

Annual report

2018



Autoridad Independiente
de Responsabilidad Fiscal

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President's letter



More than five years have passed since AIReF was created, as a result of European legislative initiatives implemented after a thorough review following the recession. The objectives of those initiatives were, amongst others, to prevent governments from succumbing to excess optimism when preparing their budgets and offer the reassurance that their economic forecasts are conservative and reasonable.

In this context, when I joined AIReF in February 2014, my first objective was to build an institution that, within a short period of time, was able to contribute to the credibility of Spanish public accounts and to act as guarantor of compliance with the fiscal rules. The key to achieving this objective was to collect data and perform an independent analysis on the macro-economic and fiscal situation and, at the same time, to increase the cost for institutions of moving away from the principles of financial and budgetary stability, thereby improving transparency in the fiscal framework.

As expected for institutions that start from scratch, the beginning was not easy. Resistance had to be overcome and significant effort was made to demonstrate that independent fiscal institutions, such as AIReF, were going to be increasingly important within countries' fiscal frameworks and decisively contribute to the sustainability of public accounts.

Important progress was made in 2018, particularly in the field of assessment of public policy. AIReF has been working on the study on a minimum income benefit regarding the draft bill that is under discussion in Congress. A rigorous ex-ante estimate of the effects of this measure has been carried out through a full analysis of existing programmes and benefits, as well as a benchmarking analysis with neighbouring countries.

Hard work is also in progress on the Spending Review, an assessment of the impact of specific public policies from the point of view of their efficiency and effectiveness. In the first of three phases some 20,000 million euros of public expenditure has been analysed. Work has already begun on the second phase, which was commissioned by the Council of Ministers at the end of the year.

In addition, two studies commissioned by the Governments of Cantabria and Catalonia, respectively, have been delivered. The first one assesses regional public enterprises and foundations, with the aim of identifying duplication and reducing the costs of the regional public structure. The second one analyses the impact on deficit and debt of the early termination of the concession contract for the construction and operation of the road “Eix Transversal (C-25)”.

These are all steps in the right direction, albeit it seems advisable that evidence-based assessment is consolidated within this country’s culture, forming part of the normal and regular functioning of an institution, instead of being implemented by means of specific commissions imposed by a particular administrative body or by European institutions.

Other work worth noting is the study commissioned to AIReF on the macroeconomic and budgetary scenario for 2018 and 2019 under no-policy-change assumptions. This study included an important detail on the methodology used to prepare both scenarios, in addition to publishing the detail of the tax sheet drafted by AIReF for the first time, together with the assumptions and methodology used. Again, this is an isolated case that, if consolidated, would be an example of good practice on an international level.

It is also worth noting the Opinion on the sustainability of the Social Security system, which underscored the existence of a structural deficit in the pension system. This Opinion includes two reform proposals aimed, in the short term, at closing the system’s deficit to reduce uncertainty on the same and, in the long term, to deepen the parametric reforms to ensure sustainability.

Furthermore, I have become directly involved in promoting and consolidating the European Union Network of Independent Fiscal Institutions (EU IFIs), accepting a renewed term as Chair in 2017 for a further two years. In 2018 three new institutions have joined the network, now amounting to 30 from 26 countries. This network is not only a useful platform to IFIs but also contributes actively to the transparency and the debate on the fiscal situation at the national and EU level, producing technical papers as well as others of a more informative nature. The international dimension of AIReF has been present since the beginning of our activity and this year has seen an increase in the interaction with other IFIs, European institutions and international agencies, as well as in the organisation by AIReF of several international seminars.

All events that have made this year particularly intense are explained in more detail throughout this report on AIReF’s activity in 2018. In 2019, AIReF will continue to work under the principles of independence, transparency and accountability to communicate the importance of stability and sustainability at all levels, and to promote the changes that are necessary to reinforce the institutional quality of the budgetary field and face future challenges.

A handwritten signature in dark ink, appearing to be "Jaime", written in a cursive style.

1. Documents published by AIReF

The preparation of different types of documents is a substantial part of AIReF's work and responsibility. The exercise of the duties commissioned to AIReF is mostly carried out through the preparation and publication of reports, opinions, studies and different types of documents, from which the relevance of this work can be deduced.

The reports that AIReF publishes can be of different types in accordance with the regulatory provisions that govern the institution. Amongst others, AIReF has powers in certain aspects of the application of the pre-emptive, corrective and coercive measures provided for in Organic Law 2/2012 of 27 April on Budgetary Stability and Financial Sustainability (LOEPySF for its acronym in Spanish), as well as for analysing the long-term sustainability of public finances and the Social Security system. Generally, the reports and opinions prepared by AIReF are public in nature, whilst studies commissioned by different administrative bodies require the authorisation of the latter in order to publish or disclose them. Furthermore, AIReF prepares and discloses working papers and technical documents within the scope of its powers.

The first type of reports prepared by AIReF address the continuous monitoring of the budget cycle, government debt and macroeconomic forecasts. These reports are part of the medium-term economic and budgetary strategy defined in the Stability Programme Updates (on which AIReF must prepare a report) and are carried out for each Public Administration on the four phases of the budget cycle: preparation, approval, execution and audit.

The second type of reports refer to the application of the pre-emptive, corrective and coercive measures of the LOEPySF. These non-periodical reports are produced when the circumstances provided for by the law materialise.

Lastly, every year AIReF has to issue an opinion on the factors used for determining the Pension Revaluation Index (PRI). Likewise, it has to prepare an opinion on the elements used for determining the sustainability factor, when it becomes effective, and, optionally, on the contribution rate of the benefit for termination of activity of self-employed workers. Notwithstanding, and as explained in detail below, the circumstances occurring in 2018 have required the preparation of a more comprehensive Opinion on the sustainability of the Social Security system than those drafted in previous years.

table 1 contains the documents published by AIReF in 2018:

Table 1. **Documents published by AIReF in 2018**

Publication date	Report
<i>Reports on the budget cycle</i>	
23 January	Report on the Macroeconomic Forecasts of the 2018 budgets of the Autonomous Regions
27 March	Report on the macroeconomic forecasts of the Draft General State Budget for 2018.
April 17	Report on the Main Budgetary Lines and Draft Budgets of the Public Administrations: Draft GSB 2018 (Article 17.1 of the LOEPySF)
27 April	Report on the Macroeconomic Forecasts of the 2018-2021 Stability Programme Update (SPU)
4 May	Report on the initial budgets of the Autonomous Regions for 2018
4 May	Report on the initial budgets of the Autonomous Regions for 2018. Region of Andalucia
4 May	Report on the initial budgets of the Autonomous Regions for 2018. Region of Aragon
4 May	Report on the initial budgets of the Autonomous Regions for 2018. Region of Asturias
4 May	Report on the initial budgets of the Autonomous Regions for 2018. Region of the Balearic Islands
4 May	Report on the initial budgets of the Autonomous Regions for 2018. Region of the Canary Islands
4 May	Report on the initial budgets of the Autonomous Regions for 2018. Region of Cantabria
4 May	Report on the initial budgets of the Autonomous Regions for 2018. Region of Castile and Leon
4 May	Report on the initial budgets of the Autonomous Regions for 2018. Region of Castile-La Mancha
4 May	Report on the initial budgets of the Autonomous Regions for 2018. Region of Catalonia
4 May	Report on the initial budgets of the Autonomous Regions for 2018. Region of Extremadura
4 May	Report on the initial budgets of the Autonomous Regions for 2018. Region of Galicia
4 May	Report on the initial budgets of the Autonomous Regions for 2018. Region of Madrid
<i>Reports on the budget cycle</i>	
4 May	Report on the initial budgets of the Autonomous Regions for 2018. Region of Murcia
4 May	Report on the initial budgets of the Autonomous Regions for 2018. Provincial Council of Navarre

Publication date	Report
4 May	Report on the initial budgets of the Autonomous Regions for 2018. Region of the Basque Country
4 May	Report on the initial budgets of the Autonomous Regions for 2018. Region of Rioja
4 May	Report on the initial budgets of the Autonomous Regions for 2018: Valencia
11 May	Report on the Initial Budgets of the Local Governments for 2018
22 May	Report on the Stability Programme Update (SPU) of the Kingdom of Spain 2018 - 2021
23 July	Report on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule of the Public Administrations
23 July	Supplementary reports on expected compliance with the 2018 Budgetary Stability target, Government Debt target and expenditure rule of the Local Corporations
23 July	Supplementary report on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule of the Autonomous Region of Andalusia
23 July	Supplementary report on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule of the Autonomous Region of Aragon
23 July	Supplementary report on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule of the Autonomous Region of Asturias
23 July	Supplementary report on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule of the Autonomous Region of the Balearic Islands
23 July	Supplementary report on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule of the Autonomous Region of the Canary Islands
23 July	Supplementary report on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule of the Autonomous Region of Cantabria
23 July	Supplementary report on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule of the Autonomous Region of Castile-La Mancha
23 July	Supplementary report on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule of the Autonomous Region of Castile and Leon
Reports on the budget cycle	
23 July	Supplementary report on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule of the Autonomous Region of Catalonia
23 July	Supplementary report on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule of the Autonomous Region of Extremadura
23 July	Supplementary report on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule of the Autonomous Region of Galicia

Publication date	Report
23 July	Supplementary report on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule of the Autonomous Region of Rioja
23 July	Supplementary report on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule of the Autonomous Region of Madrid
23 July	Supplementary report on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule of the Autonomous Region of Murcia
23 July	Supplementary report on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule of the Provincial Council of Navarre
23 July	Supplementary report on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule of the Autonomous Region of the Basque Country
23 July	Supplementary report on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule of the Autonomous Region of Valencia
5 October	Report on the Macroeconomic Forecasts of the 2019 Budget of the Autonomous Region of Castile-La Mancha
5 October	Report on the Macroeconomic Forecasts of the 2019 Budget of the Autonomous Region of the Basque Country
9 October	Report on the Macroeconomic Forecasts of the 2019 Budget of the Autonomous Region of Extremadura
17 October	Report on the Macroeconomic Forecasts of the 2019 Budget of the Autonomous Region of Andalusia
24 October	Report on the Macroeconomic Forecasts of the 2019 Budget of the Autonomous Region of the Canary Islands
26 October	Report on the Main Budgetary Lines of the Public Administrations 2019
14 December	Report on the Macroeconomic Forecasts of the 2019 Budget of the Autonomous Region of the Balearic Islands
14 December	Report on the Macroeconomic Forecasts of the 2019 Budget of the Autonomous Region of Valencia
14 December	Report on the Macroeconomic Forecasts of the 2019 Budget of the Provincial Council of Navarre
Reports on the budget cycle	
21 December	Report on the Macroeconomic Forecasts of the 2019 Budget of the Autonomous Region of Madrid
21 December	Report on the Macroeconomic Forecasts of the 2019 Budget of the Autonomous Region of Murcia

Publication date	Report
21 December	Report on the 2018-2019 Economic-Financial Plan and the Main Budgetary lines for 2019 of the Provincial Council of Navarre (also included in the following section)
21 December	Report on the Main Budgetary Lines for 2019 of the Autonomous Region of Andalusia
21 December	Report on the Main Budgetary Lines for 2019 of the Autonomous Region of Asturias
21 December	Report on the Main Budgetary Lines for 2019 of the Autonomous Region of the Balearic Islands
21 December	Report on the Main Budgetary Lines for 2019 of the Autonomous Region of the Canary Islands
21 December	Report on the Main Budgetary Lines for 2019 of the Autonomous Region of Cantabria
21 December	Report on the Main Budgetary Lines for 2019 of the Autonomous Region of Extremadura
21 December	Report on the Main Budgetary Lines for 2019 of the Autonomous Region of Galicia
20 December	Report on the Main Budgetary Lines for 2019 of the Autonomous Region of Madrid
21 December	Report on the Main Budgetary Lines for 2019 of the Autonomous Region of Murcia
<i>Reports on the application of the preventive, corrective and coercive measures of the LOEPySF</i>	
27 June	General Report on the 2018-2019 Economic-Financial Plans of the Autonomous Regions
27 June	Report on the 2018-2019 Economic-Financial Plan of the Autonomous Region of Aragon
27 June	Report on the 2018-2019 Economic-Financial Plan of the Autonomous Region of Asturias
27 June	Report on the 2018-2019 Economic-Financial Plan of the Autonomous Region of Castile and Leon
27 June	Report on the 2018-2019 Economic-Financial Plan of the Autonomous Region of Castile-La Mancha
<i>Reports on the application of the preventive, corrective and coercive measures of the LOEPySF</i>	
27 June	Report on the 2018-2019 Economic-Financial Plan of the Autonomous Region of Catalonia
27 June	Report on the 2018-2019 Economic-Financial Plan of the Autonomous Region of Extremadura
27 June	Report on the 2018-2019 Economic-Financial Plan of the Autonomous Region of Madrid
27 June	Report on the 2018-2019 Economic-Financial Plan of the Autonomous Region of Murcia
27 June	Report on the 2018-2019 Economic-Financial Plan of the Autonomous Region of the Basque Country
27 June	Report on the 2018-2019 Economic-Financial Plan of the Autonomous Region of Rioja
27 June	Report on the 2018-2019 Economic-Financial Plan of the Autonomous Region of Valencia

Publication date	Report
3 December	Report on the 2018-2019 Economic-Financial Plan of the Autonomous Region of Andalusia
21 December	Report on the 2018-2019 Economic-Financial Plan and the Main Budgetary lines for 2019 of the Provincial Council of Navarre (also included in the following section)
<i>Opinions</i>	
09 January 2019	Opinion on the sustainability of the Social Security System
<i>Studies</i>	
April 12	Study on Regional Public Enterprises and Foundations of Cantabria
April 18	Study of the concession contract granted for the construction and operation of the road “Eix Transversal (C-25)”
19 July	Study on the Macroeconomic and Budgetary Scenario for 2018 and 2019 under a no-policy-change assumption
<i>Special documents</i>	
4 October	Special Document 2018/1: Demographic forecasts: an integrated approach (04/10/2018)
<i>Working papers</i>	
25 January	Working Paper 1/2018. Some Unpleasant Labor Arithmetic: a tale of the Spanish 2012 Labor Market Reform
April 12	Working Paper 2/2018. Estimating the Output Gap: a Beauty Contest Approach
<i>Working papers</i>	
28 June	Working Paper 3/2018. Some elements for a revamped fiscal framework for Spain
20 July	Working Paper 4/2018. Evaluation of the impact of the 2011 Pension System reform on new pensioners: 2013-2015 period
4 October	Working Paper 5/2018. Introducing uncertainty on fertility and survival in the Spanish Population Projections: a Monte Carlo approach
4 October	Working Paper 6/2018. Predicting Spanish Emigration and Immigration

1.1. Reports on the budget cycle

Similarly to previous years, the 2018 budget cycle has been affected by circumstances that have modified the normal calendar of the draft budgets. First, the delay in the debate of the Draft General State Budget (GSB) for 2018, approved by the Council of Ministers in March and Parliament in June, led to situation of budgetary carryover during the first half of the year. Second, in July the new Government approved a new stability path for the 2019-2021 period, although the same was not passed in Parliament, and the targets for the 2018-2020 period of July 2017 continued to be in force. Lastly, the Draft GSB for 2019 was not presented by the usual deadline either.

