

Annual Report 2016



Independent Authority
for Fiscal Responsibility

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1. Introduction

The Independent Authority for Fiscal Responsibility (AIReF) has a single mandate: to guarantee the effective fulfilment by the Public General Government Sector of the principle of budget stability foreseen in article 135 of the Spanish Constitution. Its subjective area of operation is the whole of the Spanish public sector. AIReF was created by Organic Law 6/2013, of 14 November, which granted it the legal prerogative to access the information enabling it to perform individualised monitoring of all the Public Administrations, for the continuing evaluation of their budget cycle, their indebtedness and their economic forecasts. In the discharge of its duties, AIReF is supported by three fundamental principles: independence, transparency and accountability.

AIReF's activity suffered significantly from the recent disruption in the electoral cycle. Maintaining a caretaker government in the State for the greater part of 2016 has caused a disruption in the usual budget cycle for the Central Government and all other subsectors alike. Moreover, the modification of the budget stability target in the framework of the deficit overrun procedure has also affected AIReF's activity. These elements have conditioned AIReF's reporting rhythm, as stated in this report.

This Annual Activity Report is essential to the institution's transparency and accountability vis-à-vis society at large. AIReF's Annual Activity Report covers all the actions taken by this body in 2016, compliant with article 5.5 of Act 6/2013, which calls for the drafting of an annual activity report that should be given «maximum publicity and dissemination». The Report has met with the approval of the President on 27 March 2017, following deliberations by the Executive Committee as set forth in the Organic Statutes of AIReF, and will be made available to the public on the institution's website. The Report likewise allows the comparison of the year's actions with those forecast in the Action Plan for the same year, and the analysis of the implementation of AIReF's Strategy Plan for 2015-2020. In this manner, it also serves as the basis for drafting the Action Plan for 2017.

The report is structured into six sections, besides this introduction. As in previous years, the main aspects of its publications, the recommendations and guidance for best practicess issued by the Public Administrations, their institutional and communication activities, Action Plan follow-up and, lastly, their financial and human resources management are dealt with. As a new feature, a section has been added on access to information by AIReF.

2. Documents published by AIReF

AIReF fulfils its remit through drafting and issuing reports, opinions or studies. The reports and opinions are public, while the publication of studies depends on whether the commissioning authority grants permission. Furthermore, AIReF publishes working papers on subjects within the scope of its competences. Among the duties commended to this institution is the analysis of long-term sustainability in public finance and Social Security. Similarly, AIReF is competent in certain aspects of implementing the preventive, corrective and enforcement mechanisms provided for in Organic Law 2/2012, of 27 April, on budget stability and financial sustainability (LOEPSF).

The reports published by AIReF are as envisaged in the regulation and aim to provide continuing assessment of the budget cycle, public indebtedness and the analysis of macroeconomic forecasts. These reports form part of the four-year economic and budgetary strategy defined in the stability programme (on which AIReF is obliged to report) and are drafted for each Public Administration on the four steps in the budget cycle, namely: preparation, approval, implementation and control. AIReF is also responsible for drafting reports on the implementation of the preventive, corrective and enforcement mechanisms provided for in the LOEPSF (non periodic and dependent on the materialisation of the circumstances foreseen as per regulations). Lastly, it is the duty of AIReF to draft, every year, an opinion on the position of the Pension Adjustment Index and, on its entry into force, on the sustainability factor. Optionally, an opinion is also given on the contribution rate on the cessation of self-employment benefit for self-employed workers.

AIReF adjusted the publication of its reports to the disruptions to the budget cycle. Repetition of the general elections and maintaining a caretaker Government for the greater part of the year caused a disruption in the budget cycle of the State, and by extension, therefore, of all the subsectors. This year, some reports have not been issued because the budget cycle milestones they refer to were not reached, owing to which such reports have been deferred to 2017, while others were drafted on dates other than those initially envisaged.

In 2016 there were some variations in the path for budget stability targets which affected AIReF's appraisals. In the Stability Programme Update (SPU) 2016-2019, the Government presented a fiscal consolidation path different to that set by the Recommendation of the Council of the European Union of 21 July 2013 for the General Government sector, which allowed a greater margin for compliance with the 2016 target. Subsequently, this path was modified by Council Decision on 2 August 2016 and allocated to subsectors by Agreement of the Council of Ministers on 2 December 2016.

	2016 target	Stability Program Update 016-2019	Modification of the target by the Council of Ministers, 2 December 2016
Central Administration	-2.2	-1.8	-2.2
Social Security	-0.3	-1.1	-1.7
Autonomous Regions	-0.3	-0.7	-0.7
Local Corporations	0.0	0.0	0.0
General Government	-2.8	-3.6	-4.6

During 2016 the following reports and opinions were published:

- Opinion on the application of the formula to calculate the contribution rate of the cessation of self-employment benefit for self-employed workers, issued on 22 February.
- Report on the General Government sector initial budgets for 2016, issued on 4 April.
- Report on the assessment of the Kingdom of Spain's Draft Stability. Programme Update 2016-2019, issued on 22 April.
- Report on the Kingdom of Spain's Stability Programme Update 2016-2019, issued on 9 May.
- Assessment Economic and Financial Plans (EFP) of the Autonomous Regions (ARs) (article 19 of Organic Law 6/2013). In 2016 these were issued on 8 June and 7 July.
- Report on expected compliance with the 2016 fiscal targets by the public administrations in Spain, issued on 19 July.
- Report on the Macroeconomic forecasts in the Budget Plan Project for 2017, issued on 7 October and updated on 2 December.
- Report on the Projects and Main Budgetary Aspects of Public Administrations: Local Corporations: 2017, issued on 5 December.
- Report on the setting of individual budget stability and regional government debt targets for the Autonomous Regions, issued on 22 December 2016.
- AIReF also published four Working Papers.

2.1. Reports

Below are details of the actions taken by AIReF in each category:

2.1.A. Reports on the budget cycle

Reports on macroeconomic forecasts

The macroeconomic forecasts incorporated to the draft budgets in all the public administrations or in their stability programmes should be the object of a report by AIReF. These administrations' budgets or stability programmes should indicate whether or not the forecasts were endorsed by the Fiscal Authority, as per article 14 of Organic Law 6/2013.

AIReF issued three reports on macroeconomic forecasts in 2016. The first of these dealt with the macroeconomic forecasts in the Draft Stability Programme Update (SPU) 2016-2019; the second and third were on the macroeconomic outlook accompanying the Draft Budgetary Plan 2017 and its subsequent update. Throughout 2016, however, no report was issued on the forecasts by ARs presenting forecasts that differed from those of Spain as a whole, owing to the lack of an approved budget in some of the regions.

The macroeconomic forecasts in the Draft SPU for 2016-2019 were approved by AIReF. The full report was issued on 12 May, later than the legal publication date, due to the late delivery of the documentation deemed necessary by AIReF for a correct assessment of the forecasts. Nonetheless, on 22 April an assessment report was published with the main conclusions and recommendations. The report was drafted on the basis of exogenous assumptions and the defined policies, having considered the fiscal consolidation targets to be ambitious but feasible. The report stated that the Government forecasts for the macroeconomic scenario pointed to an intense cyclical recovery that would close the gap in output at the end of the forecasting horizon, in 2019. Underlying these forecasts was a moderate impulse from the external environment, an upward shift in the yield curve for all maturities and oil prices being revised downward with regard to the preceding year. However, this was consistent with the forecasts in futures markets and the leading international institutions.

The macroeconomic and fiscal scenario was found to be likely overall, although some risks were observed. These were associated with inconsistencies detected in the macroeconomic context and fiscal forecasts as they advanced on the projection horizon toward 2019. The public expenditure path for the period 2017-2019 was deemed an upward risk in the evolution of expenditure lines, being considered excessively restrictive and arbitrary. Its materialisation would imply, *ceteris paribus*, short-term costs in terms of smaller growth in productive activity and, therefore, posed a downward risk to GDP growth. Similarly, this was deemed an upward risk in the forecasts for public revenue. The report identified counterposed risks on the macroeconomic scenario, slightly upward in the short term and downward in the medium term, generated by smaller global growth, a faster than

expected recovery in oil prices or the consolidation of a smaller potential for growth in the euro area deriving from an extended period of insufficient demand and very low inflation rates, high sensitivity to changes in interest rates and under-estimated risks of slowing growth in exports.

TABLE 1: Summary of the report on the macroeconomic forecasts in the draft SPU 2016-2019.

This report was in two parts, one for an assessment of the possible bias in the macroeconomic forecasts made in previous years (evaluation *ex post*) and another to evaluate the forecasts (evaluation *ex ante*).

Firstly, the macroeconomic forecasts for preceding years were examined in order to assess whether past errors suffered from significant bias. For the main macroeconomic variables, Government forecasts were compared against those of other private and public independent institutions and against the observed results.

It was perceived that the official forecasts did not have large, unjustified biases repeated beyond the four years studied. However, the Government forecasts, in almost half of the years, were outside of the interquartile range of the consensus figures, showing large biases that more often than not were not justified *ex post* by being closer to the results obtained. At any event, it was mentioned that the biases in successive updates had gradually decreased. Moreover, forecasts for GDP and public deficit had shown biases over three years, though not always unjustified.

The report went on to focus on the analysis of the macroeconomic and budgeting scenario and on the analysis of risks. The aim was to assess whether the Government forecasts were realistic, and to define the most likely macroeconomic scenario or one that was more prudent.

AIReF observed that the forecasts for the macroeconomic scenarios presented by the Government in this Draft SPU made use of the most updated information available. Nevertheless, very little public information was available on the methodologies and parameters supporting the Government forecasts. The main conclusions worthy of mention in the analysis *ex ante* of the forecasts in the Draft SPU were the following:

- The external assumptions presented an international environment deemed likely and indeed prudent. AIReF pointed out, however, that it was necessary to study certain potential downward risks deriving from slowing world growth, the faster that expected recovery in oil prices or the consolidation of a smaller potential for growth in the economy in the euro area, caused by an expended period of insufficient demand and very low inflation rates.
- With regard to the expansion in domestic demand, the report drew attention to the large upward bias with respect to the forecast growth in real private consumption throughout the period and for growth in real gross fixed capital formation in 2016. As for the forecast for public consumption, the report highlighted the large downward bias that forewarned of the risks of a rigorous implementation of the containment policy for expenditure. A large downward bias was also evident in the reduction of the unemployment rate predicted by the Government.
- Net external demand was expected to continue making a negative contribution to growth in economic activity in 2016 and 2017, although this would gradually diminish, to reach a neutral level in 2018 and take on a positive impulse in 2019. With regard to exterior demand, an upward bias was suggested in the medium term for exports and a large upward bias in the growth forecast for imports.

The macroeconomic forecasts for the Draft Budgetary Plan 2017 and its subsequent updates were endorsed in the reports issued by AIReF.

The exceptional situation while the new government was being formed caused two budgetary plans for 2017 to be submitted to Brussels. The first of these (the draft plan) did not include economic policy measures, and the second (the plan update), submitted once the new government was formed, comprising discretionary measures necessary for compliance with the budget stability target. Nevertheless, both documents had been drafted within a very short space of time (the first in October and the second in December) and presented a similar macroeconomic scenario, and the macroeconomic forecasts given in both cases were endorsed by AIReF, as the government's macroeconomic scenario overall was deemed likely. On the basis of the exogenous assumptions and of the policies that were defined, AIReF approved the Government's macroeconomic scenario forecasts for 2017 deeming them prudent overall; the cyclical position of the Spanish economy included in the Budgetary Plan Update 2017 reached its potential in 2018, bringing closure of the output gap forward by one year with respect to the stability programme estimates.

TABLE 2: Summary of the report on the macroeconomic forecasts in the Budgetary Plan Update for 2017.

This report, following the same structure and methodology as the report on the macroeconomic forecasts in the draft SPU 2016-2019, assessed the macroeconomic forecasts associated to the Budgetary Plan Update for 2017 with a double focus on macroeconomic forecasts: on the evaluation ex post of biases in the forecasts for previous years and the assessment ex ante of the realistic nature of the forecasts given in the Budgetary Plan Update for 2017.

With regard to the assessment ex post of the macroeconomic forecasts, they were seen not to present significant biases, with the exception of public consumption and, to a lesser degree, the deficit-to-GDP ratio. A systematic, optimistic bias in the forecasts for public consumption was identified over the last four years, on a one-year horizon. The existing biases in the forecasts for public consumption prompted a recommendation to the Government.

The aim of subjecting the Spanish Government's forecasts to analysis ex-ante is to assess whether they are realistic, and whether they define the most likely macroeconomic scenario or one that is more prudent. The main conclusions worthy of mention in the analysis ex ante of the forecasts for 2016-2017 were the following:

- Despite the balanced **external scenario** presented in the Budgetary Plan Update, it was pointed out that risks for the future pointed toward potential deterioration.
- Genuine **uncertainty** was noted over the **cyclical revenue gain** and over the implementation of the budgetary measures announced for 2017 and their impact on tax collection and the economy.
- The **composition of growth** reflected in the Government scenario was deemed plausible, with domestic demand acting as the main driver of the economy together with a marginally positive contribution from the external sector.
- Among the components of **domestic demand**, private consumption remained as the primary growth force, supported by the recovery in employment and the stability in favourable monetary

conditions. In turn, the forecast developments in public consumption were deemed plausible, in line with the restraint in expenditure included in the deficit reduction targets envisaged for 2017. Concerning investment, a slowdown was expected with respect to the latest scenario presented by the Government, that was viewed as prudent and consistent with the potential macroeconomic impact of the announced tax measures. Lastly, growth in the forecast prices remained on a recovery path, albeit at a prudent pace.

- The **external sector** contribution was also considered to be likely, moving onto moderately positive ground, and in line with AIReF's internal forecasts.

Report on the General Government sector initial budgets in 2016.

In the report on initial budgets for 2016, AIReF reaffirmed its assessment that the deficit of 2.8 % of GDP was very demanding. Focusing preferentially on the variations detected in the information analysed (in relation to that supporting the projects and main aspects of the public administrations for 2016 issued by AIReF from September to November 2015), the risk of non-compliance with the stability target was considered more pronounced as a consequence of the deviation, already confirmed at that time, from the deficit targets for 2015.

No risk of non-compliance was observed for the Central Government (CG) subsector. In the case of the CG, the existence of a caretaker Government meant that from the publication of the report on the draft budget, no decisions or significant measures were adopted that would affect the General State Budget, and therefore the assessment made at the time was maintained in which no risk was observed of non-compliance with the -2.2 % of GDP target. The favourable performance of tax revenue in 2015, jointly with a reduction in non-financial expenditure, had generated some margin for compliance with the 2015 target which was a good point of departure for complying with the target set for 2016.

AIReF observed risk of non-compliance with the deficit target for 2016 in the Social Security Funds. Confirmation of a large deviation in 2015 (seven tenths of a percentage point of GDP) and the unrealistic forecasts for contribution income in the 2016 forecasts led to considering that the Social Security Funds subsector might not comply with the budget stability target in 2016, as indicated in the report on the draft budget.

In the AR subsector, compliance with the budget stability objective for 2016 was deemed unlikely. Significant deviation in the year-end figures for 2015, low impact of the measures envisaged throughout the subsector, and uncertainty over the effective achievement of certain revenues and over developments in certain expenditure in regional scenarios for 2016 made target compliance seem unlikely.

In the field of the Local Corporations, it was deemed very likely that the subsector would comply with the budget stability target. AIReF was unable to express a view on the compliance of the budgets approved for 2016 with the budget stability and debt targets and with

the expenditure rule, given the non-availability of the changes in the national chart of accounts and the scarce representation in the national total of the information provided by the Ministry of Finance and Public Administrations, currently the Ministry of Finance and Civil Service (MINHAFP). However, focusing on the information published on quarterly budget implementation, AIReF assessed the likelihood of compliance by the local corporations with the fiscal rules, finding it highly likely that the subsector will comply with the budget stability target, although the potential surplus may be lower than in previous years. An analysis was also conducted on the situation of the 16 City Councils with more than 250,000 inhabitants, for all of which it was estimated that no risk of non-compliance with the stability target for 2016 existed.

TABLE 3: Analysis of the 2016 budgets' accommodation to the stability, debt and expenditure rule targets.

In order to meet the 2016 target set at -2.2 % of GDP, and taking into account the favourable point of departure at year-end 2015, the Central Government had to reduce its deficit by 0.5 % of GDP. The positive trend in tax revenues observed at year-end 2015, the decrease in expenditure in interest on public debt and in transfers to the Public State Employment Service (SEPE) facilitated compliance with the target.

Although no risks were observed affecting compliance with the budget stability target, compliance with the expenditure rule in this year would require a lower deficit than the target, linked mainly to the need to offset in 2015 and 2016 the heavy impact of loss of tax revenue resulting from the fiscal reform to corporate tax and income tax (IRPF).

Concerning the Social Security Funds, these needed to reduce their deficit by 1 % of GDP in order to comply with the 2016 target set at -0.3 %. Confirmation of a large deviation in 2015 (seven tenths of a percentage point of GDP) and the unrealistic forecasts for contribution income in the 2016 forecasts led to the conclusion that the Social Security Funds subsector would not comply with the budget stability target. Furthermore, it was found very likely that the deviation may turn out to be considerably higher than in the preceding year as a consequence of the smaller transfers to SEPE from the State after adjusting real expenditure in unemployment benefit and of the smaller returns generated by the Social Security Reserve Fund.

The ARs had to reduce their deficit by 1.4 % of GDP to meet the stability target. According to the budget data, half of this reduction would be achieved by the increase in resources linked to the regional system of financing and a further two tenths of a percentage point of GDP by non-recurrence in 2016 of expenditure in investment, court rulings and part of the initial cost of treatment for hepatitis C. The year-end figures for 2015 and the new information provided by the ARs giving proof of the absence of significant measures, except in the Balearic Islands and Aragón, did not alter AIReF's risk appraisal in the report on the projects and main budgetary lines for 2016, but did affect its rating for each region.

With the data available at that time, AIReF made the following appraisals:

- Compliance with the budget stability target was deemed likely only in six regions (Andalusia, Canary Isles, Galicia, Asturias, La Rioja and Basque Country).
- The risk of non-compliance was moderate in two regions: Navarra and Balearic Islands.

- The regions of Cantabria, Castilla y León, Castilla-La Mancha and Madrid presented a high risk.
- A very high risk of non-compliance was registered in the regions of Catalonia, Extremadura, Murcia, Valencia and Aragón.

The above notwithstanding, AIReF appreciated a reduction of about half of the deviation incurred in 2015 of one percentage point with regard to the target, with a smaller number of ARs filing non-compliance, which highlighted that the Autonomous Regions' stability target in 2015 was particularly demanding, bearing in mind the trend in the envisaged financing system resources.

In the AR subsector, the information available to AIReF for issuing the report was that provided by MINHAFP, consisting in the 2016 budgets approved by the LCs as a fraction of the national total (less than 40 % of the total), with neither national accounting adjustments, explanation of the raising factors, nor information on debt, and incomplete budget information for the City Councils subject to individual analysis.

The shortcomings in the information provided by MINHAFP were largely compensated for by the information submitted directly by the 16 City Councils studied (Madrid, Barcelona, Valencia, Seville, Zaragoza, Malaga, Murcia, Palma de Mallorca, Las Palmas de Gran Canaria, Bilbao, Alicante, Córdoba, Valladolid, Vigo, Gijón and L'Hospitalet de Llobregat).

All this information confirmed the pronounced likelihood that both the Local Corporations subsector and the 16 Local Entities studied individually would reach year-end 2016 with a surplus, although the margin above the target could be smaller than in previous years.

Report on the draft Stability Programme Update 2016-2019

In 2016, AIReF found that reaching the public deficit target of 3.6 % of GDP envisaged in the SPU for the General Government sector to be demanding but feasible.

In the SPU 2016-2019, the Government presented a deficit forecast for 2016 of 3.6 %, more flexible than the approved target of -2.8 %. AIReF's estimates for the deficit in this year, provided no additional measures to those foreseen in the public administrations' initial budgets are taken, were in the region of 4 % of GDP, due to which an extra effort was required to consolidate expenditure at around 0.4 % of GDP to reach the deficit forecast in the SPU of 3.6 % of GDP. The expenditure measures announced by the Government would allow, partially at least, the required adjustment to be made.

AIReF was unable to express a view on compliance with the expenditure rule in the SPU 2016-2019.

It was deemed necessary to provide clarification and additional information on the expenditure rule in the SPU for the period 2016-2019, and to provide a clear definition of the necessary methods for planning, monitoring and assessing compliance with the rule.

Although the SPU forecast that debt would follow a downward path with a sustainable profile, this was not expected to lead to compliance with the Transitional Provision One of the LOEPSF.

In accordance with this provision, by 2020 the level of Government debt should stand at 60 % of GDP. To achieve this, as soon as the Spanish economy reaches a real

annual growth rate of at least 2 %, the public debt ratio should be reduced at a minimum yearly rate of 2 % of GDP. However, it is foreseen that the debt-to-GDP ratio will register a cumulative reduction for the entire period of around 3.2 percentage points of GDP, situating the debt level in 2019 at 96 % of GDP.

