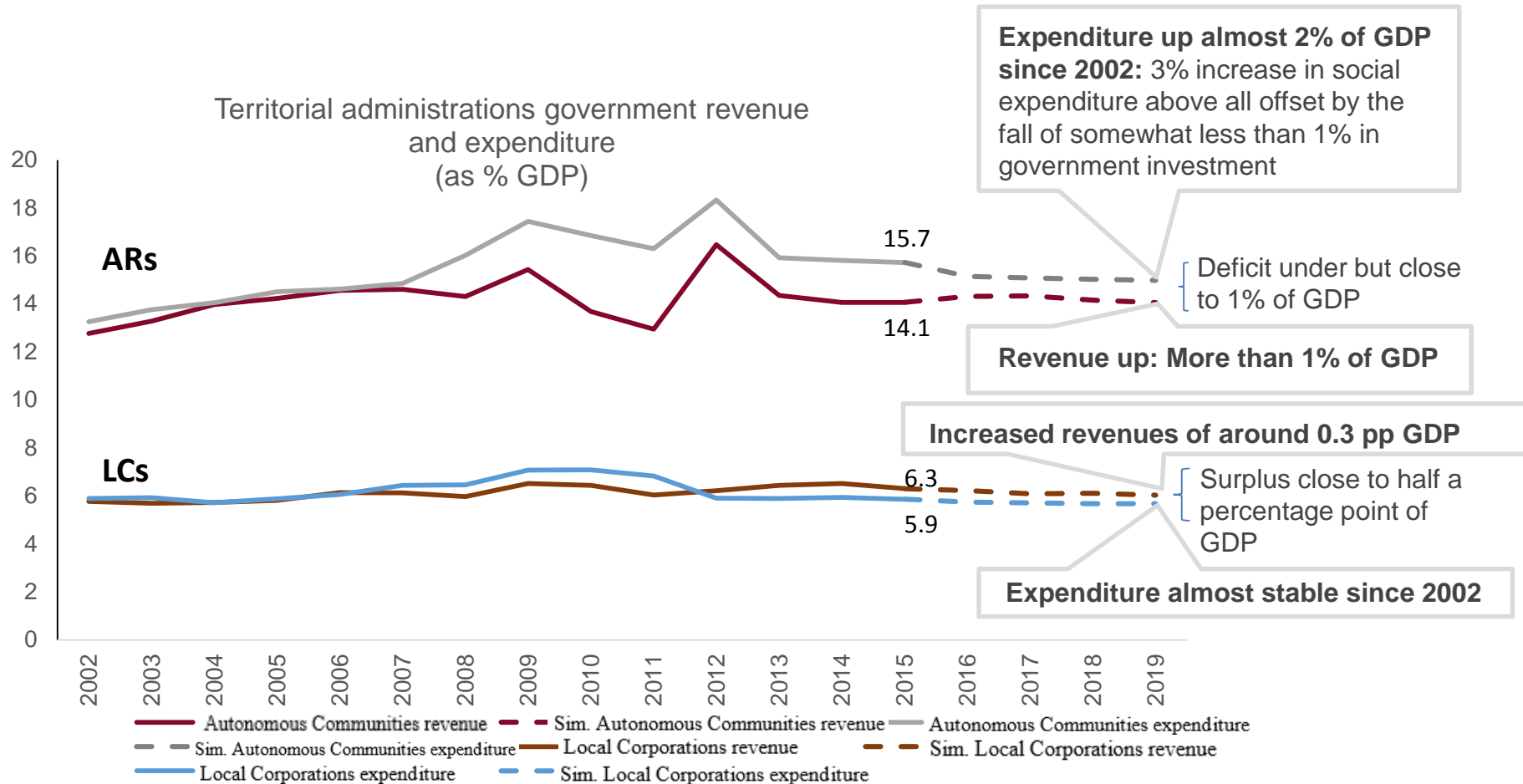
Despite the favourable economic environment the Social Security deficit will be maintained