These specific characteristics of the budget cycle meant that AIReF had to adjust its calendar for publishing reports on the draft budgets and main budgetary lines of the different sub-sectors. AIReF was forced to publish reports on the macroeconomic forecasts and on the Draft GSB in March and April 2018, respectively, after the said draft was approved by the Government, when this should have been done in 2017. However, the reports on the Draft GSB for 2019 were not published in 2018 because the said draft was not approved until January 2019; neither were the reports on the main budgetary lines of the local governments (LGs) and seven Regions, as complete information was not available and AIReF was awaiting the approval of the new Regional draft budgets, thereby falling outside the scope of this Annual Report. An initial pronouncement was issued on the main budgetary lines of the Public Administrations for 2019, with detail by sub-sector, in October, mainly based on the Draft Budgetary Plan for 2019 presented by the Government to the European Commission. The other reports envisaged in the legislation were issued on time except for the report on establishing individual targets for the Regions, which could not be issued because the Government's proposal for the vertical distribution of fiscal targets between sub-sectors was unsuccessful and, subsequently, the proposal for the horizontal distribution between Regions could not be presented.

Below is a short summary of the content of the reports related to the budget cycle.

1.1.A. Report on the Macroeconomic Forecasts of the 2018 budgets of the Autonomous Regions¹

In its January 2018 report, AIReF endorsed the macroeconomic forecasts for 2018 of all the Regions that presented their own macro-economic scenario. AIReF received information about the economic forecasts accompanying the budgets of all the Regions with the only exception of Catalonia. According to the provisions of Organic Law 6/2013 creating AIReF, the report focused on the macroeconomic forecasts of the twelve Regions (see table 2) that published a macroeconomic scenario different to that of the State. As a result, the forecasts of the Principality of Asturias (hereinafter "Asturias"), Cantabria, Rioja and Extremadura, were not

1 See [Report on the Macroeconomic Forecasts of the 2018 Budget of the Autonomous Regions](#), 23 January.

subject to assessment, since these Regions explicitly adopted the macroeconomic forecasts of the Government of Spain, previously endorsed by AIReF.

Macroeconomic forecasts for GDP and expenditure included in the 2018 budgets of each of the Regions were assessed estimating the degree of confidence in said forecasts. The existence of biases was also analysed, but without performing an ex-post assessment of the forecasts of the previous years. On this occasion, AIReF took into account the exceptional circumstances of the budgetary calendar, as well the exposure to downside risks, mainly stemming from the prevailing uncertainty in the political arena in Catalonia. The results of the different assessments can be seen in table 2. On an individual level, it is worth noting the cases of Valencia and Castile and Leon, whose forecasts are considered to be unlikely, observing an upward bias in the expenditure forecast in both cases; in the case of Murcia , Castile-La Mancha, Balearic Islands, and Madrid, their forecasts were endorsed as likely as there was no upward bias; lastly, for the Basque Country, Galicia, Andalusia, Aragon, Canary Islands and the Autonomous Council of Navarre (hereinafter, “Navarre”), their forecasts were considered to be prudent for falling in the centre or lower portion of the intervals.

Table 2. **Assessment of the macroeconomic forecasts of the Regions (2018)**

Autonomous Region	2018
Basque Country	Prudent
Galicia	Prudent
Andalusia	Prudent
Murcia	Likely
Valencia	Unlikely. Upward bias in expenditure
Aragon	Prudent
Castile-La-Mancha	Likely
Canary Islands	Prudent
Navarre	Prudent
Balearic Islands	Likely
Madrid	Likely
Castile and Leon	Unlikely. Upward bias in expenditure

1.1.B. Reports on the Macroeconomic Forecasts and main budgetary lines of the draft GSB for 2018

Report on the Macroeconomic Forecasts of the 2018 Draft GSB²

In accordance with the Organic Law creating AIReF, the macroeconomic forecasts accompanying the Draft GSB should include a report stating its endorsement of said forecasts. The approval of the Draft GSB for 2018 by the Council of Ministers in April therefore required the preparation of the corresponding report by AIReF, that again had to report on the Government's official forecasts for 2018 - within five months after the publication of the Draft Budgetary Plan for 2018.

In its April report AIReF endorsed the Government's forecasts of the macroeconomic scenario of the Draft GSB, considering them to be prudent overall. This endorsement was based on the exogenous assumptions and the policies defined in the Draft. In this way, the assumptions that reflected the risks stemming from the foreign environment, including those regarding the growth of the main partners, the evolution of oil prices and the cost of financing of debt and the exchange rate, were considered prudent.

The report underscores a significant upward revision of the growth (from 2.3% to 2.7%) of GDP expected by the Government for 2018 with respect to its forecasts in October 2017. This revision was in parallel to those made by leading analysts and agencies following the Spanish economy. The upward correction at the aggregate level was supported by the greater dynamism of the main trading partners, along with a less intense than expected uncertainty shock due to the institutional crisis in Catalonia, whose impact was essentially limited to October 2017.

AIReF considered the composition of growth to be plausible with domestic demand being the main driver of the economy, and with a subdued evolution in public and private consumption. Domestic demand continued to be the main driver of growth in 2018, mainly due to positive trends in investment, both productive and in construction. Private consumption was at the bottom of both the analysts' forecasts and when compared with AIReF's internal models. The public expenditure forecast was revised upwards, in view of the new measures included in the 2018 GSB. Regarding the external sector, the report confirmed its moderate positive contribution, highlighting the changing growth pattern of the Spanish economy with respect to the previous cycle.

The most recent information at the time of preparing the report entailed lessening the risks and uncertainties relevant to the 2018 forecasts. On the domestic front, the worst-case scenarios envisaged due to the institutional crisis in Catalonia were reduced, as mentioned above. On the international scene, the assumptions experienced an upward revision in most cases. Lastly, the ex-post analysis of the forecasts of previous years did not identify any substantial bias for

2 See [Report on the macroeconomic forecasts in the Draft General State Budget for 2018](#), 27 March.

the 2014-2017 period, although it did show a widespread deterioration in forecasting accuracy.

Report on the main budgetary lines of the Draft GSB for 2018³

In its April report, AIReF considered that compliance with the 2018 stability target of -2.2% GDP of the General Government (GG) was feasible although very difficult to achieve. In its assessment of the targets by sub-sectors, AIReF noted that the current target distribution did not represent the real situation in each sub-sector nor did it assure coherence between the different fiscal rules. On the one hand, there needed to be a strict adjustment of nearly one percentage point GDP by the Central Administration (CA) and Social Security Funds (SSF). On the other, the rest of the sub-sectors enjoyed a relatively comfortable situation. In the opinion of AIReF, this situation led to an over-compliance by the GG and a restrictive fiscal policy. Moreover, it was noted that the monitoring of execution was difficult due to the lack of recognition of the recurring surplus of the LGs.

The revenue and expenditure forecasts were amended, with respect to the Budgetary Plan of October 2017, due to macroeconomic and economic policy changes. On the one hand, as mentioned above, the macroeconomic forecasts for 2018 presented a more favourable scenario, a result of the greater dynamism of the main trading partners, along with a less intense uncertainty shock than expected; this improvement in the macroeconomic forecasts implies greater tax collection than that estimated in October 2017. On the other hand, the Draft GSB for 2018 contained measures that changed the revenue and expenditure forecasts and caused impairment of the fiscal balance with respect to the no-policy-change scenario of the Draft Budgetary Plan. Within these measures the short-to-medium term impact of the application of the Government's Agreement with the labour unions for improving public-sector employment and working conditions of March 2018, as well as the additional provisions that introduced exceptions to the application of the expenditure rule are highlighted. Likewise, compliance with the stability target by the GG is also seen to be affected in 2018 by the impact of the State's financial liabilities of the bailing out of toll highway concessions in bankruptcy proceedings, estimated at 2,000 million euro.

With respect to the analysis by sub-sector, the report concluded that the budgetary revenue and expenditure forecasts for the CA and SSF were realistic. In the first case, AIReF estimated that reaching a deficit of -1.1% GDP, compatible with compliance with the GG stability target was feasible. In the case of Social Security Funds, AIReF estimated that the deficit would be at a similar level to 2017 in terms of GDP.

Lastly, the report reiterated the need to include more information in the Draft GSB. To be

³ V. [Report on the Main Budgetary Lines and Draft Budgets of the Public Administrations: Draft GSB for 2018](#), 17 April.

precise, it needed to include two pieces of information. First, the forecasts of the headings of national accounts. Second, the information required to reconcile the budgetary balance of the Draft GSB with the budgetary stability target in terms of national accounts. Without this information it is difficult to analyse the draft GSB for 2018 in terms of its compliance with the fiscal rules.

BOX 1. REPORT ON THE DRAFT GENERAL STATE BUDGETS FOR 2018

Spanish economic growth was steady in 2017, growing above 3% GDP in real terms, bolstered by the contribution of domestic demand. Signs of dynamism were maintained at the beginning of 2018 and the forecasts underlying the GSB for 2018 contained a significant upward revision to the growth forecast by the Government for said year (reaching nominal growth slightly above 4%). Based on the exogenous assumptions and defined policies, AIReF endorsed the forecasts of the macroeconomic scenario underlying the GSB for 2018, considering them to be prudent, and with a feasible composition. In budgetary terms, the greater dynamism in nominal growth expected for 2018 had a positive impact on collection.

The GG revenue declared by the Government for 2018 were in line with AIReF's estimates, considering the improvement of the macroeconomic scenario and the new tax measures announced. However, it was considered that reaching the public expenditure declared by the Government for 2018 was unlikely, even without taking into account the one-off effect of the SFL for toll highways.

The budgetary stability target for the GG set at 2.2% GDP for 2018, required an adjustment of 0.9% GDP with respect to the end of 2017, with the CA being the sub-sector that had to make the greatest part of the adjustment. In its report AIReF considered compliance with this target to be feasible but very difficult to achieve, and noted that the foreseeable deviation of the CA and the SSF could be compensated with the margin available to the Territorial Administrations.

The CA needed to make an adjustment of 0.8% GDP on the closing of 2017 in order to reach the -1.1% GDP deficit, compatible with the GG stability target. AIReF considered this to be feasible, and even more likely if the non-recurrent effect of the SFL for toll highway concessions was excluded. However, it was considered unlikely that the CA would comply with the target if -0.7% GDP for 2018, which required an adjustment of 1.2% GDP. Both revenue and expenditure forecasts in the Draft GSB for 2018 are considered realistic and prudent, not including the expenditure incurred by the SFL for the reversal of the toll highway concessions, for the amount of 0.2% GDP.

Regarding revenues, AIReF considered the Government's growth estimate to be feasible for all taxes, except for Special Taxes, whose growth it considered as unlikely, estimating a lower growth rate for the latter. With respect to non-financial expenditure, the Draft GSB for 2018 includes an increase of 5.1% with respect to the provisional settlement of 2017. As a new feature, appropriations for investments in the Draft GSB include expenditure deriving from participation of the Armed Forces in peace-keeping missions, that were traditionally financed with the Contingency Fund. In its report, AIReF estimated that the non-financial expenditure in national accounting terms would remain relatively stable as a percentage of GDP during 2018, at a rate slightly above 4%.

With respect to the SSF, AIReF considered the most likely scenario to be reaching a deficit level similar to that of 2017, considering it unlikely that they would be able to attain the target of -1.1% GDP set for 2018, for which an adjustment of 0.4% GDP would have to be made. The revenue and expenditure set in the draft Social Security budget were considered realistic overall.

Lastly, compliance with the debt target set for 2018 was considered feasible. The GG debt path shows a medium-to-long term downward trend in AIReF's baseline scenario, although this implies non-compliance with the First Transitional Provision of the LOEPySF in 2020, with the report recommending the revision of said regulation.

Even though the Draft GSB for 2018 did not include any information about compliance with the expenditure, in its report AIReF warned of the risk of non-compliance with the rule, set at a 2.4% growth of computable expenditure.

1.1.C. Report on the Stability Programme Update (SPU) 2018-2021⁴

In its report on the 2018-2021 Stability Programme Update (SPU), AIReF endorsed the Government's medium-term macroeconomic forecasts. AIReF had already anticipated the endorsement of the macroeconomic scenario underlying the 2018-2019 SPU, before writing the corresponding report⁵. Said report was based on exogenous assumptions and defined policies, considering said assumptions to be feasible with respect to forecasts made by international agencies and private analysts, as well as the expected evolution of the commodities market and government debt. The composition of domestic growth was considered feasible, although especially conditioned by the uncertainty associated with the evolution of the external sector (for more details on the analysis of the macro scenario, see Table 2).

Regarding the budgetary scenario, in 2018, AIReF considered it unlikely to comply with the deficit path planned for the 2018-2021 period, with the likelihood decreasing as the period progressed. The path envisaged in the SPU for the GG included a deficit reduction of 3.2% GDP in said period until it reaches a 0.1% GDP surplus in 2021.

The report on the 2018-2021 SPU considered that the convergence path towards the proposed budgetary balance was based on a reduction in expenditure, which was considered very unlikely. The 2.4% GDP reduction in expenditure required to comply with the deficit targets (that is, from 41% to 38.6%) implies an over-compliance with the expenditure rule in the 2018-2021 period, which did not seem to be feasible based on the information available to then on the measures adopted. The Draft GSB for 2018 already contained some measures to increase expenditure that notably included the application of the agreement on civil servants' wages and the revaluation of minimum and lower pensions in 2018, reinforcing the latter with a further set of new measures.