TABLE 4: Analysis of the degree to which the Stability Programme Update for 2016-2019 complies with the stability, debt and expenditure rule targets.

It is the duty of AIReF to report on the draft Stability Programme Update (SPU) and to decide whether to endorse the macroeconomic forecasts therein, within the timeframe legally established at 15 April. Lacking the necessary information on the established date, AIReF was obliged to delay publishing the report and issued, on 18 April, a note to explain the reasons for the delay. Later, on 22 April, AIReF conducted an initial assessment of the information provided by the Government on the Stability Programme, which was completed by the report issued on 9 May.

The SPU 2016-2019 presented by the Government forecast a deficit path for the General Government Sector that differed from the targets agreed with EU institutions at the time. The deficit path agreed for Spain established deficit targets of 2.8 % of GDP in 2016, 1.4 % in 2017 and 0.3 % in 2018. The new consolidation path foreseen in the SPU allowed greater flexibility over time, establishing a deficit of 3.6 % of GDP in 2016, 2.9 % in 2017, 2.2 % in 2018 and 1.6 % in 2019. This new path entailed a delay of one year, to 2017, in the reduction of deficit to below the threshold of 3 % of GDP set by European regulations in order to exit the excessive deficit procedure.

AIReF found that reaching the public deficit target of 3.6 % of GDP envisaged in the SPU for the General Government Sector in 2016 was demanding but feasible. This was grounded on the fact that, during April, the Government had adopted a number of measures consisting mainly in the approval of a Non-Availability Agreement (AND) for Central Government credits for the amount of €2000m and others for the Autonomous Regions. These measures included an assessment of the AND adopted by the ARs for the amount of €830m, in addition to the envisaged non-implementations of these regions' expenditure budgets of €680m.

AIReF deemed the path set for 2016 to be demanding but feasible provided that:

- The approved ANDs were executed with maximum guarantees.
- No deviations should arise in tax revenue collection or in contributions. In the reports on the draft and initial budgets for 2016, AIReF had already pointed out the uncertainty over direct taxes, and especially corporate tax, which this year were at the upper limits of AIReF's confidence interval, and would therefore require strict monitoring of their implementation data.

For the remainder of the period, AIReF also deemed the deficit forecast in the SPU to be feasible for the General Government sector. As of 2017, and as progress is made toward the time horizon:

- The forecasts for fiscal revenue in the SPU may be deemed conservative. In this sense, it was found likely that the favourable macroeconomic cycle could entail larger tax revenues. The SPU envisaged an increase in the weight of direct taxes which, according to AIReF's estimates, is feasible. However, a slight downward bias was identified in the SPU estimate for direct taxes. The forecast for social contributions presented a stable weight over GDP throughout the period, which is coherent, in historical terms, with the labour market trend in the macroeconomic scenario reflected in the SPU.

- From the expenditure perspective, the sustained reduction in public deficit over the next two years would require measures to be adopted to ensure continuity that, a priori, would not be guaranteed with the adoption of a Non-Availability Agreement valid for one year. The SPU reflected the consolidation of this adjustment, but no details were given of the measures or actions to endorse them after the expiry of the 2016 budget to which the Non-Availability Agreement was applicable. To ensure that the deficit reduction foreseen for 2016 was maintained, it was necessary to consolidate the reduction in expenditure achieved in 2016. To determine whether the consolidation in subsequent years of this adjustment would be possible, it was deemed essential to avail of information on the expenditure lines on which non-availability would be implemented in 2016, as there was some uncertainty on these aspects.

Report on expected compliance with the General Government sector fiscal targets for 2016.

The report confirmed the progressive deterioration of public finance which led to the view that compliance with the proposed target of -3.6 % of GDP was unlikely. In April, AIReF deemed compliance with the stability target for the General Government Sector in 2016 to be demanding but feasible. This assessment was based on a scenario characterised by economic activity growth of around 3 % and a mild recovery in prices, establishing inflation close to 1 % for the whole of 2016. AIReF also assumed that the transitional measures for the corporate tax instalments in force during the previous year would be maintained in 2016 and believed that, though difficult, there would be sufficient margin for the State and, to a lesser degree, the Autonomous Regions, to instrument successfully during 2016 the consolidation of the expenditure measures announced in the SPU by about four tenths of a percentage point of GDP. However, the budget implementation data and the monitoring of the measures adopted broadened the gap between this central value in the scenario put forward by AIReF and the 3.6 % deficit target proposed, thus increasing the likelihood of more pessimistic scenarios.

The CG deemed compliance with the proposed target of -1.8 % of GDP to be unlikely, as some tension was observed in non-financial resources. Considerable tension was observed in tax revenue collection, mainly in corporate tax, and a greater impact of the tax reform on income tax (IRPF). Uncertainty over compliance may have been attenuated when sufficient information became available on how the actions announced and communicated to the European Commission would be instrumented, the implementation of which would be the responsibility of the new Government as regards corporate tax.

It was practically certain that the FSS stability target of 1.1 % of GDP established in the SPU would not be met. Although the proposed target in the SPU was 0.8 percentage points higher than the initially approved FSS target of 0.3 % of GDP, AIReF maintained its expectations of non-compliance. The adjustment needed to reach this target, from a baseline deficit in 2015 of 1.3 % of GDP and taking into account that the CG had reduced transfers to SEPE by 0.5

percentage points, would be 0.7 % of GDP. The trend observed in those months and the absence of measures made it impossible to fulfil this adjustment.

In the AR subsector, AIReF deemed the proposed 2016 target of -0.7 % of GDP to be feasible, but tight. The proposal in the SPU raised by 0.4 percentage points the deficit initially approved for the Autonomous Regions (0.3 % of GDP), attributing to all regions the same path, and incorporated the effects of the Non-Availability Agreements and other similar measures. The information obtained subsequently, mainly from the EFPs and the updated year-end forecasts for the Autonomous Regions, as well as the latest implementation data published in April, generally confirmed the balance estimates for the sector. A number of circumstances contributed to compliance with the deficit proposed for the subsector, such as better results in the 2014 annual settlement of financing system resources subject to interim payments, and more positive forecasts for expenditure in interest deriving from the current information on additional financing mechanisms.

It was estimated in the Local Corporations that the surplus registered in recent years might decrease slightly. The quarterly implementation data available at the time of drafting the report confirmed this trend, but the budget estimates for year-end 2016 submitted by MINHAFFP based on the information provided by the LCs, which did not include national accounting information, were inconclusive. The report also included the individual assessments of the 16 City Councils with more than 250,000 inhabitants. The year-end forecasts for 2016 submitted by these 16 local entities, whose surplus accounted for more than 30 % of the total, regarding the stability target, corroborated this trend towards a possible reduction of the expected surplus.

TABLE 5: Report on expected compliance with the 2016 targets in each autonomous region and by the City Councils of provincial capitals with more than 250,000 inhabitants.

In AIReF's assessment, based on newly available information, compliance with the 2016 General Government sector target proposal of -3.6 % of GDP was viewed as unlikely. The information received and assessed subsequently to reporting on the SPU 2016-2019 distanced AIReF's scenario from the proposed deficit target of 3.6 % and increased the likelihood of more pessimistic scenarios.

AIReF's central projection for deficit was raised to 4.1 %, deriving from several concurring factors:

- The expected recovery in prices was not materialising, and these were at about one percentage point below the figure forecast three months earlier. This had a negative impact on tax revenues despite the impulse from strong economic activity that was performing as envisaged.
- The tax reform was having a higher than initially estimated impact on corporate income tax and, to a lesser extent, on personal income tax revenue, as shown by the data on tax collection and effective tax rates published up to May 2016. The measures announced by the Government on 13 July last year performed in the opposite sense, and in particular the increase in the minimum payment on the accounting result which, according to the information provided by the Government, would be at least 20 %.

- In the case of the Autonomous Regions, in order to determine the risk of non-compliance with the individual budget stability target for each region, AIReF's forecasts for the ARs contained in the reports on the initial budgets and the SPU were taken as the baseline. On these forecasts, a number of modifying factors were taken into account:
 1. The worsening of the forecasts as a consequence of the non-implementation of the AND and the setting of identical targets for all the Autonomous Regions.
 2. The confirmation of the forecasts by the information contained in the EFP 2016-2017 and by the implementation data on the date of drafting the report.
 3. Improvements to the forecasts stemming from the higher amount of the final settlement for 2014 for the system of financing and the reduced expenditure in interest foreseen.

Taking into account the above factors, several groups of Autonomous Regions were identified according to their likelihood of reaching the deficit of 0.7 of GDP:

- Very likely for Canary Islands and La Rioja.
- Likely for Galicia, Andalusia, Madrid, Balearic Islands and Asturias.
- Feasible for Castilla y León, Basque Country, Navarra and Cantabria.
- Unlikely for Castilla-La Mancha and Catalonia.
- Very unlikely for Aragón, Extremadura, Valencia and Murcia.

In the individual analysis of the expenditure rule by Autonomous Regions, risk of non-compliance with the rule in 2016 was only detected in Andalusia, Galicia, La Rioja and Basque Country, though the risk in Andalusia was greater.

With regard to the local corporations, the analysis of the subsector was complemented with that of the 16 City Councils of provincial capitals with more than 250,000 inhabitants. As an innovation and in order to guarantee homogeneity in the assessment, AIReF prepared a standard form for implementation in the first quarter of 2016 and year-end estimates that was completed by all the City Councils analysed, in fulfilment of their duty to collaborate.

No risk of non-compliance with the 2016 stability target was appreciated in any of these; in general, however, the margin over the target may diminish with regard to those registered in previous years. Only the City Councils of Barcelona, Gijón and Madrid forecast a surplus for 2016 below the minimum level estimated by AIReF. The year-end estimates submitted by the Local Corporations, comprising the information on budgetary decisions and measures for the year, showed that only in the case of Barcelona could any risk be appreciated of non-compliance with the stability target, owing to the scant margin to the equilibrium forecast by the City Council.

The City Councils of Alicante, Barcelona, Madrid, Malaga, Palma de Mallorca, Seville and Zaragoza were required to have enacted, through the corresponding agency for financial supervision, an economic and financial plan (EFP) for non-compliance with the expenditure rule in 2015. At the date of publication of this report, only the EFP for Barcelona had been submitted. Given that in the case of City Councils, local GDP is not available, for the purpose of comparison the magnitude of the potential surplus in these councils was estimated by AIReF as a percentage of their consolidated non-financial revenues in 2015. The resulting ranges were: Madrid (20-25 %), Zaragoza (6-21 %), Valencia (7-19 %), Malaga (6-16 %), Seville (5-15 %) and Barcelona (2-13 %).

Report on the General Government sector projects and main budgetary aspects: Local Corporation subsector for 2017

The non-submission of the draft General State Budget for 2017 made it impossible for AIReF to publish the corresponding reports on the main aspects and draft budgets for the total aggregate for the Public Administrations, and all the subsectors except for Local Corporations. The delay in forming the Government entailed the non-submission at the end of September of the Draft General State Budget for 2017, as well as not having set the stability targets for the first quarter. These circumstances, together with the difficulty in determining the financing system resources and revenues of the ARs, meant that it was only possible to issue the report on the Project and Main Budgetary Aspects for the LCs subsector and for the delay in issuing the reports on the Central Government, the Social Security Funds and the ARs.

AIReF was of the opinion that the surplus in the Local Corporation subsector could follow the downward trend initiated in 2015 and turn out to be smaller than in 2016.

The easing in the implementation of the expenditure rule and the discontinuity in some of the revenue measures established in State regulations to guarantee compliance with the General Government sector targets may have had a negative effect on the consolidation of the surplus reached by the Local Corporations in previous years. The minimum financing capacity that, in 2017, would allow the Local Corporation subsector to comply with the expenditure rule is in the region of 0.5 % of GDP, a percentage on the upper limit of the interval estimated by AIReF. The data communicated at the last National Local Administration Commission regarding the EFPs submitted in 2015 by the Local Corporations showed that only 54 % of the LCs under the obligation to submit an EFP had an approved plan in force.

As regards the debt target, AIReF deemed very likely that by the end of 2017 the LC subsector would meet the target of 3 % of GDP. In 2017, according to AIReF's estimates, debt would continue on the downward path followed in 2016 allowing it to meet the debt target of 2.9 % of GDP.

AIReF enlarged the individual analyses of Local Corporations to include five provincial councils. The report included individual analyses of the 16 City Councils with a population greater than 250,000 inhabitants, and of the 5 Provincial Councils or equivalent bodies with the largest non-financial budgets, on the grounds of their special competences and financing methods. All the Local Entities analysed fulfilled their duty to collaborate, with the exception of the Diputación of Seville and the Consell Insular of Mallorca which did not provide the requested information. This gave rise, following the ensuing order, of a warning being published on AIReF's website.

TABLE 6: Report on the 2017 General Government sector projects and main budgetary aspects: the Local Corporations subsector.

The individual analyses for the LC subsector were conducted on 21 entities: the 16 city councils with a population greater than 250,000 (as in previous reports), the three Provincial Councils with the highest budgets (Barcelona, Valencia and Seville) and the Cabildo Insular of Tenerife and the Consejo Insular of Mallorca, likewise having the largest budgets.

This individualised analysis led to the following conclusions:

- In none of the 21 Local Entities analysed, with the exception of the City Council of Bilbao, was any risk of non-compliance with the stability target identified; in general, however, the margin over the target may diminish with regard to previous years' margins.
- The city councils of Madrid, Barcelona, Seville, Malaga, Zaragoza, Palma de Mallorca and Alicante, and the Provincial Councils of Barcelona and Valencia, incurred in non-compliance with the expenditure rule in 2015 and were obliged to prepare an EFP stating their commitments for 2016 and 2017. All the above had an EFP fully approved by their supervisory agencies, with the exception of the City Council of Madrid.
- Regarding debt, of the 21 Local Corporations studied, only Zaragoza is expected to submit, at 2017 year-end, an outstanding debt-to-consolidated current revenues ratio of more than 110 %, and is thus disqualified from entering into new long-term credit operations this year.

As a new feature, the report included a study of the composition and concentration of local debt, from which it was deduced that the sound and sustainable nature of this debt in aggregate terms is broadly heterogeneous within each LC. Debt in the Local Corporations is concentrated in 80 % of non-chartered City Councils, of which 10 % present a debt-to-current revenues ratio of over 75 %. The assessment also included the debt ratio analysis that determines Local Entities' ability to engage in debt. The conclusions were that 10.4 % of City Councils presented a debt-to-current revenue ratio above 75 % and, of these, 11.4 % will not generate a sufficient surplus to return to a sustainable situation in the medium-term under «no policy change» conditions.

Report on the setting of individual budget stability and public debt targets for the Autonomous Regions

MINHAFP proposed equal stability and debt targets for all Autonomous Regions. As a consequence of the existence of a caretaker Government, until 20 December the vertical objectives were not approved in Parliament. Said approval was to cover the modified targets for 2016, as well as the targets for 2017-2019. AIREF reported on MINHAFP's proposed budget stability and government debt targets for the ARs in 2016-2019, homogeneous in all the regions and identical throughout the subsector (-.7 % in 2016, -.6 % in 2017, -0.3 % in 2018 and 0 % in 2019). The proposal by MINHAFP was based on the assumption that these targets, in aggregate terms, would enable compliance with the path established for the subsector overall, and with the expenditure rule, as this rule imposed a greater additional restraint that, in the medium term, would prevent further discretionary spending. Individually, MINHAFP deemed these targets feasible, but did not provide any documentation to this effect.

AIReF found that the horizontal distribution should be based on indicators enabling the ARs to be differentiated according to visibility, equity and the expenditure rule.

AIReF proposed two visibility indicators and two equity indicators as well as two further complementary indicators. From the combined analysis of feasibility and equity, it was found that the Autonomous Regions of Murcia and Extremadura, and to a lesser extent, those of Aragon, Catalonia and Valencia, in 2016-2017, would to make a greater than average effort to achieve the target for the subsector, and in the preceding period 2008-2015 only Valencia had made an effort equivalent to the subsector average. On incorporating this analysis to the expenditure rule, it was seen that in the ARs of Andalusia, Balearic Islands, Canary Islands, Galicia, Navarra, Basque Country and La Rioja, the implementation of the expenditure rule could lead to a more demanding deficit that that set as the stability target.

TABLE 7: Report on the setting of individual budget stability and public debt targets for the Autonomous Regions.

AIReF grounded its analysis for the setting of individual targets for the ARs on a combination of feasibility and equity criteria, taking into account the effort required of the ARs for the period 2016 to 2017 as well as the effort made in the period 2008-2015. With regard to the above, compliance with the expenditure rule should also be considered.

For the feasibility analysis two indicators were designed:

- The primary structural effort looking ahead to 2016-2017, which measures the mean annual variation in the primary structural balance to achieve the target of -0.6 per cent of GDP in 2017.
- The effort/margin in primary expenditure adjusted in terms of homogeneous competences, which measures the effort or margin, as average annual variation, that would be needed in non-financial uses with similar competences regarding expenditure (excluding expenditure on interest and non-recurrent expenses in 2015, as well as payment for financing system resources and investment aid) to reach compliance with the target of -0.6 % in 2017 with the resources estimated for that year by AIReF.

From the weighted combination of the above the synthetic feasibility indicator was obtained, with which it was appreciated that the ARs of Murcia and Extremadura, and to a lesser extent, Aragon, Catalonia and Valencia, in 2016-2017, would have to make a considerably greater than average effort to achieve the target for the subsector in 2017.

A further two main equity indicators were designed, on the same terms as those of feasibility but referred to the period 2008-2015, and two complementary indicators for the common regime ARs: the deviation with respect to the mean in euros adjusted per inhabitant of the financing system resources and the assessment of the normative tax competences exerted by the common regime ARs.

On combining the main equity indicators with their weightings, it was found that the ARs that had made a smaller than average effort over 2008-2015 were Aragón, Catalonia, Madrid, Murcia and Basque Country, and to a lesser degree, Extremadura.

The consolidation effort among the ARs, analysed by means of the equity-feasibility trade-off, allowed the inter-relationship between the efforts made in previous years and the effort required to meet the

2017 targets to be determined from the trendline. It is thus observed that, in general, the ARs having made the greatest efforts with respect to the average for the period 2008-2015, according to the indicators used in the analysis, could achieve the 2017 targets with an annual effort close to or well below the mean. By contrast, ARs having made smaller than average efforts in the past, according to the same indicators, would need to make a greater than average effort in the period 2016-2017.

If, in this trade-off, the relative position of each AR is taken into account with respect to the implementation of the expenditure rule, it turns out that for certain ARs, particularly Andalusia, Balearic Islands, Canary Islands, Galicia, Navarra, Basque Country and La Rioja, compliance with this fiscal rule could lead to an additional effort beyond compliance with the stability target. For these ARs, compliance with the expenditure rule would represent a deficit below 0.6 %.

Lastly, to provide a complementary overview for the longer term of the possibility of converging at the reference level of debt established at 13 % of regional GDP, a sustainability indicator was proposed to measure the additional fiscal effort to be made in terms of primary balance over GDP in order to reach the public debt level in each AR established as the target in the LOEPSF (13 % of regional GDP) by 2030, the medium-long term reference year.

With regard to setting the debt target, AIReF found the current system to be ineffective and, therefore, until a new design is adopted, the analysis focused on those aspects that could be improved, such as transparency, the definition of debt limited by the target, or coherence with the stability targets. On this point, AIReF stated that the proposed debt targets for the period 2016-2019 could not be considered coherent with the stability targets when the targets could be extended to finance unauthorised debt overruns from previous years.

2.1.B. Reports on the implementation of preventive, corrective and enforcement measures provided for in the LOEPSF

Reports on the economic and financial plans of the Autonomous Regions.

Non-compliance with the budget stability target, the public debt target or the expenditure rule entails the obligation to present an economic and financial plan (EFP).

It is the duty of AIReF to report on these plans in advance of their approval, in compliance with the regulation on budget stability and financial sustainability. Non-compliance with fiscal rules in 2015 (basically the stability target and the expenditure rule) obliged 14 ARs, that is all but Canary Islands, Galicia and Basque Country, to present an EFP in 2016. AIReF is bound to report on these plans in advance of their approval, in compliance with the regulation on budget stability and financial sustainability. AIReF assessed the EFPs submitted by the 14 ARs grouping the assessment documents on two dates, 9 June and 7 July, according to the date of reception of the full information.

The lack of definition regarding the stability targets prevented AIReF from issuing a report on the suitability of the EFPs.

