

PRESS RELEASE
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Presentation of the Report on the government sector initial budgets for 2015

AIReF restates that the deficit target of 4.2% of GDP for 2015 is very demanding

- AIReF detects a recomposition by subsectors of the non-compliance risks, with greater difficulties in the Social Security Funds and a high risk of non-compliance in the autonomous regions (ARs). However, it sees more leeway in the local corporations (LCs) and in the case of the central government AIReF is still estimating it has a margin to comply with its deficit target.
- The macroeconomic scenario of cyclical recovery is developing significantly better than forecast in October last year and will facilitate compliance with the demanding budget revenue scenario.
- AIReF makes several recommendations to guarantee the correct implementation of the current regulations (expenditure rule and debt targets) and of automatic prevention measures when there are risks of non-compliance with the targets by the public administrations.



Madrid, 31st March 2015.- Today the president of the Independent Authority for Fiscal Responsibility (AIReF), José Luis Escrivá, said that after analysing the variations detected in the available information on the Report on the government sector 2015 draft budgets and main budgetary lines, the stability target set for 2015 —a deficit of 4.2% of GDP for the government sector overall— is very demanding.

The president of AIReF presented the Report on the government sector 2015 initial budgets at a press conference held today. The report takes into account the changes noted in comparison with the information available at the time when the report on the 2015 budgets was prepared in October last year.

AIReF restates its assessment that the 2015 budgetary stability target set at -4.2% of GDP for the government sector overall is very demanding. However, AIReF detects a recomposition by subsectors of the non-compliance risks. Now it estimates greater difficulties for compliance with the 2015 target in the Social Security Funds and it continues to believe there is a high risk of non-compliance in the autonomous region subsector. However, it sees more leeway in the local corporations and in the case of central government AIReF is still estimating it has a margin to comply with its deficit target.

The report says that the macroeconomic scenario of cyclical recovery is developing significantly better than expected back in October last year. The downside risks identified in October have not materialised, whereas additional factors giving momentum to growth have appeared since then. There is greater confidence both in the domestic and international environment. All of these factors are making it possible for domestic demand, the external sector and the labour market to develop better than expected, thus facilitating compliance with the demanding revenue scenario envisaged in the budget.

AIReF nevertheless warns in the report that the expectations of additional revenue for the Social Security system stemming from the new system of direct settlement and the inclusion of payments in kind in the contribution base have not materialised. It adds that within the Social Security Funds this deviation will be partly offset by the favourable impact on its revenue of the macroeconomic improvement and by the continued reduction of expenditure on unemployment benefits that will end the year below budget. In any event, it concludes by saying that it is highly likely that the deficit in the Social Security Funds by the end of 2015 will be several tenths of a percentage point above the demanding target of 0.6% of GDP.



The declining trend in interest rates has intensified over the last six months bringing the financial expenses of the State in 2015 even further below the budgeted figure. Some of this margin will be transferred to the ARs and LCs.

With regard to the autonomous regions, AIReF highlights in its report that they will benefit from lower interest rates due to the new financing regulation passed by the government (two tenths of a percentage point of GDP). But the report concludes that the analysis of the budgets of the autonomous regions does not reveal any measures that will make a significant contribution to cutting the deficit and the improved macroeconomic scenario will only be tangibly reflected in their revenues as of 2016. Therefore, it is very likely that the AR subsector will end 2015 with a similar deviation from the deficit target to the one recorded in 2014.

The local corporations ended 2014 with a surplus of 0.5% of GDP. From the implementation of the expenditure rule for 2015 it is estimated that they will record a similar balance in 2015 to the previous year.

The most recent information indicates that the leeway seen currently in the LCs, and any there might be in the central government subsector, will hardly offset the negative deviations from targets by the ARs and the Social Security Funds.

AIReF makes several recommendations in its report:

- ❖ 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.

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