⁴ See [Report on the Stability Programme Update of the Kingdom of Spain 2018- 2021](#), 22 May.

⁵ See [Report on the Macroeconomic Forecasts of the 2018-2021 Stability Programme Update \(SPU\)](#), 27 April.

The revenue forecasts included in the SPU were in line with AIReF's estimates, supported by the evolution of their macroeconomic foundations. The revenue forecast included in the SPU was an increase of 0.8% GDP, that is, from 37.9% to 38.7%, as a result of the economic performance and the adopted measures, which was considered feasible by AIReF. This point was supported by robust job creation along with the recovery of wages and prices and a rebound in real estate activity, that led to dynamic trends in the main revenue items.

As a result of the analysis of the macroeconomic and budgetary scenario of the previous SPU, AIReF considered the path of the debt-to-GDP ratio included in the 2018-2021 SPU to be feasible, although difficult to achieve. Said debt, starting from 97% GDP in 2018, would go down to 89.1% GDP in 2021. The risk scenario included in the SPU was considered balanced by AIReF. The external assumptions that underpinned the macroeconomic scenario of the SPU were considered feasible, although warning of possible negative surprises compared to the forecast and medium-term risks.

Lastly, AIReF made recommendations for reinforcing the medium term fiscal framework, in particular the need for a consistent budgetary plan over the medium term that considers the economic, social and budgetary feasibility of the proposed path, as well as the sustainability of public finances.

BOX 2. ANALYSIS OF THE 2018-2021 STABILITY PROGRAMME UPDATE

AIReF's report on the 2018-2021 SPU goes over both the macroeconomic scenario and the budgetary scenario during the time horizon in question.

Regarding the macroeconomic scenario, the report analyses the current forecasts (ex-ante assessment) and a sensitivity analysis of the 2018-2021 SPU. The limitations in the information provided by the forecasting panels mean that the analysis of ex-ante biases is limited to the annual horizon $T, T + 1$. However, the multi-year nature of the SPUs allows a more extensive analysis of ex-post biases, up to $T+3$.

The ex-ante analysis focused on the analysis of the macroeconomic and budgetary scenario, as well as the assessment of the risk balance considered. The main aim was to evaluate the realism of the assumptions and to define a more likely or prudent scenario. AIReF indicated that the forecasts of the macroeconomic scenarios presented by the Government in the 2018-2021 SPU used the most up-to-date information available, including the latest short-term indicators, as well as from the end of the 2017 budget year. However, very little public information was available on the methodologies and parameters underlying the Government's forecasts. It should also be noted that, for the first time and in response to a recommendation made by AIReF, the Government issued an economic outlook without measures (no-policy-change) together with an official outlook, which meant a big step forward, since the impact of the measures adopted could be assessed, as well as their transmission channels. The main conclusions of the ex-ante analysis of the forecasts of the 2018-2021 SPU were as follows:

- The growth rate of real GDP was around 3.1% in 2017, the third consecutive year in which it exceeded 3%. In the medium-term, a certain amount of stability is predicted in the composition of growth, with domestic demand being its main driver.
- It was expected that the growth forecast for public-sector employment was systematically less dynamic than that envisaged for the private sector and was around the values observed in 2017.
- The inertial evolution of public expenditure in the medium-term was reported to have slightly increased towards a medium-term sustainable balance, growing at rates below GDP.
- It was still considered a positive contribution from the external sector, albeit on a gradual downward trend as the forecasting horizon progressed.

Regarding the risk balance, the short-term risks were contained, since the likelihood of the worst-case scenarios originating in Catalonia had dissipated. However, the uncertainty scenario becoming chronic could have entailed a risk in the medium term. The basic assumptions that underpinned the macroeconomic scenario were feasible and in line with the main international agencies.

In conclusion, the macroeconomic scenario of the 2018-2021 SPU, is feasible overall, although certain reservations were maintained about the trajectory of public consumption.

With respect to the budgetary scenario of the 2018-2021 SPU, the deficit path was considered unlikely, with the likelihood reducing as the period progressed. This was due to the measures included in the SPU itself, not envisaged in the Draft GSB for 2018, and involved a considerable increase in public expenditure, causing AIReF's assessment of the deficit target for 2018 to move from feasible to unlikely. Furthermore, the distribution of targets envisaged in the SPU by sub-sectors did not reflect the surplus that the LGs were expected to achieve.

The revenue forecast was considered feasible, albeit with a slightly different composition. While in AIReF's forecasts direct taxes had an evolution slightly below that foreseen in the SPU, the estimate of indirect tax was slightly biased downward in the period as a whole. It was considered unlikely that personal income tax would reach the level expected in the SPU between 2018 and 2020. The revenue forecast of AIReF's baseline scenario includes the revenue measures contained in the SPU except the creation of a tax on certain digital services, due to the lack of information with respect to its design and implementation.

Regarding expenditure, AIReF considered achieving the SPU's downward path of non-financial expenditure to be unlikely which, excluding pension expenditure, would imply growth below the reference rate of the expenditure rule throughout the period, except for 2021. AIReF believed it would be difficult to make the adjustment, in accordance with its forecasts on the evolution of specific expenditure items and considering the impact of the agreed measures. In the analysis of the expenditure measures, AIReF estimated that those contained in the SPU would have a greater impact than expected. The CA's spending measures mainly focused on the application of the agreement on salaries and public employment between the Government and the Trade Unions. This measure would affect public expenditure, and was estimated by AIReF at a cost greater than that contained in the SPU, with these affects continuing until 2020 for the GG. In the analysis by headings AIReF reiterated the lack of coherence between the 1.2% GDP adjustment planned by the Government

for public consumption and the measures that would affect it, namely the expected evolution of expenditure on healthcare and education for 2018-2021, policies that represent 50% of the main public consumption headings.

The report also contained the following recommendations:

- To make an effort to implement the measures in order to be able to verify the plausibility of the fiscal forecast envisaged in the SPU that, in any case, must ensure their consistency with the evolution of the relevant macroeconomic variables and with the discretionary measures to be adopted.
- Promote the implementation of a medium-term budgetary fiscal framework with greater consensus and participation of all those involved.

The ex-post analysis on the retrospective assessment of the macroeconomic forecasts associated with the last four SPUs was performed in a report in spring and not in autumn as usual; the 2018-2021 SPU report was used to extend the retrospective analysis to the medium term, including real-time statistics in the publication, which did not quantitatively change the results of the previous analysis. The inclusion of 2017 confirmed the deterioration of the forecasting activity observed over the last few years and emphasised the cyclical pattern identified in previous reports for domestic demand. In particular, the low accuracy of the forecasts and the optimistic bias identified in public expenditure seemed to have escalated. In the external sector, the Government's forecasting effort was relatively better than that observed in domestic demand. However, said aggregated result concealed the existing compensation between the errors identified in the import forecast and the optimistic bias associated with the forecast of demand for exports, especially in the medium-term.

1.1.D. Reports on the Initial Budgets of the Autonomous Regions for 2018⁶

This report represents a second pronouncement on the regional budgets for 2018, which have previously been reported on either in the phase of the main budgetary lines or during their processing as bills in the different Regions. In October 2017 AIR^eF issued a report on the main budgetary lines for 2018 of the Regions⁷. In May 2018, once the budgets were approved by the majority of the Regions, AIR^eF made a second pronouncement on what it considered to be the closing data for 2017 and the amendments made to the budgets. Furthermore, this report considered important measures unrelated to the Regional budgets, but with a direct impact on their accounts, such as the Agreement between the Government and the Trade Unions in March and other measures in the Draft GSB for 2018 affecting the Regions.

⁶ See [Report on the Initial Budgets of the Autonomous Regions for 2018](#), 4 May. See Individual reports on the Initial Budgets for 2018 of the Region of the Basque Country; Region of Catalonia; Region of Galicia; Region of Andalusia; Region of Asturias; Region of Cantabria; Region of Rioja; Region of Murcia; Region of Valencia; Region of Aragon; Region of Castile-La Mancha; Region of the Canary Islands; Provincial Council of Navarre; Region of Extremadura; Region of the Balearic Islands; Region of Madrid; and Region of Castile and Leon, 4 May (all).

⁷ See [Report on the main budgetary lines of the 2018 budgets of the Autonomous Regions](#), 24 October 2017.

AIReF considered compliance with the stability target of 0.4% GDP by the Regional sub-sector to be likely. In the report on the Regions' main budgetary lines, issued in October 2017, AIReF considered compliance with the stability target by the sub-sector in 2018 to be feasible, considering this to be unlikely or very unlikely for three Regions. (Murcia, Valencia and Extremadura). In the report on the initial budgets, due to a more optimist forecast of the evolution of revenue with respect to that estimated in the report on the main budgetary lines, and despite the effect of the expenditure measures envisaged in the GSB for 2018 that affected the Regions, AIReF considered compliance by the sub-sector to be likely, although they still considered compliance for the same three Regions to be unlikely or very unlikely. With respect to the rest of the Regions, AIReF considered compliance feasible for Cantabria, Aragon, Catalonia, Castile-La Mancha and Castile and Leon. The outlook was better for Galicia, Andalusia, Asturias and Rioja, with compliance considered as likely. Lastly, compliance was considered very likely for the Basque Country, the Canary Islands, Navarre and the Balearic Islands. In the majority of the Regions the risk of non-compliance with the expenditure rule was identified.

With respect to the report on the main budgetary lines, three Regions had improved their assessment and one had slightly deteriorated with respect to compliance with the 2018 stability target: Andalusia went from feasible to likely; and the Basque Country and Navarre went from feasible to very likely. On the other hand, compliance with the stability target in Rioja went from being considered very likely to only likely.

Regarding the expenditure rule, AIReF continued to identify risks of non-compliance for 2018 in the majority of the Regions, and to a greater extent in five of them. With respect to the report on the main budgetary lines, the situation had deteriorated in three Regions (Andalusia, the Balearic Islands and Madrid) in which the risk was rated as high, as well as for Catalonia and Castile-La Mancha. The identified risks were only considered to be low in four of them (Rioja, Aragon, the Canary Islands and Castile and Leon), with an improved outlook in Castile and Leon compared to the previous report.

With respect to the debt targets, it was estimated that the Regions could comply with it in 2018, as on repeated occasions, since no changes had been made in the measurement system.

1.1.E. Report on the Initial Budgets of the Local Governments for 2018⁸

AIReF estimated that it would be very likely that the LG sub-sector would comply with the budgetary stability target in 2018, as it was feasible to attain a surplus similar to that of 2017, of 0.6% GDP, with an increase in revenue and expenditure of around 2%, in line with the average growth in the last few years (year-on-year) and below the increase of nominal GDP.

⁸ See [Report on the Initial Budgets of the Local Governments for 2018](#), 11 May.

According to AIReF's forecasts , this growth would not be substantially affected by the different measures being applied in 2018 given that, as a whole, they would not be sufficient to alter this average-growth trend.

The estimate of the local surplus in 2018 was in line with the trend identified in the LG sub-sector from the effective date of the current regulation on budgetary stability, as a result of their greater financial independence compared to other administrations; due to the fact that their taxes are less sensitive to the cycle; and the contained evolution of their expenditure, not being under any great pressure from population decline.

A surplus of 0.6% GDP would allow the LG sub-sector to comply with the expenditure rule at the end of 2018. AIReF estimated that minimum net lending would make it possible to comply with the expenditure rule of around 0.6% GDP, since computable expenditure would not exceed the allowed limit.

Regarding debt, AIReF estimated that in 2018 the LG sub-sector could reach a level of debt of around 2.2% GDP, fully complying with the target of 2.7%. Given the low level of the local debt, most of the local surplus obtained was allocated to increasing bank deposits, which, in terms of GDP , had nearly doubled at the close of 2017. In doing so, the net debt of liquid financial assets of the LGs went down to 0.5% GDP on this date, with AIReF considering that it could near 0% or even become negative at the end of 2018.

As in previous reports, this report included the individual assessment of the 16 city councils with a population of over 250,000 inhabitants, as well as of the 5 provincial councils or similar bodies with a large non-financial budget. Out of the 21 LGs. analysed, AIReF identified a high risk of non-compliance with the 2018 stability target in the city councils of Madrid and Palma de Mallorca , and moderate risk in Barcelona, Bilbao and Valencia. In all of these entities at risk of non-compliance, the 2018 stability target was set in a plan, except in the case of the City Council of Barcelona.

Furthermore, due to non-compliance with the expenditure rule of 2017, the city councils of Córdoba, Gijón, las Palmas de Gran Canaria and Valencia, as well as the provincial council of Barcelona and the Island Council of Mallorca had to approve an Economic Financial Plan (EFP) containing the commitments for 2018.

Regarding the debt limit, it was estimated that only the City Council of Zaragoza would present an outstanding debt to current consolidated revenue ratio above 110% at the end of 2018, and therefore could not enter into new long-term credit operations this year.

This report continued the medium-term sustainability analysis of the city councils for which AIReF had identified a medium-term sustainability risk in December 2017, maintaining the subjective scope of the Local Corporations with sustainability problems (18 Local Governments). The combined analysis of their liability position and of their capacity to generate a surplus to reverse the current situation concluded that the city councils of Alcorcón and San

Andrés del Rabanedo improved their rating to moderate risk; and the ratings of the city councils of Algeciras, Aranjuez and Isla Cristina deteriorated, being qualified as high risk. The rest of the city councils assessed maintained their rating given in the report of December 2017⁹.

1.1.F. Supplementary reports on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule of the PAs.¹⁰

AIReF considered it unlikely that the GG would reach the deficit target of 2.2% GDP in 2018. The measures introduced during the parliamentary processing of the GSB for 2018 reduced the probability of reaching the target with respect to the assessment performed in AIReF's report on the original Draft GSB for 2018.