The deficit targets in the ARs for 2016 and 2017 was set by the legally established procedure at 0.3 % and 0.1 % of regional GDP, respectively, on 11 September 2015 (for the common regime ARs) and 12 February 2016 (for chartered regime ARs). However, the Stability Programme Update (SPU) 2016-2019, approved by the government on 30

April 2016, established a path comprising larger deficits for the General Government sector than those set for the ARs at 0.7 % and 0.5 % of GDP for 2016 and 2017, respectively. On 18 May, the European Commission proposed that Spain should adopt a recommendation that would assure a lasting correction to the excessive deficit in 2017 with deficit targets for the General Government sector other those foreseen in the SPU and on which the council had not yet made a pronouncement at the time of drafting the EFPs and of their analysis by AIReF. These circumstances made it impossible for AIReF to assess the adequacy of the forecasts and the suitability of the measures to meet fiscal targets or to make recommendations regarding either of these as, for the time being, they were provisional. Consequently, the assessment of the documents submitted consisted in an analysis of the likelihood of compliance with the ARs' forecasts which, generally speaking, followed the path for 2016-2017 proposed in the SPU.

The EFPs drafted by the ARs and assessed by AIReF were not presented in the end to the Fiscal and Financial Policy Council (CPFF) for approval. In the EFPs assessed the ARs had adjusted, in general terms, their budget scenarios to the deficit path proposed by the Government in the SPU (0.7 % for 2016 and 0.5 % for 2017). The delay in determining the final targets, conditioned by the exceptional circumstances in 2016, was the cause for the EFPs, having been drafted, not being presented in the end to the CPFF for approval. In the EFPs assessed, AIReF deemed compliance with the path proposed by the Government in the SPU to be likely in the ARs of Andalusia, Asturias, Balearic Islands, Cantabria, Castilla y León, Madrid, Navarra and La Rioja; by contrast, compliance with these forecasts was deemed unlikely in the ARs of Aragón, Castilla-La Mancha, Catalonia, Extremadura, Murcia and Valencia. The general lack of full and consistent information in relation to the expenditure rule determined that AIReF should apply its own estimates in assessing the likelihood of compliance.

TABLE 8: Assessment of the EFPs for the Autonomous Regions.

In the report submitted to the Government in April 2016, the Ministry of Finance and Public Administrations determined the non-compliance with the budget stability target and the expenditure rule by 14 Autonomous Regions –all except Galicia, Canary Islands and Basque Country– and non-compliance with the debt targets by Asturias and Catalonia. This situation was confirmed in the report submitted in October 2016. As a consequence, these regions were required to present than EFP permitting compliance with the targets set for the current and the following years.

These plans were assessed as soon as they were submitted by the ARs. The nonexistence of a final trend in the targets made it impossible for AIReF to issue a report properly focused on assessing the suitability of the measures and forecasts in the EFPs for complying with the fiscal rules. Consequently, an analysis was conducted of the likelihood of compliance with the forecasts in the EFPs, which were generally adapted to the Government's proposal in the SPU (deficit of 0.7 % in 2016; 0.5 % in 2017). The main conclusions were as follows:

- Andalusia: It was deemed likely for the AR's deficit forecast for 2016 and 2017 stated in its EFP 2016-2017 to be reached. Regarding the expenditure rule, risk of non-compliance was appreciated

for 2016, despite the impossibility of assessing the forecasts in this respect for the region due to the major shortcomings detected in the information given on this point in the EFP. In addition, it was observed that compliance with the rule for 2016 and 2017 could call for a more demanding deficit to that forecast by the region.

- Aragón: Reaching the AR's deficit forecast given in the 2016-2017 EFP was deemed very unlikely in both years. Compliance with the expenditure rule, however, was deemed likely in both years.
- Asturias: It was considered feasible that the deficit forecasts in the AR's EFP 2016-2017, and compliance with the expenditure rule in 2016, would be reached. In 2017, it was noted that the effect of the envisaged tax measures, together with the developments foreseen in expenditure, could compromise compliance with the rule.
- Balearic Islands: It was deemed feasible that the 2016 deficit forecasts stated in the AR's EFP 2016-2017 would be reached, and compliance with its estimates for 2017 was deemed likely. Regarding the expenditure rule, compliance was deemed likely for 2016 and feasible in 2017.
- Cantabria: It was deemed feasible that the 2016 deficit forecasts stated in the AR's EFP would be reached, and compliance with its forecasts for 2017 was deemed likely. As of this last year, should the EFP forecasts be reached, the expenditure rule would become more restrictive than the stability target.
- Castilla y León: It was considered feasible that the deficit forecasts in the AR's EFP 2016-2017 would be reached in both years, despite some uncertainty observed deriving from the trends in revenue and expenditure. It was pointed out that growth in expenditure above the path set in the EFP would endanger compliance with the expenditure rule.
- Castilla-La Mancha: Compliance with the AR's deficit forecasts stated in its EFP 2016-2017 was deemed unlikely, as AIReF found that growth in expenditure could be greater than that submitted by the AR. Compliance with the expenditure rule, however, was deemed likely.
- Catalonia: Reaching the AR's deficit forecast given in the EFP 2016-2017 was deemed unlikely in both years, but compliance with the expenditure rule was deemed likely.
- Extremadura: It was deemed unlikely for the AR to reach the forecasts made for 2016 in its EFP 2016-2017, and very unlikely for it to reach those for 2017, owing to the foreseen developments and the level of expenditure in the EFP which are lower than AIReF's estimates. However, compliance with the expenditure rule was deemed likely.
- Madrid: It was deemed likely for the AR to reach the deficit forecasts made for both years in its EFP 2016-2017, despite some risk of deviation for 2016 in the expenditure forecasts. Some inconsistencies were detected with the forecasts used to calculate the expenditure rule, however, although according to AIReF's estimates compliance with the rule was feasible.
- Murcia: AIReF deemed compliance very unlikely by the AR with the deficit forecast in its 2016-2017 EFP in both years. As for the expenditure rule, compliance was deemed likely both in 2016 and 2017.
- Navarra: This Region did not submit an EFP as such, but rather information on the guiding lines for its plan that was pending agreement with the corresponding Coordinating Committee. On this point, AIReF believed it was feasible for the region's deficit forecasts, expressed in the lines submitted for 2016 2017, to be reached. Compliance was deemed likely with the expenditure rule in 2016, whereas for 2017 it was appreciated that the foreseen developments in uses could compromise such compliance although the normative measures envisaged were likely to mitigate this risk.

- La Rioja: It was deemed that the region could reach a deficit lower to that envisaged in the SPU for 2016 and 2017, but less demanding to that foreseen in its EFP, as the expenditure scenario proposed in the EFP, provided no measures or budget policy decisions are taken, did not appear sufficiently justified or consistent with AIReF's estimates on developments in healthcare expenditure. According to AIReF's estimates, compliance with the expenditure rule in 2016 was deemed likely.
- Valencia: Reaching the AR's deficit forecast given in the 2016-2017 EFP was deemed very unlikely in both years. As for the expenditure rule, compliance was deemed likely both in 2016 and 2017.

2.1.C. Opinion on the application of the formula to calculate the contribution rate on the cessation of self-employment benefit for self-employed workers.

AIReF detected no medium-term risks to the financial sustainability of the cessation of self-employment benefit for self employed workers. Having examined the revenue and expenditure linked to this benefit, the conclusion was drawn in the opinion that the level of expenditure allowed some leeway before reaching the current level of revenue and, thus, the need to increase the contribution rate.

It was considered that a minimum contribution rate of 2.2 % was applicable for 2016.

The rule establishes a maximum contribution ceiling of 4 % and the minimum of 2.2 %, which is the floor included in the General State Budget Act in 2016. The result of applying the formula was 0.2 %, a considerably lower contribution rate, therefore, to that established in the law governing the state budget.

TABLE 9: Opinion on the application of the formula to calculate the contribution rate on the cessation of self-employment benefit.

The cessation of self-employment benefit for self-employed workers was created in 2010 to protect this collective from the risk of total or involuntary cessation of activity. It is optional for the self-employed to subscribe to this cover which, given its voluntary nature, is funded exclusively by the revenue from contributions to this contingency. This protection includes an economic benefit and the payment of social security contributions for common contingencies and temporary incapacity. The amount of the benefit is 70 % of the average contribution base for the 12 months previous to cessation of activity, with a limit that is applied on the Public Indicator of Multiple Effect Income depending on family burdens. The duration of this benefit is dependent on the period of contribution and the age of the worker. To determine the protection period, the contributions made in the last 48 months before cessation are taken into account, of which 12 should be uninterrupted and immediately preceding cessation.

The aim of this opinion is to analyse both the application of the formula for estimating the contribution rate in 2016 by the Ministry of Employment and Social Security, and the financial sustainability of the system for providing protection in the event of cessation of activity.

The data published by the Social Security show that despite the increase in the number of self-employed workers affiliated to the RETA regime, the number of those on cessation benefit has dropped. In September 2015, of the 3,163,612 affiliates under RETA, 606,110 were on cessation benefit (19.2 % of the total), amounting to 19,015 fewer contributing members than in the same month of the previous year, despite RETA affiliates having increased by 48,718.

Expenditure in cessation of self-employed activity benefit is rising, but still well below revenue, allowing a reserve to be accumulated for this newly created benefit. In 2014, the settled expenditure (€8.64m) was €141m less than recognised revenue (€149.65m). In 2015, the data provided by MEYSS show growth in cumulative expenditure up to September of 38 %, similar to that registered in 2014. This steep rate is the result of the larger number of benefits recognised, as well as the gradual lengthening of the duration of the benefit as the number of monthly contributions per beneficiary increases. This growth is conditional because the benefit was created in 2010, and therefore the earliest beneficiaries began contributing in 2011 and have not accumulated 48 months of contributions by 2015.

2.2. Working Papers and other publications

AIReF published four Working Papers, which provide technical support to the analyses given in reports and opinions. Similarly, their publication gives greater transparency to the work conducted at the institution:

- Working Paper 1/2016. BVARX forecasting model for the Spanish economy in the medium term. Ángel Cuevas and Enrique M. Quilis.
- Working Paper 2/2016. Redistribution, assurance and stabilisation of income per capita in households, by regions: José Marín Arcas.
- Working Paper 3/2016. Expenditure in public services (2002-2014). The case of the Autonomous Region subsector. Ignacio Fernández-Huertas, Miguel Ángel García Díaz, Federico Geli and Álvaro Yuste.
- Working Paper 4/2016. Redistribution of income per capita in households by regions in Spain. José Marín Arcas.

In addition, AIReF regularly published information on the sustainability of public finance. With the aim of increasing transparency and bringing objective arguments to the debate on the sustainability of public finance, AIReF began to publish on its website a series of regularly updated publications as part of its general dissemination initiative of the methods and principles used within the scope of its mandate:

- **AIReF DataLab.** Set of interactive platforms that allow the main economic and sustainability indicators to be displayed and downloaded for the Autonomous Regions.

- **Debt Flash.** This quarterly publication focuses on a number of key indicators for the analysis of sustainability in public finance, for the various Public Administration subsectors.
- **Real time GDP forecasts.** Forecast for quarterly growth in GDP, both for the current and the next quarters. These forecasts are based on the combination of short-term (quarterly and monthly) information using a dynamic factorial model.
- **Forecasts integrated in the macroeconomic outlook.** For the current and next quarters, these reflect estimated GDP growth at the same time as growth of its components from the point of view of demand: private consumption, public consumption, investment in equipment, investment in construction, exports and imports goods and services. The table is completed with forecasts for employment.
- **Quarterly GDP estimates for the Autonomous Regions.** This reflects the quarterly estimates for regional GDP in the ARs according to the methodology known as METCAP, which combines three kinds of statistical data available for regional analysis: monthly data on short-term economic indicators broken down to a territorial level, annual data compiled in national accounting terms by Spain's Regional Accounts (SRA) and, lastly, the overall estimates for Spain published in Spain's National Quarterly Accounts (CTR).
- **Quarterly monitoring of the budget stability target.** In 2016, AIReF began publishing its quarterly assessment of the likelihood of compliance with budget targets in the Public Administrations. On the monitoring fact sheets, an assessment was made regarding the likelihood of compliance with the deficit targets and the development of resources and uses, taking into account seasonality and volatility, once the national accounting data for each of the subsectors are known. From the second quarter this assessment was completed with new individualised information on the monitoring of the main tax figures. These publications offer information on the development of the Central Government's main taxes in terms of national accounting (direct taxes, value added tax and taxes on products). In addition, and given that direct taxes (IRPF and corporate tax) are included jointly in terms of national accounting, a fact sheet is drawn up on a cash accounting basis reflecting the trend in IRPF before transfers to the Territorial Administrations and in Corporate Tax.

3. Follow-up of reports and opinions

AIReF may issue recommendations to the administrations or entities receiving the reports on the performance of the duties commended to them. The recipients of these recommendations are, in principle, bound to the «comply or explain» principle: they are obliged to fulfil them or to provide the grounds on which they decline to do so.

AIReF, in its reports, also pointed out limitations to the scope of the report deriving from shortcomings in the information that are pertinent and necessary for expressing a view on the subject. These limitations give rise to recommendations subject to the «comply or explain» principle, and could lead to the contravention of the duty to collaborate established in paragraph 3 of article 4 in Organic Law 6/2013 and article 6 of AIReF's Organic Statute.

The «comply or explain» principle is a means of building a constructive dialogue with the Public Administrations. With the approval of Resolution 14/2015 on the calendar for requesting and receiving information for issuing reports and monitoring the recommendations for 2015, AIReF strove to adopt procedures and channels of communication with the competent administrations to follow-up on the recommendations given in its reports.

Classification of recommendations, proposals and guidance by subjects

Subjects	Recommendations limitations to the scope	Recommendations object of the report	Opinion proposals	Guidance for best practices	TOTAL
Budget stability	1	11	-	-	12
Financial sustainability	3	13	-	-	14
Expenditure rule	-	6	-	-	6
Budgeting procedures	3	9	1	4	16
Transparency	8	-	1	4	12
TOTAL	13	39	2	8	62

AIReF published its quarterly monitoring of recommendations. This monitoring, available for consultation on AIReF's website, includes the response by the public administrations addressed in the reports. Furthermore, in view of the interest shown by international organisations conducting continuous monitoring of Spanish fiscal policy in the practice of the «comply or explain» principle and its effectiveness, AIReF reported to them on the status of the recommendations.

REPORTS	Recommendations limitations to the scope	Recommendations object of the report	Opinion proposals	Guidance for best practices	TOTAL
Report on the setting of individual targets for Autonomous Regions	2	4	-	-	6
Report on the projects and main budgetary lines in the Local Corporations for 2017	2	9	-	-	11
Report on the Macroeconomic Forecasts in the Draft Budgetary Plan Update for 2017	1	1	-	3	5
Report on the Macroeconomic Forecasts in the Draft Budgetary Plan for 2017	-	1	-	3	4
Report on expected compliance with the 2016 budget stability, government debt and expenditure rule targets for the Public Administrations.	2	9	-	-	11
Report on the Stability Programme Update 2016-2019	3	9	-	2	14
Report on the 2016 Initial Budgets for the Public Administrations.	3	6	-	-	9
Opinion on the application of the formula to calculate the contribution rate of the cessation of self-employment	-	-	2	-	-
TOTAL	13	39	2	8	62

AIReF may include proposals in its opinions and guidance for best practices that are not subject to the «comply or explain» principle. In 2016, AIReF only issued an opinion on the application of the formula to calculate the contribution rate on the cessation of self-employment activity benefit for self-employed workers.

Rating by the competent body for applying the proposed measure

Competent administration	Recommendations limitations to the scope	Recommendations object of the report	Opinion proposals	Guidance for best practices	TOTAL
MINHAFP	10	29	-	4	43
Ministry of Economy, Industry and Competitiveness	1	3	-	2	6
Ministry of Employment and Social Security	-	1	2	-	3
MINHAFP and Ministry of Employment and Social Security	-	2	-	-	2
MINHAFP and Ministry of Economy	1	-	-	2	3
INE and Ministry of Economy, Industry and Competitiveness	1	-	-	-	1
MINHAFP, Autonomous Regions of Andalusia and Catalonia	-	1			1
MINHAFP and Autonomous Regions of Murcia, Valencia, Extremadura, Aragón, Catalonia and Castilla-La Mancha	-	1			1
MINHAFP and Valencia, Andalusia and Aragón	-	1			1
Local Corporations. (Barcelona, Córdoba, Madrid)	-	1			1
TOTAL	13	39	2	8	62

3.1. Recommendations on the object of the report

AIReF made a total of 39 recommendations on the object of the report. Most of the recommendations were in relation to financial sustainability (13) and budget stability (11). Recommendations were also made for the enhancement of transparency, the expenditure rule and budgeting procedures.

The ARs were the main recipients of these recommendations. The ARs overall received a total of 13 recommendations, while a further 12 were directed at one or several ARs more specifically. Another 10 recommendations were directed at the Local Corporations.

However, it was the responsibility of the Ministry of Finance and Civil Service to apply the «comply or explain» principle. Even when other administrations were the recipients of a recommendation, the ministry was competent to meet it or launch proceedings to ensure its fulfilment. The Ministries of Economy, Industry and Competitiveness and of Employment and Social Security were also responsible or involved in a further six recommendations.

Recommendations on the object of the report

	Recipient	Competent administration
Central Government	4	-
Ministry of Finance and Civil Service	4	34
Social Security	3	-
Ministry of Economy and Competitiveness	-	3
Ministry of Employment and Social Security		3
Autonomous Regions	12	-
Local Corporations	8	-
One or several Local Corporations	2	1
General Government	6	-

AIReF repeatedly recommended that the necessary decisions should be taken to guarantee the financial balance in the Social Security System. The Ministry of Employment and Social Security pledged compliance with this recommendation in the framework of the Toledo Pact but subsequently was excused due to the delay caused by the electoral cycle.

A number of recommendations were given throughout 2016 on the implementation of the measures foreseen in the LOEPSF. AIReF urged for stronger preventive measures and

the clarification of the measures foreseen in the LOEPSF, and demanded detailed descriptions of the various paths of action for implementing them as well as the causes and effects in each case. On the one hand, MINHAFP committed to strengthening the preventive nature of the LOEPSF and stated that mechanisms would be set up to enhance monitoring throughout the territorial administrations to increase shared fiscal responsibility. However, the ministry was also of the opinion that, despite being «willing to complete the information on those points deemed appropriate», the recipients of the rule are already endowed with sufficient legal security. Similarly, AIReF recommended all the Public Administrations to consolidate in subsequent years any adjustments made, and urged MINHAFP to detail the measures in the SPU. MINHAFP claimed that the SPU provides sufficient detail with regard to these measures, but nevertheless pointed out that, concerning the ARs, this recommendation would be assessed in the negotiation process for the EFPs.

AIReF recommended that MINHAFP should conduct monthly monitoring of the implementation of the measures adopted and of their impact on the Central Government's deficit. This follow-up mechanism should also give warning of the risk of deviations at year-end and its applicability extended to developments in tax revenue. In addition, it should be conducted with the maximum transparency, leading AIReF to recommend submitting the reports to the Spanish Parliament as well as to AIReF itself. MINHAFP replied to this proposal with the view that it was fulfilled with the periodic publications issued by the ministry on budget implementation. Acknowledging the progress made, AIReF underscored the need to raise the level of transparency regarding the impact of the measures taken.

Some ARs made progress in the implementation of preventive measures during the year, in line with the recommendations made by AIReF. In late 2015, AIReF recommended that the ARs should establish a procedure to ensure that the region's general comptrollers services should report on the follow-up on budget implementation, and give warning, as appropriate, to the regional administration to allow the early correction of any deviations. Some ARs, including Aragón, Castilla y León, Galicia and Valencia notified that they already had such procedure, while the rest agreed to its future implementation. In 2016, this recommendation was used, within the reinforced conditionality of the FLA 2016, by MINHAFP to demand a similar measure that AIReF deemed insufficient, as greater importance should be given to warning of the risk of non-compliance at year-end and on involving the regional Government. In any case, in 2017 AIReF had already renewed this recommendation to ARs that had not notified AIReF of having implemented a similar procedure.

AIReF recommended a review of the EFPs of several ARs, to incorporate realistic multiyear scenarios. MINHAFP upheld that the EFPs for those ARs were being updated «fully» and that their content and duration were already determined in the legislation currently in force. AIReF insisted that the lack of practical implementation of the mechanisms envisaged in the LOEPSF negatively affected compliance with the budget stability targets. The EFPs, owing to non-compliance in 2015 or 2014 (with the exception of Catalonia in 2014), were not approved by the CPFF. Further-

more, these mechanisms should be applied effectively and according to the actual situation in each region, without becoming a mere procedural formality.

AIReF likewise expressed a view on the content, conditionality and monitoring of adjustment plans in the Autonomous Regions In this sense, AIReF recommended their concretion in relation to the Autonomous Regions Liquidity Fund (FLA) for 2016, enabling them to be considered exceptionally as an advance on the EFP for that year. Similarly, AIReF also recommended the approval and instrumentation of the Non-Availability Agreements (AND) and to incorporate in these any regional budget non-implementations, as well as to demand compliance with the compulsory reinforced conditionality in order to receive funds from the FLA 2016.

