

# Annual Report 2015



Independent Authority  
*for* Fiscal Responsibility



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# 1. Introduction

**The Independent Authority for Fiscal Responsibility (AIReF) has a single mandate: to ensure effective compliance by public administrations (PAs) in Spain with the principle of budgetary stability set out in article 135 of the Spanish Constitution.** Its scope of responsibility encompasses all the entities that comprise the public sector in Spain. AIReF was created under Organic Law 6/2013 of 14th November, which granted it the legal prerogative of access to the information allowing it to monitor all the public administrations individually in order to make a continual assessment of their budget cycle, debt and their economic forecasts. The work carried out by AIReF is underpinned by three basic principles: independence, transparency and accountability.

**2015 was the first full year of existence and activity for AIReF.** The institution was set up in 2014. Since then, and throughout 2015, AIReF has consolidated the work it has been carrying out throughout a full budgetary cycle in Spain. As a result, AIReF has now published at least once every single one of the regular reports stipulated in its statutory mandate.

**This Annual Report is a fundamental component of the institution's transparency and accountability to society as a whole.** AIReF's Annual Report describes the work done by this institution throughout 2015, as outlined in article 5.5 of Law 6/2013, which says that AIReF will prepare a yearly report on its activities to be "widely published and disseminated". This report was approved by the president of AIReF on 29th March 2016 following deliberation by its management committee pursuant to the procedure set out in AIReF's Organic Statute. It will be made publicly available on the institution's website. In addition, it allows a comparison to be made between the actions carried out and those scheduled in the action plan drawn up for the same year, as well as an analysis of the implementation of AIReF's Strategy Plan for 2015-2020. As a result, it can also form the basis of the institution's 2016 Action Plan.

**The report is divided into five sections** following on from this introduction. These sections deal with AIReF's essential lines of publications, its recommendations and best practice guidelines issued for the General Government sector, its institutional and communication activities and, lastly, its financial management and human resources.



## 2. Documents published by AIReF

**AIReF fulfils its remit by preparing and issuing reports, opinions and studies.** The reports and opinions are public, whereas the publication of the studies it conducts requires authorisation from the administration that has commissioned them. In addition, AIReF publishes working papers relating to issues falling within its remit. The analyses of the long-term sustainability of government finances and of the Social Security system also form part of its functions. AIReF is the competent authority in certain aspects of the application of the preventive, corrective and coercive mechanisms provided for in Organic Law 2/2012 of 27th April, on Budgetary Stability & Financial Sustainability (LOEPSF, *Ley Orgánica de Estabilidad Presupuestaria y Sostenibilidad Financiera*).

**The reports published by AIReF are statutory reports** relating to the institution's continual assessment of the budget cycle, government debt, and its analysis of macroeconomic forecasts. The reports it prepares for each public administration on the four phases of the budget cycle (drafting, approval, implementation and control) form part of the four-year economic and budget strategy defined in the Stability Programme (that AIReF has to report on). AIReF is also responsible for preparing reports on the application of the preventive, corrective and coercive mechanisms contained in the LOEPSF. These are not regular reports issued at specific times, but rather are only prepared if and when the developments envisaged in the legislation occur. Lastly, every year AIReF must issue an Opinion on the determination of the pension revaluation rate and, will have to do the same for the sustainability factor when it comes into force.

**In 2015 AIReF published every single one of the statutory regular reports covered in the legislation.** During the year the scheduled publication date of certain reports was subject to change due to changes in budget calendars. The following reports and opinions were issued by AIReF in 2015:

- Report on the methodology to calculate revenue and expenditure trends and the reference growth rate. Published on 27th February 2015, although no ministerial order on the methodology analysed in the report has been passed to date.
- Reports on the Autonomous Regions' Economic-Financial Plans (EFPs) (article 19 of Organic Law 6/2013). In 2015, these reports were published on 21st January, 8th, 27th and 29th July, and 3rd December.
- Report on the General Government sector initial budgets for 2015, published on 31st March.

- Reports on the Draft Stability Programme Update for the Kingdom of Spain, published on 29th April.
- Report on expected compliance with the fiscal targets for 2015 by the public administrations, published on 15th July.
- Report on the setting of individual budget stability and regional government debt targets for the Autonomous Regions, published on 27th July.
- Reports on macroeconomic forecasts (article 14 of Organic Law 6/2013), published on 29th July and 3rd December.
- Reports on the General Government draft budgets and main budgetary lines (article 20 of Organic Law 6/2013), published on 28th September, 11th November and 30th November.
- Reports on the application of correction mechanisms envisaged in the LOEPSF (article 21 of Organic Law 6/2013), published on 30th November.
- Opinion on the determination of the 2015 pension revaluation index, mandatory under Law 23/2013, of 23rd December, regulating the sustainability factor and pension system revaluation index, published on 3rd November.

AIReF also published five working papers.

## 2.1. Reports

A summary of the reports prepared by AIReF under each heading is given below:

### 2.1.A. Reports on the budget cycle

#### Reports on macroeconomic forecasts

**AIReF must issue a report on the macroeconomic forecasts incorporated in the budgets of all the public administrations in Spain or in the stability programme.** Pursuant to article 14 of the Organic Law 6/2013, the budgets or the stability programme of these administrations shall indicate whether or not the Fiscal Authority has endorsed the forecasts included in them. In the interests of greater transparency, AIReF published three methodological documents specifying the assessment criteria to be used in these reports<sup>1</sup>.

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1. Resolution 16/2015 concerning the methodological format of the Report on the macroeconomic forecasts contained in the Stability Programme Update for Spain 2015-2018; Resolution 22/2015, defining the methodological format of the Report on the macroeconomic forecasts contained in the Draft State General Budget for 2015 and Resolution 9/2014, on an alternative methodology and simulations for appraising the macroeconomic forecasts of the 2015 budgets for the Autonomous Regions.



**AIReF issued three reports on macroeconomic forecasts in 2015.** The first one was on the macroeconomic forecasts included in the Draft Stability Programme Update (SPU) 2015-2018; the second one was on the macroeconomic scenario accompanying the 2016 Draft State General Budget, and the third one evaluated the forecasts made by those Autonomous Regions (ARs) that put forward forecasts that were different from the forecasts made for Spain as a whole.

**The macroeconomic forecasts in the Draft SPU for 2015-2018 were endorsed by AIReF.** The report was based on the exogenous assumptions and the defined policies and considered the fiscal consolidation objectives to be ambitious but achievable. AIReF stated that the forecasts of the Government's macroeconomic scenario assumed a significant recovery in the economic cycle such that the output gap would close by 2018, the end of the outlook period. This scenario was underpinned by highly favourable monetary and financial conditions against a backdrop of a dynamic external sector, with high world and EU growth and a consolidation of the improvement in the Spanish economy's real terms of trade.

**However, AIReF identified considerable risks of deviation in the expansionary assumptions made and in the implementation of the restrictive spending policies designed.** The first risk would be reflected in slightly less buoyant and stable growth, according to the historical experience shown by the analytical models used by AIReF. Likewise, a more relaxed spending policy would fuel growth in domestic demand and prices, widening the external trade imbalance of the Spanish economy and, more specifically, increasing private-sector financing needs. In contrast, effective containment of public spending within the limits set in the programme would moderate the cyclical expansion in demand, prices and the financial imbalances of the Spanish economy and all its sectors. The report indicated that the risks highlighted for the macroeconomic scenario would affect growth in real GDP and employment upwards in the short-term and downwards later on in the programme timeframe.

**The macroeconomic forecasts in the Draft State General Budget (SGB) were endorsed as likely by AIReF in its report.** AIReF was of the view that the Government's macroeconomic scenario was likely on the whole. However, the composition of growth might be different from the projection given, with more consumption and less investment and slightly lower job creation than expected. The report stated that the Government's forecasts were generally realistic but they were subject to a number of different risks. Firstly, the assumptions for higher interest rates and oil prices than the current ones were prudent, implying that the Government's key forecasts might be overshoot in reality. Secondly, AIReF warned that there were risks relating to the implementation of the policies designed by the Government and to the effects they may have. In particular, those risks concerned the effectiveness of the restriction on increasing expenditure on the part of the regions and the stimulus the new tax cuts would entail for private consumption. However, AIReF's belief was that their impact on GDP would be very different depending on the combination of risks that eventually materialised. Overall, the risks surrounding GDP growth were regarded as balanced.

### **BOX 1: Summary of the reports on the macroeconomic forecasts in the Draft SPU 2015-2018 and reports on the SGB for 2016**

These reports consisted of two parts, one to evaluate the possible bias in the macroeconomic forecasts made in previous years (ex post assessment) and another section to evaluate the forecasts (ex ante assessment).

First of all the macroeconomic forecasts made in previous years were examined in order to assess whether there was any significant bias in the errors that were made. To this end, the Government's forecasts for the main macroeconomic variables were compared first with those of other independent private and public-sector institutions and then with the results observed.

It was observed that the average absolute error in the Government's forecasts for the macroeconomic scenarios from 2011 to 2014 was greater than the average of the consensus forecasts. The biases were deemed significant only in the case of the real growth rates of private consumption (2011-2013) and public consumption (2012-2014). In both cases, the Government's initial forecasts were outside of the respective interquartile ranges and these deviations were not justified ex post by any greater approximation to the observed data during three consecutive years.

Then the reports focused on the analysis of the macroeconomic and budgetary scenario and on the analysis of the risks. The goal was to assess whether the Government's forecasts were realistic and whether they define a more likely or a more prudent macroeconomic scenario.

AIReF noted that the macroeconomic forecasts put forward by the Government in this Draft SPU and in the SGB used the most updated information available. Nonetheless very little public information was available about the methodologies and parameters underlying the Government's forecasts.

The key conclusions to be highlighted from the *ex ante* analysis of the draft SPU forecasts were:

- The assumptions about the external environment were likely but expansionary overall. In particular, the report deemed the acceleration of the real growth in GDP in the EU to be substantially above its potential up to the 2018 timeframe, together with the maintenance of the exceptionally benign financial environment and historically low interest rates. All of that meant a clearly expansionary combination with clear downside risks for GDP forecasts, employment and fiscal consolidation.
- The strength of the expansion of economic activity forecast by the Government entailed the risk of a greater slowdown in the future. The report highlighted that the risks that affected domestic demand in the short term seemed slightly upside and as they moved further away from the immediate timeframe these risks tended to be inverted. The report underscored the strong growth in employment and steep fall in the unemployment rate contrasted with the persistent wage moderation and scarce inflationary pressure foreseen in the macroeconomic forecast. There was therefore a risk that it would be simultaneously higher.
- With regard to external demand, downside risks were suggested in exports and upside risks in imports with a result of a risk of a higher external deficit than the deficit forecast by the Government.

The key conclusions to be highlighted from the ex ante analysis of the forecasts for 2015-2016 were:

- The forecasts were deemed realistic overall, if taking into account the normative nature of the forecast for a reduction in government consumption. AIReF's view was that the initial positive biases of the Government forecasts for real growth in gross fixed capital formation were large, and that they were associated with the uncertainty about the strength of the change in the construction cycle and in the slowdown in investment in capital equipment.

- In external demand upside risks were seen, both in exports and in imports, with an approximately neutral net result. The risks for growth in real GDP and employment were judged to be balanced.
- In the case of government consumption, AIReF warned that it would be unlikely the Government's forecast for a reduction in government consumption would be achieved unless additional spending restraint measures were implemented

**AIReF endorsed as likely the forecasts of all the Autonomous Regions that had submitted forecasts that were different from the Central Government's forecasts.**

The Autonomous Regions that published macroeconomic forecasts that did not exactly correspond to the forecasts for Spain in the SGB 2016 were: Andalusia, Aragón, Balearic Isles, Basque Country, Canary Isles, Castilla y León, Galicia, Madrid, Murcia, Navarra and Valencia. The Autonomous Regions of Asturias, Cantabria, Castilla-La Mancha, Catalonia, Extremadura and La Rioja did not submit their own updated forecasts. AIReF considered the GDP forecasts of Balearic Isles and Valencia to be prudent whereas the forecasts of the other Autonomous Regions tended to be slightly optimistic. The employment forecasts for Canary Isles, Galicia and Murcia were deemed to be prudent whereas the forecasts made by Andalusia, Aragón, Castilla y León, Navarra and Basque Country tended to be optimistic.

**BOX 2: Methodology of the Report on the macroeconomic forecasts of the 2016 budgets of the Autonomous Regions.**

The report compared the macroeconomic forecasts for GDP, employment, or both variables, made by each Autonomous Region for 2016 with those included in the SGB 2016 for the economy as a whole. It estimated the confidence ranges of those forecasts and analysed whether they contained any biases.

A bias was deemed to exist in the forecast of a variable if the variable deviated by more than one standard deviation from the forecasts in the statistical models used to contrast it. This model is a statistical forecasting model that in addition to the growth forecasts for Spain incorporates all the relevant information of regional economic indicators. The criteria to endorse the GDP and employment forecasts for those ARs that had made a forecast that was different from the one contained in the 2016 SGB were as follows: the forecasts were not endorsed if they had an upward bias in both variables; they were endorsed as unlikely if they had an upward bias in one of the two variables; they were endorsed as likely if there were no biases; and lastly they were endorsed as prudent if they did not have any upward biases in either of the two variables.

All the forecasts by the Autonomous Regions used the most updated information available, although none of them specified sufficiently the methodology, assumptions and parameters used.

### Report on the 2015 initial budgets for the Autonomous Regions.

**In its report on the 2015 initial budgets, AIReF restated its assessment that the 2015 budgetary stability target set at 4.2% of GDP for the General Government sector as a whole was very demanding.** After taking account of the variations detected in the information analysed (with regard to the information that underpinned the drafts and main lines of the budgets of the ARs for 2015) AIReF confirmed its assessment made in its report on the 2015 drafts and main lines of the General Government sector published in 2014.

**AIReF did not detect any risk of non-compliance for the Central Government (CG).** After analysing the measures and variations incorporated since the approval of the draft SGB AIReF's view was that the CG did not show any risks of failure to comply with the deficit target set at 2.9 %.

**AIReF observed a risk of failure to comply with the deficit target for 2015 in the Social Security Funds.** The difficulties for compliance observed were greater than those indicated in the report on the drafts and main budgetary lines of the 2015 budgets. Some of this deviation from target was due to the non-achievement of the expectations existing in the previous report of higher revenue in the Social Security expenditure budget expected from the new system of direct settlement and the inclusion of remuneration in kind in the contribution base. This deviation would be partially offset by the favourable impact on its revenue of an improvement in the macroeconomic environment and the continuous reduction in expenditure on unemployment benefit (forecast to end under budget). In any event, the report warned that it was highly likely the Social Security Funds deficit would end 2015 several tenths of a percentage point above the 0.6% of GDP target.

**In the case of the Autonomous Regions, AIReF was of the view that it was highly likely the subsector would end 2015 with a similar deviation from the deficit target to the one recorded in 2014.** The regions were starting off the year with a deficit recorded in 2014 of 1.7% of GDP according to AIReF's estimate. That meant they would need to take steps to bring down this figure by a full percentage point in order to achieve the deficit target for 2015. The analysis of the budgets for this subsector, however, did not reveal any measures that would make a significant contribution to cutting the deficit. Furthermore, the improved macroeconomic scenario would only be substantially reflected in their revenues as of 2016 according to AIReF's estimates.

**The conclusion reached by AIReF for the Local Corporations (LCs) was that it was highly likely the subsector would end 2015 with a comfortable surplus similar to the surplus achieved in 2014.** The expenditure budget scenario for the year did not show any evidence of the economic impact envisaged for the local government reform.

### **BOX 3: Analysis of the adequacy of the budgets for 2015 to meet the stability, debt and expenditure rule targets.**

Following the approval of the Draft SGB 2015 in the Central Government subsector a series of measures were taken that entailed a loss of revenue and this led to the consequent reduction in the size of the leeway observed in the draft SGB, mainly stemming from the estimation of financial expenses. During 2015 one key measure to be highlighted was the approval of a 0% interest rate for lending operations with the territorial administrations through the extraordinary financing mechanisms. Despite the impact of these measures, no risk of failure to comply was observed for this subsector due to the likely improvement in revenue associated with the also probable upturn in the macroeconomic scenario.

As far as the Social Security Funds are concerned, AIReF monitored the situation closely and concluded that the expectations of additional Social Security revenue were not materialising. These expectations had been based on the assumed impact of the envisaged of new contribution revenue management measures (CRETA) and the inclusion of remuneration in kind into the contribution base.

Within the scope of the Autonomous Region subsector, the new documentation analysed compared to the documentation used in the report on the main lines of the 2015 budgets was essentially: 2014 year-end figures, the saving on the budgeted expenditure on interest payments (estimated to be €2.33 billion for the Autonomous Regions, following the passing of Royal Decree Law 17/2014) and the Economic-Financial Plans (EFPs) for Cantabria, Castilla-La Mancha, Catalonia, Murcia, Valencia and Navarra.

With this documentation the key conclusions of the reports on the main budgetary lines published by AIReF in 2014 were upheld and it confirmed that it was unlikely the subsector would be able to comply with the budget stability target in the subsector in 2015 due to:

- Risk of non-compliance with the stability target for 2014.
- Additional risks observed in the scenario forecast for 2015:
  - Overestimation of the revenues included in the budget for 2015 with regard to the funding system resources, to the forecast revenues from the tax on asset transactions and documented legal acts (*Impuesto sobre transmisiones patrimoniales y actos jurídicos documentados*, ITPyAJD) and the tax on inheritance and donations (*Impuesto sobre sucesiones y donaciones*, ISD), and the uncertainty in the materialisation of revenue from real estate asset disposals.
  - Stagnation and lack of concrete development of the expenditure consolidation measures forecast for 2015. This stems from, on the one hand, the discontinuation of measures taken in previous years and, on the other hand, the lack of additional measures other than estimates for non-implementation or withholding of budget appropriations or decisions on their non-availability.

Taking into account both year-end 2014 and the budget scenario for 2015, AIReF identified a high risk of non-compliance with the stability target in 2015 for Andalusia, Aragón, Balearic Isles, Cantabria, Castilla-La Mancha, Catalonia, Extremadura, Murcia and Valencia.

- In the case of Aragón, Balearic Isles, Cantabria and Castilla-La Mancha, the risk stemmed essentially from 2014 year-end.
- As regards Catalonia and Valencia, in addition to the retrenchment required as a result of the 2014 year-end result, there was the fact that the uncertainties stated at the time about the revenues scenario in the draft budgets can still be seen in the scenario for 2015 contained in the EFP, although this time they concern different budget items.

- In the case of Andalusia, the sale & leaseback operation that conditioned the risk AIReF saw in the budget lines report for compliance with the 2014 target was finally classified as non-financial income in that year. The non-recurring nature of the operation, accounting for 0.2% of regional GDP, together with the overestimation of revenues in the 2015 budget, meant uncertainties remained about the likelihood of compliance with the 2015 stability target for the region.

Unlike all the other subsectors, in the Local Corporations (LCs) the only information available to AIReF to publish its report was the information provided by the Ministry of Finance & Public Administrations. This was the aggregate information for the subsector on the budgets approved by the LCs for 2015, Individualised information on the budgets approved by the six city councils with more than 500,000 inhabitants and the updated economic report of Law 27/2013, on the rationalisation and sustainability of local government. The variations analysed depended as a result primarily on the differences in the information available.

This information confirmed that it was highly likely the LCs would end 2015 with a large surplus, even though the expenditure budget scenario for 2015 did not reveal any evidence of the economic impact envisaged for the local government reform.

### Report on the Draft SPU 2015-2018

**AIReF was of the opinion that the fiscal consolidation adjustment of 5.4% of GDP envisaged in the SPU is ambitious but attainable.** This adjustment for the whole of the General Government sector that is required for it to comply with the stability target in the reference period (2015-2018) would be attained to a large extent by a reduction in expenditure of 5 percentage points of GDP (from 43.6 % to 38.4 %) and a slight increase in revenues against GDP (from 37.8 % in 2014 to 38.1 % in 2018). The estimate by subsectors was for the surplus achieved in 2013 and 2014 in the local subsector to be achieved again and that the Central Government could attain its own target. However, major difficulties were observed for the Social Security Funds and for the AR subsector. The target in the regional subsector might be reached if the relative different positions of the regions could be offset.

**In the case of the expenditure rule, the information supplied in the SPU did not allow compliance with the expenditure rule to be adequately evaluated.** As it did not go into sufficient detail on the subsectors and at the time the GDP reference growth rate had not been published either, AIReF could only make an approximate assessment of its calculation for the General Government sector as a whole and the conclusion reached was that there would be compliance up to 2016 with slight deviations from target estimated for 2017 and 2018.

**As far as the debt limit is concerned, AIReF estimated that the long-term target (a 60% debt-to-GDP ratio, as stated in transitional provision one of the LOEPSF) would not be met.** The report forecasted a cumulative debt reduction rate over the period of 4.4% of GDP, taking the debt ratio in 2018 to 93.2% (a gap of 33 percentage points from target).