This deviation from the approved target was mainly concentrated in the CA and, SSF, which would both end the year with a deficit of 1.5%. In the case of the Central Administration, the deviation would mainly occur in expenditure due to the increase in payments made by the Deposit Guarantee Fund of the Credit Institutions for the settlement of the Asset Protection Scheme (APS) of the Caja de Ahorros del Mediterráneo (CAM) and of Unnim, the impact of the SFL for toll highways and the measures contained in the GSB for 2018 relating to the rise in public wages and the new transfer to finance Social Security. On the other hand, in the SSF, the pension revaluation measures entailed an acceleration in expenditure growth, which could not be offset with the smooth running of contributions.

AIReF considered it likely that the regional sub-sector would comply with the stability target set at -0.4% GDP for 2018, whose attainment did not require an additional adjustment with respect to the end of 2017. However, the high risk of non-compliance with the expenditure rule meant that it was deemed unlikely to achieve the fiscal balance of -0.2% GDP notified to the Commission, which would allow simultaneous compliance with the two fiscal rules. With regard to the evolution of revenue, it was expected that the Regions would experience a year-on-year growth of around 4%, favoured by the evolution of the financing system's resources and the good performance of the Tax on Asset Transfers and Documented Legal Acts (TATDLA) and funds from the European Union. In the case of expenditure, available information pointed to a year-on-year growth rate higher than that estimated in previous reports and documents, close to 4%, which raised the risk of non-compliance with the expenditure rule. With respect to the situation of the different Regions¹¹, the assessment of compliance with the stability target compared with the last reports issued generally remained the same (reports on the budgets or, as the case

9 See [Report on the Main Budgetary Lines of the Local Corporations: 2018](#), 19 December 2017.

10 See [Report on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule by the PAs and Supplementary report on the expected compliance with the 2018 stability target, government debt target and expenditure rule by the Local Corporations](#), 23 July.

11 See Individual reports on the expected compliance with the 2018 budgetary stability target, public debt target and expenditure rule of the [Region of the Basque Country](#); [Region of Catalonia](#); [Region of Galicia](#); [Region of Andalusia](#); [Region of Asturias](#); [Region of Cantabria](#); [Region of Rioja](#); [Region of Murcia](#); [Region of Valencia](#); [Region of Aragon](#); [Region of Castile-La Mancha](#); [Region of the Canary Islands](#); [Provincial Council of Navarre](#); [Region of Extremadura](#); [Region of the Balearic Islands](#); [Region of Madrid](#); and [Region of Castile and Leon](#), 23 July (all).

may be, reports on the economic financial plans), except in three of them; and risks regarding compliance with the expenditure rule continued to be identified in the majority of the Regions. The outlook for compliance with the stability target improved in Galicia (from likely to very likely); and slightly deteriorated in the Balearic Islands (although compliance was considered likely) and for Valencia, in which the feasibility for compliance with the target was conditioned in the last report (in its EFP) on the effective implementation of certain extraordinary revenue items expected by said Region that were called into question with the last data analysed.

AIReF considered it very likely that the LG sub-sector would comply with the 2018 stability target, considering it feasible to obtain a surplus, slightly above that recorded in 2017 that, however, would continue to amount to 0.6% GDP. Regarding the 21 large LGs analysed individually, a 20% reduction in the joint surplus was estimated with respect to 2017 (15% if non-recurrent operations were ceased in 2017). Furthermore, the 18 LGs with medium-term sustainability selected in AIReF's report of December 2017 on the main budgetary lines were analysed, concluding that all of them maintained their risk position in their rating group with respect to the previous report.

AIReF projected a progressive reduction in the debt-to-GDP ratio for the period 2018-2021 compared to the end of 2017. In 2018 compliance with the debt target set at 97.6% GDP was expected for the GG sector. In the medium term, the debt path of the PAs forecasted by the Government in the 2018-2021 SPU was also in line with that predicted by AIReF, albeit the likelihood of concurrence reduced as the forecasting horizon progressed.

BOX 3. REPORT ON EXPECTED COMPLIANCE WITH THE 2018 STABILITY TARGET, DEBT TARGET AND EXPENDITURE RULE

It was considered unlikely that the CA would comply with the deficit notified to the European Commission of 1.2% GDP. Assuming that the target approved by the CA would not be achieved in any case, AIReF went on to consider the deficit level notified as the benchmark for monitoring the same.

AIReF considered it feasible for the CA to reach a revenue level in line with the forecasts contained in the GSB. Revenues have grown thanks to the good performance of Personal Income Tax (PIT), which reflects the dynamism of the economy, and the increase in non-tax revenue, mainly dividends of the Bank of Spain and Enaire, whilst Corporate Income Tax (CIT), VAT and Special Taxed would grow below that forecasted in the GSB for 2018. It also noted the risk on CIT collection, due to the possible conversion of deferred tax assets of credit institutions into receivables against the administration.

For its part, it was noted that expenditure would continue its upward trend started in the last quarter of the previous year due to a greater contribution to the budget from the EU in 2018 and an increase in investments amounting to 1,800 million euros from the impact of the SFL for the reversal of the toll highway concessions. Compensation of employees would grow around 3.1% as a result of the agreement with the trade unions and other measures included in the GSB. State expenditure on interest would be reduced, with expenditure close to 2% GDP at year end, which would mean a similar reduction as in previous years. Social transfers would grow in line with forecasts due to the impact

of the revaluation of civil servants' pensions envisaged in the GSB. The effect of the materialisation of the payments of the Asset Protection Scheme (APS) made by the Deposit Guarantee Fund (DGF) was incorporated, with a strong increase in expenditure for 2018.

It was considered that the expected evolution of expenditure alongside the impact of the permanent regulatory measures approved would entail non-compliance with the expenditure rule.

In the SSF it was considered that in 2018 the Social Security System would maintain a similar deficit to that of 2017. The trend development of pensions and the revaluation measures (1.6%) and improvement in widowhood pensions included in the budgets substantially increased expenditure. It was considered that, despite the new State transfer to finance the Social Security System for an amount exceeding €1,300 million, it was insufficient to offset the increased expenditure on pensions, so the probability of compliance with the target was still lower than at the start of the year. Affiliation to Social Security maintained the good tone with which it ended 2017, although it showed signs of slowing. A slight insufficiency in the expenditure allocation for the temporary disability benefit was identified. For the State Public Employment Service (SEPE) a surplus of slightly above 0.1% GDP was estimated, that would be reached, for the first time, without recourse to State transfers.

For the regional sub-sector, compliance with the stability target set at -0.4% GDP was considered likely. However, the high risk of non-compliance with the expenditure rule meant that it was deemed unlikely to achieve the lower fiscal balance of -0.2% GDP notified to the Commission, which would allow simultaneous compliance with both fiscal rules. It was considered that in the second half of the year the upward pressure on expenditure and the non-repetition of the extraordinary revenue items of 2017 stemming from previous years' regularisation of the economic flows of the Agreements held with Navarre and the Basque Country, would raise the deficit to -0.3% GDP.

It was expected that capital expenditure would grow by 15% due to expenditure co-financed by the EU and the impact of non-recurrent operations. In addition, there were a number of judgements for which the time of imputation or their impact were unknown which, if they had materialised in 2018, would affect both the deficit and the growth of computable expenditure. This was the case of the reversal of the concession of Aigües Ter Llobregat in Catalonia, the cost for Valencia of the demolition of two buildings in Benidorm or the possible reclassification of the public-private partnership of Seville Metro in Andalusia.

In the individual analysis, the forecasts of previous reports were generally maintained, deeming compliance with the stability target feasible or likely in most cases, but with risk of non-compliance with the expenditure rule for the majority of the Regions. Compliance with the stability target was considered unlikely or very unlikely c for Murcia, Valencia and Extremadura.

With respect to the expenditure rule, four Regions, showed high risk of non-compliance with said rule (Andalusia, Cantabria, Balearic Islands and Madrid) and for nine Regions said risk was deemed to be moderate, with varying levels of tension.

AIReF considered it very likely that the LG sub-sector would comply with the stability target in 2018, considering it feasible to attain a slightly lower surplus in terms of GDP to that recorded in 2017,

that, however, would continue to amount to 0.6% GDP. According to AIReF's forecasts, the revenue of the LGs would grow, by around 2% year-on-year, replicating the behaviour of previous years, whilst expenditure would grow above the 3%, an increase that includes impact of the Agreement on compensation of employees and the estimate on the amount of Financially Sustainable Investments (FSIs). This surplus of 0.6% GDP would enable the LG sub-sector to comply with the expenditure rule.

On the other hand, AIReF considered that the LG sub-sector could achieve a debt-to-GDP level of around 2.2% at the end of 2018. As outlined in the report on the LGs' Budgets for 2018, from the end of 2012 the primary balances of the LGs were mainly being immobilised in bank deposits. This fact allowed a forecast that in 2018 the LGs' net liquid financial assets debt would be close to 0% or even negative.

In a supplementary report, AIReF individually assessed the 21 large LGs as well as the 18 city councils with future sustainability problems. Both groups had already been analysed in previous reports in this budget cycle. Amongst the large LGs, there was a high risk of non-compliance with the projected surplus and expenditure rule for 2018 in the City Council of Madrid, and a risk of non-compliance with the expenditure rule in the City Councils of Barcelona, Cordoba, L'Hospitalet de Llobregat and the Island Council of Tenerife. With respect to the 18 city councils selected for having identified medium-term sustainability risks, the combined analysis shows that all the selected city councils maintained their risk position in their rating group, although if the City Councils of La Línea de la Concepción, Totana, Ayamonte, Alcorcón and Cuenca were to implement and consolidate, at least, the policies envisaged in their 2018 scenarios, it would take a longer time to return to a sustainable situation.

1.1.G. Reports on the Macroeconomic Forecasts of the 2019 Budgets of the Autonomous Regions¹²

In its reports in the last quarter of 2018, AIReF endorsed the macroeconomic forecasts for 2019 for all Regions analysed. The forecasts of thirteen Regions that published a macroeconomic scenario different to that of the State (see table 3) were assessed; no information was received from Aragon nor from Castile Leon, but Extremadura was assessed. The forecasts of Asturias, Cantabria and Rioja, were not subject to assessment, since these Regions were explicitly included in the macroeconomic forecasts for Spain, previously endorsed by AIReF.

The macroeconomic forecasts for GDP and expenditure of each of the Regions were assessed estimating the degree of confidence in said forecasts. The existence of biases was also analysed, but without performing an ex-post assessment of the forecasts of the previous years. The different assessment may be seen in Table 3 below.

¹² See Reports on the Macroeconomic Forecasts of the 2019 Budget of the [Region of the Basque Country](#), 5 October 2018; [Region of Castile-La Mancha](#), 5 October; [Region of Galicia](#), 9 October; [Region of Extremadura](#), 9 October; [Region of Andalusia](#), 17 October; [Region of the Canary Islands](#), 24 November; [Region of Valencia](#), 14 December; [Provincial Council of Navarre](#), 14 December; [Region of the Balearic Island](#), 14 December; [Region of Murcia](#), 21 December; and the [Region of Madrid](#), 21 December.

Table 3. **Assessment of the macroeconomic forecasts of the Regions (2019)**

Regions	2019
Basque Country	Prudent
Galicia	Prudent
Andalusia	Likely
Murcia	Prudent
Valencia	Prudent
Aragon	No information available
Castile-La Mancha	Likely
Canary Islands	Prudent
Navarre	Likely
Balearic Islands	Likely
Madrid	Likely
Castile and Leon	No information available

1.1.H. Report on the main budgetary lines of the 2019 budgets of the Public Administrations¹³

Since the Draft GSB for 2019 was not presented, the Budgetary Plan was configured as the major milestone of Spain's fiscal strategy for 2019. For this reason said Plan was the subject of the Report on the draft budgets and main budgetary lines of the budgets of the PAs for 2019. The starting point for the analysis was the no-policy-change scenario commissioned by the Government and published in July, with the Study on the Macroeconomic and Budgetary Scenario for 2018 and 2019 under a no-policy-change assumption that will be discussed in more detail later on¹⁴. Both the macroeconomic and fiscal scenarios were updated with the changes that occurred since this study was carried out up to the date of issue of the report, adding the assessment performed on the impact derived from the revenue and expenditure measures proposed in the Budgetary Plan for 2019 to the new no-policy-change scenario.

AIReF endorsed the macroeconomic scenario underlying the Budgetary Plan for 2019, considering it to be prudent overall. To arrive at this decision it considered the exogenous assumptions and policies defined in said Plan. Furthermore, the basic assumptions underlying the macroeconomic scenario prepared by the Government were considered feasible, albeit it was considered that there was no scope for any deviation in the estimated impact of the

13 See [Report on the Main Budgetary Lines of the Public Administrations 2019](#), 26 October.

14 See section 1.4.C of this Annual Report.

measures. External assumptions were revised downward with respect to the 2018-2021 SPU, notably the negative revision of world growth, as well as lower growth in export markets, that could be compensated by the expected lower appreciation of the euro against the dollar.

No significant bias was detected in the variables analysed during the 2014-2017 period in the ex-post analysis of the forecasts of previous years. The presence of major and unjustified biases previously identified in public consumption for autumn forecasts in the t+1 period did not seem to have been repeated in 2017.

The Budgetary Plan for 2019 only included budgetary forecasts for the GG. The fiscal scenario outlined in the Budgetary Plan was defined exclusively for the GG, detailing the main revenue and expenditure headings in National Accounts. AIReF, as in previous reports, underlined the need to include a breakdown by sub-sector and greater detail on the main revenue and expenditure headings, placing emphasis on the assumptions on which their evolution is based.

This report included an initial general pronouncement on the main budgetary lines for 2019 of the Regions and LGs. Based on the information provided through the main budgetary lines for 2019 of the Regions and the LG sub-sector, the inertial scenario considered in the study published in July was updated, carrying out a preliminary analysis of the sub-sectors for 2019.

1.1.I. Reports on the Main Budgetary Lines for 2019 of the Autonomous Regions¹⁵

In October 2018 AIReF issued ten individual reports on the main budgetary lines for 2019 of the Regions that, up to the date of the report, had approved a Draft Budget or Economic Financial Plan (EFP) with the budgetary forecasts for 2019. Specifically, in particular, the corresponding reports were issued to Galicia, Andalusia, Asturias, Cantabria, Murcia, Canary Islands, Navarre (in this case including the analysis of the EFP prepared by the Region), Extremadura, Balearic Islands and Madrid. All these Regions, with the exception of Andalusia, had presented their Draft Budget in their respective parliaments on the issue date of the report; in the case of Andalusia, the reference budgetary scenario for 2019 included in the EFP presented by said Region and reported by AIReF was considered. It was not possible to report on the Draft Budget of the Region of Valencia since the necessary information requested was not received on time. Six Regions did not have a Draft Budget being processed at this time (the Basque Country and Rioja had withdrawn those initially approved), and for this reason reporting on their forecasts for 2019 was postponed to a later time, pending more up-to-date information.