MINHAFP chose to deviate from the recommendations given on adjustment plans. In general, MINHAFP was of the view that the content, conditionality and monitoring of the adjustment plans were in line with the legislation currently in force and deemed recommendations unnecessary. Nonetheless, AIReF insisted that these adjustment plans were not yielding the desired results, such as in the case of the AND in terms of the announced reduction in expenditure. In fact, AIReF confirmed that, except in the ARs of Aragón and Extremadura, the AND envisaged in the FLA 2016 reinforced conditionality were not adopted in the legally required terms.

AIReF recommended the joint review of the system of financing for the various subsectors (free from incremental bias or tendency toward maintaining the initial status quo). MINHAFP welcomed AIReF's recommendation as coherent within a «framework of limited resources», and «without prejudice to the idiosyncrasy» of each subsector. The Ministry pointed out that preliminary tasks had been set in motion for the review and reform of the system of financing in the common regime Autonomous Regions, by the working group within the Permanent Technical Assessment Committee. Similarly, the agreements of the Conference of Presidents on regional and local financing mention the need for this joint review of the system.

Throughout 2016, AIReF repeatedly recommended setting asymmetrical deficit targets for the ARs, according to the situation in each region in terms of feasibility, equity and expenditure rule, and to base the horizontal allocation of targets on indicators that allow differentiation among the Autonomous Regions. The ministry explained that this was not the ideal year for setting differentiated targets as the necessary information was unavailable and, furthermore, the initiative would not have contributed to raising compliance levels as the targets were feasible in all cases. Nevertheless, AIReF insisted that differences in the targets would have contributed to a higher level of compliance in the subsector since some ARs could have reached a smaller deficit than the target but, understandably, tended to exhaust the margin allowed.

AIReF recommended on several occasions that economic and financial plans should be drafted and approved for the Local Corporations. In July and in December AIReF issued this recommendation to the affected City Councils and their respective financial supervision agencies. During the year, these bodies notified of their compliance with the recommendation.

Likewise, it was recommended that a common framework be established and overseen for the Local Corporations' supervision agencies. This common framework should also comprise a procedure for overcoming possible obstacles in the approval of the EFPs. In MINHAFP's opinion, a framework for institutional dialogue already existed for monitoring competences granted to the Local Entities' supervision agencies by means of receiving the pertinent information and the attendance at an annual meeting in Madrid by all the representatives of the financial supervision agencies. AIReF insisted that, at all events, it would be necessary to formalise this framework for relations among the supervision agencies and to further enhance coordination, and that it would be desirable to document and make public the agreements entered into, for instance, by means of an agreement of collaboration or similar instrument.

The publication of consultations made by the LCs and the ARs to IGAE and to the General Secretariat for Regional and Local Coordination was included among AIReF's recommendations. MINHAFP agreed to study the periodic publication of answers to key questions in relation to budget stability, financial sustainability or the expenditure rule. For its part, AIReF insisted on the convenience of making these consultations publicly available.

The expenditure rule continued to feature as a recurrent item in the recommendations made by AIReF. In several reports, AIReF urged for an adequate definition of the expenditure rule and for a revision of the current interpretation according to which instances of non-compliance are deferred for consolidation in the future. Similarly, AIReF stressed that the compatibility of measures causing a reduction in revenue should be analysed in the context of compliance with the expenditure rule. AIReF also pressed for clear definitions of the methodologies needed for planning, monitoring and assessing compliance with this rule. To this, MINHAFP once again clarified its criteria and held its ground, but shared AIReF's view on the importance of the expenditure rule.

The budget stability target and the expenditure rule should mutually reinforce each other. To this end, AIReF recommended that the Local Corporations' main aspects and approved budgets should contain information on the calculation of the expenditure rule.

MINHAFP announced its intention to set up a working group on the expenditure rule, thus complying with AIReF's recommendation. This Working group would be made up of the ministry, the ARs, the LCs and AIReF. However, AIReF insisted that, regardless of the outcome of the working group, clarification must be given of the conditions and criteria for calculating the expenditure rule and its implementation within the legal framework.

AIReF again recommended, on several occasions, that the transitional period given in the LOEPSF for complying with the debt target (60 % of GDP in 2020) should be adapted to reality. MINHAFP responded by committing to compliance; the Ministry agreed to take into account this recommendation in formulating, if approved in Parliament, future reforms to the LOEPSF text.

AIReF recommended that MINHAFP should revise its interpretation of the baseline level of debt for the Autonomous Regions, according to which the debt deviations produced each year were deferred for consolidation in the future. MINHAFP described this interpretation as «inaccurate». However, AIReF confirmed that the six-monthly reports issued by MINHAFP providing information on the degree of compliance with the debt target 2015 in the Autonomous Regions contained detailed accounts of the operations that were excluded from the debt target, but no reference to their debt overruns that were discounted in the case of non-compliant ARs, unlike the reports on compliance with the debt target in 2014, in which a column was established under which debt overruns were explicitly excluded in the event of non-compliance. AIReF insisted that it was necessary to guarantee coherence among fiscal rules and that financing for unauthorised deficits should not be covered by the debt target.

With regard to the Local Corporations, AIReF recommended individual debt limits to be defined, non-compliance with which would trigger the corrective mechanisms provided for in the LOEPSF. MINHAFP's response was that establishing individual debt limits operating locally would be subject to a series of methodological limitations, owing to the difficulty in accessing the level of GDP for each local corporation. It pointed out, however, that these limits would be compatible with the global target within the subsector. In AIReF's view, these could be linked to different parameters other than GDP, such as financial revenue.

AIReF recommended a slight downward revision in GDP growth forecast for 2018 and 2019 should the trend in public consumption in the draft SPU 2016-2019 continue. MINECO reacted by defending its own criterion, explaining that the current public consumption path is compatible with both the forecast growth in GDP and the Government's commitment to reduce public expenditure. On this point, it should be highlighted that new budget stability targets were subsequently approved.

The bias detected in the forecasts for public consumption led to the recommendation to adopt measures for its correction. MINECO held the view that the Government's deviations in public consumption hardly differed from those incurred by other macroeconomic forecasts and that the public consumption forecasts in the Budgetary Plan Update for 2017 were deemed plausible in the report by AIReF.

3.2. Recommendations on limitations to scope

In fulfilling its duties, AIReF encountered some deficiencies in the relevant information needed for issuing its report. These deficiencies generated limitations to the scope of the report, as sufficient information has not been forthcoming to conduct an assessment, which hindered or prevented any pronouncement on certain aspects required under the legislation currently in force. In such cases, directions were also given on how to overcome the lack of information through recommendations subject to the «comply or explain» principle.

Recommendations on limitations to scope

	Recipient	Competent administration
Central Government	1	-
Ministry of Finance and Civil Service	3	11
Ministry of Economy, Industry and Competitiveness	-	2
Basque Country and Navarra Navarra	1	-
National Institute of Statistics	1	1
Autonomous Regions	2	
Basque Country and Navarra	1	
Local Corporations	4	-
General Government	3	

AIReF recommended that MINHAFP should guarantee access to information in due time and form. MINHAFP claimed to be making a «significant effort» to provide AIReF with the necessary information to fulfil its mandate, «in accordance with European Regulations». Nevertheless, AIReF underscored the importance of this recommendation and the need for greater efforts to allow the Agency to exercise its competences.

In April, MINHAFP began publishing monthly information provided by the State and the ARs on the trend in eligible expenditure for the purposes of the expenditure rule, within the framework of the commitment to greater transparency in public accounts as recommended by AIReF. MINHAFP remarked that this information allows a monthly approximation of the degree of compliance with the expenditure rule both at the national and the regional level. With regard to analysing measures for the reduction of revenue within the framework of their compatibility with the expenditure rule, MINHAFP pointed out in its reply that with respect to the ARs, compliance with the deficit, debt and expenditure rule targets and any other measure communicated by the ARs were already taken into account, and that the EFPs for 2015-2016 had improved «significantly» the degree of detail in the information provided on the expenditure rule.

AIReF recommended that more information on budget projections should be included in the SPU. In particular, budget projections for a no-policy-change inertial scenario, both for the general government sector and for each of its subsectors; and budget projections incorporating measures, so that the portion of the foreseen consolidation adjustment achieved thanks to said measures can be seen. MINECO replied that the inclusion of these projections would complicate interpretation of the SPU and that it would uphold its own criterion. AIReF also recommended that

more detailed information should be included for assessing the expenditure rule in each of the subsectors, and on potential risks. MINECO replied that it would examine the technical feasibility of including more detailed information for calculating the expenditure rule, but that it considers information on potential risks to be already included in the analysis of macroeconomic shocks. MINHAFP agreed to consider the possibility of «providing more information depending on the means available», still in the belief that it complied with European regulations. AIReF highlighted the importance of including this information in the SPU, bearing in mind that, in the case of Spain, the SPU serves as a medium-term budgetary plan.

AIReF also recommended the publication of the models used for the macroeconomic forecasts. MINECO countered that the table given in the SPU met the requirements in the regulations. Nevertheless, AIReF stressed the need to publish the models used to fully comply with the recommendation.

AIReF recommended the implementation of the corrective mechanisms in the LOEPSF in cases of non-compliance by the LCs with their duty to provide information. Likewise, AIReF recommended that the necessary actions should be taken to ensure that economic and financial information on all the local entities is published, fully and uniformly. With regard to these two recommendations, MINHAFP deemed the requirements to have been met and that the information received and published was sufficiently comprehensive. In this regard, AIReF issued the reminder that non-compliance with the duty to inform entails the same consequences as non-compliance with fiscal rules and that the latter had already occurred since the LOEPSF came into force.

Greater transparency is required in setting the debt targets. AIReF recommended that the criteria to be used in measuring compliance with the debt target should be regulated and published, and likewise that MINHAFP should provide AIReF in due time and form with the necessary information for the discharge of its mandate. MINHAFP claimed that this did not appear to be necessary, explaining that additional regulations or clarification on the criteria currently applied to verifying compliance with the debt target were deemed superfluous. It went on to argue that the Bank of Spain is competent to draft financial accounts and that any exceptions to the debt targets are already regulated and published. AIReF, nevertheless, reiterated the importance of transparency in the implementation of fiscal rules and insisted on the need for the debt targets to be perfectly defined from the moment they are set, with clear specifications regarding any circumstances allowing them to be changed.

AIReF recommended that the difference in the dates of publication of the revisions to the annual and quarterly national accounting series should be corrected. Publishing these revisions at different times during the year makes it impossible to assure coherence among them at all times, which may lead to inconsistencies in the estimates. INE pointed out in its reply that the current publication calendar was coherent with the dates established in European legislation and that the institution adhered strictly to the principle of coherence and comparability.

However, INE would be willing to study possible improvements to the dissemination of its operation provided that all other principles are jointly complied with.

3.3. Proposals in the Opinions

In 2016, AIReF issued two proposals for the formula to calculate the contribution rate on the cessation of self-employment activity benefit for self-employed workers.

These proposals were addressed to the Ministry of Employment and Social Security seeking to reduce the pro-cyclical behaviour of the formula by increasing the period studied and publication of the data required to calculate the formula.

3.4. Guidance on best practices in reports and opinions

AIReF expressed in its publications as many as eight instances of guidance for best practicc addressed to the General Government sector, besides the recommendations given in the reports. With these guidelines, AIReF proposed the use of best practicc in fiscal policy and did not expect the recipient Administrations to apply the «comply or explain» principle.

Guidance on best practices

	Recipient	Competent administration
Central Government	8	-
Ministry of Finance and Civil Service	-	6
Ministry of Economy, Industry and Competitiveness	-	4

These guidelines relate to improving transparency in the management of public resources (4) and of budgeting procedures (4). These guidelines are given in greater detail at annex.

3.5. Appraisal of the implementation of the recommendations, proposals and guidance on best practices

Recommendations are an essential tool of AIReF. This is the main tool granted to AIReF by current regulations for the discharge of its mandate. Complementary to this tool are the proposals made in its opinions and its guidance for best practicc.

AIReF continued working to substantiate the «comply or explain» principle. In 2016, AIReF continued its quarterly publication of follow-up to recommendations on its website, thus increasing the cost in reputation of ignoring the «comply or explain» principle. However, recommendations were also affected by the political context and the uncertainty that reigned over which targets would be in force during 2016 and 2017.

The Public Administrations are becoming accustomed to implementing the «comply or explain» principle. This principle should be understood first and foremost as a means to establish a constructive and transparent dialogue between the Public Administrations and AIReF. In this light, all the administrations responded to the communications from AIReF. At the same time, the reports took into account the background to these recommendations and the follow-up conducted on them, adapting to the way events developed and to the Administrations' reactions.

4. Institutional activity

4.1. Institutional relations

In 2016, AIReF kept up an intense institutional activity both in Spain and abroad.

In compliance with Organic Law 6/2013 and the Action Plan for 2016, the President of AIReF appeared before the Congress of Deputies. As a new feature, this year two joint meetings were arranged for the Executive Committee and the spokespersons of the Parliamentary Budget and Finance Committees, with the aim of bringing AIReF and its activity closer to members of Parliament. On the international front, the President of AIReF, in his capacity as chairman of the network of Independent Fiscal Institutions (IFIs) of the European Union (EU), established relations with the European Fiscal Advisory Board, whose members were appointed in October.

As in 2015, the President of AIReF appeared this year before the Committee for Finance and Public Administrations and, for the first time, before the Budget Committee.

In his appearance before the Committee for Finance and Public Administrations on 6 April, the President of AIReF explained the previous year's activity report and the action plan for 2016. These covered the main conclusions in the reports, their follow-up, institutional activity, monitoring of the action plan for 2015 and the integration of the action plan 2016 in the strategy plan for 2015-2020. Subsequently, on 13 April, in his appearance before the Budget Committee, the President of AIReF reported on budgetary developments in Spain, and included AIReF's assessment of the level of public indebtedness and prospects for the future. Emphasis was given to the need to adopt a medium-term approach to analysing public finance, and the work by AIReF in this direction was described to identify the trends of a more structural nature. The President of AIReF made a request to appear before the Senate and fulfil the mandate of article 24 in the Organic Law creating the AIReF requiring him to appear at least on one occasion before the competent committee in the Senate. However, this appearance never took place.

In the first and last quarters joint meetings were arranged for the Executive Committee of AIReF and the spokespersons of the Parliamentary Budget and Finance Committees.

At both of these meetings the members of Parliament were offered a general overview of AIReF, including its position in the European context, a description of the authority's legal regime, its role in the budget cycle, the methods and instruments used in drafting its reports and the key role of AIReF's recommendations in exercising the «comply or explain» principle. The meetings were

greatly appreciated by members of Parliament, and a second edition was called for this year with the intention of continuing with this initiative, circumstances allowing, in 2017.

AIReF carried a busy institutional agenda with the ARs and kept up the bilateral meetings of previous years, while also taking part in seminars and forums for debate. Bilateral contact was made with all of the ARs, in addition to which face-to-face meetings were held with executive staff of Castilla y León, Galicia, Asturias, Aragón, Valencia, Madrid, Cantabria and Catalonia. In June, AIReF organised the Technical Conference AIReF-ARs focused on expenditure on healthcare and education and on the implementation of the expenditure rule. The President of AIReF, on his part, lectured at the Seminar on fiscal consolidation and social Cohesion held in Seville and opened by the Minister of Finance and Public Administrations of the Regional Government of Andalusia. The President also took part in the meetings and working groups of the Fiscal and Financial Policy Council and the National Commission for Local Government (CNAL). As for relations with the General Government Administration, several meetings were held with the various departments and different technical and management levels.

AIReF also kept a busy institutional agenda of meetings with academics, participation in specialized courses and researching or journalistic forums. The President of AIReF has lectured at the XXIII Conference on Public Economics held in Ourense, at the presentation of the report on fiscal federalism and public finance by the Institut d'Economia of Barcelona, in the conference on auditing in the public sector «Control to Improve» offered by the body of auditors of the General Council of Economists of Madrid, at the conference on Fiscal Sustainability given by the Network of Researchers in regional financing and financial decentralisation in Spain (Rifde-Gen+), at the Association of Economists of Madrid where he focused on «Fiscal challenges in Spain: orientation in the medium term and institutional reinforcement of budget policy», at the conference of the Foundation for Studies in Applied Economics, and at the forum for debate on the sustainability of the pensions system organised by El Confidencial. He has also participated in the course organised by Universidad Internacional Menéndez Pelayo entitled «What have we learned from the crisis?» and in the course in economy for journalists organised by the Association of Financial Journalists (APIE). In addition, AIReF staff lectured and took part in a diversity of forums in Spain and abroad. Lastly, the first meeting on macrofiscal issues was co-hosted with the Bank of Spain, to be held on a quarterly basis. Specialists from the public sector and the private sector took part in this meeting, in an open discussion format, centred on methodological aspects.

In 2016, AIReF continued to engage in international activities, both individually and as part of the EU IFI Network, whose presidency it took up in September 2015. Individually, AIReF hosted a meeting with the Fiskalrat (the IFI of Austria) focused on the models and analytical tools for macroeconomic and fiscal projections, with special emphasis on Territorial Administrations. In addition, the President and part of his staff were invited by CFP (the Portuguese IFI) to exchange points of view over their respective methodologies, organisational aspects, and to discuss European issues of common interest.

The President of AIReF took part in various international conferences and seminars.

He lectured at the conference «toward a more resilient global economy», organised by the Ministry of Finance and the German Central Bank, on the occasion of Germany's presidency of the G 20. He took part in the session dedicated to the setting of medium-term debt targets organised by the Department of Fiscal Affairs of the International Monetary Fund (IMF) and the Europe bureau, and participated in the first Conference of Economic Policy Councils, organised by the German Council of Economic Experts.

As President of the EU IFI Network, the President of AIReF was consulted on the proposal by the committee for appointing the members of the EFB.

For the purpose of exchanging points of view on the respective roles of the IFIs and the EFB within the current framework of fiscal governance, the president of the network met the newly appointed chairman of the EFB, Niels Thygesen, before the end of the year. As in 2015, he held meetings with the European institutions, in particular with the vice president of the commission, Valdis Dombrovskis, and with the financial adviser to President Juncker, Luc Tholoniati.

In 2016, the EU IFI Network held four meetings: two at committee level and a further two with the attendance of all members. Among its internal activities, it was decided to strengthen the practice of medium-term budget frameworks, as well as that of the «comply or explain» principle. Furthermore, the network, represented by its chairman, was invited to take part in the joint seminar for IFIs and central banks, organised by the European Central Bank, and also in the seminar organised by the CEPS on the relationship between the EFB and the IFI Network. In addition, the symposium on fiscal policy of the University of York was co-organised.

As in 2015, active participation in the IFI networks backed by the European Commission and the OECD was engaged in.

The fifth edition of the meeting organised by the Directorate General for Economy and Finance (DGECFIN) of the European Commission was of an eminently technical nature, and among the issues discussed were the difficulties in quantifying the impact of measures, or the concept of temporary measures. Participation also took place in a new edition of the meeting of parliamentary budget offices and IFIs, organised by the OECD and held in Paris.

TABLE 10: Activity of the Network of European Independent Fiscal Institutions (EUIFIs) in 2016.

In its second year, the European IFI Network (EUIFIs) has further consolidated its presence in international forums, and its existence as a joint working forum for its members.

- **Internal meetings:** The Network has increased the frequency of its meetings. In 2016 two Network meetings were held, and two meetings of its European Affairs Committee:
 - Meeting of the Network's European Affairs Committee (Frankfurt, January)
 - Conference on practices with respect to medium-term budget frameworks (organised by the CPB; The Hague, March)
 - Network meeting in Paris (April)
 - Meeting of the Network European Affairs Committee (Brussels, June)
 - Second Network meeting in Paris (November)
- **Network publications:** Shared positions have been adopted on transverse issues, with a focus on identifying and harmonising best practices:
 - *Defining and enforcing minimum standards for Independent Fiscal Institutions* (February 2016)
 - *Strengthening Medium-Term Budgetary Frameworks* (April 2016)
 - *Facilitating the Implementation of the Fiscal Compact and the Stability and Growth Pact by EU IFIs* (April 2016)
- **Meetings and exchanges with other European bodies:** Further to the meetings with DGEC-FIN and with the presidency the Commission, an exchange programme has been launched with the newly established European Fiscal Board (EFB). Among the main activities conducted in this field during 2016, the following may be mentioned:
 - Meetings of Network representatives with vice president Dombrovskis
 - Fifth meeting of the European IFI Network with DGECEFIN (EUNIFI)
 - Letter in reply to the consultation on the EFB (September)
 - Meeting of the Chairman of the Network with Niels Thygesen, president of the EFB
- **Participation in events:** During 2016, the European IFI Network has participated in events organised by other academic and international institutions:
 - Joint conference of fiscal boards and central banks, organised by the ECB (Frankfurt, January, on what fiscal boards and central banks can do to promote adequate fiscal policies in Europe)
 - Seminar of the CEPS (Brussels, January; *Advisory European Fiscal Board and the Network of Independent Fiscal Institutions: Friends or Foes?*)
 - Symposium on fiscal policy at the University of York (July)
 - Eighth edition of the meeting of parliamentary budget offices and IFIs, organised by the OECD in Paris (April)
 - Seminar by the OECD on long-term sustainability of public finance (Paris, November)

4.2. Communication activities

AIReF strengthened its profile as a reference for issues related to the sustainability of public finance. The main objective of AIReF's communication strategy is the dissemination of its reports and of the recommendations stemming from these reports governed by the «comply or explain» principle. Additionally, in 2016 it started publishing other documents related to its main activity such as the Debt Flash, quarterly monitoring of the stability target, and an interactive data platform: AIRef DataLab. Likewise, it continues to disseminate the results of the MIPRED model for real-time monitoring of GDP and the METCAP model for quarterly GDP trends in the Autonomous Regions.