Source IGAE, SPU 2015-2018 and AIReF estimates



# 3.- Elements in the assessment of the fiscal scenario

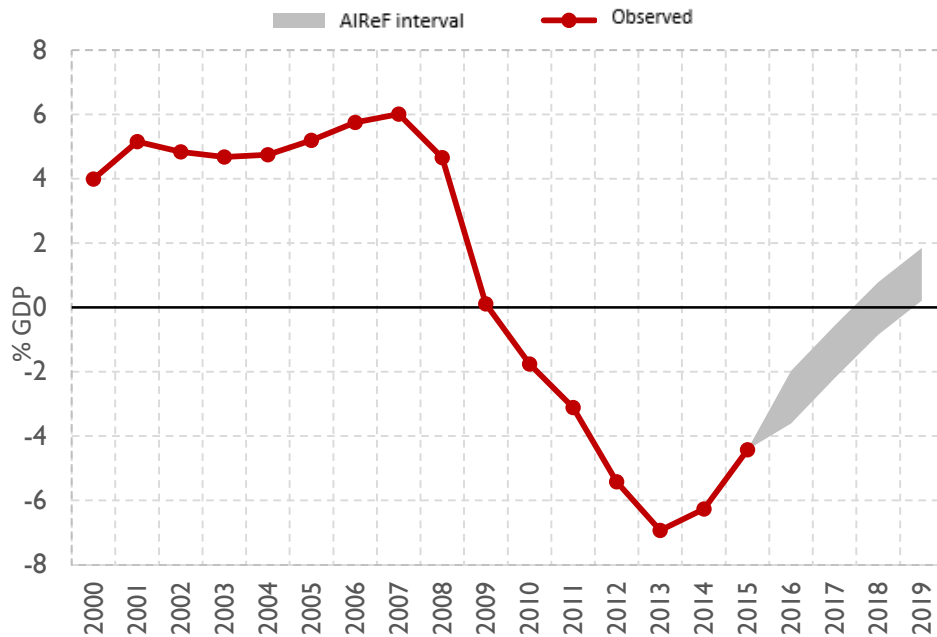


Source: IGAE, SPU 2015-2018 and AIReF estimates

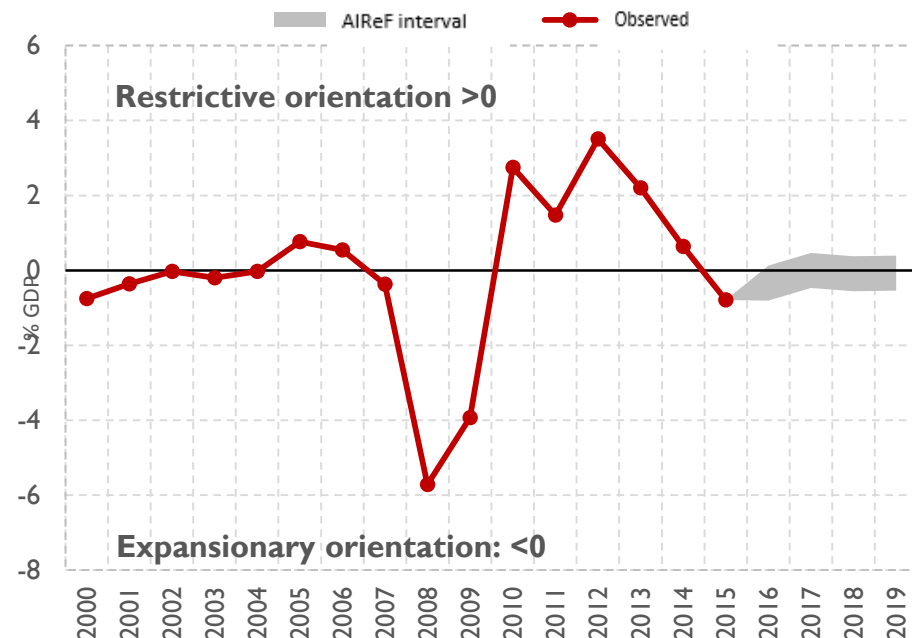
# 4.- Fiscal policy orientation

Fiscal policy would have an essentially neutral orientation in a context of cyclical normalisation of economic activity