¹⁵ See Reports on the Main Budgetary Lines for 2019 of the [Region of Galicia](#), 20 December; [Region of Andalusia](#), 20 December; [Region of Asturias](#), 20 December; [Region of Cantabria](#), 20 December; [Region of Murcia](#), 21 December; [Region of the Canary Islands](#), 20 December; [Provincial Council of Navarre](#), 20 December de 2018; [Region of Extremadura](#), 20 December; [Region of the Balearic Islands](#), 20 December; and [Region of Madrid](#), 20 December.

In the ten reports issued by AIReF it was considered feasible for the majority of the Regions to comply with the stability target, with different levels of probability, identifying the risk of non-compliance with the expenditure rule in all Regions, except in the Balearic Islands. Compliance with the target in 2019 was deemed: very likely for the Canary Islands; likely for Galicia, Navarre and Madrid; feasible for Andalusia, Asturias, Cantabria and the Balearic Islands; and very unlikely for Murcia and Extremadura. Risks of non-compliance with the expenditure rule in 2019 was identified in nine out of the ten Regions reported on, considering the risk to be high in Andalusia. In the Balearic Islands, the high starting point of computable expenditure expected at the end of 2018 meant that no risks were identified for 2019. To this end, the simultaneous compliance with both fiscal rules was considered feasible for six Regions (Galicia, Asturias, Cantabria, Navarre, Balearic Islands and Madrid), and unlikely or very unlikely for the rest.

BOX 4. REPORT ON THE MAIN BUDGETARY LINES OF THE PUBLIC ADMINISTRATIONS IN 2019

This report analysed the macroeconomic and fiscal scenario contained in the 2019 Budgetary Plan sent to the European Commission on 15 October 2018.

The macroeconomic impact of the measures advanced by the Government was considered feasible and neutral in real terms and positive in nominal terms, although with possible downside risks beyond 2019. The assessment conducted by AIReF based on its internal models was considered to be in line with the impact included by the Government in the Budgetary Plan.

Said report was prepared by revising the inertial scenario that was the subject of the study on the macroeconomic and budgetary scenario of 2018 and 2019 under a no-policy-change assumption, commissioned in July by the Government. Therefore, the structure of this report was based on the review of this inertial scenario and it subsequently assessed the budgetary and macroeconomic impact of the main revenue and expenditure measures, culminating with its own analysis of the 2019 Budgetary Plan, in which the macroeconomic forecasts of the Plan were assessed with the dual-approach that AIReF had been using on macroeconomic forecasts, the ex-ante evaluation of the realism of the forecasts referred to in the 2019 Budgetary Plan, the identification of risk and the ex-post assessment of the biases made in the forecasts of previous years.

AIReF assessed the macroeconomic impact of the main measures included in the plan as moderate - neutral in real terms and positive in nominal terms - although there were downside risks beyond 2019. On the other hand, the report underscored that the measures of the Budgetary Plan would have a positive knock-on affect or second round on public revenue.

As for the ex-ante analysis, the basic assumptions underlying the macroeconomic scenario accompanying the Draft Budgetary Plan (DBP) for 2019 were considered feasible, in relation to the forecasts of the international agencies and the evolution of the commodities and debt markets, where external assumptions had been revised downward in the majority of cases, in line with the forecasts made by the Government. There was notably a downward revision of world growth, as well as growth in the Spanish and euro-zone export markets, that could be compensated by the lower appreciation of the euro against the dollar.

Based on this analysis made in the previous sections with respect to the inertial scenario and the potential impact of the measures, the growth profile for 2018 and 2019 presented in the Budgetary Plan was considered feasible, as well as its composition, in which the expected Public Consumption for 2019 was revised substantially upward.

Oil prices were identified as being a risk, which were lower than market expectations in the Government's forecasts (medium-term risk) as well as specific risks linked to Brexit and the situation in Italy.

The ex-post analysis of previous years' forecasts did not identify any important forecasting bias in the variables analysed for the 2014-2017 period. The report underlined the biases identified in previous reports, significant bias in the Public Consumption forecasts and major biases almost half of the time, that were not justified in the majority of cases, and in particular, for Public Consumption. However, the presence of major and unjustified biases identified since 2013 in autumn forecasts for t+1 did not seem to have been repeated in 2017.

Regarding the assessment of the budgetary scenario, the revision of revenue and expenditure positioned AIReF's deficit forecast under the no-change-policy assumption at 2.3% GDP. With respect to the July forecast, which included a deficit of 2.2%, expenditure was revised upward by 0.4% GDP, while the baseline revenue scenario increased by over 0.2%.

According to AIReF's estimates, the new measures included in the Budgetary Plan would correct the deficit by between 0.2% and 0.4% GDP. AIReF estimated a potential impact of the revenue measures of between 0.4% and 0.6% GDP, while the new expenditure measures could account for slightly over 0.2%.

Regarding revenue measures, AIReF estimated an increased potential collection of between 0.4% and 0.6% GDP, appreciating the greater uncertainties in the new taxes. The proposed measures consisted in the modification of existing taxes as is the case of CIT), social security contributions, the Tax on Hydrocarbons and Personal Income Tax (PIT), as well as the creation of new taxes such as the Tax on certain Digital Services and the Tax on Financial Transactions. Most of these measures would affect the CA and SSF.

Regarding expenditure measures, AIReF estimated an impact of the new measures of 0.2% GDP, departing from the Government's projections, mainly due to the estimated impact in the Regions of the abolition of the pharmaceutical co-payment to pensioners. In the GG sector the measures with a greater quantitative impact affect expenditure on pensions and other social benefits such as dependency, paternity leave or pharmaceutical co-payment to pensioners, the abolition of which was not quantified in the Budgetary Plan.

The updated estimates in the contexts of the Regions improved the inertial scenario by 0.2% in the July study, mainly because it was considered that the negative affect that the adjustment to the VAT entry deadlines (VAT Immediate Information System, VAT-IIS) would have on the 2017 settlement of Region receivables in 2019 would be neutralised, estimating a year-end for the sub-sector at -0.2% GDP. In the case of the LGs, the inertial forecasts also improved in the July study as a result of the

neutralisation of the impact of the VAT-IIS, estimating that a surplus of around 0.5% GDP would be reached.

AIReF's recommendations focused on strengthening the monitoring of the risk areas identified and developing a medium-term fiscal strategy that would allow a permanent deficit reduction. AIReF also identified three areas where the quantitative importance and high uncertainty made it advisable to reinforce monitoring activities: new tax figures, fiscal impact on the planned increase of the National Minimum Wage and the growing expenditure of the territorial administrations.

1.2. Reports on the application of the preventive, corrective and coercive measures of the LOEPySF

1.2.A. Reports on the Economic Financial Plans of the Regions.

In 2018 AIReF reported on the 2018-2019 Economic Financial Plans prepared by thirteen Regions that had not complied with a fiscal rule in 2017. On 27 June a general report was published on the content of the EFPs of the Regions¹⁶ and eleven individual reports for the Regions of the Basque Country, Catalonia, Asturias, Rioja, Murcia, Valencia, Aragón, Castile-La Mancha, Extremadura, Madrid and Castile and León¹⁷. On 3 December the report on Andalusia's EFP was published, and on 21 December the report on the EFP of Navarre, that also included the assessment of the Draft Budget for 2019¹⁸.

The majority of the EFPs were presented due to non-compliance with the expenditure rule in 2017. All except two were reported on by AIReF in June. The MINHAC's report on the degree of compliance with the targets in 2017, of 13 April 2018¹⁹, determined that in 2017 four Regions did not comply with the stability target nor the expenditure rule (Murcia, Aragón, Castile-La Mancha and Castile and León); one (Extremadura) did not comply with the stability and debt targets; one (Valencia) did not comply with the stability target; and seven other Regions (the Basque Country, Catalonia, Andalusia, Asturias, Rioja, Navarre and Madrid), did not comply with the expenditure rule. All except Navarre prepared and submitted an EFP for the issue of the individual mandatory report by AIReF, that was published, together with a general assessment of the Plans, on 27 June.

16 See [General report on the 2018-2019 Economic Financial Plans of the Autonomous Regions](#), 27 June.

17 See Reports on the 2018-2019 Economic Financial Plan of the [Region of the Basque Country](#); [Region of Catalonia](#); [Region of Asturias](#); [Region of Rioja](#); [Region of Murcia](#); [Region of Valencia](#); [Region of Aragón](#); [Region of Castile-La Mancha](#); [Region of Extremadura](#); [Region of Madrid](#); and [Region of Castile and León](#), 27 June (all).

18 See Report on the 2018-2019 Economic Financial Plan of the [Region of Andalusia](#), 3 December; and Report on the 2018-2019 Economic Financial Plan 2018-2019 and the Main Budgetary Lines for 2019 of the [Provincial Council of Navarre](#), 21 December.

19 See Ministry of Finance and Public Function: [Report on the degree of compliance with the 2017 stability target, government debt targets and the expenditure rule](#), 13 April 2018.

Subsequently, the MINHAC's definitive report, on 5 October²⁰, on the degree of compliance with the 2017 targets, determined non-compliance with the expenditure rule in Galicia, that was later rectified, Andalusia and Valencia. In light of this, only Andalusia had to prepare an EFP, since Valencia had already prepared its Plan; and Galicia reported an error in the data, corrected in February 2019 in a supplementary report to the MINHAC that rectified the non-compliance.²¹ AIReF issued a report on Andalusia's EFP on 3 December. The EFP of Navarre, whose preparation had been delayed pending review of the data published by the MINHAC that did not occur to the extent expected by said Region, was reported on by AIReF, together with the Draft Budget for 2019, on 20 December.

1.3. Opinions

1.3.A. Opinion on the sustainability of the Social Security System²²

AIReF's responsibilities include the analysis and diagnosis of the sustainability of the Social Security system. Organic Law 6/2013 creating AIReF assigned this institution the responsibility of analysing the Social Security system both on a short and long term basis. The evaluation of the budget and monitoring of its execution is complemented with the evaluation of the forecasts made by Social Security for the revaluation of pensions in the short term. In the long term, AIReF's functions focus on the sustainability analysis and diagnosis of the structural situation of this sub-sector.

In 2018, AIReF did not publish an opinion on the calculation of the Pension Revaluation Index (PRI) due to its non-application with effect from this year. In accordance with Article 58.6 of Royal Legislative Decree 8/2015, of 30 October, approving the Consolidated Text of the General Social Security Law, AIReF must issue an opinion on the calculated values for determining the PRI in each year. In response to this mandate, AIReF has published various opinions with respect to the calculation of this parameter. Likewise, Article 211.7 of the same regulation establishes that AIReF must also issue an opinion on the values used to calculate the sustainability factor, when the same enters into force. However, during the year the non-application of the PRI at least in 2018 and 2019 and very likely thereafter was confirmed. On the one hand, the GSB for 2018 included an increase in pensions above the PRI value for the years 2018 and 2019. On the other hand, in September an agreement was reached with the Commission to assess and monitor the agreements of the Toledo Pact of the Congress of Deputies, in the sense of going back to linking the revaluation of pensions to inflation.

20 See Ministry of Finance: [Report on the degree of compliance with the 2017 stability target, government debt target and expenditure rule](#), 15 October 2018.

21 See Ministry of Finance: [Report on the degree of compliance with the 2017 stability target, government debt target and expenditure rule](#).

22 See [Opinion on the sustainability of the Social Security System](#), 9 January 2019.

Given the fact that AIReF is responsible for the analysis and diagnosis of the sustainability of the Social Security system, this institution has developed its own methodological and analytical framework. AIReF has noted shortcomings in the forecasts and in the diagnosis of the sustainability of the Social Security system. Among the limitations identified it is worth noting the inconsistency between the main determinants of pension expenditure, the lack of methodological transparency, the omission of uncertainty or non-inclusion of a rigorous and consistent analysis of the effects of the reforms adopted.

Based on this analysis, AIReF has noted that in the short term there is a structural deficit in the Social Security Administration of between 1.3 and 1.5% GDP. AIReF predicted that this deficit would continue into the future if no measures are taken. In the longer term, AIReF identified a challenge for the sustainability of Social Security resulting from the increase in pension expenditure associated with the ageing of the population, in line with neighbouring countries.

Based on its analysis and diagnosis, AIReF published an Opinion aimed at the Government, in which they made recommendations on how to improve the sustainability of the Social Security System, both in the short term to close the structural deficit and to tackle the long-term demographic challenge.. These proposals, as well as the forecasts made by AIReF, must be understood as an informed input to help decision-making in the context of social dialogue, through the Toledo Pact. This document is based on Article 22.6 of AIReF's Organic Statute, facilitating the preparation of an Opinion in the case of expecting a structural deficit situation in the Social Security administrations.

The Opinion is based on AIReF's forecasting model for pension expenditure in Spain. This model provides a comprehensive framework for the demographic, macroeconomic and institutional components, paying attention to the interaction between these elements and the element of uncertainty. This tool enabled the modelling of the impact of alternative reforms to legislation, in particular the parametric reform in 2011 and the reform of the PRI and the sustainability factor approved in 2013.

In the short term, AIReF considers it to be feasible to close the existing structural deficit in Social Security by means of the assumption of certain expenditure items by the State, which are currently supported by contributions. Positioning the deficit in the part of the administration that has the tools to resolve it, and viewing it as a problem of the GG, would reduce the existing uncertainty with respect to the sustainability of Social Security. This way, uncoordinated and inconsistent decisions, such as tax cuts or increases in expenditure in parts of the administration that appear to have a surplus, would be prevented.

To face the long-term challenge, the AIReF's Opinion highlights that the solution proposed must be feasible, credible and intertemporally consistent, therefore the implications on sustainability and sufficiency must be considered. In the long term, the specialisation of the system's parametric reforms is a credible way to improve its sustainability, minimising its impact on sufficiency. Therefore, the deepening of the parametric reform of the system has the

potential to achieve sustainability gains similar to the implementation of the PRI, minimising the impact on sufficiency.