AIReF's communications strategy has received two awards. AIReF received the prize for excellence in financial communication awarded by the Institute of financial studies, with a jury formed by leading financial journalists in the Catalonian press. Moreover, the Association of Financial Journalists (APIE) awarded José Luis Escrivá the 'Tintero' prize, a privilege granted each year to top-level managers of companies and institutions that stand out for their effort to excel in their informative roles through clear and frequent messages to the media.

The institution used a range of different channels for maximum dissemination, such as meetings or briefings with the media and press releases and informative bulletins, individual meetings with journalists and opinion leaders, publishing any new developments on the website, sending e-mail newsletters to institutions and stakeholders and using social networks. In all, 452 publications were uploaded to the website in 2016. Of these, 54 were news items and reports on activities.

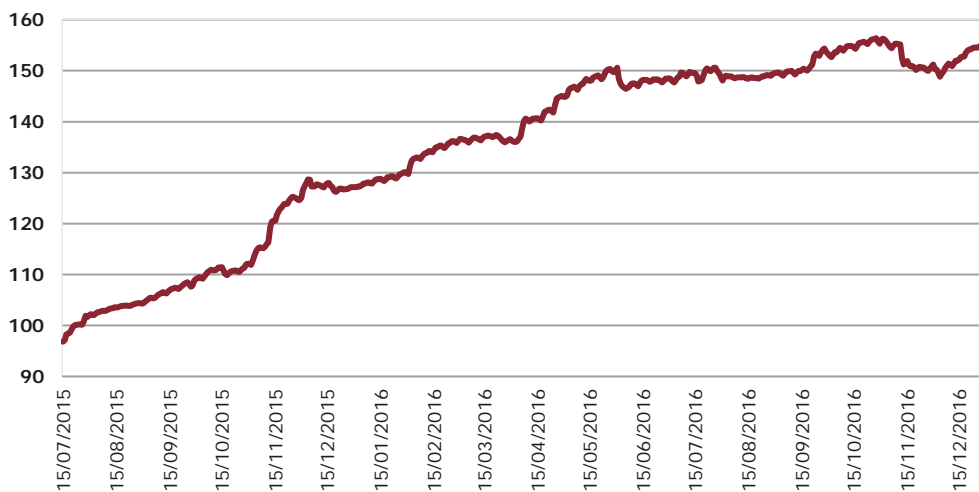
The presence of AIReF in the media continued to increase throughout 2016. The data, the analyses and the opinions disseminated by AIReF were key to addressing budget stability and public finance sustainability issues in the communication media and in academic spheres. A qualitative analysis shows that in 2016 a fluent relationship was consolidated with the media, based on bi-directional communication. The media responded by giving broad coverage to the institution's publications, and requesting more detailed information. Quantitatively speaking, this translated into more than 6,100 appearances in the written press, 62 % more than in 2016, and over 14,300 on-line, equivalent to a 42 % increase.

The website remained as the principal reference within the communication strategy. Data by Google Analytics show a sharp growth in the Key Performance Indicators (KPI) for the dissemination activities, as seen in the table attached. The data for the AIReF website activity showed an upward trend in the number of unique users and a rising number of sessions registered, confirming users' growing interest in the published content.

Website indicators

	2015	2016	Year-on-year variation 2015-2016
Website users	26,163	29,538	+ 12.90 %
Website sessions	62,400	71,148	+ 14.02 %
Pages visited	249,203	279,061	+ 11.98 %
Pages/session	3.99	3.92	-1.70 %

User´s AIReF webpage
(365 days moving day average day)



Social networks gained greater importance as a dissemination channel for AIReF.

Activity on the website was also stepped up as a reaction to the dissemination of content through the social networks. The most interactive channel has been Twitter, with 702 followers by year-end, an increase of 66.92 % on the previous year. On LinkedIn, the increase was 52.2 %, reaching 134 followers. Thus, AIReF ranks on this social network among those with the highest number of followers in comparison with other Independent Fiscal Institutions. It should likewise be pointed out that among AIReF’s followers on social networks are the leading experts on public finance sustainability matters, qualified profiles in issues related to macroeconomic and statistical analysis, and reporters specialising in these content types in the Spanish media. Finally, it should also be highlighted that the number of users wishing to receive the institution’s newsletters had increased to 326 subscribers by the end of 2016.

5. Access to information

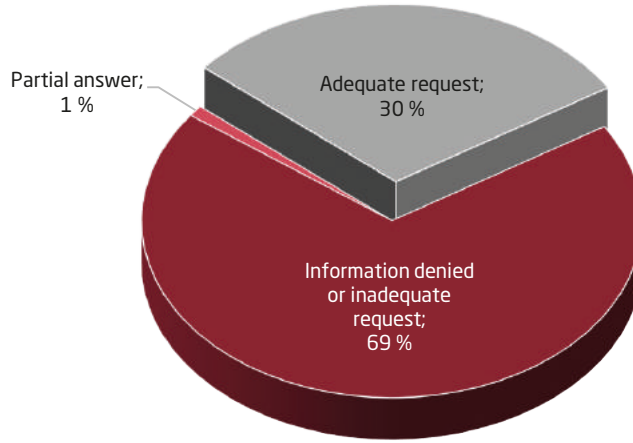
Accessing information in due time and form is an essential requirement for AIReF to fulfil its remit. Such access is guaranteed by law, but to reach its optimal implementation, useful exchange mechanisms need to be established among Administrations, as described in AIReF's Strategy Plan 2015-2020. In the nature of the work to be performed by AIReF, generally within a short space of time, the preparation of useful reports drafted with rigour and objectivity is seriously hindered when the necessary information is not available.

The European Commission finds that the development of the regulation on access to information is not in line with the common principles in the Treaty on Stability, Coordination and Governance. Although the Organic Law creating AIReF guarantees access to the information that is necessary for the discharge of its duties, the subsequent normative development added potentially significant restrictions. By Ministerial Order, therefore, it was made obligatory to request the necessary information firstly to MINHAFP Economic-Financial Information Centre (IC). Nevertheless, MINHAFP has repealed the articles in the MINHAFP Ministerial Order governing exchanges of information with MINHAFP, against which AIReF had appealed to the jurisdiction of the administrative courts.

In 2016, AIReF implemented a system to monitor requests for information to the various Public Administrations. As the preferred channel for obtaining this information is the Economic and Financial Information Centre (IC), data on the monitoring of such requests to the IC was included for the first time in this report. Each of AIReF's applications to the IC for information is generally linked to preparing one of the reports it is obliged to issue by virtue of the legislation currently in force. Each application contains several requests for information that may be submitted separately and/or should be individually monitored.

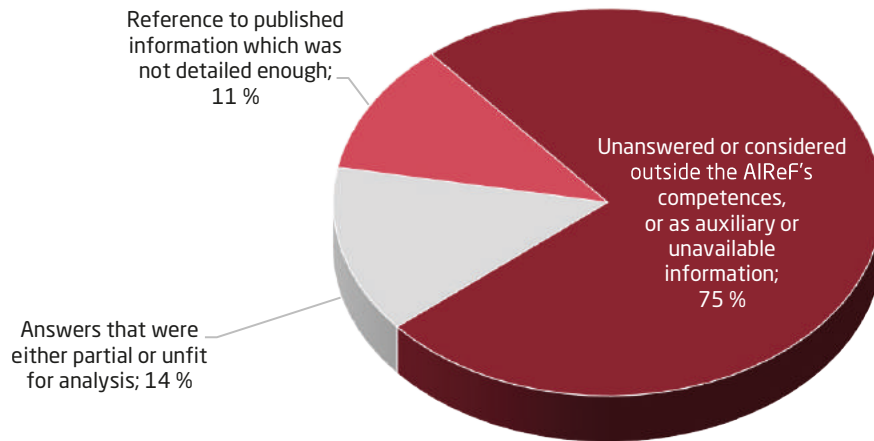
Of the requests for information by AIReF to the IC, 69 % were denied or the information provided did not correspond to the request. As shown in the chart below, the requests, whether or not these were answered by the IC, are rated by AIReF under three categories: satisfactory (the information is appropriate for the assessment to be conducted), partial (insufficient for the analysis), and denied or irrelevant (not valid for the analysis).

AIReF’s considerations on the answers received to the requests addressed to the Information Centre of the Ministry of Finance and Public Service.



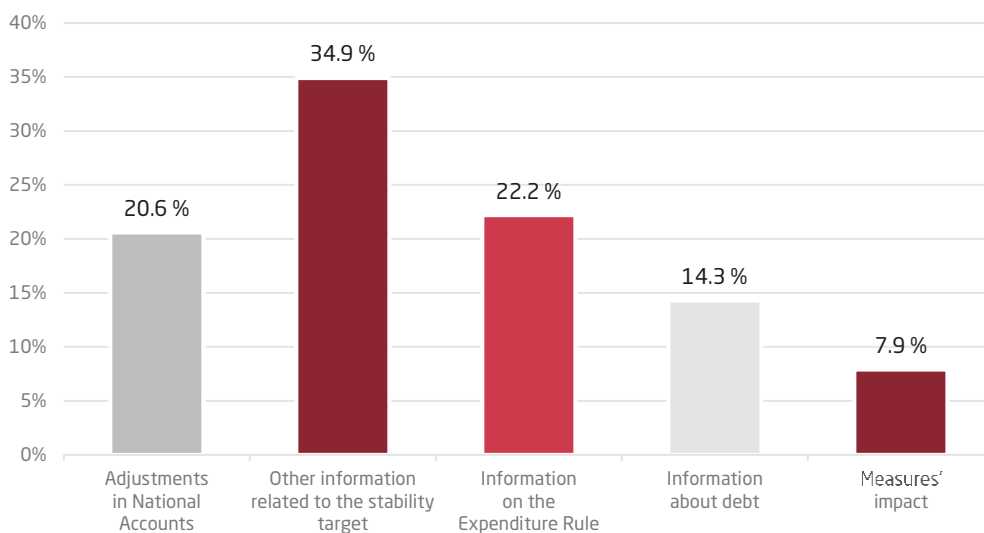
Of the requests that were denied or the information provided was irrelevant, 75 % were justified by MINHAFP as falling without the competence of AIReF, or the information being ancillary or unavailable. In this regard, be it remembered that the Organic Statute of AIReF guarantees access to economic and financial information, provided it has been drafted in compliance with legal or regulatory provisions and is not of an ancillary or supporting nature. The requests for information described by MINHAFP as falling without the competence of AIReF, ancillary or of a supporting nature, are grounded on the need to draft the reports that this institution is obliged to issue by the regulations governing its mandate. In addition, in accordance with the duty to collaborate established in the General Budget Act and as interpreted by the Council for Transparency and Good Governance, no information can be rated as ancillary or secondary when it is relevant to AIReF’s criteria-forming process in the framework of conducting the analysis, monitoring and assessment legally entrusted to this institution, especially when the information thus rated as ancillary are actually data that, in general, are submitted by the Public Administrations to MINHAFP in compliance with their duty to provide information. For the remaining 25 %, MINHAFP responded by referring to information already published that lacks the depth of detail requested, gave a partial response or provided information that was irrelevant to the analysis being conducted by AIReF.

Ministry of Finance’s justification for denying or giving answers not adjusted to the requests



The requests denied by MINHAFP were directly related to the duties of AIReF. The chart below shows that the content of the requests is directly related to one of the three fiscal rules (stability target, expenditure rule and/or debt limitations), the assessment of which falls to AIReF as per the legislation currently in force. Moreover, the preparation of the information that is necessary and directly linked to compliance with the duties imposed on the Authority by its Organic Law and its Organic Statute should be understood as mandatory by law or regulation.

Justification by the AIReF of the requests left unanswered or considered by the Ministry of Finance as outside the AIReF’s competences, or as auxiliary or unavailable information.



6. 2016 Action Plan Follow-up

AIReF's activity was designed on the basis of the definitions given in the Strategy Plan 2015-2020. The Action Plan for 2016 established a priority for the targets identified in the Strategy Plan, assuring coherence between short- and medium-term planning.

The aim in this section is to provide a clear outline of the Action Plan for 2016. The Annual Activity Report is thus rendered an essential element in the institution's accountability to society. To make it easier to follow the plan, a chart is included at annex with the actions proposed therein, classified according to the axes and lines of action in the strategy Plan and on their situation at year-end.

The Action Plan for 2016 guaranteed the tasks legally assigned to AIReF, such as issuing reports and opinions, and made advances in other areas. Among these were: contributing to better guidance towards budget stability, promoting the financial sustainability of the Public Administrations, enhancing transparency and budget practices in the way government accounts are managed (as per the LOEPSF) and contributing to the perception by Spanish society of the benefits of financial sustainability.

The performance of the Action Plan 2016 was limited by a shortage of human resources. One of the actions foreseen for 2016 was the enlargement of the list of posts at the institution. Given that the human resources initially estimated were not available, AIReF was unable to fulfil all of the actions established in the plan. This led to establishing priorities in the assignment of available resources to those actions most closely related to issuing the reports and opinions envisaged in the regulations.

However, AIReF made substantial progress in each of its strategic axes. Despite the fact that not all the foreseen actions could be completed, it should be highlighted that in most cases the work was begun. In 2017, AIReF will continue to work on those actions that could not be concluded in 2016, which will be expressed in the Action Plan 2016.

AIReF honed its analysis tools to contribute to budget stability. In this sense, AIReF made progress in the design and development of its macroeconomic and fiscal models for the medium and long term. In addition, it is worth mentioning the greater scope in the analysis of the Local Corporations, both individually and in aggregate terms. On this axis, another noteworthy milestone is the publication of the quarterly monitoring of budget implementation.

Within the scope of the Public Administrations' financial sustainability, AIReF enhanced its modelling for the main expenditure lines. On the one hand, it developed models for healthcare and education expenditure in the Autonomous Regions, the results of which began to appear in the reports. On the other hand, deeper analysis was conducted on pensions using dynamic and stochastic general equilibrium models and micro-simulation. Advances in the analysis of Government debt sustainability were capitalised with the publication of the Debt Flash.

AIReF contributed to enhancing transparency in public finance by launching AIReF DataLab, a platform enabling data to be visualised and downloaded, allowing the public to monitor the ARs and the development over time of the main economic indicators in aggregate terms and by regions. The regular work was likewise contained within the EU independent fiscal institutions network, attending various internal and OECD meetings. Lastly, the recommendations on transparency and budget practices contributed to reaching the targets in this strategic axis.

To disseminate the benefits of financial sustainability, AIReF stepped up its presence in communication forums and media. Within the overall strategy for communication, a greater presence was established in social networks and in academic and media channels. In addition, bilateral relations with the Territorial Administrations were strengthened and seminars were organised. Similarly, for the second year running, a remunerated trainee programme was set up with selected Spanish universities thanks to which six research and three training scholarships were granted.

On the transverse axis are the fundamental actions that substantiate the institution's mission. Work was begun in 2016 to fulfil the commitment by the President to set in motion the external assessment procedure to be concluded in 2017 (midway in his mandate). AIReF continued to publish its reports in accordance with the legislation currently in force and had to issue the first warnings of non-compliance with the duty to collaborate to the Public Administrations concerned. The agency also consolidated a transparent and efficient method of management that included its integration with the administrative management systems of the General Government Administration (NEDAES, DARETRI, SGIP BDNS and GEISER).

In 2016 the Advisory Board continued to be essential to the institution's accountability. At least five meetings were held by the Advisory Board, made up of individuals of renowned prestige in Spain and abroad with at least 10 years' experience as budget, economic and financial analysts. The Advisory Board minutes are public and may be consulted on the AIReF website.

The 2016 Action Plan monitoring process included in this report is the model on which next year's plan will be designed. The action plan for 2017 is being drafted, continuing with the Strategy Plan 2015-2020 and in parallel with drafting the Annual Activity Report.

7. Financial management and human resources

7.1. Financial management

The financial management of AIReF's budget for 2016 was conditioned by external factors. The General State Budget Act for 2016 included a budget of €4.48 million, which is inferior to the budget proposed by AIReF. The budget initially approved was modified with the incorporation of residual investment funds, raising the budget to €4.65 million. The final expenditure implemented amounted to €4.23 million.

The implementation rate of AIReF's expenditure budget in 2016 reached 91 %. The expenditure implementation details are shown on the table below. The implementation of the different chapters in the budget reflects that this body operated in 2016 as envisaged in its Action Plan.

AIReF maintained its policy of transparency in economic management. The section on transparency on its website includes information on the retribution of the members of the Executive Committee; monthly execution of the expenditure budget, and details of expenses greater than €1000 and revenue through fees. Additionally, the website also provides the contractor profile and a list of contracts, management delegation packages and agreements of collaboration signed by AIReF, and subsidies received.

Implementation of the expenditure budget in 2015

(in thousands of euros)

Item	Budget for 2016*	Implementation
Personnel expenditure	3,200.00	2,993.72
- President and President's Office staff		658.58
- Budget Analysis Division		1,161.87
- Economic Analysis Division		561.53
- Legal and General Administration Division		500.78
- Social activity		110.95
Operation expenses	974.42	879.26
- Leases, repairs and maintenance		59.11
- Office supplies		20.17
- Electricity and water		7.44
- Telephony and Internet		86.34
- Cleaning		25.97
- Studies and technical tasks		22.99
- External services		507.31
- Travel		30.11
- Publication expenses		23.14
- Protocol	4.68	3.96
- Other expenses		92.66
Remunerated traineeships	160.00	117.85
Investments	300.00	244.97
Total	4,654.42	4,235.82

*Inclusive of credit modifications.

With regard to revenue, the supervision fee is AIReF's main source of funding. This fee (provided for in Additional Provision Two in the Organic Law creating the AIReF) is paid by the Public Administrations to which the reports are issued, according to each administration's budget. This system of financing, innovative in the context of Independent Fiscal Institutions, guarantees

AIReF's financial independence. Independence is a key element underpinning the exercise of the institution's legally mandated competences. Revenues from the fee in 2016 amounted to €3.91 million, which represents 84 % of the expenditure budget. Both the State and the Social Security, and all of the ARs, have paid this fee. Only five institutions have not made this payment¹. The remaining funding was covered by treasury surpluses. In 2016, AIReF initiated the settlement procedure for the fee with the Public Administrations that, in 2016 and preceding years, did not perform self-assessment and payment of the corresponding amount, or did so past the specified date.

Revenue from the AIReF supervision fee for 2016

(in thousands of euros)

Supervision fee	3,930.66
- Central Government	1,336.11
- Social Security	1,200.76
- ARs	1,151.37
- LCs	174.96
- Settlements conducted by AIReF	21.82
- Revenue accrued from previous years	45.63

7.2. Human resources

AIReF comprises three divisions and the President's cabinet of advisors. The Economic Analysis Division performs functions, among others, relating to monitoring economic reality and assessing the macroeconomic forecasts incorporated to the budgets. It is the task of the Budget Analysis Division, among other duties, to analyse and monitor the budget cycle overall. Lastly, the Legal and General Administration Division sees to the daily management tasks and provides legal advisory services. This structure is largely horizontal and is underpinned by continuing collaboration and communication among the different units.

AIReF's staff has not yet reached the optimal dimensions for its legally assigned duties. On commencing its activity, AIReF conducted a study in collaboration with the IMF on the institution's human resources needs, based on the analysis of its mandate and on the experience of international organisations with a similar remit. The study concluded that at least 65 posts would

1. The supervision fee for 2016 has not been paid by the Autonomous City of Melilla, the Provincial Councils of Córdoba and Malaga or the City Councils of San Sebastián, Burgos and Santa Cruz de Tenerife



be necessary. During 2016, continuing the actions commenced in 2015, AIReF submitted to the competent authorities several proposals for the modification of its List of Posts with a view to enlarging its staff. Approval was not given, and therefore the list of 31 posts approved in July 2014 was maintained, in addition to the three Division Directors. In the first half of that year, the term of the expert seconded by the Bank of Spain to AIReF as Head of the President's Office expired. This was the fifth expert from said institution within the last two years to leave AIReF, which remains unable to open new posts.

