



Independent Authority  
*for* Fiscal Responsibility

# **REPORT ON THE GOVERNMENT SECTOR INITIAL BUDGETS FOR 2015**

31st March 2015

# Report on the government sector initial budgets

Adequacy for the stability and debt targets and expenditure rule

Purpose and scope

- ❖ Under article 17.2 of the Organic Law on Budgetary Stability and Financial Sustainability (*Ley Orgánica de Estabilidad Presupuestaria y Sostenibilidad Financiera*, LOEPySF) AIReF must produce a report on the initial budgets of the public administrations in Spain.
- ❖ **Date:** before 1<sup>st</sup> April of year n.
- ❖ This report takes into account **the variations observed in the information available with regard to the Report on the government sector 2015 draft budgets and main budgetary lines.**

# Report on the government sector 2015 draft budgets and main budgetary lines

Adequacy for the stability and debt targets and expenditure rule

- ❖ **2015 deficit target, 4.2% GDP, very demanding** and conditional on:
  - Compliance with the 2014 target
  - Confirmation of the macroeconomic scenario of economic recovery
  - Compliance with expectations for the revenue collection measures adopted by the Social Security: direct settlement, fight against fraud and inclusion of payments in kind
  - Materialisation of the leeway detected in the budget of the State and local corporations (LCs)
- ❖ **Year-end 2014:**
  - Forecast for year-end in the autonomous regions (ARs) to amply surpass 1% target →
  - Very high risk of non-compliance for 7 ARs → Activate corrective measures envisaged in article 19 of the LOEPySF
  - Margin in the central government and local corporations
  - Target barely achievable by the Social Security Funds (SSF)

# Report on the government sector initial budgets

## TOTAL GOVERNMENT SECTOR

### ❖ What has changed?

- **Year-end 2014:** The public deficit for the government sector overall stands at 5.7%, although two tenths of a percentage point are due to an extraordinary, non-recurring factor (refund of the health cent). Reasonable basis to work towards the stability target for 2015.
- **Macroeconomic scenario:** developing significantly better than forecast. Fewer downside risks and additional factors driving growth.
- **Expectations of economic impact of the Social Security measures:** It is very likely that Social Security revenue will be much lower than forecast in its budget. This will be partially offset by the reduction in expenditure on unemployment benefits.
- **Offsetting by central government and local corporations of the negative deviation in the autonomous regions:**
  - ✓ **Contributing to compliance:** Lower interest rates, consolidated surplus in the LCs, good expectation for State revenues.
  - ✓ **Not contributing to compliance:** Reduced leeway in the State due to the adoption of measures and confirmation of the deviation in the ARs in 2014 without any additional measures on expenditure.

# Report on the government sector initial budgets

## CENTRAL GOVERNMENT

### ❖ What has changed?

- **Contributing to compliance:**

- ✓ The macroeconomic scenario is developing significantly better than forecast and this should facilitate compliance with the demanding budget revenue scenario.
- ✓ Favourable interest rate trend.
- ✓ RD 198/2015, developing the water fee.

- **Not contributing to compliance:**

- ✓ Adoption of regulatory measures with an economic impact that will absorb some of the leeway seen in financial expenditure: RDL 17/2014 amending the financial conditions of the FLA and FFPP2 and taxation measures in RDL 1/2015.

# Report on the government sector initial budgets

## SOCIAL SECURITY FUNDS

### ❖ What has changed?

- **Contributing to compliance:**

- ✓ Good development of macroeconomic variables impacting revenues from social contributions: FTE employment and payment per employee.
- ✓ Improved trend forecast for unemployment benefits.

- **Not contributing to compliance:**

- ✓ Structural measures unlikely to have a major economic impact: new system of direct settlement (CRETA), fight against fraud and inclusion of payment in kind in the contribution base.
  - ✓ Adoption of regulatory measures with economic impact: RDL 16/2014 approving the employment activation programme and to a lesser extent RDL 17/2014 extending the flat rate until March 2015 and RDL 1/2015 setting a minimum 500 euros exemption in the contribution base for hiring of workers on indefinite contracts.
- .....

# Report on the government sector initial budgets

## AUTONOMOUS REGIONS

### ❖ What has changed?

- **Contributing to compliance:**

- ✓ Interest expenditure saving due to RD-Ley 17/2014

- **Not contributing to compliance:**

- ✓ Confirmation of non-compliance of the subsector in 2014: 1.66% of GDP deficit. Only 4 ARs compliant: Basque Country, Canary Isles, Galicia and Navarra.
- ✓ The conclusion of significant deviation in 2015 is upheld due to:
  - 2014 year-end data
  - Over-estimation of revenue for 2015 (change in the EFPs of Catalonia and Valencia)
  - Stagnation and lack of concrete definition of expenditure measures for 2015 (non-implementation, withholdings of budget appropriation and agreements on non-availability of funds, no concrete details given)

# Report on the government sector initial budgets

## LOCAL GOVERNMENT

### ❖ What has changed?

- **Contributing to compliance**

- ✓ Interest expenditure saving due to RD-Ley 17/2014
- ✓ Confirmation of year-end 2014 surplus

- **Information basis**

- ✓ In the budgets approved by the LCs for 2015 the economic impact of the local government reform is not seen or its effect is diluted by the increase in other expenditure.
- ✓ It is highly likely the subsector will obtain a higher surplus than can be inferred from the initial budgets approved, given that the expenditure rule is more restrictive than the expenditure resulting from compliance with the target.



# Report on the government sector initial budgets

## CONCLUSIONS

**The deficit target for the government sector overall for 2015 is very demanding.**

- ❖ The areas of leeway observed in the draft SGB will be partially used to offset the impact of the new measures approved, thus reducing the possibility of offsetting deviations in other subsectors.
- ❖ The improvement in the macroeconomic scenario might have a favourable impact on revenues (taxes and contributions) and on expenditure (interest payments and unemployment benefits).
- ❖ Highly likely the deficit in the SSF will end 2015 several tenths of a percentage point above the demanding 0.6% of GDP target.
- ❖ Compliance with the target in 2015 highly unlikely for the ARs. Despite the savings that might arise from the measures in RD-Law 17/2014, the deviation would be significant.
- ❖ Highly likely the LC subsector will comply with the 2015 target with a higher margin than inferred from the approved budgets because of the application of the expenditure rule.

# Report on the government sector initial budgets

## RECOMMENDATIONS

- ❖ Budgets should incorporate information on calculating the expenditure rule.
- ❖ The debt reduction path should be revised and a credible, demanding path defined that will guarantee the financial sustainability of the public administrations.
- ❖ The financial capacity of each government subsector should be analysed taking into account the services provided under the current distribution of competences
- ❖ Each public administration should apply the self-discipline stipulated in article 18.1 of the LOEPySF.
- ❖ The legal deadlines should be respected for the submission and approval of the Economic & Financial Plans, starting off with the immediate publication of the report on the degree of compliance of the 2014 targets that has to be submitted to the government before 15th April.
- ❖ The measures envisaged in the LOEPySF should be phased in and due consideration given to coercive measures in the event of recurring non-compliances.
- ❖ The margin for discretionary action in the measurement of debt targets for the ARs should be limited.



Independent Authority  
*for* Fiscal Responsibility

[www.airef.es](http://www.airef.es)

 [@AIReF\\_es](https://twitter.com/AIReF_es)