### Output gap



### Fiscal policy orientation (Change in the primary structural balance)

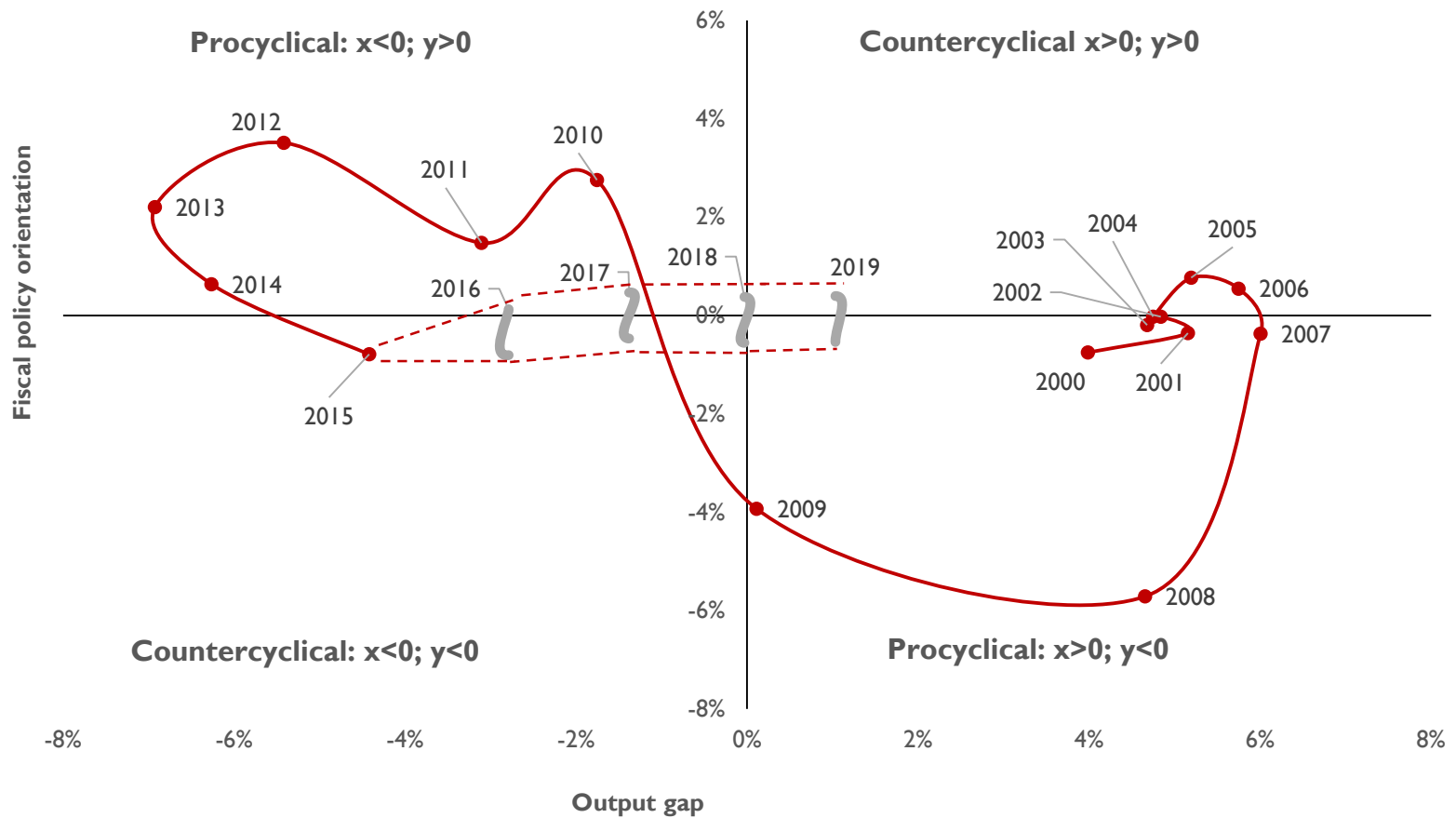


Source: AIReF



# 4.- Fiscal policy orientation

Fiscal policy ceases to be procyclical and contractive as of 2015

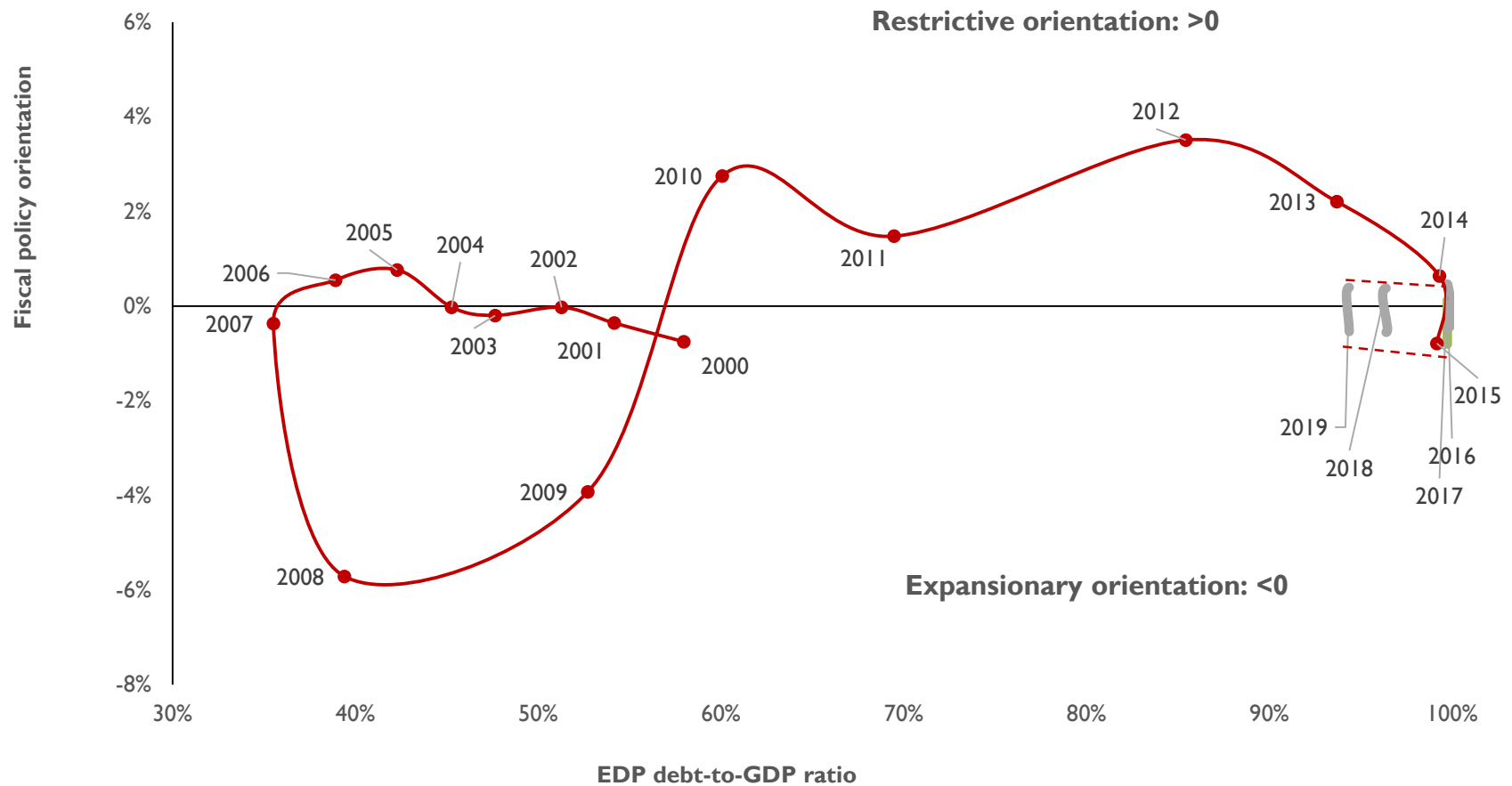


Source: AIReF estimates



# 4.- Fiscal policy orientation

The high level of debt reduces fiscal leeway



Source: AIReF estimates



## 5.- Normative elements: Expenditure rule

### It is a fiscal rule

- It constitutes a limitation on the growth of expenditure.
- Compliance with the expenditure rule may require the adoption of budgetary policy measures and even normative measures.
- When the rule is not complied with one year compliance with it the following year may demand a reduction in expenditure.

### Need for further development of the expenditure rule

- Clear need for normative development of the current rule and for a debate about its design and application (AIReF recommendations)
- MINHAP believes it is not necessary
- Examples of outstanding questions:
- The LOEPSF does not specify when there has been non-compliance with the rule the previous year whether the excess expenditure is consolidated or not. IGAE's interpretation in its latest report would make the rule void and generate a moral risk problem
- Should any excesses due to non-compliance as a result of normative reforms or higher expenditure be absorbed in a single year?