ANNEXES: Follow-up of reports and opinions

Recommendations on the object of the report

Recommendation on the object of the report	Date	Recipient	Competent body		Mode of compliance	Status	Remarks
Report on the setting of individual targets for the ARs							
Deficit overruns in the debt targets. Inclusion of net debt increases produced to finance debt overruns in the assessment of debt target compliance. In particular, it is recommended that these should give rise to non-compliance with the debt target, or at least to compliance conditioned to correcting the financing overrun on an agreed time horizon.	23/12/2016	Autonomous Regions.	MINHAFP		Approval of individual targets for the Autonomous Regions. 2017-2019	Explanation	MINHAFP claims the need to finance the deficit overrun to prevent an accumulation of commercial debt, and that the correction should be made within the scope of the stability target. It therefore deems it unnecessary to alter the present procedure to assess compliance with the debt target. By contrast, AIReF is of the opinion that it is necessary to guarantee the coherence of fiscal rules and that funding for unauthorised deficits should not be covered by the debt target, and therefore insists on the need to modify the debt target assessments.
To keep in mind the relative position of each AR in the targets proposal. Differentiated stability targets should be set for 2017, so that the targets take into account each AR's particular position in terms of feasibility and equity, while guaranteeing their coherence in complying with the expenditure rule.	23/12/2016	ARs.	MINHAFP		Approval of individual targets for the ARs. 2017-2019	Explanation	MINHAFP considers that the budget year concerned was unsuitable for establishing asymmetric targets, as the full range of necessary information was unavailable. It further finds that individual allocation would not lead to improved compliance as the target is feasible in all cases. On the contrary, AIReF considers that it would contribute to improved compliance with the subsector's targets, given that some Autonomous Regions may reach a smaller deficit than set under the homogeneous target, but will foreseeably exhaust the margin allowed by the target.
Expenditure rule working group. To establish without delay the working group for conducting a revision of the expenditure rule.	23/12/2016	MINHAFP	MINHAFP		Approval of individual targets for the ARs. 2017-2019	Commitment to compliance	MINHAFP declares its commitment to share this recommendation, as soon as the modification to the EU regulation on the matter is known. However, AIReF deems it necessary to develop, at the earliest possible opportunity, regulations to solve specific implementation problems.
Debate at the Fiscal and Financial Policy Council (CPFF). To submit, sufficiently in advance, the proposal for individual targets accompanied by the report by AIReF to the Fiscal and Financial Policy Council. MINHAFP's adoption of the mentioned proposal would allow it to be debated by the working groups, enabling MINHAFP to modify, as applicable, the proposal to include inputs from the Autonomous Regions and AIReF before presentation at the Council Plenary.	23/12/2016	ARs.	MINHAFP		Approval of individual targets for the ARs. 2017-2019	Commitment to compliance	MINHAFP declares having noted the recommendation, indicating that it sees «no impediment whatsoever to forming the working group to develop the competences of the Fiscal and Financial Policy Council».
Report on the projects and main budgetary lines in the Local Corporations for 2017							
Establishment of a common supervisory framework for the LCs. MINHAFP should establish and supervise a common framework for exercising the competences attributed to the supervisory agencies in the Local Corporations regarding stability and the expenditure rule, in which clear definitions are given for the operating criteria and procedures. To this end, AIReF recommends giving publicity to the meetings held and the agreements reached therein.	07/12/2016	MINHAFP	MINHAFP		Development of the LOEPSF	Commitment to compliance	MINHAFP pledges its commitment to strengthening the existing common framework. It is pointed out that a common framework already exists with respect to financial supervision, ensuring since 2014 that all information is published via the Information Centre and that minutes are recorded of the annual meetings with the ARs' supervisory agencies, at which the general criteria are set and questions are resolved.
To review the interpretation of the calculation of the expenditure rule. MINHAFP should review its interpretation, according to which deviations in expenditure arising each year are deferred for consolidation in the future, and should define clearly the methodological elements required to plan, monitor and assess compliance with the rule.	07/12/2016	MINHAFP	MINHAFP		Practical implementation	Commitment to compliance	MINHAFP recognises that there is room for improvement in the methodology used for the implementation of the expenditure rule. In the context of the new European regulations in this respect, it is proposed that the ministry, the ARs and the Spanish Federation of Municipalities and Provinces should analyse the expenditure rule with a view to adapting it to European standards. The outcome of these initiatives will be communicated to AIReF, who will examine their consistency with European best practices, with the budget stability target and with the neutrality of the economic cycle in the implementation of the rule.
To standardise the fiscal rules with regard to preventive and corrective measures. MINHAFP should promote the necessary modifications to equate preventive and corrective measures in the three fiscal rules, and particularly the expenditure rule with the other targets, with the aim of ensuring their compliance.	07/12/2016	MINHAFP	MINHAFP		Development of the LOEPSF	Explanation	MINHAFP alleges that any normative initiative aiming to enhance the regime of preventive and corrective measures in the event of non-compliance with the expenditure rule should take into account the specific legal footing on which the current regime stands (Organic Law 2/2012). AIReF , nevertheless, deems that the LOEPSF should be reformed to equate the treatment given to the expenditure rule to the rest of fiscal rules, allowing the implementation of the preventive measures in article 18 and, in the case of local entities, the automatic corrective measures as well.

Recommendations on the object of the report

Recommendation on the object of the report	Date	Recipient	Competent body		Mode of compliance	Status	Remarks
Definition of individual debt limits. AIReF recommends individual debt limits to be defined, non-compliance with which would trigger the corrective mechanisms provided for in the LOEPSF.	07/12/2016	Local Corporations	MINHAFP		Practical implementation	Explanation	MINHAFP counters this recommendation with the methodological limitations that would be met to determine individual local debt limits, owing to the «difficulty in ascertaining the level at of GDP in each Local Corporation». Nonetheless, AIReF believes that individual debt limits for local entities should not necessarily be linked to the level of GDP in each local body, but rather that they could be established according to other parameters. Thus, for instance, Final Provision 6 of the LOEPSF establishes a correlation between the amount of 0.2 % of regional GDP demanded as a deposit of the ARs in article 25 and 2.8 % of non-financial revenues of Local Entities.
The budget stability target and the expenditure rule should mutually reinforce each other. To achieve this end, AIReF recommends that the Local Corporations' main aspects and approved budgets should contain information on the calculation of the expenditure rule. It is also underscored that the conditions and criteria for calculating the expenditure rule, and its implementation within the legal framework, should be clarified. All the above, without prejudice to the review of its design in the coming months, by the working group to be created by MINHAFP (made up of the ministry, the ARs, the LCs and AIReF).	07/12/2016	Local Corporations	MINHAFP		Practical implementation	Explanation	MINHAFP claims that the recommendation is legally ungrounded and that its implementation by IGAE would not be feasible. It is pointed out that IGAE already publishes full data on the Local Local Corporation in terms of national accounting as required by EU and Spanish law, both annually and quarterly.
Procedure for overcoming the impounded EFP processes. AIReF recommends the establishment of a legal procedure or mechanism, and insists on the need for coordination among the Local Corporations' supervisory agencies and for establishing a common operating framework overseen by MINHAFP.	07/12/2016	Local Corporations	MINHAFP, Andalusia and Catalonia		Practical implementation	Commitment to compliance	Andalusia: Commitment to compliance, when non-compliance by the City Council of Córdoba becomes 'certain' following approval of the final settlement. Catalonia: Compliance; the Generalitat approved on 22/06/2016 the consolidated EFP for the City Council of Barcelona, which is expected to be fulfilled. MINHAFP: The Ministry highlights that a substantial improvement has been perceived in the number of EFPs processed in 2016, in comparison with 2015; this is due, according to the Ministry, to the creation of the software tool PEFEL2, that has enabled the uniform, telematic and standardised treatment of the EFPs submitted, and to the fact that warning letters were sent to all non-compliant LCs. MINHAFP, however, agrees to continue developing a flexible and simple procedure to EFPs. Clarification is added, noting that an attempt was made to establish a mechanism by reforming the Law Regulating the Basis of Local Regimes, that had been declared unconstitutional with effect as of 15/07/2016 by Decision 111/2016. of the Constitutional Court.
Compliance with the expenditure rule. It is recommended that the City Councils of Barcelona, Córdoba and Madrid should adopt measures to guarantee compliance with the expenditure rule by year-end 2016. Should non-compliance with this rule be verified, these Councils would be obliged to approve an EFP guaranteeing compliance both within the year of approval and in the subsequent year.	07/12/2016	Local Corporations	City Councils of Barcelona, Córdoba and Madrid		Approval of the EFPs	Commitment to comply Explanation	Córdoba: Commitment to compliance. It is noted the projections for year-end 2016 indicate compliance with the expenditure rule and with budget stability. Solely in the event of non-compliance after the end of the budget year would the pertinent measures be taken. Madrid: Explanation. An EFP for 2016-2017 was approved at the Municipal Plenary on 28/09/2016, pending approval by MINHAFP; according to this EFP, the expenditure rule would be met but a 'new formula' has been used for expenditure that is more in keeping with the City Council's «financial development». Barcelona: Compliance. The expenditure rule was not complied with, and a new EFP 2016-2017 was approved, endorsed by the Generalitat on 22/06/2016, and compliance is foreseen by the date of settlement. MINHAFP: A request has been sent to the City Council of Madrid for the adoption of an AND equivalent to the amount of non-compliance with the expenditure rule in the 2015 settlement, updated with the reference rate for 2016; it is underscored that the Local Corporation is being 'closely monitored'. With regard to the City Councils of Córdoba and Barcelona, the quarterly financial supervision reports submitted by of the each supervisory agencies, in which the result of the actions taken are communicated, are pending.
Setting in motion the Local Corporations' EFPs. To guarantee, by the supervisory agencies of the City Councils concerned, that the EFPs are set in motion.	07/12/2016	Local Corporations	MINHAFP		Practical implementation	Compliance	The EFPs have been set in motion.
City Council of Bilbao EFP. The Bilbao City Council has drafted and approved an EFP.	07/12/2016	Local Corporation	MINHAFP		Practical implementation	Compliance	The Bilbao City Council's EFP has been approved.

Recommendations on the object of the report

Recommendation on the object of the report	Date	Recipient	Competent body		Mode of compliance	Status	Remarks
Report on the Macroeconomic Forecasts in the Budgetary Plan Update for 2017							
Adoption of measures to correct biases in the forecasts. It is recommended that the Government should adopt and make public the necessary measures to correct the significant biases observed in the forecasts for government consumption over the last four years.	02/12/2016	Central Government	MINECO		Practical implementation	Explanation	MINECO considers that the information included in the Stability Programme Update 2016-2019 already contains sufficient methodological means to identify biases and comply with the Directive and AIReF's recommendations.
Report on the Macroeconomic Forecasts in the Draft Budgetary Plan for 2017							
Measures to correct biases in the forecasts. The necessary measures should be adopted and made public in order to correct the significant biases observed in the forecasts for public consumption over the last four years, in compliance with Directive 2011/85 on budgetary frameworks.	07/10/2016	Central Government	MINECO		Practical implementation	Explanation	MINECO considers that the information included in the Stability Programme Update 2016-2019 already contains sufficient methodological means to identify biases and comply with the Directive and AIReF's recommendations.
Report on expected compliance with the 2016 budget stability, government debt and expenditure rule targets for the Public Administrations.							
Review of debt levels. MINHAFP should review its interpretation of initial level of debt, according to which debt deviations arising in each year are deferred for consolidation in the future.	19/07/2016	ARs.	MINHAFP		MINHAFP issues six-monthly reports on the level of compliance with fiscal rules	Explanation	MINHAFP describes the interpretation attributed to it by AIReF as inaccurate. The ministry explains that to calculate the borrowing requirement for deviation from the previous year's deficit target still to receive funding, indebtedness overruns are detracted with respect to the target in said year, causing the amount of debt calculated by exception to be smaller to the amount that would be calculated had the AR not incurred in deviation. It is said that the procedure «aims to ensure that only expenditure overruns incurred by ARs in a non-funded year are paid in the following year»; thus, «the deviation from the debt target in one year means, in the event that the region has deviated from its deficit target, that it has already funded part of its deviation from that target from diverse sources»; and consequently, «t cannot incur in debt again in the following year for the amount already funded». AIReF has confirmed that the six-monthly reports issued by MINHAFP providing information on the degree of compliance with the debt target 2015 in the Autonomous Regions contain detailed accounts of the operations that were excluded from the debt target, but provide no reference to the debt overruns that were discounted in the case of non-compliant ARs, unlike the reports on compliance with the debt target in 2014, in which a column was established under which debt overruns were explicitly excluded in the event of non-compliance.
Monitoring of the Central Government. A control mechanism should be set up for the CG through monthly MINHAFP monitoring of the instrumentation of measures adopted and their impact on the proposed budget stability target, in order to detect eventual slippages that may occur at year-end. Monitoring should also be applied to the developments in tax revenue, so as to provide updated estimates of the tax reform impact on revenue from income and corporate taxes. This monitoring should be conducted with the utmost transparency possible, and reports should be sent to Parliament and to AIReF.	19/07/2016	Central Government	MINHAFP		Practical implementation	Explanation	MINHAFP declares that it has made a «considerable effort» to increase its publication of budget implementation data, explaining that since 2013, IGAE publishes monthly accounts in terms of national accounting. Data for the LC subsector are published quarterly, which allows the consolidated balance for the General Government sector to be calculated. Regarding tax revenue and monitoring of the tax reform: MINHAFP states that the Tax Authority publishes monthly updates of the impact of normative changes. To ensure transparency, the results of the Tax Authority's activity are presented every six months to Parliament. AIReF insists on the need to increase transparency regarding the impact of measures and on the need for warnings of the risk of deviation to be given.
Financial situation of the Social Security. Progress should be made without delay in the actions already under way and the necessary decisions adopted to guarantee the financial balance of the Social Security System in the framework of the Toledo Pact Commission.	19/07/2016	Social Security	MEYSS		Toledo Pact Commission	Commitment to compliance	MEYSS replies stating that on 1 April 2016, the Government submitted the Report on the Toledo Pact 2011-2015 to the Monitoring and Assessment Commission of the Toledo Pact Agreements in the XI Legislature. The report covers all actions taken in this period to develop the 21 recommendations made by the Commission, which the latter should evaluate before issuing new recommendations. The report is deemed by MEYSS to constitute «the initial framework for the work to be done by the Toledo Pact Commission». The elections on 26 June made continuing the tasks unfeasible, and these were therefore halted, pending the constitution of the Parliamentary Commission of the Toledo Pact in the new legislature, before completing the fulfilment of the recommendation.

Recommendations on the object of the report

Recommendation on the object of the report	Date	Recipient	Competent body		Mode of compliance	Status	Remarks
Effective monitoring of the measures taken by the Autonomous Regions, having access to the FLA. MINHAFP should conduct effective monitoring of the measures adopted by the autonomous Regions, and should demand compliance with the compulsory strengthened conditionality approved by the Government's Delegated Committee on Economic Affairs (CDGAE) to receive funds from the FLA. These measures should be incorporated to the EFP which, following AIReF's report, should be redrafted by the ARs for their presentation to the CPFF.	19/07/2016	ARs.	MINHAFP		Practical implementation	Explanation	MINHAFP counter-proposes the immediate monitoring of the measures adopted by the ARs and of compliance with the strengthened conditionality to received funds from the FLA. The ministry refers to its website, where it publishes «further information» (including communications with the ARs) through the Economic and Financial Information Centre. AIReF is of the opinion that, except for Aragón and Extremadura, the Non-Availability Agreements foreseen in the strengthened conditionality of the FLA 2016 have not been adopted in the terms required by law and expresses a reminder that the EFPs for non-compliance in 2015 and, with the exception of Catalonia, for 2014, have not yet been approved.
EFP review. In the Autonomous Regions of Murcia, Valencia, Extremadura, Aragón, Catalonia and Castilla-La Mancha, an in-depth revision of the EFPs submitted to AIReF is required, to incorporate budget scenarios comprehensive of the necessary measures to guarantee compliance with the targets, from a multiyear perspective that contemplates a feasible consolidation path fixed jointly with MINHAFP. The duration and intensity of adjustments must take into account aspects such as the relative situation within the Region regarding expenditure level and structure, usage of the normative capacity on taxes, and indebtedness.	19/07/2016	Several Autonomous Regions	MINHAFP/ Murcia, Valencia, Extremadura, Aragón, Catalonia and Castilla-La Mancha		EFP update	Explanation	The EFPs for these ARs are being updated «fully effectively» in the opinion of MINHAFP and published on the ministry website. As for the content of the EFPs and their temporal scope, these aspects are stated in the LOEPSF. AIReF insists that the EFPs should reflect the real situation in each region and not become a mere formality.
Asymmetrical deficit targets. Asymmetric deficit targets should be set for 2017-2019. To achieve this, the following could be taken into account: <ul style="list-style-type: none"> • The relative position of the region as regards the feasibility of its compliance with the target measured in terms of the relative adjustment required. • The coherence of the budget stability target with compliance with the expenditure rule. • The trend toward convergence with budgetary equilibrium for 2019. 	19/07/2016	ARs.	MINHAFP		Approval of individual targets for the ARs. 2017-2019	Explanation	MINHAFP maintains that it complies with the Stability Act and drafts target proposals for each of the ARs that are assessed by AIReF before being approved by the Government. It further points out that the proposal for establishing individual targets for the ARs already comprises the considerations by AIReF. It is also highlighted that the targets set «have allowed progress to be made» jointly and singly by the ARs in fiscal consolidation issues. AIReF upholds the conclusions of its report on 22 December 2016 on the setting of individual targets for the Autonomous Regions.
Guarantees for the approval of EFPs by the supervisory agencies. The Autonomous Regions of Valencia, Andalusia and Aragón, as well as MINHAFP, in their capacity as financial supervision agencies for the City Councils of Alicante, Málaga, Sevilla, Zaragoza, Madrid and Palma de Mallorca, respectively, should take the necessary steps to guarantee approval of the EFPs, in order to plan appropriately for bringing cases of non-compliance back on track.	19/07/2016	Several Local Corporations (Alicante, Málaga, Sevilla, Zaragoza, Madrid and Palma de Mallorca)	MINHAFP and Valencia, Andalusia and Aragón		Approval of the EFPs	Compliance	MINHAFP specifies that it only acts as financial supervisory agency for the city councils of Madrid and Palma de Mallorca. For their part, the corresponding Finance authorities in the ARs concerned limited their response to describing the situation of the EFPs pending approval, arguing that they are highly complex or justifying the delay by the need to remedy omissions in the information submitted by the City Councils. In AIReF's opinion , this coordination should be developed further and it would be a good thing for the adopted agreements to be documented and duly published.
Common framework for Local Corporations' supervision agencies. MINHAFP should establish and supervise a common framework for exercising the competences attributed to the supervisory agencies in the Local Corporations regarding stability and the expenditure rule, in order to correct the differences in their interpretation and in their stringency that seem to exist at present.	19/07/2016	Local Entities	MINHAFP		Agreements of collaboration or similar formats	Explanation	In MINHAFP's opinion , a framework for institutional dialogue already exists for monitoring competences granted to supervision agencies in the Local Entities. The ministry receives quarterly information on supervisory activities. MINHAFP states that it maintains permanent contact with the supervisory agencies in the Local Corporations. To avoid differences of interpretation across the national territory, the representatives of the financial supervisory agencies meet once a year in Madrid. AIReF deems it necessary to formalise this framework for relations among the supervisory agencies.
Debt ratio reduction path. The appropriate legal mechanisms should be employed to extend the transitional period for compliance with the limit established in Article 13 of the LOEPSF, which adapts the requirements specified in Transitional Provision One of the above law and defines a credible but demanding reference path for the sustained reduction of the debt ratio.	19/07/2016	General Government sector	MINHAFP		Organic Law	Commitment to compliance	MINHAFP agrees to study the proposal to review the application of the LOEPSF, considering, as appropriate, the possibility of making normative changes.