**BOX 4: Analysis of the adequacy of the SPU for the reference period 2015-2018 for compliance with the stability, debt and expenditure rule targets.**

To determine the plausibility of the fiscal consolidation path put forward in the draft SPU, it was necessary for AIReF to analyse whether the measures envisaged in that draft document for the different subsectors were sufficient to guarantee compliance with the targets.

In the case of the Central Government, the effectiveness of the forecasts in the SPU in the period 2015-2018 would entail making a major consolidation adjustment (3.3% of GDP) that was estimated to be achievable, provided the margins in the medium-term macroeconomic forecasts materialised. AIReF deemed that the adjustment would be propitiated essentially by the improvement in the macroeconomic scenario that would entail a significant increase in taxation revenue in the reference period. AIReF estimated that it was likely expenditure on debt servicing and transfers to the State Public Employment Service (SEPE, as it is known in Spanish) to cover the deficit would mean less pressure on the expenditure side as a consequence of interest rate developments and the likely fall in spending on unemployment benefits.

Most of the expenditure-related measures falling within the scope of the Central Government subsector were articulated through actions aimed at rationalising public expenditure through the Public Administrations Reform Committee (CORA) and from savings from not fully replacing public employees. The revenue measures (essentially reforms of personal income tax [IRPF] non-resident income tax [IRNR] and of corporation tax [IS]) in 2015 and 2016 were estimated with a negative impact, whereas in 2017 they were estimated to be positive above all because of the anti-fraud measures (offsetting the negative impact of all the other taxation measures).

For the Social Security Funds (SSF) subsector the forecasts included in the SPU would require a consolidation adjustment of 1% of GDP in the reference period from 2015 to 2018. This is unlikely to be achieved according to AIReF's estimates. As in the other subsectors, this adjustment was based on the improvement in the macroeconomic scenario that would mean an increase in revenue from contributions in the period. However, AIReF was of the view that the positive development of revenue would not be sufficient to reach the stability target set for the period 2015-2018, and that the measures set out in the SPU would not manage to complete the retrenchment required.

The report advised making an analysis of the financial situation of the SSF in the short and medium term in order to anticipate the possible depletion of the reserve fund.

For the Autonomous Region subsector AIReF estimated that the fiscal retrenchment to be made in the period 2015-2018 would have to be 1.6 % of GDP. Whether or not it would achieve it would depend on if the different relative positions of the Autonomous Regions could be offset. The discretionary measures set out in the draft SPU would enable half of the necessary consolidation adjustment to be made (0.7 % of GDP).

AIReF estimated that compliance with the exacting fiscal consolidation path in the autonomous region subsector would require the measures considered in the SPU to obtain the expected economic impact. Doubts were raised with regard to achievement of the tax revenue measures (ISD, ITPyAJD, hydrocarbons tax [IH] and environmental taxes), personnel measures (non-replacement of public employees) and the effects of the new health expenditure rationalisation instrument (pending approval and concrete detail). It would also be necessary for the macroeconomic scenario to provide an improvement in these tax revenues, a significant part of which would be transferred to the Autonomous Regions from 2016 onwards.

For the Local Corporations subsector, AIReF estimated as highly likely that the subsector would maintain the surplus of around 0.5% of GDP reached in 2013 and 2014 over the outlook period of the programme. The consolidation of the surplus in this subsector would be due to the joint implementation of the expenditure rule and the budgetary stability target. The measures proposed by the subsector for the period 2015-2017 focused mainly on the expenditure side, and were to stem essentially from the local government reform (whose impact was reduced in the SPU compared to the forecasts in the 2015 Budgetary Plan).

### Report on the expected compliance with 2015 targets by the Public Administrations.

**AIReF stated in its report how difficult it would be for the General Government sector overall in Spain to meet the stability target set at 4.2% of GDP for 2015.** In the report it published in July 2015 AIReF appraised the expected compliance with the budget stability, government debt and expenditure rule targets for the different subsectors for 2015. To make its assessment and detect any risks of non-compliance AIReF analysed primarily the budget implementation data available up to the date of publication of the report for each one of the subsectors, the measures envisaged for the current year and those adopted in previous years. In addition, it made its own estimates for the future development of revenue and expenditure and the effect of all of those measures.

**The analysis by subsector reflected a likely reduction in the deficit of at least 1% of GDP in 2015.** The achievement of the target set for 2015 would require budget implementation of the different subsectors throughout the second half of 2015 to fall within the most favourable part of the range forecast by AIReF.

**The analysis of government debt reflected the difficulties surrounding achievement of the 60% debt-to-GDP ratio before 2030.** An analysis of compliance with debt targets was not made because the way in which the debt targets are set prevents any ex ante view being stated about their compliance. Instead, AIReF chose to make its analysis from the standpoint of financial sustainability in its report.

**As far as the expenditure rule is concerned, AIReF estimated that the eligible expenditure of the Central Government and the Autonomous Regions might outstrip the reference growth rate set for 2015 (1.3%).** The information received by AIReF was not sufficient to be able to state a proper view on the expenditure rule of the different subsectors. Nevertheless, the estimates made with regard to the key expenditure items pointed to likely non-compliance with it.

**The report stated that no risk of failure to comply with the budget stability target was observed for the Central Government.** In AIReF's view, the budget implementation data up to the date of publication of the report and its expected trajectory to the end of the year



seemed to be compatible with the 2.9% deficit target. Additionally, the buoyancy observed in the key macroeconomic variables was driving recovery in revenue although they were also affected by measures entailing lower revenue collection. That is why AIReF deemed the revenue budget forecasts would barely be met. Expenditure, on the other hand, is being strictly implemented and the expectation was for this trend to be maintained, thus facilitating achievement of budget stability.

**For the Social Security Funds however, there was practical certainty of non-compliance with the 2015 target.** On the revenue side, the Social Security budget contained a very ambitious revenue collection forecast driven by the efficiency measures put in place. In practice, however, these measures were having a very limited effect on collection figures. Social contributions were growing at a rate slightly below nominal GDP growth. Although the improvement in employment was injecting buoyancy into contributions paid into the system there were factors <sup>¾</sup>mostly associated with employment incentive policies<sup>¾</sup> that were limiting this upward trend. Expenditure on pensions was in line with the forecast growth rate and even though there was an early indication then that expenditure on unemployment benefits would perform significantly better than the budget forecast, at best the Social Security Funds deficit in 2015 would record a similar figure to last year and so would not meet the ambitious target set for this year.

**In the case of the Autonomous Regions, AIReF indicated in the report that there was also a risk of deviation from the target set for the subsector at -0.7 % of GDP.** Meeting the target would require a reduction of one percentage point of GDP. This did not seem to be an achievable goal in a year in which the funds from the regional financing system barely grew by two tenths of a percentage point of GDP. According to the analysis made of budget implementation data, the measures adopted to date and the additional information furnished by the autonomous regions, AIReF estimated that the reduction in the deficit compared to 2014 would be around half a percentage point of GDP. Although the situation varied from one region to another, the risk of non-compliance was essentially due to deviations observed in revenues from their own regional taxes, expected financial transfers from the State that were not included in the State General Budget, and the non-materialisation of a large part of the sales and administrative concessions forecast in the budgets. On the expenditure side, the interest rate saving stemming from new financing measures has not been reflected as yet in an equivalent reduction in the deficit.

**In the Local Corporations, AIReF's estimate was for the subsector to comfortably achieve the budget equilibrium target.** The report expected the surplus at year-end to be above 0.5% of GDP as a result of maintaining the levels of revenues forecast with no significant increases in expenditure. AIReF also made an individualised analysis of the six local governments in provincial capital cities with a population of over 500,000, concluding with an estimate that they could consolidate the surplus recorded in previous years.

**BOX 5: Report on expected compliance with the 2015 targets for each autonomous region and of the local governments in provincial capital cities with a population of over 500,000.**

The following criteria were applied to determine the risk of failure to meet the budget stability target by each region individually.

1. Development of revenue and expenditure implementation to April, corrected with the information on measures and other actions that might impact their rate of implementation or affect the year-end result.
2. Track record of deviation from the regions' initial forecasts with regard to their final settlement.
3. Possible correction or maintenance of revenue over-estimation observed in the initial budgets and draft EFPs, basically in the items of disposal of investments and transfers received from the State.

In accordance with the criteria above, AIReF's estimation for the budget stability target in 2015 was as follows:

- No risk of non-compliance was observed for Asturias, Basque Country, Canary Islands, Castilla y León, Galicia and La Rioja.
- A risk of non-compliance could be observed in Andalusia, Aragón, Balearic Isles, Cantabria, Castilla-La Mancha, Catalonia, Extremadura, Madrid, Murcia, Navarra and Valencia. This risk was especially acute in Catalonia, Extremadura, Murcia and Valencia, where non-compliance was seen as a practical certainty.

For the first time in any of its reports, AIReF included in its analysis of the LC subsector the six local governments in provincial capital cities with a population of over 500,000: Barcelona, Madrid, Malaga, Seville, Valencia and Zaragoza. An individualised analysis was made for each of these local governments of the risk of non-compliance with the budget stability target and the debt limit target.

The outcome of the analysis was that no risk of non-compliance with the stability target was observed in any of the six major local governments and it was highly likely that they would close the year with a surplus that would be similar to the surplus they posted in the previous year at least.

As there is no GDP figure available in the case of local governments, for comparison purposes, the size of the possible surplus obtained by these local governments was estimated 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 setting of individual budget stability and regional government debt targets for the Autonomous Regions.**

**AIReF published a report on the proposal made by the Ministry of Finance and Public Administrations (MINHAP) for budget stability targets.** The report included homogeneous targets for all the Autonomous Regions for each one of the years, as a percentage of GDP (-0.3 % in 2016, -0.1 % in 2017 and 0 % in 2018). The proposal was based on the argument that these targets at an aggregate subsector level would allow the subsector as a whole to comply with the adjustment path set together with the expenditure rule. Therefore, no major structural retrenchment would be required in the period given that all of the deficit reduction would be possible thanks to

the effect of the economic cycle. For the Autonomous Regions individually, the Ministry of Finance and Public Administrations was of the view that these targets were feasible but did not provide any documentation to back that assertion.

**AIReF proposed the setting of differentiated deficit targets in 2016 and 2017 so that the convergence path towards a balanced budget envisaged for 2018 would be possible.** AIReF identified the existence of three groups of Autonomous Regions depending on how quickly their fiscal adjustment could take them to the budget equilibrium target set for 2018. The principles of feasibility of the stability targets and consistency with the application of the expenditure rule were taken into account. The three groups were defined according to the information available at the date of publication of the report and with the estimates explained in detail in the annexes to the report:

- ARs with a budget balance target in the full period 2016-2018 through the application of the expenditure rule: Andalusia, Asturias, Basque Country, Canary Islands, Castilla y León, Galicia, La Rioja, Madrid and Navarra.
- ARs with a budget balance target in 2018 and an adjustment path envisaged for the subsector in 2016 and 2017: Aragón, Cantabria and Castilla-La Mancha.
- ARs with a budget balance target in 2018 and a more gradual adjustment path than forecast for the subsector in 2016 and 2017: Balearic Isles, Extremadura, Catalonia, Murcia and Valencia.

#### **BOX 6: Report on the setting of individual budget stability and regional government debt targets for the Autonomous Regions.**

AIReF made a recommendation to the Ministry of Finance and Public Administrations to set differentiated deficit targets in 2016 and 2017 so that the convergence path to a balanced budget as envisaged for 2018 by the same ministry would be possible.

AIReF suggested that a feasibility analysis should be made. Using the 2015 year-end estimate in the 15th of July report (on expected compliance with the 2015 targets), an assessment would be made of the possibility of compliance with the target in 2016, the year in which the deficit reduction required as a target by the path set by the Ministry of Finance and Public Administrations would be more demanding.

The differences in both the baseline scenario (2015 year-end) and the forecast contribution made by the resources from the financing system to the achievement of the target in 2016 highlighted the need to set a methodology with indicators that allow discussion of the feasibility of homogeneous targets in line with the target set for the subsector. AIReF suggested using two synthetic key indicators and three supplementary indicators to do so:

Synthetic key indicators

1. Fiscal adjustment effort in terms of primary structural balance. It takes an indirect approach to fiscal effort because it is based on an estimate of the impact of the economic cycle on public accounts.

2. Effort required or target in terms of primary non-financial uses. It analyses the reduction effort or the leeway for increase of primary expenditure that would be required to meet the 2016 target given a certain level of revenue.

In line with these two indicators, Balearic Isles, Catalonia, Extremadura, Murcia and Valencia would all have to make an above-average adjustment in 2016 to comply with the target set at -0.3 %.

The synthetic key indicators could be supplemented by other supplementary indicators (regional fiscal pressure index that appraise the exercising of normative capacity on taxation by the ARs; their developments in like-for-like primary expenditure and revenue sufficiency given like-for-like primary expenditure). These indicators have an impact on feasibility and would allow a more gradual adjustment path to be devised for the five Autonomous Regions listed above, taking into account to the sustainability analysis made.

However, the results of the supplementary feasibility and sustainability indicators were not conclusive when it comes to defining a more gradual adjustment path to the targets for the Balearic Isles, Catalonia, Murcia and Valencia as they did not identify unequivocally how gradual to make that path.

For all the other ARs, AIReF proposed making an assessment of the consistency between the stability target and the expenditure rule given that the closer the ARs are to complying with the stability target, the more relevant the expenditure rule becomes (because it determines what the cap on any increase in expenditure would be). According to the estimates of eligible expenditure, AIReF concluded that the budget balance in Asturias and Madrid would be closest to equilibrium but Andalusia, Basque Country, Canary Isles, Castilla y León, Galicia, Navarra, and La Rioja would not achieve a balanced budget in 2016 (and that result would continue to be the case every year until 2018).

With regard to the debt target, AIReF made a positive appraisal of the proposal put forward by the Ministry of Finance & Public Administrations in which the margin for discretionary action in the system to set the debt targets was limited by reducing to only two the number of exceptions allowing for rectification of the individual debt targets proposed for 2016-2018. Nevertheless, AIReF's view continued to be that the debt targets proposed were still not transparent or verifiable ex ante and did not allow the Autonomous Regions to make their budgets aligned with the debt targets, nor did they allow AIReF to make an evaluation beforehand of the compliance with these targets.

## Reports on the General Government draft budgets and main budgetary lines for 2016

**The report on the General Government draft budgets and main budgetary lines had to be divided into separate reports on separate subsectors.** This was the consequence of the early submission to Parliament of the draft State General Budget (SGB) and the holding of local and regional elections throughout 2015. Because of the earlier than scheduled submission to Parliament of the draft SGB for 2016, AIReF also brought forward to September the publication of its own report on the draft budget. Early in November AIReF published its report on the main lines of the budgets for 2016 for the LCs and the full report was completed on 1st December with the publication of the report on the ARs. This latter report was especially delayed because several of the new regional governments had not prepared the main budgetary lines until the submission of the draft budgets to their respective parliaments.

**AIReF did not observe any risk of failure to comply for the Central Government sub-sector.** The deficit target forecast for the Central Government in 2016 (2.2% of GDP) seems achievable and is supported by the buoyancy of taxation revenue, by the scaling down of the transfer made to the State Public Employment Service (SEPE), and by the lower debt servicing burden forecast

**AIReF deemed there was a high risk that the Social Security funds would not attain the deficit target set for 2016 at 0.3%, with a deviation of more than 1% of GDP.** The financial position of the Social Security Funds has been deteriorating progressively since the onset of the crisis in 2008, building up a considerable deficit that the recent economic recovery has not been able to turn around. Since 2008, the development of revenue has always been below expenditure, even though expenditure has been curtailed because of the effect of the reform measures, which nevertheless will have their full impact over a longer time frame.

**Within the scope of the Autonomous Regions, the report concluded that there was a risk of non-compliance with the target in 2016, set at 0.3% of GDP.** This was a consequence of the deviation estimated for 2015 (of between 0.9 and 0.8% of GDP) and of the uncertainties about the materialisation of certain revenue and expenditure items budgeted for 2016. The conclusion reached on the expenditure rule for 2016 was that its compliance might entail for several Autonomous Regions a more demanding target than the budgetary stability target. Deviations in the development of the expenditure in the Autonomous Regions with a larger deficit were seen that might lead to non-compliance with the expenditure rule, and that could affect the subsector as a whole. With regard to the debt target, in the report AIReF reiterated the difficulties it had in making an assessment. In addition the current design did not guarantee the medium or long-term sustainability of the debt. That is why in this report AIReF focused its analysis on the medium to long-term sustainability of government debt.

**AIReF's forecast for 2016 estimated a surplus of between 0.3% and 0.6% of GDP in the Local Corporations subsector and that the debt target was entirely attainable.** All the necessary information AIReF required to state a view on whether these lines were adequate for compliance with the deficit and debt targets or the expenditure rule with regard to the whole subsector was not available. Using the available information it estimated that it was highly likely that the subsector would comfortably comply with the stability target in 2016 (although the possible surplus might be lower than the surplus obtained in previous years). No risk of non-compliance with the stability target in 2016 was seen in any of the six largest local governments although the margin above the target might be cut substantially. However, AIReF estimated that it was highly likely that all of them would fail to comply with the expenditure rule, except for Malaga and Zaragoza. With regard to the debt target, these local councils would show a debt-to-current revenue ratio of under 110% except for Zaragoza.

### **BOX 7: Adequacy of the main lines and draft budgets of the Autonomous Regions to the stability, debt and expenditure rule targets.**

In the Autonomous Region subsector, AIReF reached the following conclusions from its individualised analysis of the Autonomous Regions:

- a. Compliance with the budget stability target in 2016 was deemed likely in Andalusia, Asturias, Basque Country, Canary Isles, Castilla y León, Galicia, Navarra and La Rioja. Furthermore, application of the expenditure rule could lead to these regions achieving an even lower deficit than the 0.3% set. Furthermore, in these autonomous regions no significant risks associated with the medium and long-term debt sustainability were observed. Within this group, Castilla y León and Galicia were the regions where the forecast development of expenditure could compromise compliance with the expenditure rule and in Andalusia a risk of non-compliance with this rule was detected.
- b. The Autonomous Regions in which a moderate risk of non-compliance with the budget target was detected were: Balearic Isles, Cantabria, Castilla-La Mancha and Madrid. The reason was the uncertainty about the development of certain items in the budget scenario and the implementation and economic impact of some of the measures forecast. With regard to the debt sustainability, AIReF's view was that the Balearic Isles were not risk-free and that risks could also be seen in Castilla-La Mancha.
- c. A risk of non-compliance with the budget stability target was detected in Aragon, although it was impossible to quantify the risk at that time. With regard to the medium and long-term debt sustainability AIReF indicated that no significant risks were observed.
- d. Autonomous Regions in which a very high risk of non-compliance with the budget stability target was detected: Extremadura, Catalonia, Murcia and Valencia. These Autonomous Regions will have to make an adjustment of more than two percentage points of GDP in 2016. With regard to the debt sustainability, only in Extremadura were significant risks not seen. Risks were identified in Murcia and those risks were high for Valencia and very high for Catalonia.

To give a more comprehensive view of the position of each region, the analysis was completed with a study of their relative position in revenue and expenditure. In an initial approximation, this allowed identification of the leeway for action that was seemed most clearly feasible. To do this AIReF updated and completed the calculations of the indicators included in its report published on 27th July on the individual targets of the ARs.

#### ***2.1.B. Reports on the application of preventive, corrective and coercive measures under the LOEPSF***

##### **Reports on the Economic-Financial Plans of the Autonomous Regions**

**Non-compliance with the budget stability or government debt targets, or with the expenditure rule, makes the submission of an Economic and Financial Plan (EFP) compulsory.** Pursuant to the budgetary stability and financial sustainability legislation in Spain, AIReF must issue a report on EFPs prior to their approval. During 2015 AIReF reported on the non-compliance of the EFPs in 2014 by the following regions: Asturias, Basque Country, Castilla y León, Catalonia, Madrid, Murcia, and La Rioja (in July) and Andalusia, Aragón, Cantabria, Castilla-La

Mancha, Extremadura and Valencia (in December). In addition, in January AIReF published its report on the EFP submitted by Navarra due to non-compliance with the budget stability and government debt targets in 2013 to be submitted to the Coordinating Committee of the Economic Agreement with that region.

**AIReF deemed that the EFPs of those regions with significant and recurring deviations should be prepared in a multiyear framework agreed with the Ministry of Finance & Public Administrations.** The preparation of the plan and its monitoring would be done in this framework, above all in the case of those ARs with recurring non-compliances. Another new point is that AIReF recommended for those ARs with significant deviations from the targets that the comptroller's office in the autonomous region (or equivalent unit) should report to the regional government on a regular basis on the monitoring of the budget implementation and give warning of whether decisions should be taken for early correction of any deviations that might occur. This recommendation was made in line with the framework of automatic prevention measures as covered in article 18 of the LOEPSF.