### Recommendations made by AIReF in its reports

- Develop in normative terms the regulation on the expenditure rule contained in the LOEPSF.
- Debate and reach a consensus among the Public Administrations on the content of the expenditure rule through the CPFF and the CNAL.

## 5.- Normative elements: Autonomous Region (AR) measures

### **Non-availability agreement (AND) (12 ARs)**

- Because of non-compliance with the adjustment plan in 2015
- Deadline: before 25th April (15 days as of receipt of the communication)
- Communications from MINHAP requesting the AND without specifying the amount.
- CPFF: bilateral negotiation of the AND

### **Additional conditionality stemming from 2016 additional liquidity mechanisms 2 (9 ARs)**

- Because the region signs up to the FLA 2016
- Deadline: before payment of the second quarter FLA 2016
- Conditions: signing up for the health expenditure rule, to the protocol between State General Administration AGE-pharmaceutical industry, connection to FACe, conditions for the adoption of the AND, signing of the agreement on basic e-government solutions...

### **Submission of EFP 2016- 2017 (14 ARs)**

- Because of 2015 non-compliance
- Deadline for submission: one month following confirmation of the non-compliance (15th April?)

## 5.- Normative elements: Autonomous Region measures

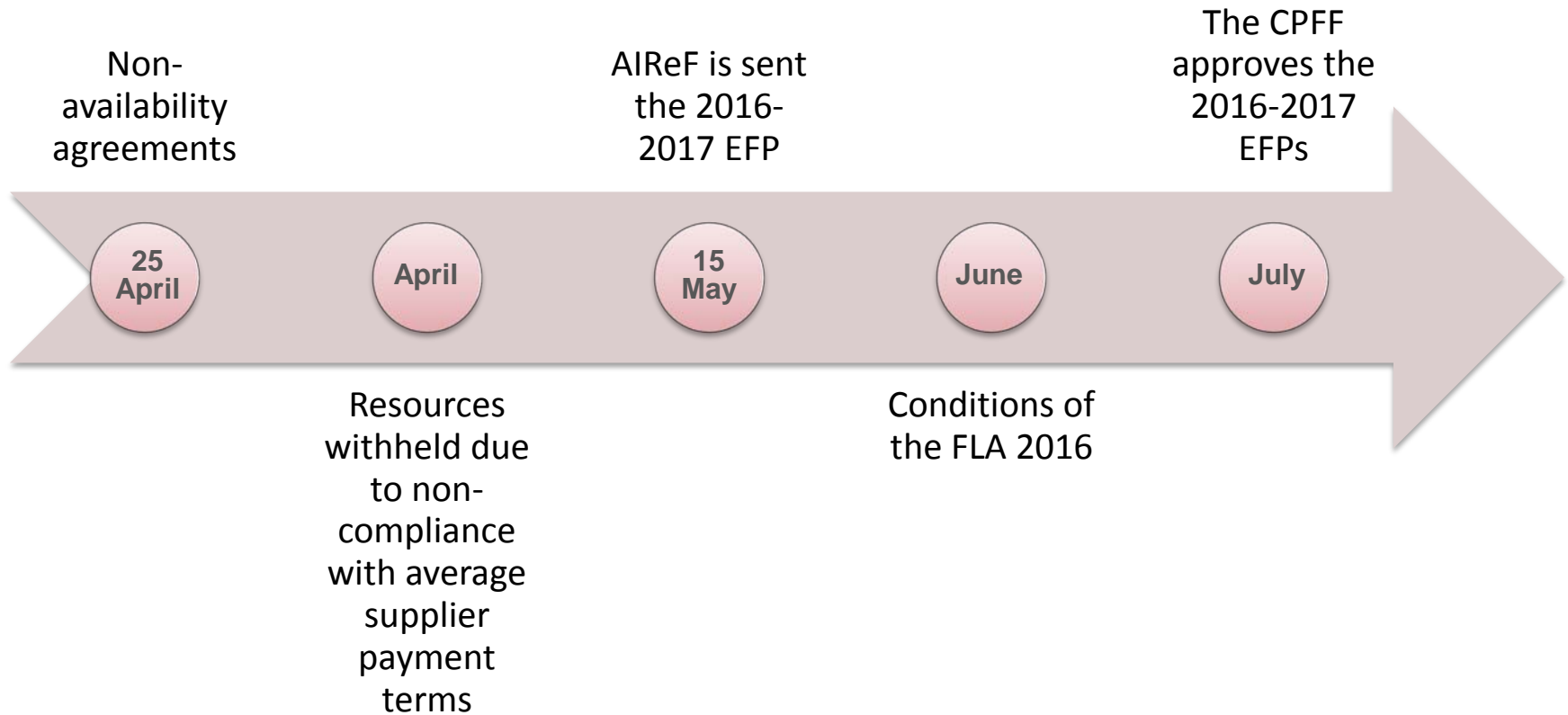
**Preventive and corrective measures because of non-compliance with the average supplier payment terms (PMP)**  
**(9 ARs)**