Recommendations on the object of the report

Recommendation on the object of the report	Date	Recipient	Competent body		Mode of compliance	Status	Remarks
Report on the macroeconomic forecasts in the Draft Stability Programme Update 2016-2019							
Revision of the forecasts for GDP. Growth in GDP for 2018 and 2019 should be reviewed downwards slightly if it is resolved to maintain the public consumption path in the SPU 2016-2019 for these years.	12/05/2016	Central Government	MINECO		Stability Programme Update	Explanation	MINECO maintains that the public consumption path is compatible with the forecast GDP growth and with the Government's commitment to reducing public expenditure.
Implementation of the Non-Availability Agreements. The ANDs announced in the SPU should be instrumented in the terms foreseen in the LOEPSF, such that these agreements: <ul style="list-style-type: none"> Describe in detail the expenditure reduction measures and identify the credits affected. Can neither be revoked during the year in which they are approved or until other measures are adopted to guarantee compliance with the set target, nor give rise to an expenditure increase in auxiliary accounts. Are implemented accompanied by strict monitoring of budget modifications and movements in auxiliary accounts, in particular the Creditors account for non-budgetary operations (409/413). 	12/05/2016	Autonomous Regions	MINHAFF		Effective implementation	Partial compliance	MINHAFF welcomes the recommendation and notes that the AND subscribed by the CG is already having effect. With regard to the ARs, it mentions that they have been implemented compliant with its legal system and that the required conditions have been met. AIReF feels that, having consulted the same information as that available to MINHAFF, the AND have not been instrumented including the expenditure reduction effect envisaged in the SPU 2016-2019.
Inclusion of non-implementations in the AND. Non-implementations deriving from regional budgets should be expressed in the AND in order to endow them with the latter's effectiveness guarantees.	12/05/2016	Autonomous Regions	MINHAFF		Effective implementation	Explanation	MINHAFF notes that this aspect has been subjected to analysis and that it is part of the procedure applied by MINHAFF to comply with article 25 of the LOEPSF. AIReF , in view of the information published regarding adjustment plans, confirms that non-implementations have not been expressed in the AND.
Reinforcement of the preventive nature of the LOEPSF. The preventive nature of the LOEPSF should be boosted, with the assurance by each of the Public Administrations that they will implement the automatic prevention measures foreseen in the mentioned law, which entail strict monitoring of the implementation data and enable the necessary expenditure adjustments to be made, if required, to guarantee compliance with the stability target.	12/05/2016	General Government sector	MINHAFF		Effective implementation	Commitment to compliance	MINHAFF remarked that mechanisms were to be introduced for enhancing monitoring of the LOEPSF in the Territorial Administrations in order to increase fiscal co-responsibility and achieve greater conditionality for accessing funds, in compliance with the Recommendation issued by the Commission on 9 March. However, it specifies that the SGCAL has been conducting supervisory tasks since 2012, and has therefore had access to sufficient information to apply the legal measures and, in particular, those of a preventive nature. In view of the measures implemented by MINHAFF since 2012, AIReF insists on the need to apply the preventive arm of the law.
Consolidation of adjustments in subsequent years. Details should be given of the measures adopted or that could be adopted to guarantee the consolidation of these adjustments in subsequent years, thus situating the deficit, as expressed in the SPU forecasts, below the threshold of 3 % of GDP in 2017.	12/05/2016	General Government sector	MINHAFF		Budget for 2017	Explanation	MINHAFF is of the view that the SPU contains sufficient details on these measures. With regard to the ARs, it points out that this will be assessed in the EFP negotiation process and that the transferral to subsequent years will depend on many factors, such as the financing system resources to be received in 2017.
Differentiated budget stability targets for the ARs. Clearly differentiated paths for lending and borrowing requirements should be established by Autonomous Regions. A single, more flexible target for all ARs would imply a relaxation of the commitments and forecasts in the approved budgets for eight Autonomous Regions (Andalusia, Asturias, Balearic Islands, Canary Islands, Galicia, Navarra, Basque Country and La Rioja). However, for the nine remaining regions this common target would demand an effort which, despite being manageable for some regions, in others would cause risks to its materialisation, as has been observed in previous years.	12/05/2016	Autonomous Regions	MINHAFF		Approval of the targets	Ongoing	MINHAFF finds that this decision should be examined in the framework of the procedure for setting the new targets, which includes among other requirements a report from AIReF. AIReF is of the view that this procedure should be initiated at the soonest possible date.
Financial situation of the Social Security. The necessary decisions should be taken to guarantee the financial balance of the Social Security System in the framework of the Toledo Pact Commission.	12/05/2016	Social Security	MEYSS/ MINHAFF		Development of the General State Budget Act for 2016	Commitment to compliance	In April the MEYSS submitted to the Toledo Pact Commission the report on developments in the Toledo Pact, to be taken as the baseline framework for the envisaged tasks. MINHAFF expressed its satisfaction with this recommendation.
Definition of the expenditure rule. MINHAFF should revise its recent interpretation regarding calculation of the expenditure rule, according to which the deviations in expenditure produced within each year are deferred for consolidation in the future. Similarly, clear definitions should be given of the methodological elements necessary to plan, monitor and assess compliance with the rule.	12/05/2016	General Government sector	MINHAFF		Ministerial Order	Explanation	MINHAFF shares with AIReF the importance of the expenditure rule, but in the opinion of the ministry, no 'easing' or 'interpretation' of the expenditure rule has occurred liable to distort or alter the definition given in the LOEPSF or any development thereof. AIReF has confirmed, from the information published on the MINHAFF website, that expenditure deviations incurred in previous years were deferred for consolidation in the future.

Recommendations on the object of the report

Recommendation on the object of the report	Date	Recipient	Competent body		Mode of compliance	Status	Remarks
Modification to Transitional Provision 1 of the LOEPSF. The appropriate legal mechanisms should be employed to extend the transitional period for compliance with the limit established in Article 13 of the LOEPSF, which adapts the requirements specified in Transitional Provision One of the above law and defines a credible but demanding reference path for the sustained reduction of the debt ratio.	12/05/2016	General Government sector	MINHAFF		Law	Commitment to compliance	MINHAFF will take into account this recommendation, should it be deemed appropriate by Parliament, in formulating reforms to the text of the LOEPSF.
Report on the 2016 Initial Budgets for the Public Administrations							
Joint review of the systems of financing. The systems of financing of the various Public Administration subsectors should be jointly reviewed conducting an in-depth analysis of their expenditure requirements, without the incremental bias or maintaining the baseline status quo that has characterised previous reforms in the Territorial Administrations.	04/04/2016	General Government sector	MINHAFF		Practical implementation	Commitment to compliance	MINHAFF welcomed AIReF's recommendation as coherent within a «framework of limited resources», and «without prejudice to the idiosyncrasy» of each subsector. The Ministry pointed out that preliminary tasks had been set in motion for the review and reform of the system of financing in the common-regime ARs, by the working group within the Permanent Technical Assessment Committee. At the Fiscal and Financial Policy Council session, on 15 April, a proposal was put forward to create a panel of experts to study the various lines of regional financial reform. Similarly, at the National Local Administration Commission, on 26 April, MINHAFF proposed the constitution of a panel of experts to examine the reform of the local system of financing and called for proposals to nominate members of said panel.
Financial situation of the social Security. The necessary decisions should be taken to guarantee the financial balance of the Social Security System in the framework of the Toledo Pact Commission.	04/04/2016	Social Security	MEYSS/ MINHAFF		Development of the General State Budget Act for 2016	Commitment to compliance	In April the MEYSS submitted to the Toledo Pact Commission the report on developments in the Toledo Pact, to be taken as the baseline framework for the envisaged tasks. MINHAFF expressed its satisfaction with this recommendation.
Content of the adjustment plans for the ARs. MINHAFF should specify, as soon as possible, the content of the adjustment plans associated with the FLA 2016, allowing these to be considered –this year, as an exception– as preliminary to the EFP. To achieve this, it is necessary for the adjustment plans to fulfil the guarantees granted to the EFP regarding their processing, monitoring and publication. Non-Availability Agreements will be integrated in the adjustment plans in the case of those ARs affected by this measure.	04/04/2016	Autonomous Regions	MINHAFF		Adjustment plans	Explanation	MINHAFF points out that the content of the adjustment plans associated to the FLA 2016 has already been standardised and regulated by virtue of Royal Decree-Law 17/2014. The ministry considered that the Autonomous Regions currently submit detailed and specific information and that its publication is managed through the Public Administrations' Economic and Financial Information Centre. MINHAFF likewise envisages its publication in the update scheduled for 27 September 2016. MINHAFF is of the opinion that the adjustment plans already allow detailed monitoring of the ARs' economic and financial behaviour and of the measures they have taken to comply with the deficit targets, which cover a broader content than in the EFPs.
Clarification of measures envisaged in the LOEPSF for the ARs. Clarification should be given of the fiscal framework applicable to the ARs, providing details of the various lines of action, and of the causes and consequences of implementing the measures foreseen in the LOEPSF in each case.	04/04/2016	Autonomous Regions.	MINHAFF		Development of the LOEPSF	Explanation	MINHAFF deems the regulations to be sufficiently clear to determine the aspects mentioned by AIReF and upholds its competence for «completing the information on those issues it considers appropriate». AIReF finds that the proliferation of measures associated to non-compliance, not only with fiscal rules but also with the financing mechanisms and the average payment period, requires clarification when several instances of non-compliance by a given AR coincide, as has been the case.
Impact of revenue measures on the expenditure rule. The approval of measures causing a reduction in revenue should be analysed in the context of their compatibility with compliance with the expenditure rule.	04/04/2016	Central Government, ARs and LCs.	MINHAFF		Practical implementation	Explanation	MINHAFF considers the statements made by AIReF in its report to be neither «adequate nor correct»; the Ministry claims that there have been no instances of easing of the expenditure rule or its implementation. Likewise, it underscores that since April, information is being published monthly on the trend in eligible expenditure with regard to the the expenditure rule (together with the budget implementation data). Specifically regarding the ARs, MINHAFF points out in its response that compliance with the deficit, debt and expenditure rule targets and any other measure communicated by the ARs were already being taken into account, and that the EFPs for 2015-2016 had improved «significantly» the degree of detail in the information provided on the expenditure rule. AIReF has confirmed, on the basis of the information published on the MINHAFF website, that expenditure deviations incurred in previous years were deferred for consolidation in the future.
Common framework for supervision agencies in the Local Entities. MINHAFF should establish and supervise a common framework for exercising the competences attributed to the supervisory agencies in the Local Corporations in stability and expenditure rule issues.	04/04/2016	Local Corporations	MINHAFF		Development of the LOEPSF	Explanation	MINHAFF claims that this framework already exists since 2014, consisting of the coordination meetings held by representatives of MINHAFF and the corresponding ARs. AIReF insists that a common framework, formalised and transparent, for exercising these competences is still lacking.

Recommendations on limitations to scope

Recommendations on limitations to scope	Date	Recipient	Competent body		Mode of compliance	Status	Response
Report on expected compliance with the targets							
The background and methodology should be given in MINHAFP's proposal for setting targets. This would allow AIReF to evaluate and analyse the proposal to detect any risk of non-compliance, within the scope of its competences regarding monitoring the fiscal rules.	23/12/2016	MINHAFP	MINHAFP		Approval of individual targets for the ARs. 2017-2019	Commitment to compliance	MINHAFP notes the recommendation.
A full definition should be given of the debt targets from the moment they are set. In particular, clear specifications should be given for those cases permitting a change in the debt targets, a calendar should be published with the amounts to be allocated by the CDGAE for the subsequent year, and the effect of the measure should be announced by the Government regarding funding for the deficit overrun in 2016.	23/12/2016	MINHAFP	MINHAFP		Approval of individual targets for the ARs. 2017-2019	Explanation	MINHAFP deems the setting of public debt targets in the ARs to be transparent, coherent with the debt target, and that it provides grounds for enlargement that may be estimated as the deficit deviation figures and the reclassification of institutional units in the Bank of Spain's quarterly statistics become known. It is pointed out that AIReF has been sent the information it requested. However, AIReF states its opinion that the debt target is neither properly defined nor transparent, as it cannot be known until the moment its compliance is assessed, which is contrary to what is desirable in any fiscal rule and hinders both its assessment and its compliance.
Report on the projects and main budgetary aspects in the Local Corporations 2017							
Publication of the data for verifying compliance with the stability target and the expenditure rule in the Local Corporations. MINHAFP should carry out the necessary actions to allow the publication of all the required data to verify compliance with the stability target and the expenditure rule within the LCs, and complete such publications with individual information in terms of national accounting and information from all EFPs in force.	07/12/2016	Local Entities	MINHAFP		Practical implementation	Commitment to compliance	MINHAFP claims that the current legislation and the economic-financial information currently published «fully comply with European regulations». The Ministry declares its availability to AIReF for any clarification or additional information deemed necessary. Regarding the publication of individual data for each Local Entity, IGAE is due to publish in 2017, for the first time, individual data in terms of national accounting for Madrid, Barcelona, Valencia, Sevilla, Zaragoza, Málaga, Bilbao, Murcia, Ceuta and Melilla . As for the expenditure rule, if all the necessary information be available, IGAE will publish as of 2018 individual information on the Local Entities referred to in 2017.
Compliance with the duties to provide and publish information on the Local Corporations. MINHAFP and the competent institutions in the Basque Country and Navarra should guarantee compliance with these obligations in the LCs within their territories.	07/12/2016	MINHAFP, Basque Country and Navarra	MINHAFP		Practical implementation	Commitment to compliance	Basque Country: The Provincial Council of Bizkaia agrees to demand the necessary complementary information and, consequently, to approve the EFP of the City Council of Bilbao within the maximum legal term. MINHAFP: Meetings have been held with representatives of the Provincial Councils of the Basque Country and Navarra; substantial progress has been made in the provision of information in nearly all of the municipalities of Gipuzkoa and Bizkaia, and information has been submitted on their budget settlements for 2015, as well as a «significant number» from the municipalities of Navarra. The Ministry agrees to adopt measures to continue improving the provision of information.
Report on the Macroeconomic Forecasts in the Budgetary Plan Update for 2017							
Temporal consistency in the annual and quarterly national accounting estimates. AIReF recommends that INE should ensure such internal consistency, correcting the current mismatch between the publication of the revised annual national accounting series and the full quarterly national accounting series (which ought to be consistent with the annual series).	02/12/2016	INE	INE/MINECO		Practical implementation	Explanation	INE claims that the current dissemination calendar is coherent with the timelines established in European regulations, and certifies that the national and regional accounting system complies fully with the principle of coherence and comparability in the Code of Best practices.
Report on expected compliance with the targets							
Publication of the criteria applied to the debt target. MINHAFP should regulate and publish the criteria envisaged to measure compliance with the debt target.	19/07/2016	Autonomous Regions	MINHAFP		Publication	Explanation	MINHAFP claims that it «does not appear to be necessary» to conduct any additional regulation or clarification on the criterion being used to verify compliance with the debt target, which in the case of the ARs is set by ministerial agreement. It is indicated that the competent body for drafting the financial accounts in the Spanish economy is the Bank of Spain. AIReF reiterated the importance of transparency in the implementation criteria for fiscal rules and insisted on the need for the debt targets to be perfectly defined from the moment they are set, with clear specifications regarding any circumstances allowing them to be changed.
Access to information. MINHAFP should grant AIReF access, in a timely and appropriate manner, to the information necessary for the fulfilment of the statutory powers assigned to this institution by the LOEPSF.	19/07/2016	General Government sector	MINHAFP		Practical implementation	Explanation	MINHAFP claimed to be making a «significant effort» to provide AIReF with the necessary information to fulfil its mandate, «in accordance with European Regulations». The ministry claims to be complying with all of AIReF's requests for information. AIReF , nevertheless, underscored the importance of this recommendation and the need for greater efforts to allow the Agency to exercise its competences.

Recommendations on limitations to scope

Recommendations on limitations to scope	Date	Recipient	Competent body		Mode of compliance	Status	Response
Report on the Stability Programme Update 2016-2020							
Publication of the models used. All the models used in the macroeconomic forecasts should be published, thus fulfilling the requirements stated in Directive 2011/85 on budgetary frameworks.	12/05/2016	Central Government	MINECO		Stability Programme Update	Explanation	MINECO indicates that the table included in the SPU fulfils the need for transparency established in the mentioned directive and deems this information to be more comprehensive than that offered by the European Commission. AIReF insists on the need to publish the models used in complying with the regulation.
Stability Programme content. The Stability Programme Update should include: i) Budget projections in an inertial scenario without measures for the General Government sector or for each of its subsectors. ii) Budget projections incorporating measures that would point to the portion of the foreseen consolidation adjustment that would be achieved through the adoption of measures. iii) Public debt targets allocated by subsectors. iv) Detailed information on the analysis of the expenditure rule in each of the subsectors: eligible expenditure, as well as the reference rates for calculating the expenditure rule for the years covered in the Stability Programme Update. v) More information on risks that, should they arise, may affect that the budget or debt stability targets.	12/05/2016	General Government sector	MINECO/ MINHAFP		Stability Programme Update	Explanation	With respect to points i) and ii), MINECO finds that these would complicate the interpretation of the SPU. Regarding point iii), it understands that this exceeds the duties in the Code of Conduct, but agrees to analyse its technical viability. Likewise, it will study the technical viability of including the information mentioned in point iv). As for point v) it considers this information to be included already in the analysis of macroeconomic shocks. MINHAFP agreed to consider the possibility of providing more information depending on the means available, although it believes that the content of the SPU complies with European regulations requirements. AIReF insists on the convenience of including this information in the SPU, especially in view of the fact that in the case of Spain, the SPU also fulfils the role of medium-term budgetary plan.
Access to information by AIReF. All coordination actions between MINHAFP and AIReF should be taken to ensure the necessary information is readily accessible for compliance with the duties entrusted to the Agency by the LOEPSF and the Organic Law creating AIReF.	12/05/2016	General Government sector	MINHAFP		Practical implementation	Explanation	MINHAFP points out that it is a Government priority to guarantee access to the necessary information to enable AIReF to continue fulfilling its mandate and that it will take every action that is required for this purpose, as it has done to date. AIReF insists on this recommendation, as no progress has been made in this line since the report was issued.
Report on the 2016 Initial Budgets for the Public Administrations							
Publication of consultations made to IGAE and SGCAL. Publicity should be given to the consultations made by Autonomous Regions and Local Corporations to the General Intervention Board of the State Administration and the General Secretariat of Regional and Local Coordination, as well as to the replies given by these bodies according to the competences granted to each on budget stability and the expenditure rule.	04/04/2016	Autonomous Regions and Local Corporations	MINHAFP		Publication on the website	Partial commitment to compliance	MINHAFP agrees to study the publication of its responses to the «more significant» consultations received relating to the competences of the above bodies in the field of budget stability, Financial Sustainability and expenditure rule.
Corrective measures in the LOEPSF: duty to inform. MINHAFP should apply the corrective measures provided for in the LOEPSF in the event of non-compliance with the duty to inform.	04/04/2016	Local Corporations	MINHAFP		Practical implementation	Explanation	MINHAFP countered by claiming to have sent warning letters in all instances of non-compliance in 2015, linking them to the duty to provide information and cautioning of the consequences deriving from Order HAP/2105/2012. AIReF issues the reminder that non-compliance with the duty to inform entails the same consequences as non-compliance with fiscal rules (article 27 LOEPSF) and that the latter had already occurred since the LOEPSF came into force.
Publication of information on the Local Entities. The necessary steps should be taken to ensure that economic and financial information on all the Local Entities is published in full and homogeneous form, and that the appropriate warnings are issued to guarantee that the Local Entities in the chartered regime territories provide the required information under the same obligations as the rest of entities, with the exception of information on the sender of the information.	04/04/2016	Local Corporations	MINHAFP		Publication on the website	Partial compliance	MINHAFP considers that the information received is complete and homogeneous, and that as far the Local Entities of chartered regime territories are concerned, warning letters for non-compliance with the duty to provide information have already been issued (compliant with Order HAP/2015/2012). AIReF issues the reminder that non-compliance with the duty to inform entails the same consequences as non-compliance with fiscal rules (article 27 LOEPSF) and that the latter had already occurred since the LOEPSF came into force.