#### **BOX 8: Reports on the EFPs submitted by Autonomous Regions due to failure to comply in 2014.**

In its report submitted to the Government in October 2015, the Ministry of Finance & Public Administrations determined the non-compliance with the budget stability target in thirteen out of the seventeen Autonomous Regions. –all of them except Galicia, Canary Isles, Navarra and Basque Country–, as well as non-compliance with the debt target by Aragón, Castilla y León, Catalonia and La Rioja, and of the expenditure rule by Balearic Isles, Canary Isles, Catalonia Extremadura, Madrid, Basque Country and Valencia. Consequently, these regions had to submit an EFP that would allow them to comply with the targets set for the current year and the following year.

AIReF produced reports on the EFPs as and when the Autonomous Regions sent them. The timing of the publication of the report was important as the publication of other reports prepared by AIReF (such as the report on expected compliance with General Government sector 2015 fiscal targets, on 17th July, and the report on the main budgetary lines of the ARs for 2016, on 30th November) affected the conclusions and/or recommendations. The key conclusions were:

- Catalonia: For the budget stability target AIReF deemed that there was practical certainty about non-compliance with the 2015 target. Moreover, the significant deviation that was likely to be recorded in 2015 compromises compliance in 2016. AIReF was not able to state a view on compliance with the debt target due to the uncertainty associated with the procedure of setting that target. As for the expenditure rule, AIReF believes that the expenditure rule information contained in the EFP needed to be expanded to enable an assessment of it to be made
- Madrid: As regards the budget stability target, AIReF believed compliance in 2015 and 2016 to be possible. Nevertheless, risks of a deviation from the stability target in 2015 were detected, and these were primarily because of estimates skewed to the upside in certain revenue lines. The forecasts for the region for 2016 were viewed as likely and therefore the stability target was deemed

to be achievable. As for the expenditure rule, AIReF believed that the EFP should be expanded to incorporate the necessary information on the expenditure rule to be able to make an assessment of compliance with it.

- Asturias: As regards the budget stability target, AIReF believed compliance to be possible in 2015 and 2016. For the expenditure rule, AIReF believed that the EFP should be expanded to incorporate the necessary information on the expenditure rule to be able to make an assessment of compliance with it.
- Castilla y León: As regards the budget stability target, AIReF believed compliance was possible with it in 2015 and 2016. AIReF was not able to state a view on compliance with the debt target due to the uncertainty associated with the procedure of setting that target. As for the expenditure rule, AIReF believed that the expenditure rule information contained in the EFP needed to be expanded to enable an assessment of it to be made.
- Murcia: As regards the budget stability target, AIReF believed that non-compliance with the target for 2015 was practically certain. The significant deviation likely to be recorded in 2015 compromises compliance in 2016. AIReF highlighted the special importance of preparing the EFP because of the track record of recurring deviations compared to the annual targets. The EFP should contain a credible path to correct the imbalance in a multiyear framework coinciding with the timeframe established in the SPU.
- La Rioja: As regards the budget stability target, AIReF deemed compliance with it possible in 2015 and 2016. As for the debt target, AIReF was not able to state a view on compliance with the debt target due to the uncertainty associated with the procedure of setting that target. For the expenditure rule, AIReF believes that the expenditure rule information contained in the EFP needed to be expanded to enable an assessment of it to be made.
- Basque Country: As regards the expenditure rule, AIReF believed compliance with the rule both in 2015 and in 2016 to be possible. Nevertheless, it pointed out that the EFP submitted did not include the minimum contents as stipulated in the LOEPSF.
- Andalusia: As regards the budget stability target, AIReF deemed there to be a risk of non-compliance with the 2015 target, stemming primarily from possible deviations in its forecasts for revenue from the funding system. AIReF deemed that compliance with the stability target in 2016 was possible but very tight due to the probable deviation in 2015 year-end and growth in expenditure. The region was forecasting growth in expenditure for 2016 and the development of expenditure might compromise the expenditure rule.
- Aragón: As regards the budget stability target AIReF deemed there to be a risk of non-compliance for 2015 and 2016. The uncertainties detected in the report on main budgetary lines that prevented the risk from being measured were attenuated with the information provided on revenue. Nonetheless, the uncertainties observed on the expenditure side remained. Due to the uncertainty associated with the procedure to set this target, AIReF could not state a view on compliance with the debt target.
- Cantabria: AIReF deemed there to be a risk of non-compliance with the stability target for 2015, stemming fundamentally from the developments in expenditure to date and the uncertainty about the implementation of the withholding of unavailable budget funds. A moderate risk of non-compliance with the 2016 target was detected, more so because of the expected deviation in 2015 year-end (not envisaged by the region) and because of the uncertainties about the effective materialisation of capital inflows.



- Castilla-La Mancha: As far as the budget stability target is concerned, AIReF deemed there to be a risk of non-compliance for 2015 and 2016.
- Extremadura: AIReF concluded that the deviation from the 2015 stability target forecast by the region could be higher due to the possible deviation in revenue forecasts. A very high risk of failure to comply with the 2016 target was seen as only a part of the expected deviation from the 2015 target was envisaged by the region. The forecast development of expenditure might compromise compliance with the expenditure rule in 2015 and 2016.
- Valencia: There was a very high risk of non-compliance with the stability target for 2015 and 2016. The forecast development of expenditure might not be compatible with compliance with the expenditure rule in 2015 and 2016.

### Report on the application of correction mechanisms envisaged in the LOEPSF

**AIReF made a recommendation to the Ministry of Finance & Public Administrations on the application of the correction mechanisms provided for in the LOEPSF.** As stated above, AIReF detected a very high risk of failure to comply with the budget target for 2016 in Catalonia, Extremadura, Murcia and Valencia (as published in its report on the main lines of the budgets of the Autonomous Regions for 2016). AIReF prepared its report on the application of correction mechanisms. It was published as a separate section of the report on the budget lines and in it AIReF made a recommendation to the Ministry of Finance & Public Administrations for it to apply the measures in article 19 of the LOEPSF. Those corrective measures are envisaged for the regions with a high risk of failure to comply with the stability target for 2016 (the deviation from target is estimated to be around two percentage points of GDP). Whereas the December 2014 report recommended that the Ministry of Finance & Public Administrations should apply the correction measures due to the almost certainty that the stability target for that year was not going to be achieved, the 2015 report was prompted by the high risk of non-compliance with the target for the following year (2016). AIReF also made a recommendation to the Ministry of Finance & Public Administrations that it should agree on rigorous and detailed planning up to 2018 with the respective regions and that this planning should incorporate the approved EFP and the budget implementation.

#### *2.1.C. Report on the methodology to calculate revenue and expenditure trends and the reference growth rate*

##### **AIReF assessed the Draft Ministerial Order on the calculation of the sensitivity to the economic cycle of the budgets of the General Government sector and its subsectors.**

This assessment was published in its Report on the methodology to calculate revenue and expenditure trends and the reference growth rate. AIReF's assessment was that the Ministry of Economy & Competitiveness had complied with its obligation to review the sensitivity of the budget to the economic cycle as a consequence of the revisions made at EU level. Nevertheless, it recommended

supplementing the Draft Order with additional information to enhance transparency and make it easier to reproduce the calculations for all the subsectors in the General Government sector. The ministerial order that was the subject of the report has still not yet been published.

#### **BOX 9: Summary of the Report on the methodology to calculate the revenue and expenditure trends and the reference growth rate**

Both the contents and the methodology included in the report were established before it was published through Ruling 11/2015 issued by the president of AIReF. The report focused on the amendments proposed by the Draft Order and was divided into two separate sections:

- Assessment of the Draft Order: an appraisal of the substantive and formal aspects of the amendments made to the Order, with particular attention paid to the information supplied with the two-fold objective of increasing transparency and making replication of the calculations easier.
- Guidelines on possible methodological improvements: assessment of possible improvements to be considered when applying the methodology.

The very limited scope of the amendments included in the Draft Order can be inferred from the report. They merely adopt the new government revenue and expenditure elasticities (estimated by the OECD and adopted by the EU in May 2014) with respect to the output gap used to determine the impact of the cycle on government accounts of the Member States. AIReF observed that for Spain these changes meant revising up the cyclical component of the budget and so a greater part of the deterioration in government finances could be explained by the economic crisis. Moreover, AIReF's assessment was that the Draft Order contained certain constraints that affected the distribution of the cyclical balance among the subsectors and consequently the structural position that should be balanced.

#### **2.1.D. Opinion on the determination of the Pension Revaluation Index 2016**

**The pension revaluation rate for 2016 would be below the minimum statutory increase of 0.25%.** As far as the values calculated by the Ministry of Employment & Social Security are concerned the conclusion reached in the Opinion was that the result of the applicable formula was below the minimum increase under the law.

**The Government's expenditure forecasts were deemed to be adequate and consistent with AIReF's forecasts.** AIReF's own modelling using the continuous sample of working lives and the demographic projections from the National Statistical Institute (INE) in Spain obtained very similar results as regards the development of the number of pensioners and the replacement rate to those supplied by the Ministry of Employment & Social Security.

**The Government's revenue forecasts for the period 2015-2020 were assessed as demanding by AIReF with an annual average rate of 4.1%.** Compliance with the forecasts would require the materialisation in its entirety of the macroeconomic scenario included in the Government's budget scenario and full achievement of the forecast results for the measures set up to broaden the Social Security contributions base and achieve greater efficiency in its management.

**BOX 10: Opinion on the determination of the Pension Revaluation Index 2016**

The aim of this opinion was to determine whether the values and parameters used to calculate the pension revaluation index (PRI) included in the draft SGB were realistic and matched the result of applying the values of the variables in the calculation formula agreed on to that end, or if the application of the maximum and minimum limits defined by the legislation was necessary. Furthermore, it included a specific section explaining the formula.

Firstly, AIReF checked with the data supplied by the Ministry of Employment & Social Security that the result of applying the formula was lower than the statutory minimum rate of increase. Nevertheless, AIReF also highlighted the fact that the legislation regulating the PRI includes a minimum annual rate of increase for pensions (0.25%) and a maximum rate of increase (the December CPI compared against December of the year before +0.5%) although it does not establish any hierarchy in their application. In a scenario of negative development of prices as occurred in 2014, the Government's interpretation to increase pensions by the statutory minimum rate (0.25%) meant that they actually went up more than if the cap on pension increases had been used, given that the maximum rate was lower than the minimum rate. Then AIReF compared the data supplied by the ministry against the estimates of the models prepared by AIReF for the years 2016-2021. In this way, the expenditure forecasts were placed in the centre of the estimated confidence band. The Government's revenue forecasts, on the other hand, fell outside the confidence bands estimated by AIReF in the period 2016-2018 whereas the probability was less than 10% in 2019 and rose to almost 20 % in the years 2020 and 2021.

## 2.2. Working papers

**AIReF published five working papers** that provide technical support to the analysis contained in the reports and opinions it issues. Publication of the working papers (*documentos técnicos*, DT) is also a way of increasing transparency regarding the work carried out within the institution:

- DT/01/2015 *El índice de revalorización de las pensiones (IRP): Propuestas de solución del problema de circularidad*. Ignacio Moral-Arce & Federico Geli.
- DT/02/2015 *Modelización y proyección de ingresos por el impuesto sobre la renta de las personas físicas*. Carlos Cuerpo & Raquel Losada.
- DT/03/2015: Quarterly regional GDP flash estimates for the Spanish economy (MetCap model). Ángel Cuevas & Enrique M. Quilis.
- DT/04/2015. Integrated model of short-term forecasting of the Spanish economy (MIPred model). Ángel Cuevas, Gabriel Pérez-Quirós & Enrique M. Quilis.
- DT/05/2015 Modelling interest payments for macroeconomic assessment. Celestino Girón, Marta Morano, Enrique M. Quilis, Daniel Santabárbara & Carlos Torregrosa.



**In addition to the working papers listed above, AIReF presented a briefing document on the expenditure rule and the sustainability of public finances.** Given the increasing importance of the expenditure rule in the context of economic recovery and upturn in Spain, the document offers an approach to its key points in order to help make it better and more widely known.

### 3. Follow-up on reports and opinions

**AIReF can make recommendations to the public administrations or government entities that are the intended recipients of its reports** in the exercise of its statutory functions. The recipients of the recommendations are subject to the principle of “comply or explain”. This means they are obliged to comply with the recommendations and if they do not they have to give a reasoned explanation for why they do not.

**In the reports issued so far AIReF has also indicated any limitations to the scope of the object they cover** arising from deficiencies in the relevant and necessary information it requires to formulate a view on the subject matter they deal with. These limitations in turn give rise to recommendations to which the “comply or explain” principle is also applicable. Such constraints may also contravene the duty of collaboration set out in article 4.3 of Organic Law 6/2013 and article 6 of AIReF’s Organic Statute.

**The “comply or explain” principle is a way of building a constructive dialogue process with the public administrations.** By approving Resolution 14/2015 on the calendar for requesting and receiving information to issue reports and follow-up on recommendations for 2015, AIReF tried to set up procedures and communication channels with the competent administrations in order to follow up on the recommendations made in its reports.

#### Classification of recommendations, proposals and guidelines by subject matter

Subject	Recommendations Limitations to the scope	Recommendations Object of the report	Proposals in opinions	Guidelines Best practices	TOTAL
Budget stability	-	25	-	-	25
Financial sustainability	1	5	-	-	6
Expenditure rule	11	3	-	-	14
Budgetary procedures	-	3	3	6	12
Transparency	11	8	2	10	31
<b>Total</b>	<b>23</b>	<b>44</b>	<b>5</b>	<b>16</b>	<b>88</b>

### AIReF has been publishing its quarterly follow-up on the recommendations made.

This follow-up can be consulted on the website and contains the responses from the public administrations to which the recommendations in the reports were addressed. In addition, given the interest shown by those international organisations that track on a continuous basis Spain's fiscal policy in how the "comply or explain" principle is being implemented and its effectiveness, AIReF kept them informed during the year on the status of the recommendations made.

REPORTS	Recommendations Limitations to scope	Recommendations Object of the report	Guidelines Best practices	TOTAL
Report on the methodology to calculate revenue and expenditure trends and the reference growth rate	-	3	3	6
Report on the government sector initial budgets 2015	5	6	4	15
Report on the macroeconomic forecasts in the SPU 2015-2018	-	1	3	4
Report on the SPU 2015-2018	2	4	2	8
Report on expected compliance with the 2015 budget stability, government debt and expenditure rule targets by the public administrations	2	4	-	6
Report on the setting of individual budget stability and regional government debt targets for the Autonomous Regions	4	4	-	8
Report on the macroeconomic forecasts in the 2016 SGB	-	1	2	3
Report on the General Government draft budgets and main budgetary lines for 2016	5	2	-	7
Report on the General Government sector 2016 draft budgets and main budgetary lines: Local Corporations	3	2	-	5
Report on the General Government sector 2016 draft budgets and main budgetary lines: Autonomous Regions	-	9	-	9
Report on the macroeconomic forecasts in the Autonomous Regions' budgets for 2016.	-	-	2	2
Reports on Autonomous Region EFPs	2	8	-	10
<b>TOTAL</b>	<b>23</b>	<b>44</b>	<b>16</b>	<b>83</b>

**AIReF can include proposals in its opinions and guidelines on best practices that are not subject to the “comply or explain” principle.** In 2015 AIReF only issued one mandatory statutory opinion on the pension revaluation rate for 2016. The opinion contained 5 proposals in total on procedures and transparency.

### Classification by the competent body to implement the proposed measure

Proposal addressed to	Recommendations Limitations to the scope	Recommendations Object of the report	Proposals in opinions	Guidelines Best practices	Total
Ministry of Finance & Public Administrations	18	20	-	6	44
Ministry of Employment & Social Security	1	3	5	-	9
Ministry of Economy & Competitiveness	-	5	-	8	13
Ministry of Finance & Public Administrations and Employment & Social Security	1	1	-	-	2
INE, IGAE, Banco de España	-	2	-	-	2
Autonomous Regions	1	2	-	2	5
Ministry of Finance & Public Administrations and Autonomous Regions	2	-	-	-	2
Ministry of Finance & Public Administrations and Ministry of Employment / Social Security and Autonomous Regions	-	1	-	-	1
Fiscal and Financial Policy Council	-	1	-	-	1
Aragón	-	2	-	-	2
Catalonia	-	2	-	-	2
Extremadura	-	1	-	-	1
Madrid	-	1	-	-	1
Murcia	-	2	-	-	2
Valencia	-	1	-	-	1
<b>Total</b>	<b>23</b>	<b>44</b>	<b>5</b>	<b>16</b>	<b>88</b>

### 3.1. Recommendations on the object of the report or regarding non-compliance with the budget stability legislation

**AIReF made a total of 44 recommendations in its reports on the object of its reports.**

Most of the recommendations, 25 in all, were about budget stability. Recommendations were also made on improving transparency, financial sustainability, the expenditure rule, and budget procedures.

**The recommendations were addressed primarily to the Autonomous Regions.** The Autonomous Regions overall were the subject of a total of 11 recommendations and 9 of them were addressed superficially to one or several Autonomous Regions. Another significant number of the recommendations made, 15 in total, were addressed to the General Government sector overall.

**Nevertheless, the Ministry of Finance & Public Administrations was responsible for “complying with or explaining” 20 of the recommendations.** Even though other administrations were the target of the recommendations the Ministry was the competent body to comply with or start the process to foster compliance with them. The Ministry of Economy & Competitiveness and the Ministry of Employment & Social Security were also responsible for or involved in 10 other recommendations.

#### Recommendations on the object of the report

	Addressed to	Competent administration
Central Government	3	-
Ministry of Finance & Public Administrations	-	20
Social Security	4	3
Ministry of Economy & Competitiveness	-	5
INE, IGAE, BdE	-	2
Autonomous Regions as a whole	9	2
One or more ARs	11	9
Local Corporations as a whole	1	2
ARs and LCs overall	1	-
MINHAP, ARs, MEYSS	-	1
All the PAs	15	-



**The activation of automatic prevention measures contained in the LOEPSF was the subject of different recommendations made throughout 2015.** Right from the start of the year, AIReF made recommendations to the Autonomous Regions and to the Ministry of Employment & Social Security on the appropriateness of monitoring their budget implementation and adjusting expenditure to guarantee compliance with the budget stability target. These administrations informed AIReF of their mechanisms to monitor budget implementation. The Ministry of Employment for instance indicated that the nature of its actions make it impossible for it to take short-term measures, only medium-term ones like those implemented through the recent reforms. Looking ahead to 2016, the activation of automatic mechanisms was also a recommendation made to the Autonomous Regions, stressing the need for the regional comptroller or equivalent internal audit unit in each Autonomous Region to report regularly to the regional government on the monitoring of budget implementation and flag the appropriateness of taking decisions for the early correction of any deviations that might occur. All the Autonomous Regions responded by saying that their internal comptrollers, i.e. internal audit services, usually through the Regional Finance Department, give regular reports on the implementation of the budget to the regional government cabinet.

**AIReF recommended the adaptation of the EFPs to the reality of each autonomous region.** After the correction mechanisms were not triggered early enough to bring forward their presentation as it had recommended in 2014, AIReF reiterated the need to guarantee the substantial aspects of the LOEPSF by making more flexible, as and when necessary, the procedural aspects for their approval as well as their content. In this regard, in several recommendations AIReF also stressed the importance of medium-term multiyear scheduling. The ministry's understanding was that the ARs already do a multiyear schedule that they submit before 15th March and that all the Autonomous Regions comply with this requirement. Therefore, the annual budgets would fall within the framework of that programming. The Autonomous Regions themselves explained their endeavours to incorporate the multiyear planning into the budgetary procedures with different degrees of success in each region. Many of them pointed out the difficulty of making multiyear forecasts without having any estimate of the financing system resources.

**AIReF made a number of different recommendations on the EFPs submitted because of non-compliance with the fiscal rules in 2014.** For instance, it considered additional measures necessary in 2015 and 2015 in order to meet the targets by Murcia and Catalonia and in 2015 in the case of Madrid. It also recommended Aragón should give specific details of the measures envisaged. Although the approved EFP for Catalonia contained changes compared with the earlier version AIReF had reported on earlier, no measures of any significant financial amount were included and so AIReF deemed the recommendation not to have been complied with. On the other hand, the EFPs for Aragón, Murcia and Madrid were not approved and so it was not possible for AIReF to state a view on whether they had complied with these recommendations. Likewise, AIReF recommended that additional information should be supplied in the stability programme by subsectors so

that it could be considered the EFP of the Central Government and the Social Security system. The response from the Ministry of Finance & Public Administrations was that the level of detail of the stability programme is the same as in the EFPs and it pointed out the inclusion of new information in this year's update. Nevertheless, AIReF maintained its view that this information is not sufficient.