Furthermore, any reform agreed must have the maximum social and political consensus and must be applied gradually. In this way, this cushions the impact of the reform and allows pensioners to adjust their expectations and adapt their savings and work decisions to the new situation within a reasonable time margin.

BOX 5. OPINION ON THE SUSTAINABILITY OF THE SOCIAL SECURITY SYSTEM

Organic Law 6/2013 creating AIReF assigns the responsibility of analysing the Social Security system both on a short and long term basis. The evaluation of the budget and monitoring of its execution is complemented with the evaluation of the forecasts made by Social Security for the revaluation of pensions in the short term. In the long term, AIReF's functions focus on the sustainability analysis and diagnosis of the structural situation of the sub-sector.

In response to these shortcomings, AIReF developed a methodological and analytical framework for the assessment of the sustainability of Social Security, which includes long-term forecasts of its main determinants. Upon completion of the work on the development of its analytical and methodological framework, AIReF carried out a detailed diagnosis of the sustainability of Social Security and its main long-term determinants, including demographics, the labour market and the impact of the reforms adopted. The results of the analysis undertaken by AIReF showed the existence of a structural deficit for the Social Security System, understood as the deficit existing once the evolution of revenue and expenditure is adjusted by the dynamics of the economic cycle, that is to say, in a neutral situation or with zero output gap. It is estimated that the deficit is between 1.3 and 1.5% GDP, and that it will be maintained in the short term in the absence of additional measures.

In the long term, demographic pressures begin to have a significant impact on the expenditure forecasts. Over the next 30 years, this expenditure would increase slightly below 3% GDP in AIReF's baseline scenario, reaching 13.4% GDP in 2048, with a range of 1.4p.p. at the ends of the confidence interval. This evolution is due to two opposing forces. On the one hand, the strong upward pressure of demographic factors and on the other, the compensating effect of the evolution of the labour market and the 2011 reforms and the sustainability factor approved in 2013.

The deficit identified must be considered in the context of the GG. The distribution of the deficit between sub-systems of the PAs is partially determined by administrative and institutional reasons that may lead to inconsistent decisions by each of the sub-systems and artificially limit the possibilities for resolution. Closing the Social Security deficit - caused by the economic crisis and idiosyncratic design problems and not ageing- would reduce the uncertainty regarding the sustainability of the System, which generates distortions in the decision-making process of economic agents, both pensioners and contributors, affecting their saving and consumption decisions and leading to a widespread disaffection with the functioning of the system.

According to AIReF's estimates, the application of the PRI in the absence of measures to increase revenue, would have meant a revaluation of 0.25% during the reference period. This would have

contained expenditure by an additional 2.1% GDP, reducing pension expenditure in the baseline scenario from 13.4% to 11.3%. However, this containment would be at the expense of an 8% reduction in the coverage rate of pensions in respect of wages. This reduction in the coverage rate is explained by the continued loss of purchasing power of pensions during each of the years that it is received, directly affecting the sufficiency of the system. In any case, it is desirable that the government continues to undertake public monitoring of the medium and long term budgetary restriction faced by the Social Security System.

An international comparison shows that Spain still has the potential to strengthen the sustainability of the pension system by modifying some of its fundamental parameters (“parametrisation of the system”). In addition, the reforms that affect the parameters used to calculate the initial pension can be implemented in a gradual manner, softening their impact. Finally, its effect is predictable at the individual level for future pensioners, so they can adjust their expectations and adapt their saving and consumption decisions to the new situation in a reasonable time frame, both before and after retirement, increasing the certainty and confidence in the system by putting it on a credible sustainability path.

The deepening of the 2011 reform, which changed parameters such as age, the contribution career to be considered or reductions in pension for early retirement, could mean a suitable commitment to improving sustainability without damaging the sufficiency of the system, defined in terms of the rate of coverage as the adequacy of the pension to the needs of pensioners (ratio between the average pension and the average salary). To this end, AIReF proposes to deepen two aspects of the 2011 reform. First, the effective retirement age in Spain (62.4 years) is below the average for the OECD countries (64.3 years) and presents one of the greatest gaps in relation to the legal age, reaching 2.6 years. Second, the reference period for calculating the pension, currently set at 20 years (although converging to the past 25 years in 2022 as a result of the 2011 reform), is below that used by our main neighbouring countries, where use of the full working career is widespread. The impact of this specialisation of the parametric reform on expenditure in 2048 could be close to 2% GDP, a figure close to the savings associated with the implementation of the PRI, minimising the impact on the coverage rate.

AIReF made the following proposals:

- Proposal for short-term improvement: Close the structural deficit existing in Social Security, through the transfer of expenditure responsibilities from the Social Security System to the State, by raising the contributions destined to common contingencies in relative terms (pension payment) at the cost of those assigned to the SEPE (unemployment benefit) and the assumption of certain expenditure items by the State, which are currently supported by contributions, such as, amongst others, the expenditure on the operation of the Social Security, on measures to promote employment that consist of reducing contributions, on benefits for maternity/paternity leave and subsidies implicit to special regimes.
- Proposal for long-term improvement: Adopt measures that reinforce the sustainability, fairness and sufficiency of the system, through: (i) deepening the parametric reform of the retirement system started in 2011, through a combination of measures: modify the access requirements to

the pension (early or ordinary retirement) to promote the increase in the effective retirement age and the career for calculating the pension beyond 25 years; (ii) redesign disability benefits to take better advantage of the working capacity of individuals.

As part of the Opinion, AIReF made a suggestion for best practice: reinforce the information obligations of the Social Security Administration on the financial situation of the system and on the impact of reforms.

1.4. Studies

1.4.A. Study on Regional Public Enterprises and Foundations of Cantabria

This study falls within the scope of the studies provided for in Article 5 of Organic Law 6/2013, of 14 November, creating AIReF, according to which this institution can prepare studies requested by the Government, Fiscal and Financial Policy Council, the National Commission of the Local Administrations, the Financial Commission for Social Security, the Regions and Local Corporations. In June 2017, the Government of Cantabria asked AIReF to carry out a study on regional public enterprises and foundations in said Region. The aim of this study was to analyse and evaluate the restructuring of the regional public enterprises and foundations, in order to avoid duplication and reduce the costs of the regional public structure. The preparation of this study relied on the collaboration of staff from the Instituto de Finanzas de Cantabria (the Financial Institute of Cantabria), as well as the Local Corporations subject to the analysis.

The results of this work were presented to the public in April, 2018. According to the results, the regional public enterprises and foundations generate a direct cost for Cantabria of around 72.3 million euros, equivalent to 0.6% of regional GDP, whilst their assets and net equity amount to 708 and 246 million, respectively. The study includes a diagnostic of the activities performed by the different entities and provides proposals for improvement on three levels. According to AIReF's estimates, these proposals could generate an overall profit for Cantabria amounting to 44.7 million at the end of a 4-year period (51.3 million in 8 years), which would mean a saving of 62% on the yearly costs in the enterprise and foundation sector for the Government of Cantabria.

1.4.B. Study on the concession contract granted for the construction and operation of the road "Eix Transversal (C-25)"

In June 2017 the Regional Government of Catalonia commissioned AIReF to carry out a study on the impact on deficit and debt of the early termination, by decision of said Regional Government, of the concession contract for the construction and operation of the road "Eix Transversal (C-25)" granted to the company CEDINSA.

The objective of AIReF's study was to assess the direct budgetary repercussions for the Regional Government of Catalonia, both in terms of flows (deficit) as well as stock (debt), that early termination of the concession entailed. To do this, AIReF carried out a full, methodological review; it dealt with the existing obligations and rights that would result in an economic impact in the compared scenarios; it audited the maintenance and replacement costs, taking the current state of the infrastructures and existing equipment as a starting point; it analysed cash flows by preparing a model to compare the different simulated scenarios; and it performed a sensitivity analysis on the main economic-financial assumptions. Lastly, it presented the results of the impact in terms of National Accounts.

This work was presented in April 2018, having found favourable results to the early termination option and reversal of the concession to the Regional Government of Catalonia, in terms of net present value, when considering the entire time horizon of the concession, albeit with high uncertainty in both scenarios.

1.4.C. Study on the Macroeconomic and Budgetary Scenario for 2018 and 2019 under a no-policy-change assumption²³

The Government asked AIReF to carry out a study on the macroeconomic and budgetary scenario for 2018 and 2019 under the assumption of no policy change. This commission took place within the framework the provisions of Article 5 of Organic Law 6/2013, which establishes that AIReF may carry out studies at the request of several parties, including the national Government.

In order to determine the inertial macroeconomic scenario, AIReF projected six quarters (the last two quarters of 2018 and 2019 in full) It determined an environment external to the Spanish economy based on technical assumptions taken from the forecasts of leading international agencies, as well as short-to-medium term empirical models developed by AIReF itself. This approach was complimented with a consistency exercise based on a deviation analysis with respect to certain long-term economic ratios, and in the different sectoral accounts, within the simplified framework of National Accounts.

The budgetary scenario estimates were prepared following a bottom-up approach. The starting point was available data from different units comprising the sub-sectors of the PAs. The forecast methodology differs between the year 2018 and 2019. These forecasts could serve as a starting point for the Government to design its fiscal path. There are several European Union countries in which Independent Fiscal Institutions (IFIs) similar to AIReF draw up no-policy-change forecasts based on which the Government constructs the official scenario, making the fiscal impact of the measures adopted transparent in the exercise of its powers.

²³ See [Study on the Macroeconomic and Budgetary Scenario for 2018 and 2019 under a no-policy-change assumption](#), 19 July.

AIReF estimated a baseline deficit scenario for the GG of 2.7% and 2.2% GDP in 2018 and 2019, respectively. In the no-policy-change budgetary scenario of 2018, the revenue-to-GDP ratio had increased up to 38.4% at year-end, whilst the weight of expenditure remained unchanged over GDP. The no-policy-change budgetary scenario of 2019 took into account an increase in revenue in line with nominal GDP and a decrease of 0.5% in the weight of expenditure over GDP.

The study included an important detail on the methodology used for preparing both the macroeconomic scenario and the budgetary scenario. It specifies the type of model used to carry out the macro projections and the baseline information for the fiscal forecasts, identifying those items that are modelled and those that evolve with trend criteria. The detail of these methodologies are included as annexes.

The detail on the tax sheet prepared by AIReF was published for the first time together with the assumptions and methodologies used. In its reports AIReF assessed the likelihood of compliance with the targets, including uncertainty into its forecasts, therefore traditionally the AIReF's baseline forecast is not published but rather a range with a rating of the risk. However, for this Study it was considered important to publish the baseline forecast and the detail of the items, so they could be used as a starting point for the Government's forecast.

BOX 6: STUDY ON THE MACROECONOMIC AND BUDGETARY SCENARIO OF 2018 AND 2019 UNDER A NO-POLICY-CHANGE ASSUMPTION

2018 FORECAST:

- **Central Administration:** AIReF's estimate foresees a reduction in the CA deficit to reach 1.4% at the end of 2018. This implied an adjustment of 0.5% GDP with respect to the end of 2017, representing the entire adjustment foreseen for the GG. This deficit was above both the target approved for 2018 and the forecast notified to the European Commission on March 31.

Revenue was expected to maintain its upward forecast despite the measures approved in the GSB, with tax revenue growth of 0.3% GDP, mainly due to the improvement in the economic cycle. PIT reflected the dynamism of economic activity, even though partially offset by the effects of its reform, CIT was expected to fall in weight over GDP, VAT was expected to grow around 6% year-on-year with significant cash impact from the application of the Immediate Information System without affecting collection in terms of National Accounts. With respect to the remaining revenue items, earnings from property, transfers and other CA revenue were expected to grow by around 0.2%, driven by funds from the EU and dividends from the Bank of Spain and public corporations.

CA expenditure was expected to maintain momentum in 2018, breaking the declining trend of previous years. Despite the reduction in expenditure on interest, the increase in social transfers for the revaluation of pensions of 1.6%, the increase of compensation of the employees as a result of the agreement with the Trade Unions, the increase in investments due to the affect of the SFL for the reversal of the toll highway concessions and the increase of the contribution to the EU

that will be normalised after an unusually low year in 2017. Furthermore, the materialisation of the payments of the Asset Protection Scheme made by the Deposit Guarantee Fund (DGF) would represent a strong increase in expenditure in 2018.

- **Social Security Funds:** The year-end was forecasted at -1.5% GDP. The good behaviour of social contributions, with predicted growth above 5% due to the evolution of affiliation and the gradual improvement of the contribution bases, was compensated with the strong growth of expenditure on benefits due to the 1.6% revaluation of pensions, the 3% increase in non-contributory pensions and the improvement in widowhood pensions. Furthermore, the stabilisation of the expenditure on unemployment benefits was predicted, generating a surplus close to 0.1% GDP.
- **Regions:** A deficit close to -0.3% GDP was estimated for the regional sub-sector; this figure was obtained by aggregating the individual estimates. The increase of the net resources of the financing system of the Regions under the general tax scheme subject to instalment payments was estimated at 4%, considering that the rest of the income would also continue to grow close to 4%. Of note was the expected increase in the revenue from EU funds as a result of certifying co-financed expenditure so as not to lose the funds scheduled in the current programming period.

It was predicted that expenditure on healthcare and education, which affects the main current regional expenditure items, would go up around 3% as a result of structural factors and the Government's Agreement with the Trade Unions on the compensation of public employees. The expenditure on interest would decrease and capital expense would grow significantly due to co-financed expenditure as well as non-recurrent operations expected in 2018. Conversely, no significant impact of the application of financially sustainable investments in the Regions was expected. Non-compliance with the expenditure rule was expected in most Regions.

- **Local Governments:** They could end 2018 with a surplus close to 0.6% GDP, consolidating the results obtained in the two previous years. It was considered that the different revenue and expenditure measures adopted would not, as a whole, be enough to alter the surplus obtained in the last two years, either because they require regulatory development or procedures that would impede much of their realisation in the current year.