Opinions

Opinion proposals	Date	Recipient	Competent body	Mode of compliance
Opinion on the application of the formula to calculate the contribution rate of the cessation of self-employment benefit for self-employed workers				
It is recommended that the Ministry of Employment and Social Security should publish in the General State Budget any information that facilitates the calculation of the formula used to estimate the equilibrium rate for the cessation of activity benefit.	22/02/2016	Social Security	MEYSS	Practical implementation
In the medium-term it is recommended to extend the period studied for revenue and expenditure that is applied in the formula.	22/02/2016	Social Security	MEYSS	Practical implementation

Guidance on best practices

Guidance on best practices	Date	Recipient	Competent body	Mode of compliance
Report on the Macroeconomic Forecasts in the Budgetary Plan Update for 2017				
To offer a broader range of information on the relevant methodologies, assumptions and parameters underlying the forecasts.	02/12/2016	Central Government	MINECO	Stability Programme Update
To integrate key forecasting elements in a simplified national accounting framework.	02/12/2016	Central Government	MINHAFP	Practical implementation
The macroeconomic outlook should be accompanied by an inertial scenario and a separate quantification of the impact of the macroeconomic adopted or envisaged. The aim is to facilitate understanding of the forecasts and to make explicit the connection between the macroeconomic outlook and the budget scenario.	02/12/2016	Central Government	MINECO/MINHAFP	Stability Programme Update
Report on the Macroeconomic Forecasts in the Draft Budgetary Plan for 2017				
To ensure at all times internal consistency among annual and quarterly National Accounting estimates.	07/10/2016	Central Government	MINHAFP	Practical implementation
To integrate key forecasting elements in a simplified national accounting framework.	07/10/2016	Central Government	MINHAFP	Practical implementation
To offer a broader range of information on the relevant methodologies, assumptions and parameters underlying the forecasts.	07/10/2016	Central Government	MINECO	Stability Programme Update
Report on the macroeconomic forecasts in the Draft Stability Programme Update 2016-2019				
The macroeconomic scenario should be accompanied by a separate quantification of the impact on the macroeconomic aggregates of the measures adopted or envisaged, to facilitate understanding of the forecasts.	12/05/2016	Central Government	MINECO/MINHAFP	Stability Programme Update
To integrate the key elements in the forecasts into a simplified national accounting framework, thus enabling the analysis of the connections between economic activity, demand and expenditure, on the one hand, and income flows and borrowing requirements, on the other hand.	12/05/2016	Central Government	MINHAFP	Practical implementation

Recommendations in 2017

Competent administration	Received	Answered	Complied with or commitment to comply	Explained	Pending
Ministry of Finance and Civil Service	45	45	20	25	-
Ministry of Economy, Industry and Competitiveness	6	6	-	6	-
Ministry of Employment and Social Security	3	3	3	-	-
Andalucía	2	2	2	-	-
Aragón	2	2	1	1	-
Castilla-La Mancha	1	1	-	1	-
Cataluña	2	2	1	1	-
Extremadura	1	1	-	1	-
Región de Murcia	1	1	-	1	-
Comunitat Valenciana	2	2	1	1	-
Barcelona	1	1	1	-	-
Madrid	1	1	-	1	-
Córdoba	1	1	1	-	-
Spanish Statistical Office	1	1	-	1	-

Follo -up on the 2016 Action Plan

STRATEGY PLAN 2015-2020	Action Plan 2016 Envisaged actions	Situation at 31/12/2016 Work completed
1. CONTRIBUTION TO BUDGET STABILITY		
a. Monitoring and analysis of the financial and budgetary situation		
<p>i. Development of forecasting and projection models for the macroeconomic and budget variables</p>	<p>1. Continuation with the modelling of the main macroeconomic variables:</p> <ul style="list-style-type: none"> • Integrated short-term forecasting model (MiPred), dynamic factorial model (q+1 and q+2) • BVAR Model: Medium-term forecasts (q+3 to t+1) • MetCap Model: Early estimates for quarterly regional GDP • DT: BVARX <p>2 Model. Design and drafting of the MTA (AIReF quarterly model), covering t+2 and t+3, and comprising:</p> <p>2a. Demand block 2b. Offer block 2c. Fiscal policy</p> <p>2d. Prices</p> <ul style="list-style-type: none"> - Preliminary work for drafting the DT MTA <p>3. Quarterly modelling of revenues that is associated to drafting the quarterly MTA model and the need to integrate the public sector block in the macroeconomic build.</p> <p>3a. Modelling of the main elements featured in property tax</p> <p>3b. Models for the annual forecast of revenue and expenditure in the Autonomous Regions/Local Corporations:</p> <ul style="list-style-type: none"> - Projection based on their monthly/quarterly execution - Projection of the main expenditures in the ARs, healthcare, education and social services, combining structural changes with present time variations <p>4. Regional VAR simulation model for spill-over effects (GVAR)</p> <p>5. Design of a simplified SDGE model to analyse fiscal policy</p> <p>6. Creation of an internal database</p>	<p>1. Development of the envisaged models, and the incorporation of the results therefrom in reports and the publication of DT 1/2016: BVARX forecasting model for the Spanish economy in the medium term</p> <p>2. Ongoing design and first outcomes from the MTA, designed comprising demand block, prices block, labour market block, credit block and fiscal block</p> <p>3. Ongoing design and utilisation of the partial results in the analysis of revenues</p> <p>4. Regional VAR pending</p> <p>5. Work in progress on demographic projections and the consequences of the variables relating to pensions</p> <p>6. Creation of an internal database for the MTA. As for the HAVER database, the inclusion of new variables has been requested</p>

STRATEGY PLAN 2015-2020	Action Plan 2016 Envisaged actions	Situation at 31/12/2016 Work completed
1. CONTRIBUTION TO BUDGET STABILITY		
<p>ii. Establishment and maintenance of monitoring systems for budget implementation data and to give warning of possible imbalances in each of the Public Administrations.</p>	<ol style="list-style-type: none"> 1. Internal presentation (interactively through the Tableau) of the main macroeconomic and fiscal results (quarterly update) 2. Continuous monitoring of budget implementation, duly reflected in the corresponding reports 3. Drafting of the warning indicators that allow early detection of the risk of non-compliance with the targets by the bodies in the Local Entities subsector. 4. Continuation of the work to integrate the various institutional sectors: <ul style="list-style-type: none"> • Conciliation of macroeconomic and fiscal variables • Conciliation of financial and non-financial variables • Application of shocks by means of elasticities • Enhancement of the sectoral allocation methods • Simulation tool 5. Analysis of the normative impact in order to assess baseline revenues and expenditures 6. Creation of a database for budget implementation in the LCs enabling disaggregated analyses to be conducted, and conciliation with the national accounting data 	<ol style="list-style-type: none"> 1. and 2. Publication online of budget implementation quarterly monitoring. 3. Ongoing 4. Drafting of a handbook on the operation/maintenance/use of the system made up of institutional sectors. Continuous enhancement process 5. The first preliminary results are presented at the joint AIReF-Bank of Spain meeting 6. Exploitation of the initial results in the Report on the Main Budgetary Aspects of the Local Corporations.
<p>iii. Identification of issues relevant to drafting the Reports on Budget Stability, whose in-depth analysis is conveyed in Working Papers.</p>	<ul style="list-style-type: none"> • DT «Redistribution and stabilisation of income per capita of households by regions» • DT «Cross-entropy estimates of financial flows in a from-who-to-whom framework» • DT public consumption: accounting components and effects (for training purposes) 	<ul style="list-style-type: none"> • Publication of DT 2/2016. Redistribution, assurance and stabilisation of income per capita in households, by regions • The rest is being drafted

STRATEGY PLAN 2015-2020	Action Plan 2016 Envisaged actions	Situation at 31/12/2016 Work completed
1. CONTRIBUTION TO BUDGET STABILITY		
b. To contribute to the implementation and enhancement of the design of fiscal rules in Spain and the EU.		
i. Internal development of the necessary capacity to estimate the variables used to determine the fiscal rules, especially the structural balance and the output gaps	<ul style="list-style-type: none"> Continuation in the development of a quarterly estimation model for potential output DT Output Gap 	Use of the preliminary results in the reports
ii. Analysis of the coherence and compatibility among Spanish and EU rules	Working group on fiscal governance, European rules	Ongoing
iii. Analysis and, as appropriate, proposal for methodological improvements to the implementation of Spanish and EU fiscal rules	<ul style="list-style-type: none"> Working group on the LOEPSF: Evaluation and analysis of the impact of the current fiscal rules and possible proposals for their enhancement Working group on the analysis of moral risks in the implementation of the fiscal framework Documents EU IFI Network 	<ul style="list-style-type: none"> Working groups in progress, due to incorporate part of their findings in presentations to the Advisory Board or at other forums Analysis of fiscal rules in the EU, especially Germany, France, Italy and Austria
2. PROMOTION OF PUBLIC ADMINISTRATIONS' FINANCIAL SUSTAINABILITY		
a. Long-term sustainability analysis of public finance		
i. Monitoring and sustainability analysis of the indebtedness of each of the Public Administrations	<ul style="list-style-type: none"> Publication of an online interactive observatory on the sustainability of the debt in each of the Public Administrations (Tableau format) DT Long-term sustainability DT Publication of the historical series of debt in the Public Administrations DT Development of the analytical sustainability framework by subsectors 	<ul style="list-style-type: none"> Publication of the Government Debt Flash and of the AIReF DataLab for the Autonomous Regions Working Papers in progress
ii. Construction and publication of synthetic indicators, easily communicated, to raise awareness of the importance of long-term sustainability	<ul style="list-style-type: none"> Publication of an interactive web-based observatory featuring indicators of fiscal and macroeconomic stress by Autonomous Regions (Tableau format) 	Publication of AIReF DataLab.
iii. Analysis of contingent liabilities and of risks associated to the consolidation perimeter for the Public Administrations (global perspective of the public sector).	Working group on contingent liabilities	Ongoing, including requirements for information and meetings with ministries and responsible bodies

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2. PROMOTION OF PUBLIC ADMINISTRATIONS' FINANCIAL SUSTAINABILITY		
b. Analysis of the implications of certain public policies regarding long-term sustainability		
i. Analysis of the Social Security System from a long-term sustainability perspective	<ul style="list-style-type: none"> Working group on the sustainability of Social Security in the long term <ul style="list-style-type: none"> - Analysis of the structural balance of Social Security Funds Continuation of the work on modelling long-term expenditure in pensions: <ul style="list-style-type: none"> - Stochastic projections - Endogenisation of migratory flows Design of a simplified SDGE model for analysing Social Security sustainability Design of a short-term micro simulation model allowing projections to be made for the variables that affect the calculation of the pension revaluation index 	<p>Progress has been made in all the foreseen tasks. Modelling of expenditure in pensions is still ongoing, from a stochastic and migration flow endogenisation approach. Analysis and study of the impact of the system reform on entry pensions in 2013-2015. Development of the short-term micro simulation model for obtaining projections for the variables in personal income tax (IRP)</p>
ii. Analysis of the overall effect of ageing on public policies in general, and especially on pensions, healthcare and social services.	<ul style="list-style-type: none"> Working group on the long-term sustainability of Social Security Development of the projection model for expenditure in healthcare, education and social services in the ARs from a demographic angle 	<p>Working group in process</p> <ul style="list-style-type: none"> The preliminary results of the models for expenditure in healthcare and education have been incorporated to the analysis for comparison purposes. Tasks on social expenditure are pending
iii. Identification of other factors (technologies, birth rate, mortality rate, morbidity, migratory movements, etc.) to the General Government sector budget.	<p>Working group on the long-term sustainability of Social Security</p>	<p>Working group in progress</p>
iv. Analysis of the long-term trends and dynamic in the main components of expenditure: healthcare, education and social services, among others.	<ul style="list-style-type: none"> Working group on the structure of revenue and expenditure in Territorial Administrations DT Expenditure in the public sector: Analysis of its evolution DT Determinants for the differences in public sector uses in the Autonomous Regions. Monitoring of the average payment period for suppliers to the Territorial Administrations Opinion on the application of the formula for calculating the contribution rate applicable to the cessation of activity benefit 	<ul style="list-style-type: none"> Publication of DT 3/2016. Expenditure in public services (2002-2014). The case of the Autonomous Community subsector and presentation in academic forums Monitoring of PMP in Autonomous Regions in the analysis conducted on the latter for the reports issued Publication of the opinion on the application of the formula for calculating the contribution rate applicable to the cessation of activity benefit

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3. ENHANCEMENT OF TRANSPARENCY AND BUDGETING PRACTICES IN THE MANAGEMENT OF PUBLIC ACCOUNTS		
a. Promoting the General Government sector's transparency in the management of its resources		
i. To identify loopholes in the existing economic and budgeting information	<ul style="list-style-type: none"> • Agreement with MINHAFP on the provision of information • To promote the dissemination of the Public Administrations' economic-financial data, and the methodology used to obtain them 	Exchange of proposals for an agreement between MINHAFP and AIReF
ii. To contribute to the standardisation, simplification and distribution of information on budget stability and Financial Sustainability	<ul style="list-style-type: none"> • Publication of an interactive web-based observatory featuring indicators of fiscal and macroeconomic stress by Autonomous Regions 	Publication of AIReF DataLab.
iii. Analysis of budget implementation data and the degree of compliance with approved budgets	<ul style="list-style-type: none"> • To continue the analysis of the representativeness of the initial budgets in the Local Corporations subsector with respect to budget implementation, extending this to encompass the most representative Local Corporations • Analysis of the budgetary modifications approved during the year by the Public Administrations, and the allocation of non-budgetary accounts for the purpose of evaluating the impact on the initial budgets 	<ul style="list-style-type: none"> • The preliminary results have been incorporated to the analysis conducted on the 21 most representative Local Corporations • Incorporation of the analysis on budget modifications and non-budgetary accounts to the various reports issued by AIReF for the Autonomous Regions
iv. Analysis of the implementation of the expenditure rule	Monitoring in the reports and a recommendation	Monitoring conducted in the reports and a recommendation
b. Contribution to the enhancement of budgeting procedures and to the harmonisation of budget structures throughout the General Government sector		
ii. Analysis and identification of best budgeting practices in Spain and abroad	<ul style="list-style-type: none"> • Presidency and formalisation of the EU IFI Network • Participation in the IFI Network and OECD budget offices 	<ul style="list-style-type: none"> • Organisation and participation in four meetings of the EU IFI Network • Participation in the eighth meeting of the Network of PBOs and IFIs of the OECD • Participation in seminars on IFIs and fiscal policy • Contacts with EU institutions and with the EFB
iii. Analysis and diagnosis of improvements in results-oriented budgeting and other implementation indicator systems	Working group on best practices relating to budgeting issues	Ongoing

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3. ENHANCEMENT OF TRANSPARENCY AND BUDGETING PRACTICES IN THE MANAGEMENT OF PUBLIC ACCOUNTS		
c. To promote and analyse the implementation of the multiyear principle in budget planning		
i. Analysis and proposals for the implementation of the multiyear principle in budget planning processes	<ul style="list-style-type: none"> • Normative analysis of multiyear budget frameworks • Participation in the seminar on medium-term budget frameworks (The Hague-CPB) 	<ul style="list-style-type: none"> • Attempt to boost momentum within the EU stemming from the European IFI Network • Participation in the seminar
ii. To promote and contribute to estimating and publishing the economic and budgetary effects in the short, medium and long term of the reform measures taken by the Public Administrations		
4. CONTRIBUTION TO ENSURING THAT THE SPANISH CITIZENSHIP PERCEIVES THE FULL BENEFITS OF FINANCIAL SUSTAINABILITY		
a. To define and implement a communication strategy		
i. To define and implement a global communication strategy comprising a website, communication media and social networks	<ul style="list-style-type: none"> • Social network communication plan • Further development of the integrated communication strategy 	<ul style="list-style-type: none"> • Increase in the number of followers on social networks • Greater presence of AIReF in the media
ii. AIReF's work is readily accessed by society at large (website)	<ul style="list-style-type: none"> • Preparation of an informative blog on public finance 	Pending
iii. Appearances before Parliament	At the request of the Spanish Parliament	<ul style="list-style-type: none"> • Two appearances • Joint meetings of the Executive Committee of AIReF and the spokespersons for the Parliamentary Budget and Finance Committees
iv. Participation in debate forums to explain the work carried out by AIReF	<ul style="list-style-type: none"> • To maintain a presence in the forums to explain the work performed by AIReF • Meetings with the Territorial Administrations, international organisations and other institutions • Bilateral relations with other IFIs 	<ul style="list-style-type: none"> • Increasingly active presence in diverse forums in Spain and abroad • Bilateral contacts with all the Autonomous Regions and face-to-face meetings with the executive officers of Castilla y León, Galicia, Asturias, Aragón, Valencia, Madrid, Cantabria and Catalonia • Diverse meetings and contacts with the European Commission and international bodies. • Visit to the IFI of Austria, the IFI of Portugal and, subsequently, a technical mission to the Portuguese IFI in Spain and participation in the European technical assistance to the IFI of Greece

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4. CONTRIBUTION TO ENSURING THAT THE SPANISH CITIZENSHIP PERCEIVES THE FULL BENEFITS OF FINANCIAL SUSTAINABILITY		
b. Promotion of fiscal awareness in Spanish society		
i. To produce didactic materials with informative content for the public	<ul style="list-style-type: none"> • To set up an informative blog on public finance • Preparation and design of an educational area on the website 	Pending
ii. Organisation of internal and external seminars and conferences on subjects related to budget stability and financial sustainability	To proceed with the organisation of seminars, both internal and external, relating to the financial stability and sustainability of the General Government Sector, including a seminar with the IMF	<ul style="list-style-type: none"> • Celebration of a seminar with the ARs on the expenditure rule and healthcare expenditure. 22 June 2016 • CEMFI, <i>Fiscal Consolidation and Spillovers in a Currency Union: A Quantitative Approach</i>
c. To promote economic research in the field of fiscal policy		
i. Publication of Working Papers on fiscal policy	The Working Papers are included in the foregoing sections.	Four Working Papers

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4. CONTRIBUTION TO ENSURING THAT THE SPANISH CITIZENSHIP PERCEIVES THE FULL BENEFITS OF FINANCIAL SUSTAINABILITY		
<p>ii. To establish the mechanisms for collaboration with universities and research centres, international institutions and other independent fiscal institutions for the purpose of carrying out research programmes</p>	<ul style="list-style-type: none"> • Participation in the seminar <i>Fiscal Watchdogs in Europe: Challenges and Solutions</i> held at the University of York on 18 and 19 July 2016 • Visits by other IFIs for the exchange of best practices 	<ul style="list-style-type: none"> • Participation with two papers at the mentioned event • Attendance at the European Central Bank Workshop on Forecasting Techniques: Forecast Uncertainty and Macroeconomic Indicators and the European Commission, Joint Research Centre, Seville: Micro simulation modelling for fiscal policy analysis <p>Papers presented at seminars and conferences:</p> <ul style="list-style-type: none"> • 29 February: Bank of Spain J. Marín: <i>Redistribution and stabilization of income per capita of households by regions</i> • 7-8 April: Universidad de Zaragoza: <i>IV Workshop in Time Series Econometrics</i>: two papers • May: European Central Bank: J. Marín: <i>Redistribution and stabilization of income per capita of households by regions</i> • 6-7 June: Bank of Spain, <i>Fiscal Sustainability</i>: two papers • June: Presentation of a paper in Greece • 18 July: York University, Fiscal Policy Symposium: two papers • 20-21 October, Red de Investigación sobre Financiación Regional, Santiago de Compostela: <i>Fiscal sustainability and subnational treasuries in Spain</i>: three papers and closure <p>Courses given:</p> <ul style="list-style-type: none"> • 12-14 July: Secretariat-General for the Treasury (Ministry of Economy and Competitiveness): <i>Sustainability of Government debt</i> • 7-8 November: Instituto Asturiano de Administración Pública: «Macroeconomic projections: models and techniques»
<p>iii. AIReF programme of research and study scholarships</p>	<p>Continuation and new calls for the student scholarship programme for training and research in the field of economic and budgeting analysis for fiscal stability and sustainability</p>	<p>Conclusion of the first call and screening for nine scholarships in the second call</p>

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5.		
a. Design and drafting of reports, opinions and studies		
i. Internal assessment of procedures and methodologies	Publication of new methodologies and adaptation or updating of those currently in use	Continuous process
ii. Drafting of an internal procedure and handbook of best practices for writing up reports	<ul style="list-style-type: none"> • Approval of the handbook on best practices • Protocol for dealing with MINHAFP 	Ongoing
iii. Drafting and publication of the methodologies applied to reports and opinions	Publication of new methodologies and adaptation or updating of those currently in use	Continuous process
iv. Advisory Board on economic and budgeting issues and institutional matters	<ul style="list-style-type: none"> • Five meetings in 2016 	Five meetings were held, and two new members welcomed
b. To substantiate the 'comply or complain' principle and the duty to collaborate in the submission of information		
i. To apply the 'comply or complain' principle and to follow-up recommendations	<ul style="list-style-type: none"> • Quarterly publication of follow-up on recommendations • Calendar of requests and reception of information for drafting reports and monitoring recommendations for 2016 • Proposal of a protocol for dealing with MINHAFP 	<ul style="list-style-type: none"> • To maintain continuity in the publication of follow-up on recommendations • Exchange of proposals with MINHAFP
ii. Definition and compilation of the necessary information for drafting reports	<ul style="list-style-type: none"> • Requests for the corresponding information for each report • Calendar of requests and receipt of information for issuing reports and conducting follow-up on recommendations for 2016 • Proposal of a protocol for MINHAFP and other ministries 	<ul style="list-style-type: none"> • The obstacles to accessing information have been described in the pertinent reports • Exchange of proposals for a protocol for dealing with MINHAFP • Preparation and implementation of a system for individual compilation of the most significant LCs • implementation of the warning procedure for non-compliance with the duty to collaborate with the Corporations. (warning published on the website)
iii. Boosting the Economic and Financial Information Centre and the mechanisms for collaboration	Proposal for a protocol and agreement with MINHAFP regarding the provision of information	Exchange of proposals for an agreement between MINHAFP and AIREF
iv. Collaboration with the Technical Committee for National Accounts (CTCN)	Formalisation of the relationship with the CTCN as soon as its internal rules and regulations are approved	The internal rules and regulation of the CTCN have not yet been approved

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5.		
c. Efficient and transparent management of human and financial resources		
i. Consolidation and maintenance of a skilled team of professionals	Proposal for enlarging the Lis of Posts	The proposal was rejected by CECIR
ii. Development of objective elements for measuring the work performed	Regular reporting schedule	Completed
iii. Creation of an independent administrative and management structure	Progress made in the integration of AGE administrative systems: NEDAES, DARETRI, SGIP, BDNS (national subventions database) and GEISER.	All the envisaged systems have been implemented
iv. Establishment of an evaluation and follow-up system for AIReF's activity, including external mid-period assessment	Design of the external assessment to be conducted in 2017 (midway point of the President's mandate)	In process: Analysis of alternatives for external assessment

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