**With the exception of the EFP for Catalonia, the EFPs on which AIReF issued a report were not approved.** This circumstance has a negative impact on the possibility of compliance with budget stability targets by the Autonomous Region subsector. Initially the Ministry of Finance & Public Administrations had indicated that the EFPs would follow their usual calendar, that the format of the EFPs already contained those points and that it did not deem it necessary to extend them to a multiyear framework of three or four years. The Autonomous Regions that sent their EFP to AIReF, on the other hand, in general terms would have complied with this recommendation by providing multiyear information. Balearic Isles did not send any EFP to AIReF and so it has not met the obligation stated in the LOEPSF. Not sending in an EFP prevented it from complying with the recommendation. As far as the recommendation to study the application of coercive mechanisms to the regions that had repeatedly failed to meet their budget targets is concerned, the Ministry of Finance & Public Administrations stated that its assessment would be conditional on the submission of the EFPs.

**AIReF requested the activation of the preventive measures contained in article 19 of the LOEPSF for the Autonomous Regions with the largest deviations and recurring deviations,** such as Extremadura, Catalonia, Murcia and Valencia. Taking into account the foreseeable failure to comply with their targets in 2016, AIReF made a recommendation to the Ministry of Finance & Public Administrations that it should require them to do detailed multiyear planning in order to attain a budget stability path that would take into account their particular situation, the amount of the adjustment to be made and the sustainability of government debt. This recommendation was also included in the EFP reports for Extremadura and Valencia.

**The Ministry of Finance & Public Administrations did not respond to the request for the measures to be triggered,** although it pointed out that the Autonomous Regions were already complying with the recommendation on multiyear planning as stated in the provisions in article 29 of the LOEPSF. AIReF, on the contrary, deemed this legal requirement not to be sufficient. Its view is that this planning should be credible and feasible and should take concrete form in each region's budgets and EFP. In addition, AIReF stressed that the preparation, discussion and approval of the EFPs need to be placed within the context of a multiyear timeframe. That requirement would not be satisfied with the scheduling referred to by the Ministry of Finance & Public Administrations. Likewise, although it acknowledged the usefulness of knowing what the financing system resources would be, AIReF was of the view that the absence of an official estimate does not prevent multiyear planning and forecasting exercises from being carried out.

**The State General Budget included an additional provision that entailed compliance with the successive recommendations made by AIReF on the financial situation of the Social Security System.** Additional provision 85 of the State General Budget Law for 2016 states that: “the Government will endeavour to achieve compatibility of the budget stability and financial sustainability targets with the targets of full funding of non-contributory and universal benefits paid for through the General Government budgets for which it will assess the conditions of the benefits included in this system that may be classified as such”. The development of this provision might be an option for compliance with AIReF’s recommendation. Additionally, the Ministry of Employment & Social Security pointed out that implementation would always have to take place with the agreement of the Toledo Pact.

**AIReF stressed in several recommendations the need to analyse the financial capacity of each subsector by taking into account the services provided by them in line with the current distribution of competences in force.** The Ministry of Finance & Public Administrations was of the view that this analysis was being conducted already and had taken concrete form in the local government reform. In any event, its view was that the Government is the competent body to decide on the right moment to carry out that analysis. It is also qualified the fact that the financing system should not simply be aligned with the level of expenditure without taking any other factors into consideration, but rather that it should take into account the expenditure stemming from the respective scope of competences established in the legislation governing the local government area. Likewise, the ministry deemed that the financing system and the taking on of competences by the Autonomous Regions stemming from the Local Government reform was still pending. AIReF, however, maintained its opinion that bringing the level of expenditure into line with the resources stemming from the financing system and with compliance with the expenditure rule is fundamental.

**The expenditure rule was repeatedly the subject of recommendations made in AIReF’s reports.** AIReF advocated that the Ministry of Finance & Public Administrations should develop in normative terms the content of article 12 of the LOEPSF with the aim of having comprehensive regulation of the expenditure rule, including aspects relating its calculation, application and the procedures for information exchanges between the public administrations. In this context, it would be extremely useful to set up working groups within the Fiscal and Financial Policy Council and the National Commission on Local Government to think about and discuss this rule in depth. Likewise, AIReF recommended consistency be ensured between the budget stability target and compliance with the expenditure rule in the budgets of the Local Corporations.

**The publication by the General State Comptroller’s Office (IGAE) of a manual to calculate the expenditure rule within the scope of the Autonomous Regions was a response to one of the recommendations made by AIReF.** Once it had published the guides for the Autonomous Regions and the Local Corporations, the Ministry of Finance & Public Administrations deemed a ministerial order regulating the methodology to be unnecessary. In this regard,

AIReF upheld the view that certain aspects of the current regulation contained in article 12 of the LOEPSF were not sufficiently developed, nor was the methodology necessary for its calculation or the procedure for sending the information required so that each administration can calculate *a priori* and monitor the expenditure rule. That is the reason why AIReF believed it was necessary for all those elements to be developed through a ministerial order and for working groups to be set up within the Fiscal and Financial Policy Council and the National Commission on Local Government.

**AIReF recommended the setting of differentiated deficit targets for the Autonomous Regions in 2016 and 2017 so that the convergence path towards a balanced budget envisaged for 2018 would be possible.**

In addition, for future years, AIReF said targets should be set on the basis of a prior feasibility analysis so that they would be realistic and achievable and on consistency of the budget stability target with compliance with the expenditure rule. However, following the corresponding debate on the subject, the Fiscal and Financial Policy Council (CPFF) endorsed the proposal made by the Ministry of Finance & Public Administrations with identical targets for all the Autonomous Regions. That proposal was subsequently approved by a Decision of the Council of Ministers on 11 September 2015. Furthermore, the Ministry of Finance & Public Administrations defended its position by saying that, as the president of AIReF is a non-voting member of the CPFF AIReF had had the chance to put forward a proposal on setting targets at that meeting. AIReF was of the view, however, that its mandate is to issue a report on the proposal for targets prepared by the Ministry of Finance & Public Administrations before their submission to the CPFF and that making a specific proposal on setting targets does not fall within its remit unless it is specifically requested to do so by the CPFF.

**AIReF recommended setting up a system of establishing debt targets that would fulfil the function of controlling debt.**

In this regard, the Ministry of Finance & Public Administrations believed that the current system is in line with the legislation in force and takes into account European commitments. As regards the recommendation for a credible revision of the government debt reduction path, the Ministry of Finance & Public Administrations reiterated that its belief that the first transitional provision of the LOEPSF establishes a forecast for the revision of the government debt reduction path and so any revision would be done in compliance with this provision and with the limits established by EU governance when the time is right. Nevertheless, AIReF stressed that the system does not fulfil the function of controlling debt and that the path is turning out not to be feasible.

**The Ministry of Economy & Competitiveness received recommendations on the transparency of its methodologies and forecasts.**

The ministry gave an undertaking that it would study the way it could comply with the recommendation about the publication of the methodologies, assumptions and relevant parameters underpinning its macroeconomic forecasts. In the case of AIReF's report on the methodology for the calculation of revenue and expenditure trends and the reference growth rate, an informal, open and constructive dialogue was established at a technical level between the Ministry of Economy & Competitiveness and AIReF on the implementation of the

recommendations. The final outcome would be dependent on the approval of the Ministerial Order. In addition, AIReF issued a recommendation on the content that should be included in the SPU. The Ministry of Finance & Public Administrations in its response said that the current contents are compliant with Spanish and EU legislation although it took note of the expenditure rule reference rate for its inclusion in future years

### 3.2. Recommendations on limitations on the scope of reports

**In the course of its work, AIReF has come across some deficiencies in the availability of the relevant and necessary information required to be able to issue a report.** These deficiencies have entailed limitations to the scope of the object of the report because sufficient information has not been made available for AIReF to conduct its analysis. This has made it difficult or even impossible for the institution to appraise certain aspects required by the legislation in force. In these cases, AIReF has indicated how to overcome the information shortcomings encountered in the form of recommendations to which the “comply or explain” principle is applicable.

#### Recommendations on limitations on the scope of reports

	Addressed to	Competent administration
Central Government	3	-
Ministry of Finance & Public Administrations	-	18
Other Central Government Departments	2	2
Autonomous Regions as a whole	7	1
Autonomous Regions and Ministry of Finance & Public Administrations	-	2
Local Corporations as a whole	6	-
All the PAs	5	-

**The expenditure rule was the subject of a great many recommendations on the limitations to the scope of reports.** AIReF recommended the inclusion of sufficient information on the necessary data in national accounting terms for the calculation of the expenditure rule in the budgets of all the subsectors in the General Government sector as well as in the main budgetary lines, the EFPs and in the stability programme. AIReF needs to have this information when discharging its duties in order to be able to state an ex ante view on compliance with the rule.

**Compliance by the public administrations with this recommendation was uneven.**

The Ministry of Finance & Public Administrations considered that it does not have any obligation to include in the Economic-Financial Report that accompanies the State General Budget the figures for non-financial uses with the necessary breakdown for the calculation of the expenditure rule or the information on the methodology used. On the contrary, all of the Autonomous Regions that responded to the recommendations gave a commitment to include that information in their draft budgets for 2016. Lastly, although the guide on methodology was published in general terms subsequent to the preparation of their budgets, Galicia, Canary Isles, Castilla y León, La Rioja, Murcia and Andalusia fulfilled their commitment to include the information on the expenditure rule in their respective draft budgets. Within the scope of the Local Government subsector the ministry responded that the local governments already provide the information stipulated in the legislation whereas for the EFPs it gave an undertaking to evaluate whether or not more information should be included. Nevertheless, the ministry communicated its commitment to include information on the degree of compliance with the expenditure rule in its monthly national accounting reports.

**AIReF recommended the preparation of initial budgets and budget settlement forecasts in national accounting terms.**

This information is fundamental to be able to analyse the adequacy of the budgets for achievement of budget stability targets. No progress was made in this respect in the presentation of the budgets for 2016. Along the same lines, AIReF also recommended publication by the Ministry of Finance & Public Administrations of information on the economic impact of the use of normative taxation powers by the Autonomous Regions and that it include in the SGB information on the entities that are not public sector bodies but that are still included for the purposes of the System of European Accounts (SEC) 2010 in the subsector.

**Government debt targets were also the subject of recommendations on limitations to the scope of the reports.**

The information on the government debt in the Central Government subsector and the Autonomous Regions in their budgets is not sufficient to verify compliance with their targets. The Ministry of Finance & Public Administrations considers that the Draft SGB contains sufficient information already to determine compliance with the Central Government debt as it covers the Spanish State's debt and also the debt of all the entities and bodies that fall within the central government subsector. Nevertheless, it will evaluate the possibility of providing this information in a more accessible format, insofar as the means are available to do so and it does not entail any increase in operating costs. The Autonomous Regions for their part gave a commitment to include information in their budgets despite the fact that the system for setting debt targets itself prevents the targets from being known for the purpose of assessing ex ante compliance.

**AIReF also recommended the publication in the SGB of information on the Pension Revaluation Index (PRI).**

The Ministry of Employment & Social Security's understanding was that the information is sufficient to be able to infer the application of the minimum rate set by the legislation and that more information would only be required when the outcome of the calculation is above the minimum. AIReF believes on the contrary, taking into account the relevance of the issue

for society as a whole, that more transparency would be appropriate and so AIReF stressed that this information should be made public irrespective of the outcome of the calculation of the formula.

**As far as the Local Corporations subsector is concerned, AIReF recommended to the Ministry of Finance & Public Administrations that it should increase the information available on the subsector.** In addition, it should offer more information on the six largest local governments and facilitate access for AIReF to the information in similar terms to the information made available to the oversight bodies for the local corporations. The ministry gave an undertaking to supply the information AIReF requires and to evaluate the availability of more information on the largest local governments although it does not consider there is a need to set up a system of access to the specific information. AIReF stressed that a system of similar access to the existing system for the oversight bodies would be the most efficient system to have access to that information.

### 3.3. Proposals in opinions

**AIReF issued five proposals in opinions in 2015, all in its published Opinion on the re-valuation of the annual pension revaluation index (PRI) for 2016.** These proposals were addressed to the Social Security subsector and were about procedures for the calculation of the PRI and improvements in transparency surrounding this key aspect of the public pensions system.

**Some of these proposals had already been included in an earlier report,** such as the recommendation on publishing the data for the calculation of the PRI in the SGB. Other proposals had already been put forward in the opinion in previous years, such as the recommendation on resolving the circularity of the PRI formula.

### 3.4. Best practice guidelines in reports and opinions

**AIReF included in its reports in 2015 a total of 16 guidelines on good practices** for the General Government sector, together with the recommendations made. AIReF proposes these guidelines so that good practices can be used in fiscal policy and does not expect the administrations concerned to respond according to the principle of comply or explain. Nonetheless, special attention is given to those guidelines that entail the correction of shortcomings detected in the application of any regulation other than legislation in force on budget stability and financial sustainability primarily in the field of improvements to transparency.

### Best practice guidelines

	Entity concerned	Competent administration
Central Government	8	-
Ministry of Finance & Public Administrations	-	6
Ministry of Economy & Competitiveness	-	8
Autonomous Regions overall	2	2
Local Corporations overall	1	-
The whole General Government sector	5	-

**These guidelines concern improving transparency in the management of public resources (10) and budgetary procedures (6).** These guidelines are listed in detail in the appendix.

### 3.5. Appraisal of the implementation of the recommendations, proposals and good practice guidelines

**Recommendations are a key instrument for AIReF.** They are the primary tool conferred on AIReF by the current legislation for it to deliver on its mandate. They are supplemented with proposals in opinions and good practice guidelines.

**AIReF saw progress made in the substantiation of the “comply or explain” principle.** Resolution 14/2015 on the calendar for requesting and receiving information for the issuance of reports and the monitoring of the recommendations for 2015 gave rise to the adoption of procedures and communication channels with the competent administrations. This enables systematic monitoring of recommendations to be done. Likewise, the quarterly publication of the follow-up of recommendations on the institution’s website increases reputational costs if the administrations do not comply or explain.

**The Public Administrations in Spain are taking on board the application of the “comply or explain” principle.** This principle must be understood primarily as a way of building up a constructive and transparent dialogue between the General Government sector and AIReF. In this regard, all the administrations have responded to AIReF’s communications. At the same time AIReF’s reports contain the background to the recommendations and how they have been followed up with updated information on developments and the reaction of the administrations.



## 4. Institutional activity

### 4.1. Institutional relations

**AIReF continued to strengthen its institutional relations**, both in Spain and abroad. In compliance with the provisions of Organic Law 6/2013 and the institution's action plan for 2015, the president of AIReF appeared before the Congress of Deputies and the Senate for the first time in order to make a presentation on the institution and to account for the work done. Furthermore, in this second year of its existence, AIReF worked specifically on the relationship it has with the regional governments as well as holding frequent meetings with representatives of the Central Government and civil society. On the international scene, one highlight of the year was the momentum given for the creation of an EU Network of Independent Fiscal Institutions (IF). The president of AIReF currently holds the chair of the network for a two-year term.

**The president of AIReF appeared before the Congress of Deputies and the Senate**, on 10th March and 23rd September respectively. In his report to the Parliamentary Finance and Public Administrations Committee in the Congress of Deputies, the president explained the work carried out by the institution during its first year and the challenges facing it. He gave a commitment to continue improving the transparency of budgetary procedures and the credibility of public finances. The president's appearance before the Senate Budget Committee was on the occasion of the parliamentary passage of the SGB legislation for 2016. With regard to the drafts budgets of the Public Administrations the president highlighted the two-fold function of AIReF: analysis of the Government's macroeconomic forecasts before their inclusion in the draft budgets and the preparation of the report on the draft budgets and main budgetary lines of the administrations. The president also summarised briefly the work done by AIReF to date on the expenditure rule and the sustainability of the Central Government and Social Security deficits.

**AIReF continued to further its relations with the Autonomous Regions** through contacts in 2015 with all of them and face-to-face meetings with ten regional governments and their corresponding Finance department representatives (from Basque Country, Castilla y León, Castilla-La Mancha, Aragón, Catalonia, Extremadura, Valencia, Murcia, Balearic Isles and Madrid). In addition it participated in CPFF and National Commission of Local Authorities (CNAL) meetings and working groups. As far as relations with the Central State Administration are concerned it also held a number of different meetings with government departments at different technical and executive levels.

**AIReF also held meetings with academics, civil society representatives and the media.** In line with its action plan, AIReF signed collaboration agreements with universities in Madrid (Universidad Carlos III, Universidad Autónoma de Madrid) and with the Barcelona Graduate School of Economics, so that final year graduate students and post-graduate students can complete their work experience in the institution.

**In 2015 AIReF worked intensively on reinforcing its international activity,** particularly cooperation with other IFIs. In September 2015 AIReF was one of the 21 IFIs that signed the Bratislava Agreement<sup>2</sup>, whereby these institutions formally agreed to set up their own European network (see the details of the agreement in the box below). It also set up effective communication channels with other IFIs to strengthen cooperation and swap good practices. AIReF visited the Slovak IFI (CBR) and the Dutch IFI (CPB).

**The IFIs held their first meeting with the alternate members of the Economic and Financial Affairs Committee,** as part of a new process of relations with the EU institutions. At that meeting, the president of AIReF presented the network's aims, members and activity. The topics discussed at the meeting included the relations between the IFIs and this committee and the European Commission. The purpose was for the IFIs to have updated information on the framework of EU fiscal governance within which they operate.

**AIReF also played an active part in the IFI networks under the aegis of the European Commission and the OECD.** In the case of the Commission, AIReF attended two meetings of the network hosted by DG-ECFIN (known as EUNIFI) on 22nd June and 10th December. The purpose of the meetings (the third and fourth meetings held by this network) was to present the latest developments from the European Commission's DG-ECFIN as regards IFI activity indicators as well as to make the presentation of the results and experiences of different fiscal institutions (including AIReF). Just as in 2014, the president of AIReF attended the 7th annual meeting of OECD IFIs and Parliamentary budget officials in the OECD, participated in the different sessions and was a speaker on the subject of the relations between IFIs and other official institutions.

**AIReF has established links outside of Europe too.** It exchanged information with Mexico's central bank, the Secretary of State for Finance in Mexico and the director of the Americas department in the IMF. The president also participated in the IMF conference on fiscal policy for long-term growth in Tokyo.

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2. Austrian Fiscal Advisory Council (Fiskalrat), Cyprus Fiscal Council, Danish Economic Council, Estonia Fiscal Council, National Audit Office, Finland, Haut Conseil des Finances Publiques, France, Independent Advisory Board to the Stability Council, Germany, Parliamentary Budgetary Office, Greece, Hungarian Fiscal Council, Irish Fiscal Advisory Council (IFAC), Parliamentary Budget Office (Italy), Latvian Fiscal Discipline Council, Lithuanian National Audit Office, Conseil National des Finances Publiques (Luxembourg), Malta Fiscal Advisory Council, CPB Netherlands Bureau for Economic Policy Analysis, Portuguese Public Finance Council, Council for Budget Responsibility, Slovakia, Independent Authority for Fiscal Responsibility, Spain (AIReF), Swedish Fiscal Council, Office for Budget Responsibility UK (OBR).

### **For the second year in a row, AIReF organised a joint seminar in Madrid with the IMF.**

This time the seminar focused on fiscal policy in decentralised countries<sup>3</sup>. The sessions were open to attendance from representatives of the administrations in Spain and academia and more than seventy people attended. The speakers included international experts from several countries, from the IMF and European public institutions as well as key representatives from the Autonomous Regions and from the Spanish Federation of Municipalities and Provinces (*Federación Española de Municipios y Provincias*, FEMP). AIReF so achieved one of its primary objectives with the event, which was to provide a forum where the key stakeholders could meet and exchange views.

**Speakers from international institutions and government officials from other countries also visited AIReF over the last year.** AIReF held regular training and educational sessions in 2015 dealing with more technical subjects such as the measurement of discretionary fiscal effort, or more practical issues like fiscal discipline in the German federal context. AIReF welcomed to its headquarters representatives from international organisations interested in finding out about the budgetary situation and the economy in Spain, including from the European Commission, the ECB, the IMF, and the OECD.

#### **BOX 11: EU Network of Independent Fiscal Institutions (EUIFIs).**

- Date of creation: 11 September 2015, by the signatories of the Bratislava Agreement.
- **Purpose:** An independent, voluntary and inclusive network open to all the fiscal institutions operating in the European Union. It provides a platform to exchange views, expertise, and pool resources in areas of common concern to its members.
- **Activities in 2015:** Two meetings of its Committee for EU Affairs and meetings with representatives of the EU institutions and of think tanks. In fact its first goal was to reach an agreement on a common position on the governance reforms in the European fiscal framework that was conveyed to those institutions. Specifically, the position paper it issued states a view on three aspects of the current debate that are relevant for the IFIs: the reinforcement of the role of the IFIs within the European fiscal framework and their interaction with the European Advisory Fiscal Board, the need for simplification of the fiscal rules and the enforcement of the existing legislation in national contexts. In addition, internally, the need for simplification of fiscal rules and the effective implementation of existing legislation in national contexts. In addition, internally, the working procedures of the EU Affairs Committee were approved. Access to the calendar of meetings and to the full text of the position paper is available on the website: <http://www.euifis.eu/>.
- **Organisational chart:** The Network has a chair and a deputy chair and the aforementioned **Committee for European Affairs**. It also has a secretariat for technical and administrative support.
  - **Chair:** José Luis Escrivá, president of AIReF, for a two-year term.
  - **Deputy Chair:** Ludovít Ódor, president of the Council for Budget Responsibility, Slovakia (CBR).