2019 FORECAST

- **Central Administration:** The deficit would drop to 0.8% GDP, with revenue that would stay on an upward trend despite the PIT reform for which the impact was expected to amount to €1,300M in 2019. The forecast for CIT was one of recovery. AIReF highlighted the possibility that some financial institutions would decide to convert deferred tax assets into receivables against the tax administration, as occurred in 2017. This amount was estimated at 500 million per year. VAT would maintain its dynamism in 2019 with growth close to 6% similar to 2018 and Special Taxes would increase their weight over GDP in 2019 due to the increase of the Tax on Hydrocarbons.

Expenditure would increase slightly and reduce its weight over GDP, due to the reduction in expenditure on interest and the sharp decline in expenditure on investments because of the impact of the re-tendering of the toll highways bailed out for an estimated amount of 1,000 million.

To the contrary, the materialisation of the payments of the Asset Protection Scheme made by the Deposit Guarantee Fund (DGF) would effect the deficit in 2019.

- **Social Security Funds:** would increase their deficit to 1.6% GDP. The growth of contributions would shift even more from the increase in employment to the increase in contribution bases than in 2018. Revenue from transfers between Public Administrations was expected to increase slightly, assuming that the transfer to finance the Social Security System introduced in the 2018 budgets maintained at the same amount of 1,300 million. In turn, social benefits were expected to increase by 4.7% in 2019, mainly due to the strong growth of Social Security pensions. In 2019 the SEPE surplus would increase to close to 0.2% GDP, and the FOGASA (Wage Guarantee Fund) deficit would surpass 0.05%, without State transfers in both cases.
- **Regions:** A deficit similar to the previous year was estimated for the sub-sector as a whole, since it was considered that revenue would grow in line with expenditure. Revenue would grow less than in previous years, largely conditioned by the evolution of the resources of the financing system of the Regions under the General Tax Scheme. The effect estimated in the 2018-2021 SPU due to the reform to the Tax on Hydrocarbons was included in the estimate, since the regional rate had become part of the Special State Rate, with the State setting it to the maximum rate and integrating it into the financing system. Likewise, AIReF considered the possible impact of the 2017 settlement for the VAT-IIS that came into force in said year.

AIReF expected growth of around 3% for net expenditure in 2019, which would lose 0.1% of its weight over GDP. The projected evolution of healthcare and education expenditure and the effect estimated for 2019 of the Agreement with the Trade Unions on the compensation of public employees determined growth of the main current expenditure items over 3% whereas there would be zero growth in capital expenditure.

- **Local Governments:** AIReF expected a slight reduction compared to the expected surplus in 2018, estimating 0.5% GDP for 2019. In year-on-year terms over the end of 2018, the revenues of the LGs were expected to grow below the expected year-on-year growth rate of 2% in 2018. Regarding expenditure, the impact resulting from the provisions of the agreement with the Trade Unions on compensation of employees and the extension to 2019 of the financially sustainable investments initiated in 2018 was considered, in addition to those that could be initiated in 2019 in the event that the rule were extended.

1.4.D. Study on minimum income benefits

In February 2017 Congress approved the processing of a Draft Bill for the provision for a minimum income benefit in the context of protection of the Social Security system, presented by a popular legislative initiative. Thereafter, AIReF's President, José Luis Escrivá, appeared before the Employment and Social Security Commission to analyse the possible bases of a benefit of this nature in Spain. Following up on said appearance, in March 2018 the Government commissioned AIReF to carry out a study on a minimum income benefit.

To this end, over the last year AIReF has worked on a study that involves a comprehensive analysis of existing schemes and benefits , and a comparative analysis of similar systems and benefits in neighbouring countries with special attention paid to the EU. Likewise, this study includes an in-depth analysis of the minimum income scheme with an estimate of its cost, a forecast of its effects and an assessment of the Social Security System's impact on sustainability. The completion and delivery of said study is due in early 2019.

BOX 7. STUDY ON MINIMUM INCOME BENEFITS

AIReF has drawn up a Work Plan including various information sources for the analysis, from administrative records from revenue guarantee schemes, as well as data from the SEPE, the General Treasury of the Social Security (TGSS) and minimum wages of the Regions, including household surveys, such as the Living Condition Surveys, that facilitated a realistic simulation of the impact of a measure such as the Popular Legislation Initiative in terms of equity and efficiency.

One of the sources of information that was designed for this study was a structured survey on the impact of welfare benefits and on the beneficiaries of the minimum income schemes. The questions of this survey were directed at social workers.

Even though a minimum income can be requested individually by each potential beneficiary, more often than not the social worker helps this group in the processing of this benefit. They are therefore very knowledgeable of the characteristics of the individuals who request it and also of those who end up seeing their application rejected.

Furthermore, they really know the administrative problems that may occur when processing the same, as well as other benefits whether cash or in-kind, that this group is eligible for.

Following an exhaustive analysis of the situation of the current schemes and the possible incorporation of the Popular Legislation Initiative to the current system, AIReF presents a series of recommendations, that are to be submitted to the Council of Ministers at the end of the first quarter of 2019.

1.4.E. Spending Review

In June 2017, the Government commissioned AIReF to carry out a full review of public expenditure on subsidies, with the objective of identifying possible improvements in the procedures, eliminating duplicates and performing an impact analysis. This exercise, called the *Spending Review*, is aimed at improving the quality of public expenditure, as well as assuming a commitment to the European Union as recommended by the Council on 11 July 2017.

During 2018, AIReF has been working together with the Ministry of Finance and with other national and territorial public administrations to carry out an exhaustive analysis of expenditure

on the seven agreed projects, whose results are to be published in the first quarter of 2019:

- Strategy and Procedure Evaluation;
- Medication dispensed through prescription;
- Active employment policies;
- University education scholarships;
- Promotion of talent and employability in R&D+i;
- Strengthening business competitiveness;
- Sociedad Estatal Correos y Telégrafos, S.A.

Likewise, and as a follow-up to the work mentioned above, in December 2018 the Government approved commissioning AIReF with a new public expenditure assessment phase that will cover the GG's expenditure on infrastructures, hospitals, recruitment incentives and tax benefits for 2019. As in the first phase, AIReF will be responsible for defining the methodology and MINHAC will act as intermediary with the Central State Administration and shall provide the financing necessary to conduct the study.

BOX 8. SPENDING REVIEW PROCESS

In the 2017-2020 Stability Plan sent to the European Commission in April 2017 the Government committed to improving the efficiency of public expenditure through a full review of the same in the GG. The objective of this review is to identify any inefficiencies and overlaps between administrations.

In response to the work commissioned by the Government, AIReF prepared an Action Plan identifying a total of seven evaluation projects, affecting both Regions as well as the CA. The Action Plan was designed taking into account the Eurogroup's common principles on firm and lasting political commitment, design and implementation, monitoring and communication, and coherence in budgetary planning.¹ The Action Plan was approved by the Council of Ministers on 26 January 2018. Within the scope of the Spending Review exercise, AIReF must examine expenditure approximately equivalent to 18,100 million euros, that is 1.5% GDP

The development of these projects required a great deal of effort in coordinating and collaborating with the different administrations, in particular the CA and the Regions. By means of example, in

¹ See [Eurogroup statement - thematic discussions on growth and jobs: common principles for improving expenditure allocation](#), 9 September 2016.

Project 2 on pharmaceutical expenditure the following actions were taken, amongst others: meeting to create the work group, with the attendance of all collaborating administrations; bilateral meetings with the Regions over six months; five bilateral thematic meetings with the Regions, to identify their policies with respect to pharmaceutical prescription and some relating to expenditure on medicine; bilateral meetings with all Regions on an ongoing basis to address specific matters, etc.

Likewise, AIReF organised different activities in order to collect information and compare opinions with experts from the academic and professional arena. In this way, in June 2018 a seminar was organised on the impact of grants and subsidies for education and research. The first panel, dedicated to educational grants, included presentations by José Montalván Castilla (Paris School of Economics and Centre for Economic Performance of the LSE) and Mauro Medivilla (University of Valencia and IEB) and with the participation of José Emilio Boscá (University of Valencia and FEDEA). The second panel, dedicated to grants and subsidies for research, included speakers such as César Alonso Borrego (Universidad Carlos III de Madrid) and Evaristo Jiménez-Contreras (University of Granada), whose studies works reviewed by Javier Ferri (University of Valencia and FEDEA). To conclude the seminar José Luis Escrivá, AIReF's President, moderated a debate on the policies governing the matter, with the participation of Jorge Sáinz González, Secretary General for Universities; Marina Villegas, Director of the State Research Agency, and Andreu Mas Colell, lecturer at the Department for Economy and Business at the Pompeu Fabra University.

The implementation work of these assessments was developed over most of 2018. The conclusions of the different projects are to be presented in early 2019.

Working papers

AIReF published six working papers in 2018. The purpose of these documents is to act as technical support to the analysis contained in the different reports, studies and opinions, as well as providing greater transparency to the work undertaken within the institution.

- **Working Paper 1/2018. Some Unpleasant Labor Arithmetic: a tale of the Spanish 2012 Labor Market Reform, written by C. Cuerpo, F. Geli and C. Herrero** and published on 25 January.

This document analyses the macroeconomic impact of the 2012 labour reform, whose objective was to mitigate institutional weaknesses in the Spanish labour market and make it more efficient and resilient in times of crisis. The main results of the econometric analysis seem to produce a case in favour of significant structural gains, in line with the descriptive analysis. However, they also show a worsening of the duality problem.

- **Working Paper 2/2018. Estimating the Output Gap: a Beauty Contest Approach, written by C. Cuerpo, A. Cuevas y E. Quilis** and published on 12 April.

This article provides a new perspective to the specification of a model for estimating the output gap. To be precise, it presents a methodological approach based on a multivariate

time-series model with Kalman filtering. This model fulfils the conditions of economic robustness, statistical “goodness” and transparency and allows sufficient flexibility for a specific approximation of the country. This method is tested with its application to the Spanish economy, underscoring both its merits and limitations.

- **Working Paper 3/2018. Some elements for a revamped fiscal framework for Spain, written by C. Cuerpo and L. Rodríguez** and published on 28 June.

This document presents some new elements for revamping the Spanish fiscal framework, based on the reduction of government debt as the main target. The proposal is structured according to a triple time dimension in the short, medium and long term, with a specific indicator for each one of these time horizons. The advantages of this proposal are based on its greater transparency, consistency and stability compared to the current framework.

- **Working Paper 4/2018. Evaluation of the impact of the 2011 Pension System reform on new pensioners: 2013-2015 period, written by I. Moral-Arce and H. Ferradans** published on 20 July.

This working paper analyses the affect that the reform of the Pension System in 2011 has on new pensions and on the behaviour of individuals upon retirement during the 2013-2015 period. Using the Continuous Professional Life Sample of 2015 it was identified that, using impact assessment techniques, new pensioners were affected by the application of the reform, and that the effect increases as the reform intensifies and especially on the younger generation. Furthermore, with an approximation of duration data, the reform has modified the behaviour of individuals upon retirement, reducing incentives to those who wish to postpone their retirement.

- **Working Paper 5/2018. Introducing uncertainty on fertility and survival in the Spanish Population Projections: a Monte Carlo approach, written by A. Osés-Arranz and E. Quilis** and published on 4 October.

This working paper presents a methodology for generating stochastic population projections, combining the cohort component method with the Monte Carlo simulation of the fertility rate (by age) and the probability of survival (by age and gender). It also includes a procedure for conditioning the stochastic projections to a long-term benchmark, using information from a panel of European countries that share the main drivers of the fertility and survival dynamic with Spain.

- **Working Paper 6/2018. Predicting Spanish Emigration and Immigration, written by J. Fernández-Huertas Moraga and G. López Molina** y published on 4 October.

The growing availability of bilateral data on international migration has resulted in a better understanding of the determinants of the migratory flows through gravity estimation modelling. This article estimates simple gravity models of bilateral migratory flows for all the

world and projects these models into the future. The results demonstrate that the forecasts depend more on the extension of the benchmark data as a whole used for estimating the model than the particular functional form and the variables selected for the prediction.

In addition, AIReF also published a special document:

- **Special Document 2018/1: Demographic forecasts: an integrated approach (04/10/2018)**, published on 4 October 2018.

AIReF has encountered difficulties with the methodology used for projecting demographic forecasts that may lead to erroneous conclusions on the long-term sustainability of public expenditure. For this reason, AIReF has developed its own projections from a combination of internal modelling and external development of the migratory element. AIReF positions itself among the few institutions in its sphere that perform their own demographic estimates.

Other publications

AIReF regularly publishes information relating to the sustainability of public expenditure, as shown in this chapter. AIReF's general approach is to offer the widest dissemination of the methods and principles used in the framework of its mandate. In this way, AIReF's website is an essential tool within the transparency and information disclosure policy. The website is not only a channel for publishing reports, but also has various sections for disseminating other information of interest for both experts in public finances as well as the general public:

- **AIReF DataLab.** Set of interactive platforms that allow data on the main economic and sustainability indicators of the Regions to be viewed.
- **Local Government (LG) Monitor** This tool was created for the first time in 2018 to collect relevant economic-financial data on the Local Governments for analysing the sustainability situation, updated on a regular basis.
- **Government Debt Monitor.** Published on a quarterly basis, this focuses on a series of key indicators for analysing the sustainability of public finances, for the different sub-sectors of the Public Administrations.
- **Real-time GDP forecasts.** Forecast of quarterly GDP growth for both the current quarter and the following quarter. This forecast is based on a combination of short-term information, issued at different frequencies (quarterly and monthly), using a dynamic factor model.
- **Integrated forecasts of the macroeconomic outlook.** Both for the current quarter and for the next quarter, it reflects the estimated GDP growth at the same time as the growth of its components from the demand side: private consumption, public consumption, investment in equipment, investment in construction, exports and imports of goods and services. The

scenario is completed with expenditure forecasts.