- Notification is sent regarding the applicable phase of the LOEPSF because of non-compliance with the PMP:
- 1.- Update of the treasury plan (art 13.6):
- 2.- Alert communication (preventive measures in art 18.4)
- 3.- Start of the procedure to withhold system resources to pay suppliers (corrective measures art 20.6)

**Because of non-submission of information on the average supplier payment terms (PMP)**  
**(5 ARs)**

- MINHAP notifies the region that it is not sending the information on the PMP with the scheduled regularity.
- But it does not indicate the consequences of non-compliance with this obligation.

# 5.- Normative elements: Autonomous Regions

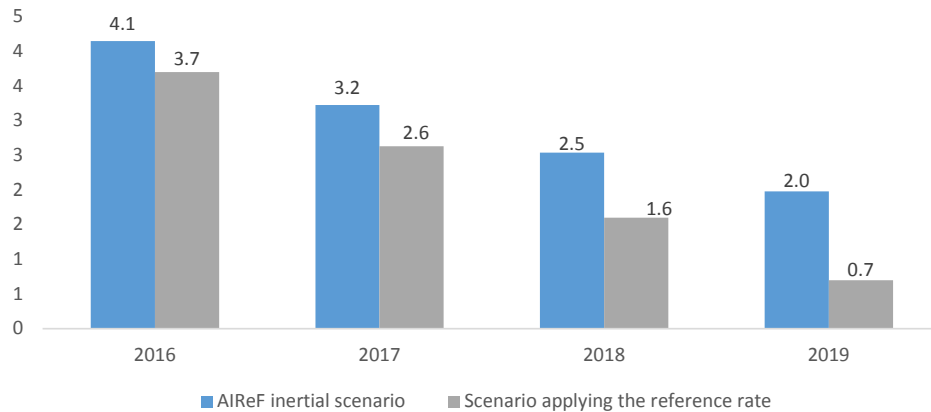




# 5.- Normative elements: Expenditure rule

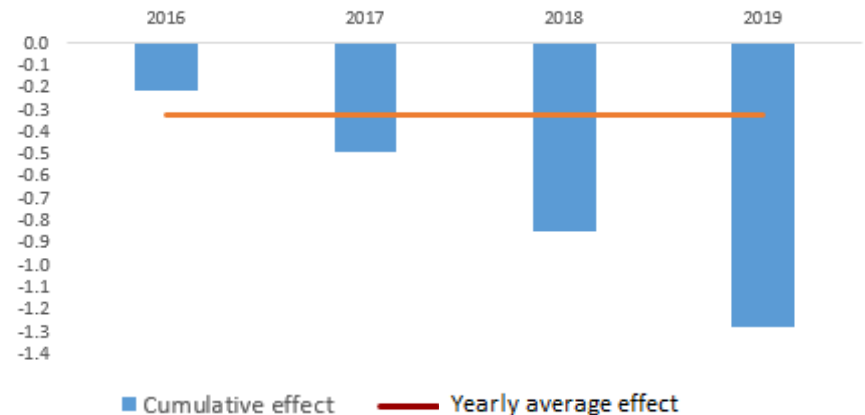
An approximation to the application of the expenditure rule leads to a scenario of significant debt reduction. This calculation incorporates a short-term impact on growth assessed as equal to 3 tenths of a per cent of GDP per year

Government deficit path



Expenditure rate reference rate: 2016: 1.8; 2017: 2.2; 2018: 2.6; 2019 (e): 2.8

Effect of applying the growth rate on real GDP  
(% change to date)



In this normative scenario government spending in real terms maintains positive growth rates



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