3. All the presentations and conclusions of the seminar can be found on the AIReF website.

- **Committee members:** Participation is voluntary and open to all EU IFIs. Under the procedure approved, the committee takes its decisions by consensus and determines the positions of the Network in its relations with other EU institutions (including the European fiscal framework institutions). The committee members are: Parliamentary Budget Office, Italy; the Independent Advisory Board to the Stability Council, Germany; the Irish Fiscal Advisory Council; the Conseil National des Finances Publiques, Luxembourg; the CPB, Netherlands; the Portuguese Public Finance Council, the Slovak CBR; and AIReF.
- **Secretariat:** Formed by staff from the IFIs to which the chair and the deputy chair belong, as well as voluntary staff contributions from other members in the Network.

#### 4.2. Communication activities

**AIReF rolled out a proactive communication policy in 2015 designed to achieve maximum dissemination of the activities it carries out.** 2015 was the first full year of activity for the institution during which all of the statutory reports and opinions contained in the law creating AIReF were published. In addition, AIReF endeavoured especially to make the recommendations issued in its reports as widely known as possible as well as the dialogue established with the different Public Administrations on the basis of the “comply or explain” principle. The institution also made available other work relating to its primary activity such as the results of its Mipred real-time GDP tracking of GDP model and of the Metcap model monitoring the development of the quarterly GDP in the Autonomous Regions. Lastly, AIReF has set out to spearhead transparency in the public sector and publishes on a recurring basis all of the information on its financial management, procurement, expenditure budgets and minutes of the management committee meetings amongst other more relevant questions.

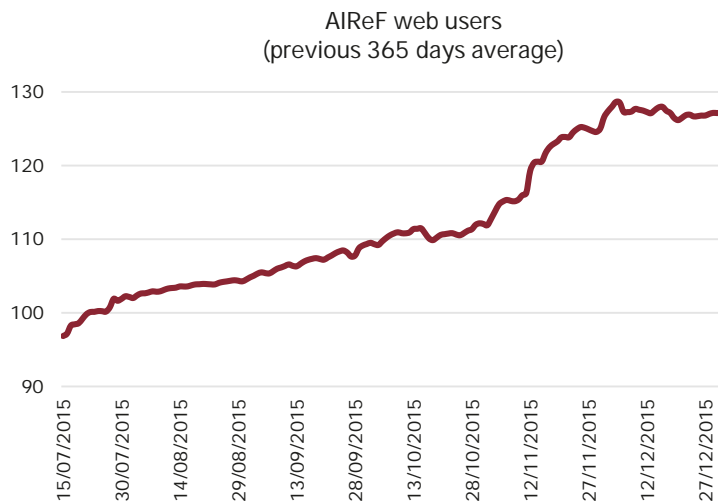
**The institution used different channels to achieve maximum dissemination,** such as briefings with the media and the publication of press releases and information notes, individual meetings with journalists and opinion-makers, the publication of news on its website, emailing to different institutions and to stakeholders of news and the use, albeit still at an early stage, of social media.

**AIReF’s presence in the media went beyond the publication of reports, opinions and working papers.** The data, analyses and opinions disseminated by AIReF have become a key reference point for issues relating to budget stability and the sustainability of public finances in the media and the academic world. The qualitative analysis shows that in 2015 a fluid relationship with the media was consolidated furthering two-way communication. The media responded with broad coverage of the publications issued and by requests for further information. In quantitative terms this was reflected in the more than 4,345 impacts and almost 9,000 in the online press, up by around 90% compared to 2014. This communication strategy covered regional media too.

**AIReF Website indicators**

	2015
PageViews	249,203
Visits	62,400
Absolute unique visitors	26,163
Pages per visit	3.99
Average time on the site	4'26"

**There was a significant increase in 2015 in website traffic.** AIReF’s website has been the institution’s most powerful communication tool. Google Analytics data show a significant growth in the Key Performance Indicators (KPI) of its information activity as can be seen in the table above. The figures for website traffic for AIReF show a growing trend in unique visitors and also a continued increase in the number of visits recorded that confirm the growing interest of users in the contents published.



**Social media started to become a relevant channel for AIReF to disseminate its activities.** Web traffic also increased as a reaction to the dissemination, (still at an early stage in 2015) of the contents published through the social media. AIReF took its first steps on Twitter and LinkedIn and had increased its number of followers to 263 on Twitter and 83 on LinkedIn by the end of 2015. AIReF opened its own Facebook page with 39 followers by the end of the year. Lastly, another important point to highlight is the trend in visitors interested in receiving the institution’s newsletters, up to 202 subscribers by the close of 2015.



## 5. Follow-up on the 2015 Action Plan

**AIReF's activity during the year revolved around the key guidelines set out in the Strategy Plan 2015-2020.** The strategy plan is developed through annual action plans so ensuring consistency between short-term and medium-term planning.

**The aim of this section is to allow the 2015 Action Plan to be easily followed up.** The annual report can then become an essential part of the institution's accountability to society. To make it easy to monitor the rollout of the plan, an appendix with a table of actions put forward in the plan has been included. The actions are classified according to the guidelines and lines of actions proposed in the Strategy Plan and their status at the end of the year.

**The 2015 Action Plan guaranteed the statutory tasks AIReF is required to carry out by law,** such as the publication of reports and opinions, and it started to drive progress in other areas. They included improving transparency in the use of public accounts and budgetary practices, continual analysis of applicable EU legislation and the effective enforcement of the LOEPSF at different levels of government in Spain.

**The implementation of the 2015 Action Plan was constrained by the limited available human resources.** One of the actions to be taken for 2015 was the planned increase in the number of posts in the institution. Insofar as AIReF was not able to have the initial estimate of human resources it was unable to carry out all the actions set out in the plan. That meant it was forced to prioritise the allocation of the available resources to those actions most directly related to the publication of the statutory reports and opinions.

**Nevertheless, AIReF made substantial progress in each one of the strategic headings.** Even though it was not possible to complete all the actions scheduled in the plan, work started on the great majority of them. In 2016 AIReF will continue to work on those actions that it was not able to fully complete in 2015 and this work will be incorporated into the Action Plan for 2016.

**One of the significant areas of progress to be highlighted was the specific goal of monitoring and analysis of the economic and budgetary situation.** Progress like this under the strategic heading of "contribute towards a better orientation of fiscal policy towards budgetary stability" is a fundamental basis for the preparation of its reports. In this respect AIReF conducted modelling of the key macroeconomic and budgetary variables and integrated its forecasts and estimates into a simplified accounting framework. The institutions' reports have been

made more robust as a result and they have increasingly used the findings of these models in the form of confidence bands.

**As part of its strategy to promote the financial sustainability of the public administrations in Spain, AIReF also furthered the work done on its analysis of the sustainability of government debt, both in aggregate terms and individually for each administration.** Work was done on analysing the Social Security system from the standpoint of its long-term sustainability. This work was primarily integrated into the Opinion on the Pension Re-valuation Index and to a certain extent into the reports concerning this subsector. However, AIReF was not able to take its work further in other areas relating to financial sustainability, such as the average supplier payment terms or the enforcement of the Law on Local Government Rationalisation and Sustainability.

**The recommendations on transparency and budgetary practices capitalised on the work under the corresponding strategic heading.** AIReF also published an informative briefing document on the expenditure rule in order to explain how it works to a wider audience.

**AIReF rolled out a global communication strategy,** which was key to making progress to achieving the strategic heading “help Spanish society to feel the benefits of financial sustainability”. The results of this strategy are explained in a different section of this report. AIReF also increased its presence in different academic circles in order to raise the profile of the work it does. As part of the goal of promoting economic research in fiscal policy AIReF awarded training and research internship grants to seven students.

**The crosscutting heading brings together all of the key actions essential for AIReF to substantiate its remit.** As well as the actions described in the sections above, AIReF continued to improve and publish the methodology of its reports. Another point to be underscored is the progress made in enforcing the “comply or explain” principle as shown in the section on follow-up of reports. Progress was more limited in getting better fulfilment of the duty to collaborate in supplying information but this was essentially for reasons outside the control of the institution. Under the specific goal of “efficient and transparent management of human and financial resources”, throughout the year AIReF gradually consolidated its administrative and management structure. However, as stated above, it was not possible to expand the staffing as initially planned.

**AIReF set up its Advisory Board in 2015.** The creation of the Advisory Board, responding to an undertaking the president gave to the Congress of Deputies, was an important step forward in the process of increasing the accountability of the institution. The Advisory Board is composed of ten members who are designated by the president of AIReF for a term of three years. They are all acknowledged experts in their field of expertise in Spain or internationally, with at least ten years experience in budgetary, economic and financial analysis. During 2015, the Advisory Board met five times. The minutes of the Advisory Board are public and can be consulted on AIReF’s website.



**The follow-up of the 2015 Action plan in this annual report is the basis for devising the plan for the following year.** The 2016 Action Plan is being devised as a continuation of the development of the Strategy Plan 2015-2020 in parallel to the preparation of the Annual Report on the institution's activities.



## 6. Financial management and human resources

### 6.1 Financial management

**The financial management of AIReF's budget for 2015 was determined by external factors.** The State General Budget Law for 2015 included a budget of €4.48 million, less than the figure proposed by AIReF. The initial budget proposal was amended to include cash surpluses in order to finance investments, taking the budget to €5.33 million euros. Actual expenditure implemented totalled €4.71 million euros.

**The budget expenditure implemented was primarily on personnel costs that accounted for 59% of budget implementation.** A breakdown of implementation of expenditure is given in the table below. Under the heading of personnel expenses, the resolutions issued on productivity by the Secretary of State on Budgets and Expenditure limited the possibilities for AIReF of implementing the budget. The budget for operating expenditure on the other hand was almost entirely implemented. Investment expenses were high because of the refurbishment work on AIReF's headquarters to adapt the space so that all the institution's staff could occupy the space initially given over to the institution by the Ministry of Finance & Public Administrations. This avoids the rental of other premises. Lastly the current transfers correspond mainly to the financial assistance granted for research and training internships in AIReF.

**AIReF implemented an active policy of financial management transparency.** The transparency section on the website includes information on the remuneration of the management committee members; the monthly implementation of the expenditure budget, as well as the detailed breakdown of any expenses amounting to more than 1,000 euros and the fee revenue collected. In addition it includes details of contractors and the list of contracts, management commissions and collaboration agreements signed by AIReF and the subsidies granted.

## Implementation of expenditure budget 2015

(€ Thousands)

Item	Budget 2015*	Implementation
Personnel expenses	3,200.00	2,795.18
- President and private office staff		593.20
- Budget analysis division		1,039.98
- Economic analysis division		582.60
- Institutional legal affairs division		476.94
- Social action		102.45
Operating expenses	1,006.42	981.54
- Rentals, repairs and maintenance		104.65
- Office material		53.28
- Electricity and water		-
- Telephony & Internet		80.42
- Cleaning services		28.36
- Technical studies and works		101.39
- External services		442.04
- Travel		15.57
- Publication expenses		20.79
- Protocol	4.68	3.66
- Other expenses		131.38
Paid work experience	122.00	76.32
Investments	1,006.00	853.74
- Works		641.87
- IT equipment		53.10
- <i>Software</i>		4.35
- Furniture and fittings		154.42
<b>Total</b>	<b>5,334.42</b>	<b>4,706.78</b>

\*Includes credit modifications

**On the revenue side, AIReF's primary source of revenue is the supervision fee.** This fee (envisaged in additional provision two of the Law establishing an independent fiscal authority) is paid by the public administrations that are recipients of the reports in line with the budget each one has. This novel financing system in the world of independent fiscal institutions is a way of guaranteeing the institution's financial independence. Independence is a key element that should be a cornerstone for the institution when discharging its statutory duties. The amount collected as a fee in 2015 was €3.81 million, 71 % of the expenditure budget. The State, the Social Security system and all the Autonomous Regions paid the fee and only some of the local corporations failed to pay it<sup>4</sup>. The remaining financing came from existing cash surpluses.

### AIReF supervision fee revenue 2015

(Thousands of euros)

Supervision fee	3,805.63
- Central government	1,376.93
- Social Security	1,162.93
- Autonomous Regions	1,132.67
- Local corporations	133.09

## 6.2. Human resources

**AIReF is organised in three divisions plus an office supporting the president.** The functions of the Economic Analysis Division include monitoring economic developments and assessing the macroeconomic forecast included in the budgets. The responsibilities of the Budgetary Analysis Division include monitoring the budget cycle as a whole. Lastly, the Institutional & Legal Division carries out the daily tasks of managing the institution as well as advising on legal issues. It is a highly horizontal structure that functions on the basis of collaboration and continuous communication between the different units.

**AIReF's staff has not reached the optimal size to match the statutory functions it has been assigned to fulfil.** When AIReF was set up it carried out a study in collaboration with the IMF on the staffing needs of the institution, based on an analysis of the tasks to be carried out and on the international experience of similar institutions with analogous functions. The study concluded that at least 65 staff posts would be necessary for AIReF. During 2015 all of AIReF's efforts to

4. The following local governments failed to pay the 2014 supervision fee: *Diputación Foral* de Álava, *Diputación Foral* de Guipúzcoa, *Diputación Foral* de Vizcaya, Jerez de la Frontera, Palma de Mallorca, San Sebastian and Vitoria.



increase its staff were unsuccessful and the headcount is still the same number as approved in July 2014, i.e. 31 posts, as well as the four members of the management committee. Moreover, in the second half of the year four of the five experts who were on secondment in AIReF from Banco de España and who have made a contribution to getting the institution up and running returned to the bank when their secondment period came to an end.

# **APPENDICES: Follow-up on reports and opinions**

**Recommendations on the object of the report**

Recommendation on the object of the report	Date	For	Competent body	Means of compliance	Status	Remarks
<b>Report on the Economic-Financial Plans of the Autonomous Regions</b>						
<b>Updating the EFP.</b> Update the EFP including in it more information on the forecast development of expenditure, firstly making explicit on an individual basis the impact of each measure on the scenario, and secondly, explaining in concrete terms the rest of the reduction in current expenditure not underpinned by measures.	03/12/2015	Aragón	Aragón	EFP	Ongoing	The EFP has not been submitted to the Fiscal and Financial Policy Committee (CPFF).
<b>Updating the EFP.</b> Update the EFP in the framework of a multiyear plan agreed with MINHAP which the drafting and monitoring of the plan would fall within.	03/12/2015	Extremadura	Extremadura	EFP	Ongoing	The EFP has not been submitted to the Fiscal and Financial Policy Committee (CPFF).
<b>Updating the EFP.</b> Update the EFP in the framework of a multiyear plan agreed with MINHAP which the drafting and monitoring of the plan would fall within.	03/12/2015	Valencia	Valencia	EFP	Ongoing	The EFP has not been submitted to the Fiscal and Financial Policy Committee (CPFF).
<b>Reports on the General Government sector draft budgets and main budgetary lines in 2016: Autonomous Regions</b>						
<p><b>Multiyear plan for the ARs with significant deviations.</b> MINHAP should ask Extremadura, Catalonia, Murcia and Valencia Regions for a multiyear planning document whose level of detail, binding nature and duration should take into account, with due consideration for the specificities of each autonomous region, the following aspects:</p> <ul style="list-style-type: none"> <li>the particular situation of each one of these regions as regards their relative position compared to the whole subsector for revenue, expenditure and exercising of normative capacity;</li> <li>the financial amount of the adjustment to be made;</li> <li>and the sustainability of their debt path and the contribution of the region to making it sustainable from the standpoint of the two factors that are most directly dependent on their own action: their commitment to the consolidation of public accounts and the maintenance of a stable institutional framework.</li> </ul> <p>This medium-term planning exercise, agreed between the Region and MINHAP, must take the concrete form of annual programmes forming part of their budgets and the EFPs that are put forward and approved in the Fiscal and Financial Policy Council."</p>	30/11/2015	Extremadura, Catalonia, Murcia and Valencia	MINHAP		Explanation	<p><b>MINHAP's</b> understanding is that the obligation is already covered in legislation in article 29 of the LOEPSF, which sets for the regions the need to draw up a medium-term budgetary plan with a minimum three year timeframe and including the parameters described in the article itself. The plan is deemed to be part of the Stability Programme framework and annual budgets must be drawn up within that framework which should guarantee budgetary planning that is consistent with budget stability and government debt targets and compliance with the expenditure rule. Here the regions referred to sent information on their medium-term budgetary plans for the years 2015-2018 in March and April 2015.</p> <p><b>AIReF</b> stresses the need for a realistic adjustment path for these Autonomous Regions.</p>
<p><b>Design of the debt targets system for the Autonomous Regions.</b> MINHAP should design a system to set debt targets that complies with the function of oversight of the EDP debt and in which it should incorporate a revision of the debt reduction path so that the path is a credible, demanding reference that allows the Public Administrations to guarantee financial sustainability.</p>	30/11/2015	Autonomous Regions	MINHAP		Explanation	<p><b>MINHAP</b> believes that the current system is in line with the legislation in force and takes into account European commitments. In addition, the targets are set annually in a 3-year multiyear framework and that allows them to be adapted to any changes that take place.</p> <p><b>AIReF</b> stresses that the current system does not comply with the function of EDP debt oversight.</p>
<p><b>Expenditure methodology and working groups.</b> MINHAP should draft implementing rules for the content of article 12 of the LOEPSF with the aim of having comprehensive regulation of the expenditure rule including aspects relating to the calculation, application and procedures for exchange of information between the Pubic Administrations. In this context it would be very useful to set up working groups within the Fiscal and Financial Policy Council and the National Local Administration Commission in which in-depth examination and discussion of this rule can take place.</p>	30/11/2015	All PAs	MINHAP		Explanation	<p>Given that the IGAE has already prepared a methodology guide for ARs and LCs <b>MINHAP</b> does not believe it is necessary to set up working groups in the CPFF and CNAL to deal with these questions.</p> <p><b>AIReF</b> on the other hand believes there is a need for the PAs to think about and discuss the current regulation on the expenditure rule and so will continue to stress the need to have these working groups and to develop their regulation.</p>



Recommendations on the object of the report

Recommendation on the object of the report	Date	For	Competent body		Means of compliance	Status	Remarks
<b>Multiyear programming in the EPPs.</b> MINHAP should promote this multiyear programming in the field of budgetary coordination and the activation and implementation of the corrective measures provided for in the LOEPSF. In particular, the preparation discussion and approval of the EFPs should be placed within the context of a multiyear outlook without prejudice to the more detailed breakdown that can be made for the two years covered in the plan.	30/11/2015	All PAs	MINHAP			Explanation	<b>MINHAP</b> is of the understanding that the Autonomous Regions already prepare a multiyear programme that they send in before 15th March and that all the Autonomous Regions comply with this requirement. Therefore, the annual budgets would fall within the framework of that planning. <b>AIReF</b> stresses the need to put in the context of a multiyear timeframe the preparation, discussion and approval of the EFPs, and this recommendation would not be complied with through the programming MINHAP is referring to.
<b>CTCN internal rules of procedure.</b> The National Accounts Technical Committee—created by the first additional provision of Organic Law 6/2013—should approve and publish in the BOE its internal rules of procedure and so comply with the provisions of section 2 of that provision.	30/11/2015	All PAs	INE, IGAE, BdE		Internal rules of procedures	Commitment to comply	The IGAE and the INE have informed AIReF that work is being done to prepare the rules of procedure.
<b>Provision of reports issued by the CTCN.</b> The National Accounts Technical Committee should provide AIReF with the reports issued as part of the discharging of its duties and so comply with the provisions of section 4 in the same first additional provision cited above	30/11/2015	All PAs	INE, IGAE, BdE		Provision of reports	Compliance	The INE provided the reports.
<b>Automatic prevention measures in the LOEPSF.</b> In the framework of the automatic prevention measures provided for in article 18 in the LOEPSF, the autonomous region's general comptroller (or equivalent unit) must report regularly to the regional government on its monitoring of the budget implementation, and bring to its attention the advisability of taking decisions for the early correction of deviations that might be produced.	30/11/2015	Autonomous Regions	Autonomous Regions			Commitment to comply	All of the Autonomous Regions have given an commitment to comply with the recommendation, indicating the budget implementation monitoring mechanisms they are implementing.
<b>Multiyear planning framework.</b> The governments of the Autonomous Regions should consolidate the budget as the document specifying annually the multiyear planning of the region in the medium term, especially right now when the fiscal and budgetary plan for the next four years is at the definition and start-up phase.	30/11/2015	Autonomous Regions	Autonomous Regions			Explanation	Most of the <b>Autonomous Regions</b> make reference to the multiyear information sent to MINHAP although some ARs have indicated greater progress than others including its incorporation into their respective budgets. <b>AIReF</b> stresses the need for more efforts to be made to develop further a realistic multiyear planning that appears in the budgets.
<b>Concrete details of the adjustment measures.</b> Aragón should make the measures and actions underpinning the major adjustment in its expenditure items already communicated more explicit in its budgets. Likewise it should turn the forecast tax reform into a law.	30/11/2015	Aragón	Aragón			Commitment to comply	The Aragón regional government sent more information about the adjustment measures.
<b>Reports on the General Government sector draft budgets and main budgetary lines in 2016: Local Corporations</b>							
<b>Consistency between the stability target and the expenditure rule.</b> Budgets should be drawn up in line with actual forecasts for implementation. That would mean that within the parameters of the stability target set for the LCs as a whole and the requirement set by the LOEPSF for each subsector to achieve a balanced budget or surplus, each local corporation can set the stability target for its budgets taking into account the expenditure rule, exactly as stated in article 15 of the LOEPSF.	12/11/2015	Local Corporations	MINHAP			Explanation	According to <b>MINHAP</b> as the IGAE has published a guide on the methodology of the calculation of the expenditure rule applicable to the LCs, when the local entities supply information in the framework of the budget stability and financial sustainability legislation they know whether or not they are complying with that expenditure rule and ultimately whether they are complying or not with the budget stability target. <b>AIReF</b> stresses the advisability of consistency between both fiscal rules.

**Recommendations on the object of the report**

Recommendation on the object of the report	Date	For	Competent body		Means of compliance	Status	Remarks
<p><b>Financial capacity of the subsectors.</b> Analyse the local and regional financing systems together as a whole and make any normative changes as necessary in order to bring the financing systems in line with the levels of expenditure and financial capacity of each one of its subsector and so contribute to a more efficient distribution and use of public resources.</p>	12/11/2015	Autonomous Regions and Local Corporations	MINHAP			Explanation	<p>According to <b>MINHAP</b>, it is only right to qualify that the financing system should not be brought into line with the level of expenditure without further considerations, but rather it should take into account the expenditure arising out of the respective powers that fall to the local corporation defined in the regulatory legislation on local government. Likewise, it believes that the regulation of the financing system and move to taking on more competences on the part of the ARs following on from the Local Government Reform is still pending.</p> <p><b>AIReF</b> is of the view that it is essential to bring the level of spending into line with the resources arising from the financing system and with compliance with expenditure rule and will continue to make this same recommendation again in future reports.</p>
<b>Report on General Government draft budgets &amp; main budgetary lines: SGB 2016</b>							
<p><b>Social Security System sustainability.</b> Actions should be taken with the aim of developing Additional Provision Sixty-five in the 2016 Budget Bill and guaranteeing the compatibility between the budget stability targets approved for the Social Security Funds and the funding of the benefits included in the System.</p>	29/09/2015	Social Security	Ministry of Finance (MINHAP)/ Ministry of Employment & Social Security (MEYSS)		Law	Commitment to comply	<p>The <b>MEYSS</b> will assess those benefits that might be non-contributory, as applicable. In any event, it will be discussed and adopted by the Toledo Pact and accepted by all the ministerial departments concerned that will also have to evaluate the impact it will have on budgetary stability and financial sustainability.</p> <p><b>MINHAP</b> confirmed that the Government will carry out this analysis.</p>
<p><b>Expenditure rule working groups.</b> The creation of working groups within the Fiscal and Financial Policy Council (CPFF) and the National Commission on Local Administration (CNAL) to think about and discuss in depth the expenditure rule and then produce a paper on the research carried out and its conclusions as well as concrete proposals to be debated in their respective plenary sessions.</p>	29/09/2015	All public administrations	MINHAP		CPFF & CNAL decision	Explanation	<p>Given that the IGAE has already written a methodology guide for ARs and LCs, <b>MINHAP</b> does not believe it is necessary to set up working groups within the CPFF and the CNAL to address these questions.</p> <p><b>AIReF</b>, on the contrary, holds the view that thought needs to be given to the subject and a discussion held within the General Government sector about the current expenditure rule regulation and so it will continue to stress the need for such working groups to be created.</p>
<b>Report on the macroeconomic forecasts SGB 2016</b>							
<p><b>Transparency in macroeconomic forecasts.</b> AIReF recommends that work should be completed so that the published macroeconomic forecasts include all the relevant methodologies, assumptions and parameters underpinning them.</p>	30/07/2015	Central Government	MINECO		Stability Programme Update	Ongoing	<p>The Ministry of Economy and Competitiveness is in the process of complying with this recommendation and it would be desirable for the Stability Programme Update in spring 2016 to include these points.</p>
<b>Report on the setting of individual budget stability and government debt targets for the ARs</b>							
<p><b>Differentiated deficit targets.</b> Differentiated deficit targets should be set in 2016 and 2017 so that the convergence path to a balanced budget as envisaged for 2018 is possible. The following elements could be taken into account to do this:</p> <ul style="list-style-type: none"> <li>The relative position of the autonomous region as regards the feasibility of its compliance with the target measured in terms of the relative adjustment required.</li> <li>The consistency of the budget stability target with compliance with the expenditure rule.</li> </ul>	27/07/2015	ARs	MINHAP		CPFF Agreement	Explanation	<p>The report on the individual budget stability and government debt targets was the subject of a proposal, debate and vote in a meeting of the CPFF so <b>MINHAP</b> is of the view that AIReF had the chance to include in that report a proposal on setting both targets based on the assumptions that it considered the right ones at the time. The request for additional justification or motivations with regard to the targets finally approved by Agreement of the Council of Minister on 11th September 2015 is therefore not appropriate according to MINHAP.</p> <p><b>AIReF</b> is of the view that its mandate is to make a report prior to the submission in the CPFF meeting on the proposal for targets prepared by MINHAP but that making a specific proposal on the setting of the targets does not fall within its remit unless so requested by the CPFF.</p>

Recommendations on the object of the report

Recommendation on the object of the report	Date	For	Competent body		Means of compliance	Status	Remarks
<b>Initial feasibility analysis.</b> For future years, the budget targets set for the General Government sector overall and for each one of its subsectors should be based on an initial analysis of the feasibility of compliance with the individual targets.	27/07/2015	ARs	MINHAP		CPFF Agreement	Explanation	The report on the individual budget stability and government debt targets was the subject of a proposal, debate and vote in a meeting of the CPFF so <b>MINHAP</b> is of the view that AIReF had the chance to include in that report a proposal a proposal on setting both targets based on the assumptions that it considered the right ones at the time. The request for additional justification or motivations with regard to the targets finally approved by Agreement of the Council of Minister on 11th September 2015 is therefore not appropriate according to MINHAP. <b>AIReF</b> is of the view that its mandate is to make a report prior to the submission in the CPFF meeting on the proposal for targets prepared by MINHAP but that making a specific proposal on the setting of the targets does not fall within its remit unless so requested by the CPFF.
<b>Design of debt targets.</b> Debt targets should be set that allow the ARs to draw up budgets in conformity with the targets that will eventually be used to verify their compliance and AIReF to make an ex ante evaluation of the debt targets. With that aim in mind AIReF believes it would be appropriate to make public the agreements reached by the Government's Delegated Committee on Economic Affairs (CDGAE) with the financial amounts distributed to each one of the autonomous regions as well as the accounts classifications of units.	27/07/2015	ARs	MINHAP		Publication CDGAE agreements	Explanation	<b>MINHAP</b> is of the view that the ARs have the necessary elements to set their own debt volumes in their budgets. Likewise it is of the view that the CDGAE agreements were not made public because of their nature and the confidentiality that must govern the actions of Government collegiate bodies. In particular, the relevant stakeholders (the ARs themselves or AIReF) will have knowledge of the content of the CDGAE Agreements as far as the Financing Fund for ARs is concerned. <b>AIReF</b> is of the view that it lacks the necessary information to evaluate ex ante compliance with the debt targets and so will reiterate this recommendation in future reports.
<b>Communication of the AR financing system resources.</b> The information on the resources of the financing system that will be paid out to the regions as interim payments should be released earlier.	27/07/2015	ARs	MINHAP		Practical application	Explanation	According to <b>MINHAP</b> , the information on the resources in the financing system subject to interim payments is released immediately after the sending by the INE of the "Regional Shareout Indices for VAT and Special Duties on Beer, on Alcohol and Related Beverages and on Intermediate Products". Insofar as the necessary information is available sufficiently in advance, MINHAP will bring forward the release of information on the resources of the system paid out as interim payments. <b>AIReF</b> will take a positive view on all efforts made in this respect.
<b>Report on expected compliance with the 2015 budget stability, government debt and expenditure rule targets by the public administrations in Spain</b>							
<b>Sustainability of the Social Security System.</b> An evaluation should be made of measures that could be adopted to ensure on a permanent basis the financing of Social Security deficits through the State General Budget, or for other decisions to be adopted to balance the Social Security system.	15/07/2015	Social Security	MESS		Law	Commitment to comply	<b>MESS:</b> The MEYSS carries out continuous and transparent monitoring of the financial situation of the Social Security System. In the framework of the Toledo Pact, major reforms have been made whose effects will not be felt in full until 2027. The current deficits are linked to the current economic circumstances and are financed by the Reserve Fund. Furthermore, Additional Provision 85 has been included in the SGB. <b>MINHAP:</b> The Government includes its analysis on the implementation of the Social Security subsector in the medium-term planning documents such as the Stability Programme and the Budgetary Plan. In the SGB Law for 2016, Additional Provision 85 has been included as a proposal to work on the analysis of the different schemes for contributory benefits that might help towards its sustainability. Another point to be underscored is that as the projections made by the MINECO take into account the sustainability factor, like the revaluation index, they reduce the sustainability risk in the long-term.

**Recommendations on the object of the report**

Recommendation on the object of the report	Date	For	Competent body	Means of compliance	Status	Remarks
<p><b>Corrective measures in the LOEPYSF.</b> EFPs should be adapted to the actual circumstances of each region in a way that guarantees the substantive aspects of the LOEPYSF. The procedure for approval of the EFPs as well as their content should be made more flexible as and where necessary. With that aim in mind, AIReF is of the view that:</p> <p><b>1.</b> The strategic lines underpinning the EFPs that have to be prepared because of non-compliance with the 2014 targets should be presented at the meeting of the Fiscal and Financial Policy Council (CPFF) likely to be held at the end of July. The detailed plans would then be submitted and approved at a new Council meeting that could be held in September or October. That would give the new regional governments the time they need to examine the circumstances in the region and prepare on this basis an EFP with a credible path for the correction of the existing imbalance. In addition, they would be able to incorporate into the budget scenario for 2016 the funds to be paid to them by the regional financing system as that information will be released by MINHAP at the end of July.</p> <p><b>2.</b> The autonomous regions should adapt the content of the EFPs in line with aspects such as the size and recurrent nature of the deviation, including the possibility of automatic correction without the need for any additional measures on top of those already adopted.</p> <p><b>3.</b> Additionally, the ARs of Balearic Isles, Catalonia, Extremadura, Murcia Region and Valencia Region, which show recurrent deviations from targets, should prepare their EFPs within a multi-year framework coinciding with the timeframe set in the Stability Programme Update (SPU). These plans should contain the annual correction commitments and identify the economic and financing assumptions underpinning their revenue and expenditure forecasts, as well as the concrete fiscal consolidation measures that are going to be taken."</p>	15/07/2015	ARs	MINHAP/ARs	EFP	MINHAP: Explanation ARs: Compliance, except for the Balearic Isles that has not sent an EFP	<p>According to <b>MINHAP</b>, with regard to proposal 1, the decision adopted in the July CPFF was to approve the Catalonia EFP as it was deemed suitable and defer all the other plans to a later CPFF meeting.</p> <p>With regard to proposal 2, it informed AIReF that the current content of the EFPs already includes that information.</p> <p>With regard to proposal 3, AIReF was informed that the regulation of the duration of the plan is already established in the stability law itself and covers two years. This duration was changed from one to two years to incorporate the multiyear aspect although it was not considered necessary to extend it to 3 or 4 years as AIReF is proposing.</p> <p>The ARs that have sent their EFP to AIReF will have complied in general terms with this recommendation by providing multiyear information. In this respect, Extremadura has endeavoured to incorporate into a multiyear path the annual correction commitments with the identification of the economic and financing assumptions on which the forecast development of its revenue and expenditure is based. Likewise, other Regions with recurring deviations from their targets, like Murcia or Valencia have provided multiyear information but a greater effort would have been necessary to contribute a more realistic path.</p> <p><b>AIReF</b> continues to hold the view that the extension of the EFP time horizon would be desirable as would their adaptation to the reality of each Autonomous Regions so that they would not just be a mere formality. Likewise, the lack of approval of the EFPs has a negative impact on the possibilities of meeting the budgetary stability targets.</p>
<p><b>Financial capacity of the subsectors.</b> The whole financing system for the different subsectors should be analysed so that it can be brought into line with the level of expenditure (assessed on the basis of efficiency parameters) associated with the competences exercised by each of them and with compliance with the expenditure rule regulated by the LOEPYSF.</p>	15/07/2015	All PAs	MINHAP		Explanation	<p>According to <b>MINHAP</b>, it is within the Government's remit to determine the right moment to approach this analysis, taking into account the many legal, financial, social and institutional circumstances that come together in this analysis.</p> <p><b>AIReF</b> believes it is essential to bring the level of expenditure into line with the resources that come from the financing system and to compliance with the expenditure rule and so it will continue to make this same recommendation in its next reports.</p>
<p><b>Central Government &amp; Social Security EFP.</b> Provide additional information with the sufficient level of detail broken down by subsector so that the Stability Programme Update (SPU) can be considered as the EFP for the Social Security Funds and Central Government subsectors.</p>	15/07/2015	Central Government	MINHAP	Stability Programme Update	Explanation	<p>According to <b>MINHAP</b>, all the programmes, budgetary plans and budgets contain highly detailed data and measures to be applied in those subsectors in order to meet their targets, with the same level of detail as the EFPs. It reminds AIReF that a new aspect since 2015 is the inclusion in addition of tables containing State and Social Security measures in the Stability Programme.</p> <p><b>MEYSS</b> has given a similar response and has referred the matter to MINHAP as the responsible ministry for the SPU.</p> <p><b>AIReF</b> is of the view that the current information in the SP is not sufficient to comply with the minimum content that the LOEPYSF requires from the EFPs and that would prevent it from being given that status.</p>
<b>Report on the Economic-Financial Plans of the ARs</b>						
<p><b>Additional measures for 2015.</b> To reach the 2015 budget stability target, the EFP draft submitted by Murcia Region should be expanded to include additional measures.</p>	27/07/2015	Murcia	Murcia	EFP	Not valid	EFP pending submission to the CPFF. The end of 2015 makes the effectiveness of this recommendation no longer valid. The fact that the law does not provide for the possibility of AIReF knowing the final text that is to be put to the CPFF for approval prevents it from giving a view on compliance with this recommendation.

Recommendations on the object of the report

Recommendation on the object of the report	Date	For	Competent body	Means of compliance	Status	Remarks
<b>Additional measures for 2016.</b> To reach the 2016 budget stability target, the EFP draft submitted by Murcia Region should be expanded to include additional measures.	27/07/2015	Murcia	Murcia	EFP	Ongoing	EFP pending submission to the CPFF. The end of 2015 makes the effectiveness of this recommendation no longer valid. The fact that the law does not provide for the possibility of AIReF knowing the final text that is to be put to the CPFF for approval prevents it from giving a view on compliance with this recommendation.
<b>Additional measures for 2015.</b> To reach the 2015 budget stability target, the Catalonia draft EFP should be expanded to include additional measures although this region has used its normative powers over taxation more than the average of the common regime ARs.	08/07/2015	Catalonia	Catalonia	EFP	Explanation	The EFP approved by the CPFF does not contain additional measures that add up to a significant amount and so the recommendation is not deemed complied with.
<b>Additional measures for 2016.</b> To meet the 2016 budget stability target, the Catalonia draft EFP should be expanded to include additional measures and the adaptation of the revenue scenario forecast for year-end.	08/07/2015	Catalonia	Catalonia	EFP	Explanation	The EFP approved by the CPFF does not contain additional measures that add up to a significant amount and so the recommendation is not deemed complied with.
<b>Additional measures for 2015.</b> To meet the 2015 budget stability target Madrid should revise its revenue scenario and incorporate if need be additional measures that offset the corrections made.	08/07/2015	Madrid	Madrid	EFP	Not valid	EFP pending submission to the CPFF. The end of 2015 makes the effectiveness of this recommendation no longer valid. The fact that the law does not provide for the possibility of AIReF knowing the final text that is to be put to the CPFF for approval prevents it from giving a view on compliance with this recommendation.
<b>Report on the Stability Programme Update 2015-2018</b>						
<b>Transparency in forecasts.</b> Include in the macroeconomic forecasts published the pertinent methodologies, assumptions and parameters that underpin them, thus meeting the requisites established in Directive 2011/85 on budgetary frameworks.	04/05/2015	Central Government	MINECO	Next Stability Programme Update	Ongoing	MINECO is studying how to comply with the recommendation.
<b>Financial capacity of subsectors.</b> Review the funding made available to the different levels of the PAs with a view to bringing their resources in line with the public goods and services provision responsibilities of each one pursuant to the current distribution of competences.	04/05/2015	All PAs	MINHAP		Explanation	According to <b>MINHAP</b> , the Government is the competent body to determine the right moment to conduct this analysis, taking into account the whole range of legal, financial, social, political and institutional circumstances involved in it. <b>AIReF</b> believes it is essential to bring the level of expenditure into line with the resources that come from the financing system and with compliance with the expenditure rule and so will continue to make this same recommendation in its next reports.
<b>Financial situation of the Social Security.</b> Analyse the situation of the Social Security Funds given that the short and medium-term financial tensions in this subsector could pose a real and significant risk to the fiscal consolidation path.	04/05/2015	Social Security	Ministry of Employment & Social Security (MEYSS)		Commitment to comply	<b>MEYSS:</b> The financial situation of the Social Security is under continuous analysis and measures are taken as part of commitments agreed with the social partners and within the Toledo Pact framework of permanent dialogue and consensus. Examples of this are the reforms implemented in the last few months. <b>MINHAP:</b> The analysis would be included in the Stability Programme and the Budgetary Plan. <b>SGB 2016:</b> Additional provision 85: study of the non-contributory and universal benefits.
<b>Content of the Stability Programme.</b> Adapt the draft SPU to the provisions in Directive 2011/85 on budgetary frameworks and in article 29 of the LOEPYSF which defines the content of the parameters that the medium-term budgetary plans include in the draft SPU. In particular: prepare the budgetary projections by subsectors and increase the level of detail of certain items; and distributed by subsectors, government debt targets and information on eligible expenditure as well as the reference rates for the expenditure rule calculation for all the years included in the update.	04/05/2015	All PAs	MINHAP	Next Stability Programme Update	Explanation	According to <b>MINHAP</b> , neither art. 9 of Directive 2011/85/EU, nor art. 29 of the LOEPYSF provide for the publication of the proposed information. The SP Code of Conduct does not cover it either. The measures by subsectors are covered in the reinforced procedure and so it has been included. The Code of Conduct provides for the publication of eligible expenditure but not the expenditure rule. The debt targets and reference rate of the expenditure rule up to 2017 are public (ACM of the year before) and the targets and rate for 2018 have been approved this year on 10th July and will be published whenever they are passed by the Spanish Parliament. <b>MINHAP</b> takes note of the recommendation on the publication of the reference rate which will be included in the next SPU. The rate approved is from the CM the year before.

**Recommendations on the object of the report**

Recommendation on the object of the report	Date	For	Competent body	Means of compliance	Status	Remarks
<b>Debt reduction path.</b> Use the appropriate legal procedures in order to extend the transition period for compliance with the limit foreseen in article 13 of the LOEPYSF, adapting the requirements set up in transitional provision one of the aforesaid act and devising a reference path that is both credible and demanding, in order to achieve a sustained reduction in the government debt ratio.	04/05/2015	All PAs	MINHAP	Organic Law	Explanation	<b>MINHAP</b> reiterates that the first transitional provision DT1 of the LOEPYSF establishes a forecast for the revision of the government debt reduction path that will be in compliance with this provision, and with the limits set by EU governance, whenever its implementation is appropriate.
<b>Report on the initial budgets for 2015</b>						
<b>Debt reduction path.</b> Revise in 2015 the debt reduction path and use the appropriate legal mechanisms to extend the transitional period for compliance with the limits set out in article 13. The requirements specified in the first transitional provision should be adapted and a credible, demanding reference path defined for the sustained reduction of the debt ratio that would allow the public administrations to guarantee financial sustainability.	31/03/2015	All PAs	MINHAP	Organic Law	Explanation	The Ministry of Finance is of the view that the first transitional provision of the LOEPYSF covers the revision of the public debt reduction path and that whenever the recommendation is implemented it will be done in compliance with that provision and with the limits set by EU governance.
<b>Financial capacity of the subsectors.</b> Analyse the financial capacity of each subsector taking into account the services provided in line with the current distribution of competences.	31/03/2015	All PAs	MINHAP		Explanation	According to <b>MINHAP</b> , the Government is the competent body to determine the right moment to conduct this analysis, taking into account the whole range of legal, financial, social, political and institutional circumstances involved in it. <b>AIReF</b> believes it is essential to bring the level of expenditure into line with the resources that come from the financing system and with compliance with the expenditure rule and so will continue to make this same recommendation in its next reports.
<b>Preventive measures in the LOEPSF.</b> Early action by each administration, within the scope of the LOEPSF, implementing the automatic prevention measures envisaged in article 18.1 in the LOEPSF so that each one monitors its budgetary implementation and expenditure adjustment in order to guarantee compliance with the budgetary stability target.	31/03/2015	All PAs	MINHAP, ARs, Ministry of Employment & Social Security		<b>ARs:</b> Commitment to comply by some, no response from all the others. <b>Ministry of Employment:</b> Explanation. <b>MINHAP:</b> Compliance	All the <b>Autonomous Regions</b> have given an Compliance commitment and have indicated the budget implementation monitoring mechanisms that they are implementing, except for the Balearic Isles, Cantabria, Castilla-La Mancha and Valencia, that did not respond to the request for information on this recommendation. For its part, the <b>Ministry of Employment &amp; Social Security</b> has explained that although it monitors the execution of revenue and expenditure on an ongoing basis, the nature of its actions makes it impossible to take short-term measures, only medium-term ones such as the measures put in place through the recent reforms. <b>MINHAP</b> considers that it is the responsibility of each administration notwithstanding the measures adopted to improve their implementation.
<b>Corrective measures in the LOEPSF.</b> Publication before 15th April by the MINHAP of the report on the degree of compliance with the budget stability target, public debt target and expenditure rule for 2014, for the purposes of activating the procedure set out in the LOEPSF.	31/03/2015	All PAs	MINHAP	Compliance report	Explanation	The report on the degree of compliance was published on 24th April. MINHAP indicated that for the ARs the usual calendar is being followed and that the EFPs would be evaluated in the July CPFF. However, in July only the Catalonia EFP was evaluated and approved, leaving all the other EFPs still pending approval. As far as the LCs are concerned, the earlier EFPs are being published and they are following their own timeline.
<b>Coercive measures in the LOEPYSF.</b> Appraise the implementation of the coercive measures envisaged in article 25 of the LOEPYSF, specially in the case of those regions whose budget for 2015 shows a clear risk of non-compliance again.	31/03/2015	One/several ARs	MINHAP		Ongoing	<b>MINHAP</b> considers that the appraisal is dependent on the submission of the 2015-2016 EFPs. <b>AIReF</b> believes it is necessary for progress to be made on the phased application of sanction measures envisaged in the LOEPYSF.
<b>Information on the Social Security budgets.</b> Provide together with the Social Security budgets all the documentation required by budget legislation, especially a preview of the settlement of the budget for the current year and information enabling the budget balance to be matched up with the national accounting balance	31/03/2015	Social Security	Ministry of Employment & Social Security	Law (budget draft and law)	Explanation	<b>MEYSS</b> considers that it complies with the information required in the accounting legislation that does not include the preview of settlement of the budget for the current year. Furthermore, it points out that IGAE is the competent administration for national accounting and therefore would be responsible for complying or explaining in the case of this recommendations.

**Recommendations on the object of the report**

Recommendation on the object of the report	Date	For	Competent body		Means of compliance	Status	Remarks
<b>Report on the methodology to calculate revenue and expenditure trends and the reference growth rate</b>							
<b>Semi-elasticities of the subsectors.</b> Specify the parameters necessary for the calculation of the semi-elasticities of each one of the subsectors as well for the individual ARs.	27/02/2015	All PAs	MINECO		Ministerial Order	Ongoing	An informal, open and constructive dialogue has been established at a technical level between the Ministry of Economy & Competitiveness and AIReF on the implementation of the recommendations. The final outcome is dependent on the approval of the Ministerial Order.
<b>Statistical sources.</b> Specify the public statistical sources of the series used in the calculation of the weights of the revenue and expenditure items for all the subsectors.	27/02/2015	All the PAs	MINECO		Ministerial Order	Ongoing	An informal, open and constructive dialogue has been established at a technical level between the Ministry of Economy & Competitiveness and AIReF on the implementation of the recommendations. The final outcome is dependent on the approval of the Ministerial Order.
<b>Information on methodology.</b> Specify the methodology for the calculation of the elasticity to the funds linked to the funding system of the ARs with regard to the output gap (1.34) and the items to include as transfers linked to the funding system to which the proposed 1.34 cyclical elasticity should be applied.	27/02/2015	All the PAs	MINECO		Ministerial Order	Ongoing	An informal, open and constructive dialogue has been established at a technical level between the Ministry of Economy & Competitiveness and AIReF on the implementation of the recommendations. The final outcome is dependent on the approval of the Ministerial Order.

**Recommendation on limitations to scope**

Recommendation on limitations to scope	Date	For	Competent body	Means of compliance	Status	Response
<b>Report on the Economic-Financial Plans of the Autonomous Regions</b>						
<b>Information on the expenditure rule in the EFPs.</b> Expansion of the content of the plans for the purpose of being able to evaluate compliance with the expenditure rule.	03/12/2015	Autonomous Regions	MINHAP		Commitment to comply	According to <b>MINHAP</b> , after the publication of the guide on the expenditure rule for the ARs, the Ministry will assess whether or not it is appropriate to expand the content of the EFPs on that subject. In any event, it has pointed out that the Report on the Draft Budgets of the ARs for 2016 has incorporated for the first time in the section on each one of the Autonomous Regions a reference to the way each region deals with the expenditure rule as show in its draft budget.
<b>Reports on the General Government sector draft budgets and main budgetary lines in 2016: Local Corporations</b>						
<b>Information on the expenditure rule in LCs.</b> The information needed to calculate the expenditure rule and an analysis of the consistency of this rule with the budget balance or surplus inferred from the budget scenario of revenue and expenditure assessed in national accounts terms should be incorporated into the information on the main budgetary lines and approved budgets.	12/11/2015	LCs	MINHAP		Explanation	According to <b>MINHAP</b> , the IGAE provides national accounting data on Local Corporations in the terms required by EU and Spanish legislation. It identifies as additional elements of transparency the IGAE manuals on the deficit and expenditure rule of the Local Corporations. Furthermore Eurostat is notified about the national accounting adjustments that affect the sectors. <b>AIReF</b> stresses that the information provided does not allow it to properly discharge its duties as it is not possible to make an ex ante appraisal of compliance with the expenditure rule.
<b>Increase information on the LCs.</b> All the necessary actions should be taken to publish all the required data, such as the national accounting adjustments for the verification of compliance with the stability target and the expenditure rule of the LCs; these publications should be completed with individualised information in national accounts terms of the six largest city councils.	12/11/2015	LCs	MINHAP		Commitment to comply	<b>MINHAP</b> is of the view that more information than the statutory information required by legislation is published and it would be willing to supply or clarify any additional information required by AIReF when fulfilling its remit. As for the data on the 6 largest local governments, it will evaluate the possibility of providing this information in a more accessible format, within the available resources.
<b>Access by AIReF to the information on the LCs.</b> MINHAP should take all necessary actions and make the normative modifications as required in order to facilitate access to the information from the LCs that is necessary for AIReF to properly fulfil its functions and establish a system of access to the information that should be similar to the access that exists for the financial oversight bodies.	12/11/2015	LCs	MINHAP		Explanation	<b>MINHAP</b> is of the view that AIReF has access to the information it requires to discharge its duties and it would be ready to supply or clarify any additional information AIReF should require. <b>AIReF</b> stresses that a similar system of access to the one that exists for the oversight bodies would be the most efficient way of having access to that information.
<b>Report on General Government draft budgets &amp; main budgetary lines: SGB 2016</b>						
<b>Information on expenditure rule in the CG.</b> Inclusion in the State General Budget draft of all the necessary information required to determine the variation in the eligible expenditure in the Central Government. Likewise, the difficulties arising in the interpretation and appraisal of the components of the expenditure rule, such as the impact and time frame of the normative changes that lead to higher or lower revenue collection, make it necessary for normative development of the content of article 12 of the LOEPYSF.	29/09/2015	Central Government	MINHAP	SGB 2017	Commitment to comply	MINHAP is of the view that the SGB documentation contains all the necessary information and has pointed out that all the existing budgetary information is public and that there is no other additional information that could be included. Nevertheless, MINHAP agrees that, insofar as the means are available to do so and it does not entail any increase in operating costs, there is a need to continue to promote measures that might help to improve the presentation of the economic-financial and budgetary information on the General Government sector.
<b>Information on the debt target in the CG.</b> More complete information should be given in the Draft State General Budget so that an assessment can be made specifically of compliance with the debt target by the Central Government.	29/09/2015	Central Government	MINHAP	SGB 2017	Commitment to comply	<b>MINHAP</b> is of the view that the draft SGB contains sufficient information to determine compliance with the government debt target of the CG. It has pointed out that the SGB covers the State debt and the debt of all the entities and bodies that form part of the CG. However, it will evaluate the possibility of providing this information in a more accessible format, insofar as the means are available to do so and it does not entail any increase in operating costs.



**Recommendation on limitations to scope**

Recommendation on limitations to scope	Date	For	Competent body		Means of compliance	Status	Response
<b>Initial budget and settlement forecast in National Accounts.</b> An initial budget should be drawn up in national accounting terms for the Central Government and the Social Security Funds and forecasts of settlements for the current year for the Social Security Funds.	29/09/2015	Central Government & Social Security	MINHAP/MEYSS		SGB 2017	<b>MINHAP:</b> Explanation <b>MEYSS:</b> Explanation	According to <b>MINHAP</b> , the current legislation in force on budgets and stability does not require the General Government sector to submit a budget in national accounting terms and the information contained in the draft SGB is sufficient. Nevertheless, insofar as the means are available to do so and it does not entail any increase in operating costs, <b>MINHAP</b> intends to continue promoting measures that might contribute to improving the economic, financial and budgetary information on the General Government sector. <b>MEYSS</b> is of the view that the IGAE is the competent body to prepare the budget in national accounting terms. With regard to the settlement forecasts, its understanding is that they are solely and exclusively internal in nature. <b>AIReF</b> is of the view that the information is necessary for it to be able to perform its functions.
<b>Information on CG subsector entities.</b> The State General Budget should include information on the entities that are not public entities but that are still included for the purposes of ESA 2010 in the Central Government subsector.	29/09/2015	Central Government	MINHAP		SGB 2017	Commitment to comply	<b>MINHAP</b> acknowledges the residual existence of certain entities not covered in the SGB, and which as a consequence of temporary and ad-hoc reclassifications of national accounting (such as essentially the case of the Deposit Guarantee Fund) form part of the CG subsector in national accounting. If that classification is maintained and insofar as the means are available to do so and it does not entail any increase in operating costs, an evaluation could be made of the expansion of the information contained in the SGB.
<b>Information on the PRI in the SGB.</b> The State General Budget should include sufficient information required to make the PRI calculation.	29/09/2015	Social Security	MEYSS		SGB 2017	Explanation	<b>MEYSS's</b> understanding is that the PRI figure can be inferred on the basis of the information in the SGB and that in 2016 it is clearly lower than the applicable minimum rate and so the revaluation is therefore 0.25. It believes that explicit information must only be included whenever the result is a different revaluation. <b>AIReF</b> is of the view that this information is necessary irrespective of the result of the formula.
<b>Report on the setting of individual budget stability and government debt targets for the ARs</b>							
<b>Information on the expenditure rule.</b> MINHAP should include in its report on the degree of compliance with the budget stability, government debt and expenditure rule targets for each year a more detailed explanation of the adjustments to be made for the calculation of the expenditure eligible for inclusion according to the rule.	27/07/2015	ARs	MINHAP		Practical application	Commitment to comply	Insofar as the means are available to do so and it does not entail any increase in operating costs, <b>MINHAP</b> intends to continue promoting measures that might contribute to improving the economic, financial and budgetary information on the General Government sector.
<b>Expenditure rule manual.</b> The IGAE should publish a Guide to calculating the expenditure rule for the regions.	27/07/2015	ARs	MINHAP		Publication of guide	Compliance	The <b>IGAE</b> has published the Guide for the calculation of the expenditure rule for the ARs.
<b>Expenditure rule methodology.</b> MINHAP should publish a ministerial order with an approved calculation methodology for the expenditure rule and develop its contents and the procedure for sending the necessary information so that each administration can make an a priori estimate (when drafting its budget) and monitor its budget spending against the expenditure rule.	27/07/2015	ARs	MINHAP		Ministerial Order	Explanation	Given that the IGAE has already prepared a methodology guide for ARs and LCs, <b>MINHAP</b> does not believe it is necessary to issue a ministerial order regulating the expenditure rule methodology. With regard to the expenditure rule, <b>AIReF</b> believes it is necessary to develop its content, the procedure for sending information and the methodology that are necessary for its calculation, and it continues to hold the view that the approval of a Ministerial Order for the regulation of these aspects is necessary.
<b>Information on the impact of the use of taxation powers by the ARs.</b> MINHAP should publish the economic impact of the normative powers exercised by the autonomous regions on taxation broken down by individual tax as well as the existing margin for action by each region.	27/07/2015	ARs	MINHAP		Practical application	Commitment to comply	Insofar as the means are available to do so and it does not entail any increase in operating costs, <b>MINHAP</b> intends to continue promoting measures that might contribute to improving the economic, financial and budgetary information on the General Government sector.

**Recommendation on limitations to scope**

Recommendation on limitations to scope	Date	For	Competent body		Means of compliance	Status	Response
<b>Report on expected compliance with the 2015 budget stability, government debt and expenditure rule targets by the public administrations in Spain</b>							
<b>Expenditure rule methodology.</b> MINHAP should approve through a ministerial order a methodology to calculate the expenditure rule and develop the content and procedure for the information required to be sent so that each administration can make its own a priori calculation and monitor the expenditure rule which limits its spending.	15/07/2015	All PAs	MINHAP		Ministerial Order	Explanation	As far as local entities are concerned, according to <b>MINHAP</b> , actions have been taken since 2013 along the lines of AIReF's recommendation. Work has been ongoing to prepare a manual or guide for all the Public Administrations and for the publication of the implementation of the expenditure rule by IGAE in the regular budget implementation reports.  Irrespective of the fact that IGAE has already published a manual for the determination of the expenditure rule for Autonomous Regions, <b>AIReF</b> still believes the approval of a Ministerial Order to regulate other aspects relating to the expenditure rule is necessary.
<b>Initial budget and settlement forecast in National Accounts.</b> Draw up the initial budgets and forecasts for the current year for the CG, SSFs, ARs and LCs in national accounting terms.	15/07/2015	All PAs	MINHAP		General Government Sector budgets	Explanation	According to <b>MINHAP</b> , the settlement forecasts are done for the Central Government in the preparation of the draft SGB law; in the case of each Autonomous Region, the settlement forecasts are included in the corresponding EFP and in the monitoring report.  <b>AIReF</b> believes such information is necessary for it to be able to perform its functions.
<b>Report on the Economic-Financial Plans of the Autonomous Regions</b>							
<b>Information on the expenditure rule in the EFPs.</b> In order to be able to evaluate and monitor the expenditure rule, the EFP should include any necessary information to calculate the growth in the expenditure to be included in the calculation of expenditure for the expenditure rule in the period covered by the plan (2015 and 2016).	08/07/2015	ARs	MINHAP		EFP	Commitment to comply	According to <b>MINHAP</b> , after the publication of the guide on the calculation of the expenditure rule for the ARs, the Ministry will assess whether or not it is appropriate to expand the content of the EFPs on that subject. In any event, it has pointed out that the Report on the Draft Budgets of the ARs for 2016 has incorporated for the first time in the section on each one of the Autonomous Regions a reference to the way each region deals with the expenditure rule as shown in its draft budget.
<b>Report on the Stability Programme Update 2015-2018</b>							
<b>Information on the expenditure rule.</b> Include in the budgets of all the PAs for 2016 a specific section in their Economic & Financial Report, or equivalent, identifying the components and calculations of the expenditure rule in sufficient detail to be able to reproduce it	04/05/2015	All PAs	MINHAP, ARs		2016 budgets	ARs: Ongoing MINHAP: Explanation	<b>MINHAP</b> considers that the budgets already contain the information for the expenditure rule and that it is compliant with the legislation on the information that should be provided.  The <b>ARs</b> already stated their intention of including this information in their next draft budgets. Notwithstanding the fact that this methodology has been published, in general and subsequent to the preparation of the budgets, Galicia, Canary Isles, Castilla y León, La Rioja, Murcia and Andalusia have complied with the recommendation.
<b>Monthly information on the expenditure rule.</b> Regular information should be made available throughout the year on the extent of compliance with the expenditure rule at the different levels of general government.	04/05/2015	All PAs	MINHAP		Monthly reports	Commitment to comply	<b>MINHAP</b> is working on the inclusion of this information in its monthly national accounting report.
<b>Report on 2015 initial budgets</b>							
<b>Information on the expenditure rule.</b> Include in the economic & financial reports submitted together with the budgets of the different public administrations the information on non-financial uses including the breakdown required for the calculation of the spending rule, as well as information on the methodology used.	31/03/2015	All PAs	MINHAP, ARs		Drafts/Budgets 2016	<b>ARs:</b> Commitment to comply given by several and no reply from the others <b>MINHAP:</b> Explanation	The <b>Autonomous Regions</b> have given a commitment to include this information in the next budget drafts, indicating the need for a common methodology. Notwithstanding the fact that this methodology has been published, in general and subsequent to the preparation of the budgets, Galicia, Canary Isles, Castilla y León, La Rioja, Murcia and Andalusia have complied with the recommendation.  <b>MINHAP</b> considers that is not under any obligation to include this information in the Economic & Financial Report of the SGB. However, it is working on the inclusion of this data in its monthly national accounting reports.

**Recommendation on limitations to scope**

Recommendation on limitations to scope	Date	For	Competent body		Means of compliance	Status	Response
<b>Expenditure rule manual for ARs.</b> Publication by the IGAE of a manual to calculate the expenditure rule for ARs similar to the one that already exists for LCs.	31/03/2015	ARs overall	MINHAP		IGAE manual	Compliance	<b>IGAE</b> has published the Guide for the calculation of the expenditure rule for the Autonomous Regions.
<b>Debt targets.</b> Establishing by MINHAP of a transparent and verifiable system of debt targets that limits as far as possible the margin for discretion.	31/03/2015	ARs overall	MINHAP		Council of Ministers decision	Explanation	<b>MINHAP</b> does not regard the exceptions as being discretionary and it is likely they will decrease in number over time. The exceptions are published and explained in the April and October compliance reports. Although MINHAP has made progress towards a system of more transparent and verifiable targets by limiting the exceptions that allow the debt targets to be rectified for the period 2016-2018, <b>AIReF</b> is of the view that this system of establishing targets still does not allow ex ante verification of compliance with those targets.
<b>LCs national accounting adjustments.</b> Add to the budget information of the LCs the data on national accounting adjustments that will allow for an equivalence to be established between the budget figure and net lending (+)/ borrowing (-).	31/03/2015	LCs overall	MINHAP		2016 budgets	Partial compliance commitment	<b>MINHAP</b> considers that the adjustments are made by the local audit bodies and not validated by the ministry although work is ongoing to be able to expand the information published by the larger municipalities.
<b>ARs public debt information.</b> Include in the ARs budgets sufficient and adequate information enabling verification of the public debt targets.	31/03/2015	ARs overall	ARs		Drafts/budgets 2016	Commitment to comply from several ARs and no reply from the other ARs	The <b>Autonomous Regions</b> have committed to include this information in their draft budgets for 2016. This recommendation is conditional on the availability in the ARs of the information required to know the debt target. Despite this limitation, Galicia, Canary Isles, Castilla y León and Murcia have all included information on the debt target.

Proposals in opinions

Proposals in opinions	Date	For	Competent body		Means of compliance	Status	Response
<b>Opinion on the determination of the annual PRI</b>							
<b>PRI information.</b> The Ministry of Employment & Social Security should publish the information of substance that would allow calculation of the PRI to be made in accordance with the content of additional provision one of the Law 23/2013 regulating the Sustainability Factor and the Pension Revaluation Index.	03/11/2015	Social Security	MEYSS		SGB	Non-compliance	AIReF included this proposal as a recommendation in its Report on the Macroeconomic Forecasts in the budgets for 2016 of the Autonomous Regions.
<b>PRI in the SGB.</b> The State General Budget should include the necessary information required for the calculation of the PRI.	03/11/2015	Social Security	MEYSS		SGB	Non-compliance	AIReF included this proposal as a recommendation in its Report on the Macroeconomic Forecasts in the budgets for 2016 of the Autonomous Regions.
<b>Consolidated revenue and expenditure.</b> Use the consolidated revenue and expenditure values for the Social Security System.	03/11/2015	Social Security	MEYSS			Non-compliance	
<b>Circularity problem in the PRI.</b> The Government should make public and explicit the method used to solve the circularity of the mathematical formula for the PRI calculation	03/11/2015	Social Security	MEYSS			Non-compliance	MEYSS does not believe it is necessary to make constant reference to the problem of circularity of the formula as it has been sufficiently studied, although it is true that when the value to be taken to increase the pension in a specific year depends on the different criteria of the variables involved in its calculation this debate will arise, not so much because of the circularity of the formula as for the estimation of the variables that come into the formula itself.
<b>Updating with negative price developments.</b> The Ministry of Employment and Social Security should request a report from the State General Counsel or the Council of State on the way to address the annual revaluation of pensions in a negative price development scenario.	03/11/2015	Social Security	MEYSS		State General Counsel	Non-compliance	

**Best practice guidelines**

Best practice guidelines	Date	For	Competent body		Means of compliance	Status	Response
<b>Report on the macroeconomic forecasts in the budgets for 2016 of the Autonomous Regions</b>							
<b>Comparison with other forecasts and methodology.</b> Include the comparison with other independent forecasts and make the methodology, assumptions and parameters of the forecasts more explicit. All the Autonomous Regions must comply with the requirements of EU legislation.	03/12/2015	Autonomous Regions	Autonomous Regions		2017 budgets	Ongoing	
<b>Standardise the GDP and employment variables.</b> All the Autonomous Regions that do not use in their future budgets identical forecasts to the forecasts in the State General Budget should provide at the very least forecasts on GDP and employment in like-for-like terms.	03/12/2015	Autonomous Regions	Autonomous Regions		2017 Budgets	Ongoing	
<b>Report on the macroeconomic forecasts in the SGB 2016</b>							
<b>Scenario with no change in policies.</b> The government should make its forecasts using the assumption of unchanged policies. The forecasts should be accompanied by a separate quantification of the impact of any new measures planned and how they would affect the macroeconomic aggregates.	30/07/2015	Central Government	MINECO		2017 Budgets	Ongoing	
<b>Simplified national accounting framework.</b> Include the key elements in the forecasts in a simplified national accounting framework. This would make it possible to understand the connections between economic activity, demand and employment on the one hand, and income flows and borrowing requirements on the other, and so identify the impact of the policy measures adopted by the government.	30/07/2015	Central Government	MINECO		2017 Budgets	Ongoing	
<b>Report on the Draft Stability Programme Update 2015-2018</b>							
<b>Increase the information on fiscal policy measures in the draft SPU.</b> In particular, with regard to the fiscal reform, it would be advisable to itemise individually the financial impact of the reform in greater detail in order to be able to appraise it. Moreover, the most significant variations in the information on measures compared with the information contained in the previous SPU or the current Budget Plan need to be justified.	04/05/2015	All PAs	MINHAP		Draft SPU	Ongoing	
<b>Information on contingent liabilities.</b> Increase the information concerning contingent liabilities to guarantee the possibility of analysis. It would be a good idea to include more detailed information that would allow a proper analysis of the guarantees provided by the different Public Administration and existing contingent liabilities.	04/05/2015	All PAs	MINHAP			Ongoing	
<b>Report on the macroeconomic forecasts in the Draft Stability Programme Update 2015-2018</b>							
<b>Alternative scenarios.</b> Prepare supplementary macroeconomic and budgetary scenarios that factor in the possible materialisation of the key risks identified in this report.	04/05/2015	Central Government	MINECO		2016 SGB	Non-compliance	
<b>Scenario with no changes in policies.</b> To improve the forecasting process in the future it would be advisable for the government to make its forecasts on the assumption of keeping current policies unchanged.	04/05/2015	Central Government	MINECO		2016 SGB	Non-compliance	AIReF has reiterated this guideline in its Report on the macroeconomic forecasts in the Autonomous Regions' budgets for 2016.
<b>Simplified national accounting framework.</b> On the minimum information to be supplied in forecasts, AIReF reiterates its recommendation to include the key elements in the forecasts in a simplified national accounting framework.	04/05/2015	Central Government	MINECO		2016 SGB	Non-compliance	AIReF has reiterated this guideline in its Report on the macroeconomic forecasts in the Autonomous Regions' budgets for 2016.

**Best practice guidelines**

Best practice guidelines	Date	For	Competent body		Means of compliance	Status	Response
<b>Report on 2015 initial budgets</b>							
<b>Details of the tax reform impact.</b> It would be advisable for the MINHAP to give itemised details of the economic impact of the individual measures stemming from the tax reform that affect personal income tax and corporation tax.	31/03/2015	Central Government	MINHAP		2016 SGB	Non-compliance	
<b>Initial budget and forecast settlement in national accounting terms.</b> It would be desirable for the draft budget and the initial budget to include a presentation in national accounts terms.	31/03/2015	Central Government	MINHAP		2016 SGB	Non-compliance	AIReF has reiterated this guideline as a recommendation in the Report on the General Government sector drafts and main budgetary lines: SGB 2016.
<b>National accounting adjustments.</b> It would be advisable for the reconciliation between the budget balance and the balance in national accounts terms included in the draft and the budget to give detailed information allowing for the deficit/surplus balance of the entities to be analysed, especially for those entities forming part of the central government but whose budgets are not included in the SGB.	31/03/2015	Central Government	MINHAP		2016 SGB	Non-compliance	AIReF has reiterated this guideline as a recommendation in the Report on the General Government sector drafts and main budgetary lines: SGB 2016.
<b>Information on largest local governments.</b> Publication of the individualised information on budget implementation and compliance with the three fiscal rules for the six largest municipalities, in line with the debt information according to the Excessive Deficit Procedure (EDP) published by Banco de España.	31/03/2015	LCs	MINHAP		Publication	Commitment to comply	AIReF has reiterated this guideline as a recommendation in the Report on the General Government sector drafts and main budgetary lines: SGB 2016 MINHAP will assess publication of this data.
<b>Report on the methodology to calculate the revenue and expenditure trends and the reference growth rate</b>							
<b>Drafting.</b> Drafting suggestions for the ministerial order	27/02/2015	All PAs	MINECO		Ministerial order	Ongoing	The ministerial order has not been published.
<b>ESA 2010 adjustment.</b> It would be advisable to adjust the boundaries established in the European System of Accounts. In addition, given the special characteristics of State Public Employment Service (SEPE), it would help to specify in the cyclical component of the SEPE within the Social Security Funds.	27/02/2015	All PAs	MINECO		Ministerial order	Ongoing	The ministerial order has not been published.
<b>Adjustment for the financing system settlements.</b> The draft order should be compatible with the institutional environment provided by the Autonomous Region financing system currently in force and the proposed methodology needs to be adjusted to offset any imbalances caused by the interim payment settlements.	27/02/2015	All PAs	MINECO		Ministerial order	Ongoing	The ministerial order has not been published.



# **Follo -up on the 2015 Action Plan**

Follow-up on the 2015 Action Plan

2015-2020 STRATEGIC PLAN		ACTION PLAN 2015	STATUS 31/12/2015
1	CONTRIBUTE TO A BETTER ORIENTATION OF FISCAL POLICY TOWARDS BUDGETARY STABILITY		
a	Monitor and analyse the economic and budgetary situation		Work carried out
	i	Develop models to forecast and project macroeconomic and budget variables	<p>Develop new forecasting and projection models</p> <p><b>Modelling of the key macro variables:</b></p> <ul style="list-style-type: none"> <li>Integrated short-term forecasting model (MiPred).</li> <li>Medium-term (from 3 quarters to 2 years) GDP forecasting model: error correction models (ECMs) and Bayesian autoregression models.</li> <li>MetCap: preliminary estimates of quarterly regional GDP.</li> <li>Working paper DT/04/2015. Integrated model of short-term forecasting of the Spanish economy (MIPred model).</li> <li>Working paper DT/03/2015: Quarterly regional GDP flash estimates for the Spanish economy (MetCap model).</li> </ul> <p><b>Annual revenue modelling</b></p> <p>ARIMA prediction model for the current year for the main tax items.</p> <ul style="list-style-type: none"> <li>Working paper DT/02/2015 <i>Modelización y proyección de ingresos por el impuesto sobre la renta de las personas físicas.</i></li> </ul>
	ii	Establish and maintain budget implementation data monitoring and early warning systems for possible imbalances in each of the PAs	<ul style="list-style-type: none"> <li>General Government sector accounting framework</li> <li>Establish budget implementation data monitoring systems for the different subsectors</li> </ul> <ul style="list-style-type: none"> <li>National Accounts Working Group: integration of different institutional sectors: <ul style="list-style-type: none"> <li>Reconciliation of macro and fiscal variables.</li> <li>Reconciliation of financial and non-financial variables.</li> <li>Application of shocks through elasticities.</li> <li>Improvements to sectorial distribution methods.</li> <li>Simulation tool.</li> </ul> </li> <li>Continuous monitoring to be reflected in the corresponding reports.</li> </ul>
	iii	Identify relevant issues for the preparation of reports on budgetary stability. The in-depth analysis will take the form of working papers	<ul style="list-style-type: none"> <li>Working paper DT/05/2015 Modelling interest payments for macroeconomic assessment.</li> <li>Working paper DT 2/2015 <i>Modelización y proyección de ingresos por el impuesto sobre la renta de las personas físicas.</i></li> <li>Working paper DT/01/2015 <i>El índice de revalorización de las pensiones (IRP): Propuestas de solución del problema de circularidad.</i></li> </ul>
b	Help to enforce and improve the design of national and EU fiscal rules		
	i	Develop internally the necessary capacities to estimate the variables used in determining fiscal rules, especially the structural balance and the output gap	<p>Identify weaknesses in the methodologies to calculate the output gap and structural balance</p> <ul style="list-style-type: none"> <li>Creation of the Output Gap Working Group and publication of an initial approach to calculating the potential output.</li> <li>Attendance at the seminar on the output gap organised by the European Commission in 2015. (Workshop on "Assessment of the real time reliability of different output gap calculation methods", 28th September 2015, Brussels).</li> </ul>
	ii	Analyse the consistency and compatibility between EU and national rules	<p>Analyse their robustness by comparing them with alternative measures based on both the output gap and alternative elasticities</p> <p>Briefing document on the expenditure rule and the sustainability of public finances.</p>
	iii	Analyse and propose methodological improvements in the application of national and EU fiscal rules where required	<p>Study the best application to the different General Government subsectors</p> <ul style="list-style-type: none"> <li>LOEPSF Working Group: Evaluation and analysis of the impact of existing fiscal rules and possible proposals for improvement.</li> <li>Working Group on the Analysis of Moral Risk in the application of the Fiscal Framework.</li> <li>Work within the EU IFIs Network.</li> </ul>



**Follow-up on the 2015 Action Plan**

2015-2020 STRATEGIC PLAN		ACTION PLAN 2015	STATUS 31/12/2015
2	<b>FOSTER THE FINANCIAL SUSTAINABILITY OF THE PUBLIC ADMINISTRATIONS</b>		
	<b>a</b>	<b>Analyse the long term sustainability of public finances</b>	
	<b>i</b>	Monitor and analyse the sustainability of the debt of each of the PAs	Debt Sustainability Working Group: Government debt simulation by subsectors.
	<b>ii</b>	Construct and publish synthetic and easy-to-understand indicators	Debt Sustainability Working Group. AIReF in-house Sustainability Observatory.
	<b>iii</b>	Analyse the contingent liabilities and risk associated with the PA consolidation perimeter (global view of the public sector)	Working group on analysing the public business sector Contingent Liabilities Working Group.
	<b>b</b>	<b>Analyse the implications of some public policies on long-term stability</b>	
	<b>i</b>	Analyse the Social Security system from the standpoint of long-term stability	Internal working group • Advisory Board presentation. • Long-term Social Security Sustainability Working Group.
	<b>ii</b>	Analyse the effect of ageing on public policies as a whole, especially on pensions, health and social services	• Long-term Social Security Sustainability Working Group. • Collaboration with FEDEA (health expenditure).
	<b>iii</b>	Identify other factors (technologies, birth, death and morbidity rates, migratory movements, etc.) with an impact on the accounts of the PAs	• Long-term Social Security Sustainability Working Group.
	<b>iv</b>	Analyse the long-term trends and dynamics of the main expenditure components: including health, education and social services	Internal thematic working groups: • Monitor data published on average payment terms • Study the full effect of the Local Administration Rationalisation and Sustainability Law on the government sector • Public employment performance by subsectors • Monitoring of the data published on average payment terms . • Creation of a Working Group on the Structure of Revenue and Expenditure in Territorial Administrations. • Development of public sector employment (ongoing). • Working Group on the Analysis of the Sustainability of the Self-employment Cessation Benefit (ongoing).
3	<b>ENHANCE TRANSPARENCY AND BUDGETARY PRACTICES IN PUBLIC ACCOUNTS MANAGEMENT</b>		
	<b>a</b>	<b>Foster transparency in the public administrations in the management of their resources</b>	
	<b>i</b>	Identify gaps in existing economic and budgetary information	Section on limitations to the scope of reports and recommendations.
	<b>ii</b>	Help to standardise, simplify and distribute information on budgetary stability and financial sustainability	
	<b>iii</b>	Analyse budget implementation information and the degree of compliance of the budgets approved	Analysis of the degree of representativeness of the initial budgets in the Local Corporations subsector compared to budget implementation.
	<b>iv</b>	Analyse the application of the expenditure rule	Working paper Briefing document on the expenditure rule and the sustainability of public finances and infographics.
	<b>b</b>	<b>Help to improve budgetary procedures and the harmonisation of budgetary structures of the government sector as a whole</b>	
	<b>i</b>	Analyse and identify best budgetary practices nationally and internationally	Proposal to coordinate internal procedures in accordance with the calendar of EU commitments undertaken by Spain Foster a presence and participation in major economic forums and international institutions with a presence of other independent fiscal institutions • Briefing document on the expenditure rule and the sustainability of public finances and infographics. • Chair and official creation of the EUIFIs Network. • Participation in the EUIFIs Network and OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions.
	<b>ii</b>	Analyse and diagnose improvements in performance-based budgeting and other implementation indicator systems	Internal working group OECD network of budgets and results monitoring.

**Follow-up on the 2015 Action Plan**

2015-2020 STRATEGIC PLAN		ACTION PLAN 2015	STATUS 31/12/2015
<b>c</b>	<b>Promote and analyse the application of the principle of a multiyear framework in budget planning</b>		
<b>i</b>	Analyse and make proposals for extending the application of the principle of a multiyear framework in budget planning processes		Recommendations on the EFPs and on a multiyear budgetary framework.
<b>ii</b>	Promote and help to estimate and publish the short and medium-term economic and budgetary effects of the reforms brought in by the PAs		
<b>4</b>	<b>HELP SPANISH SOCIETY TO PERCEIVE THE BENEFITS OF FINANCIAL SUSTAINABILITY</b>		
<b>a</b>	<b>Define and implement a communication strategy</b>		
<b>i</b>	Define and roll out a global communication strategy including the website, media and social media	Consolidate the global communication strategy	Development of the global communication strategy.
<b>ii</b>	Easy access for society to the work done by AIReF (website)		Website maintenance and improvements.
<b>iii</b>	Appearances before Parliament	At the request of Parliament	Appearances in the Congress (March) and the Senate (September).
<b>iv</b>	Participate in discussion forums to explain the work of AIReF	Presence in academic forums to raise awareness about the institution	<ul style="list-style-type: none"> <li>Participation in a variety of events (UIMP, Vienna, Círculo Liberal...).</li> <li>Meetings with Autonomous Regions, international organisations and other institutions.</li> <li>Bilateral relations with other IFIs.</li> </ul>
<b>b</b>	<b>Promote fiscal awareness in society as a whole</b>		
<b>i</b>	Produce educational material with informative content for tax payers		
<b>ii</b>	Organise internal and external seminars and conferences on budgetary stability and financial sustainability issues	Organise both internal and external seminars concerning the financial sustainability of the PAs	<ul style="list-style-type: none"> <li>In-house seminars.</li> <li>Summer Course on Fiscal Rules and Fiscal Institutions- Escuela de Verano CEMFI- 7-11 September 2015.</li> <li>AIReF-IMF Seminar: Budget policy in decentralised countries: design, implementation and coordination. 2nd-3rd December 2015.</li> </ul>
<b>c</b>	<b>Promote research in the field of fiscal policy</b>		
<b>i</b>	Publish working papers on fiscal policy	Publish working papers	5 working papers.
<b>ii</b>	Establish collaboration mechanisms with universities and research centres, international institutions and other independent fiscal institutions in order to carry out research	Collaborate with academic institutions	<ul style="list-style-type: none"> <li>Collaboration with FEDEA.</li> <li>Summer Course on Fiscal Rules and Fiscal Institutions- Escuela de Verano CEMFI- 7-11 September 2015.</li> <li>AIReF-IMF Seminar: Budget policy in decentralised countries: design, implementation and coordination. 2nd-3rd December 2015.</li> </ul>
<b>iii</b>	Programme of research fellowships and scholarships in AIReF	Cooperation agreements with universities and other agencies for internships in AIReF	7 internship grants to students for training and research in economic-budgetary analysis for fiscal stability and sustainability.
<b>5</b>	<b>CREATE AN EFFICIENT AND TRANSPARENT AIReF</b>		
<b>a</b>	<b>Design and draw up reports, opinions and studies</b>		
<b>i</b>	Internal assessment of procedures and methodologies	Review and assess the methodologies published in 2014	Publication of new methodologies and adaptation/updating of existing methodologies.
<b>ii</b>	Draw up an internal procedure and best practices manual for report writing	Draw up and complete in 2015	Ongoing, pending approval.

**Follow-up on the 2015 Action Plan**

2015-2020 STRATEGIC PLAN		ACTION PLAN 2015	STATUS 31/12/2015
	<b>iii</b> Draw up and publish the methodologies used in reports and opinions	New methodologies for the reports that are published for the first time and review existing methodologies	Publication of new methodologies and adaptation/updating of existing methodologies.
	<b>iv</b> Advisory Board on economic, budgetary and institutional matters	Develop its internal rules of procedure and calendar of meetings	<ul style="list-style-type: none"> <li>• Setting up of Advisory Board.</li> <li>• Approval of its rules of procedure.</li> <li>• 5 meetings in 2015 and publication of the minutes.</li> </ul>
<b>b</b>	<b>Substantiate the comply-or-explain principle and the duty of collaboration when submitting information</b>		
	<b>i</b> Apply the principle of comply-or-explain and follow up on recommendations	Publish and implement the resolution Establish and publish the follow-up of recommendations on the website	<ul style="list-style-type: none"> <li>• Quarterly publication of the follow-up to recommendations.</li> <li>• Calendar for requesting and receiving information to issue reports and follow-up on recommendations for 2015.</li> </ul>
	<b>ii</b> Define and gather the necessary information for drafting reports	Continuation of work already started	<ul style="list-style-type: none"> <li>• Information requirements corresponding to each report.</li> <li>• Calendar for requesting and receiving information to issue reports and follow-up on recommendations for 2015.</li> </ul>
	<b>iii</b> Give momentum to the Economic-Financial Information Centre and cooperation mechanisms	Procedure for the exchange of information with the Ministry of Finance & Public Administrations Information Centre	Information requests on a case-by-case basis.
	<b>iv</b> Cooperate with the Technical Committee on National Accounts	Procedure for exchanging information and consultations on methodology with the Technical Committee on National Accounts	<ul style="list-style-type: none"> <li>• Recommendations on the development of its rules of procedure.</li> <li>• Information requirements every so often.</li> </ul>
<b>c</b>	<b>Efficient and transparent management of human and financial resources</b>		
	<b>i</b> Consolidate and maintain a competent team of people	Draw up a second list of staff officers	<ul style="list-style-type: none"> <li>• Negotiations with the CECIR to increase the number of posts.</li> <li>• Training plan for the staff.</li> <li>• Social benefits plan.</li> </ul>
	<b>ii</b> Develop objective elements for appraising the work done	Roll-out in 2015	Preparation of regular reports.
	<b>iii</b> Create an independent administrative and management structure	Transparency portal	Consolidation of the administrative and management structure.
	<b>iv</b> Establish an assessment and monitoring system for AIReF activities, including an external mid-term review	Draw up and define the system	Continuous monitoring of the Action Plan.

Independent Authority  
*for* Fiscal Responsibility (AIReF)

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