- **Economy thermometer.** Synthetic assessment of the cumulative direction of the surprises recorded by the GDP forecast model in real time.
- **Regional Quarterly GDP Estimate** This reflects the quarterly GDP estimate for the Regions through the methodology called METCAP (Methodology of Quarterly GDP Estimation byRegion), which combines three types of statistical information available for regional analysis: monthly data for disaggregated short-term indicators of territorial scope; the annual data compiled in national accounting terms by Regional Accounts; and, finally, the estimates for the nation as a whole published by the Quarterly National Accounts.
- **Quarterly budgetary stability target monitoring.** Since March 2017, AIReF began publishing its monthly assessment of the probability of compliance with the stability target by the PAs. In the monitoring files, the probability of compliance with the deficit targets and the revenue and expenditure trends is assessed and seasonality and volatility are considered, once the National Accounts data of each of the sub-sectors is known. The assessment includes the monitoring of the main tax figures in cash terms that reflects the evolution of PIT before transfer to the Territorial Administrations, CIT, VAT before transfer, Special Taxes before transfer and contributions to the Social Security System. In the regional sphere a roadmap is presented with the individual assessment of the probability of compliance with the stability target by Region and, as a new feature, in the 2018 publications the assessment of the risk of non-compliance with the expenditure rule for the sub-sector and by Regions.
- **Simulators.** This section provides the public with a series of simulation instruments and tools that have been developed as a complement to the reports, opinions and technical documents published regularly by AIReF. In this section, engaging with the user is encouraged through the analysis of practical cases, allowing them to design scenarios with personalised assumptions and dynamics.
- **Economic Focus.** This section of AIReF's website presents the results of the Institution's research in a direct, accessible and rigorous way. It includes work of irregular frequency, educational in nature and graphic support, with the objective of responding to specific questions of current relevance for debates on budgetary stability and financial sustainability.

2. Monitoring of reports and opinions

The administrations that receive AIReF's recommendations are subject to the principle of "comply or explain". In the performance of its functions, AIReF may make recommendations to the administrations that receive its reports, which are obliged to follow the recommendations or explain the reasons for deviation therefrom. The "comply or explain" principle is the key tool available to AIReF to fulfil its remit.

Through the application of this principle, AIReF has consolidated a constructive and transparent dialogue with the administrations receiving the recommendations. With the approval of its Resolution 14/2015²⁴, AIReF established communication channels with the competent PAs to follow-up on the recommendations made in its reports. Thus, when an administration expresses its intent not comply with the recommendations, it provides explanations on the reasons for its deviation and, in turn, AIReF expresses its opinion on whether or not there are clear grounds for these reasons. In 2018 AIReF continued with the quarterly publication of the monitoring of recommendations on its website. All this dialogue is contributing to enriching and providing transparency to the fiscal debate between the PAs.

In 2018 there is a generalised commitment from the PAs to applying the "comply or explain" principle. In general, the PAs have responded to AIReF's requirement by stating their intention to comply with the recommendations made or explaining the reasons for deviation from the same. Only in exceptional cases, some city councils (La Línea de la Concepción, Totana, Ayamonte and Almonte) and the Region of Valencia did not respond to some of the communications sent by AIReF.

Following the recommendations of the OCDE, AIReF has tried to be more selective and systematic when issuing its recommendations, differentiating new ones from those being reiterated. When applying the recommendations made by the OECD in the independent evaluation

24 [Resolution 14/2015 Calendar for request and receipt of information for issuing reports and following up on the recommendations for 2015](#), 13 March.

of AIReF's activity undertaken in 2017, AIReF has been more selective in the recommendations made, slightly lowering their number, from 95 in 2017 to 76 in 2018. In addition, with the aim of better systematising the recommendations and facilitating their monitoring, AIReF has differentiated between the categories of *new recommendations* that are made for the first time and *reiterated recommendations*, already made in previous reports and that the administration responsible for implementing them has not followed.

Table 4. **AIReF's recommendations and guidelines, according to report issued (2018)**

Reports	New recommendations	Reiterated recommendations	Suggestions for best practice	Total
Report on the macroeconomic forecasts of the budgets of the Autonomous Regions for 2018	1	–	3	4
Report on the Macroeconomic Forecasts of the Draft GSB for 2018	–	2	–	2
Report on the draft budgets of the PAs: Draft GSB for 2018	2	6	–	8
Report on the initial budgets of the Autonomous Regions for 2018	8	3	–	11
Report on the initial budgets of the PAs: L Gs 2018	10	3	–	13
Report on the Stability Programme Update of the Kingdom of Spain 2018-2021	2	2	2	6
Reports on the 2018-2019 Economic Financial Plans of the Autonomous Regions	6	2	–	8
Supplementary reports on expected compliance with the 2018 budgetary stability target, government debt target and expenditure rule of the PAs.	11	4	1	16
Report on the main budgetary lines of the PAs 2019: Budgetary Plan 2019	4	–	–	4
Report on the main budgetary lines for 2019 of the Autonomous Regions	3	–	–	3
Report on the Macroeconomic Forecasts of the 2019 budgets of the Autonomous Regions	1	1	7	9
Total	48	23	13	84

In addition, as of the third quarter of 2018, progress was made in the systematisation of the recommendations, creating a new category of *live recommendations*. AIReF understands the need to keep specific recommendations open despite some Administrations responsible for implementing them explaining the reasons for their deviation. AIReF considers that the recommendations included in this category are relevant to achieving the efficiency of the fiscal rules and a robust fiscal framework, which, in their opinion, is not guaranteed by the system and normal practice. To this end, it has created a new category of *live recommendations*, so that they remain in force and are published under this heading in the section on recommendations on AIReF's website.

In accordance with this classification, in the reports issued in 2018 AIReF made 71 recommendations, out of which 48 were new and 23 reiterated, to which it must be added that 19 were live recommendations at the end of the year. The new recommendations were mainly directed at requesting the performance of specific actions to allow compliance with the fiscal rules at year-end. The reiterated recommendations urged, on the one hand, the adoption of actions for compliance at year-end and, on the other for improving the current fiscal framework. It is worth noting the fact that the number of reiterated recommendations have been reducing throughout 2018 due to the creation of the live recommendation category in the third quarter²⁵. This category only includes recommendations directed at the MINHAC whose ultimate objective is to make changes to the fiscal framework or in its application.

Table 5. **AIReF's recommendations and guidelines, according to content (2018)**

Topics	New recommendations	Reiterated recommendations	Suggestions for best practice	Total
Budgetary stability	12	3	–	15
Financial sustainability	1	–	–	1
Expenditure rule	13	3	–	16
Medium-term focus	8	4	–	12
Application of the LOEPySF	11	3	–	14
Transparency	3	10	13	26
Total	48	23	13	84

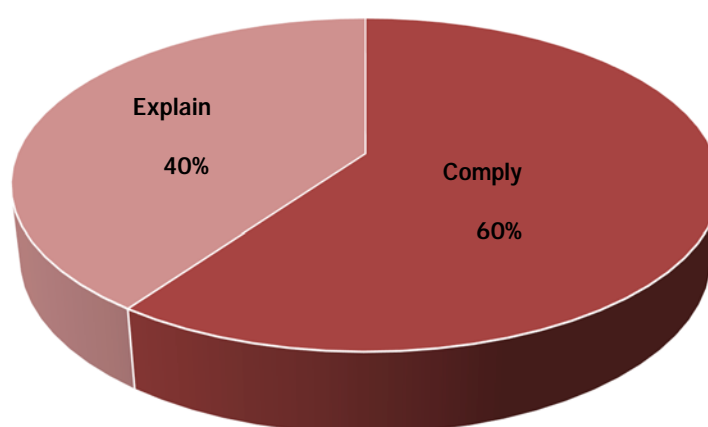
²⁵ In the second quarter of 2018 the number of reiterated recommendations increased to 19, dropping to 4 in the second quarter and 1 in the fourth quarter.

Table 6. **AIREF's recommendations and guidelines, according to body responsible for its application (2018)**²⁶

Topics	New recommendations	Reiterated recommendations	Suggestions for best practice	Total
MINHAC	21	14	3	38
Ministry of Economy and Business	1	2	–	3
MINHAFP and Ministry of Employment and Social Security	2	2	–	4
To one or several Regions	33	8	18	59
To one or several LGs	39	1	–	40
Total	96	27	21	144

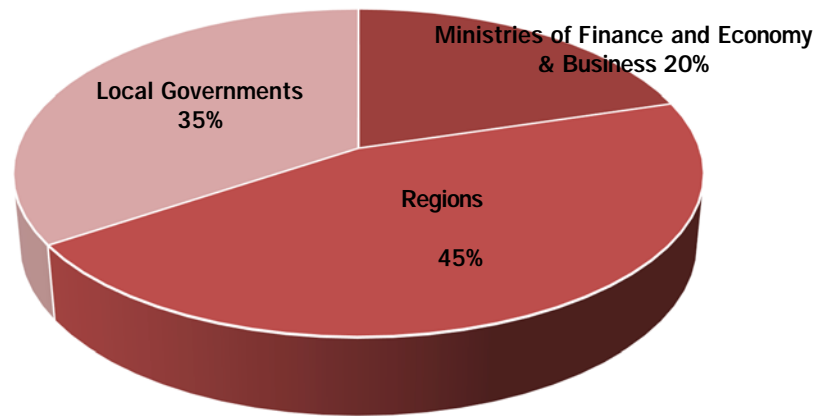
The administrations have complied or have committed to comply with 60% of the recommendations in 2018, with this compliance representing 80% of the cases in the Territorial Administrations. The administrations responsible for implementing the recommendations have favoured compliance in 60% of the cases. Within this compliance percentage, in 80% the favourable responses came from the Regions and LGs. Conversely, MINHAC has deviated from complying with the recommendations in 72% of the cases.

Graph 1. **Recommendations 2018: commitment to comply or complied/explained**

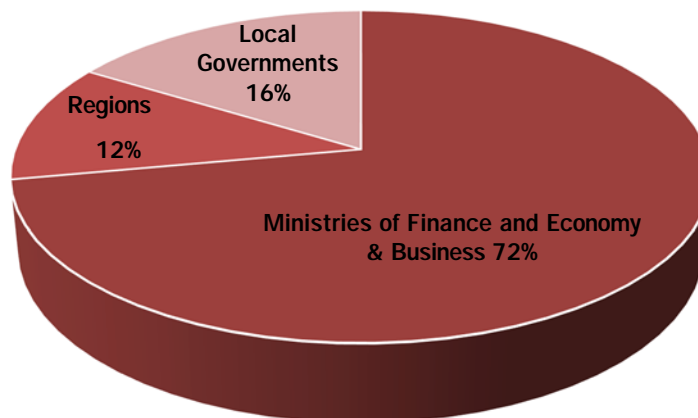


26 Cada recomendación y orientación de buenas prácticas puede ir dirigida a más de una Administración.

Graph 2. **Recommendations 2018: commitment to comply or complied/explained**



Graph 3. **Recommendations 2018: explained**



In 2018, AIReF's recommendations were mainly directed at improving the fiscal framework and, to the lesser extent, compliance with the fiscal rules. The majority of the recommendations aimed at improving the fiscal framework were reiterated recommendations, given that, since they are aspects considered to be key by AIReF, the Institution has promoted its improvement in successive reports with the objective of eventually achieving compliance. Thereafter, many of these reiterated recommendations have become live recommendations. Furthermore, recommendations have been made aimed at compliance with fiscal rules, the recipients being the Central Administration, Regions and LGs alike, considered on an individual basis.

Recommendations aimed at improving the fiscal framework have focussed on four main aspects: foster a medium-term focus; improve the setting and application of fiscal rules; promote the enforcement of the fiscal rules through applying the corrective measures of the LOEPySF; increase transparency:

- **Foster a medium-term focus.** Within the medium-perspective on which AIReF believes fiscal policy should be focused, recommendations have been aimed at promoting accurate medium-term planning, making the planning more realistic and credible. In view of this, the following was recommended: greater specification of the measures contained in the Stability Programme Update (SPU); promote the implementation of a medium-term fiscal budgetary framework with the highest possible consensus and participation of all agents involved; and that, when presenting the SPU for 2019-2022, accurate medium-term planning is carried out, based on a credible debt reduction path. With the same medium-term perspective, it was recommended to establish a realistic target setting path in the EFP in order to be effective. In parallel, recommendations were made to the City Councils for which a medium-term critical, high or moderate sustainability risk was identified. Lastly, the recommendation to extend the transitional debt period to define a benchmark forecast that is credible and enforceable for the sustained reduction of the debt-to-GDP ratio was reiterated.

In general, MINHAC has deviated from the recommendations, contesting that they are superfluous because the SPU's budgetary framework process covers all the agents involved, that the city councils with critical sustainability risks have an adjustment plan and that the SPU complies with the requirements set by European regulation; it also contested that they entailed actions not provided for in the LOEPySF, which does not envisage setting a different target path for the EFPs. MINHAC has only committed to making an effort to implement the measures contained in the SPU and to analyse the possibility of extending the transitional debt period (which eventually did not happen). For their part, the majority of the city councils with a high and moderate medium-term sustainability risk have reported specific measures adopted or their commitment to adopt them.

AIReF believes that it is essential to have a real medium-term budgetary framework in which the yearly budgets are framed, the budgetary forecasts of the different PAs and their correlation with National Accounts are identified and that, given the GG's debt, considers debt reduction as essential.

- **Improving the establishment and application of fiscal rules.** A significant number of the recommendations made by AIReF in 2018 were aimed at improving the establishment and application of the stability target, the debt target and the expenditure rule, in order to make fiscal rules more consistent, transparent and suitable for achieving budgetary stability and financial sustainability, as well as for solving the problems detected at the time of their application in practice. In particular, the following recommendations were noteworthy:
 - Regarding the stability targets, it was recommended that the setting of these targets by sub-sectors should consider the fiscal situation of each of them, which will facilitate their

monitoring and enforceability, providing greater credibility to the fiscal framework in force. With respect to the Regions, it was recommended that the setting of individual targets should consider the expenditure rule.

- With respect to debt targets, the recommendation for recalculating the debt targets of the Regions was reiterated, not taking into account the theoretical stability target, rather the Region's real net lending or borrowing at year-end, when this is considered to be less than the target, with the overall aim that a more realistic and effective government debt target for the Regions is not renounced at the service of the principle of financial sustainability.
- With respect to the expenditure rule, for the assessment of specific key elements for its calculation, it was recommended: to update the calculation guidelines for the regional expenditure rule; complete the information of the monthly and yearly reports on compliance with the rule; disclose the methodology that is going to be followed to measure the expenditure rule in advance; and publish the month-on-month series or, at least year-on-year series, of computable expenditure adapted to the current calculation criteria.

In response to these recommendations, the MINHAC admitted that there was a need to improve target setting so that they were more coherent with the fiscal situation and the competence attributed to each sub-sector. Furthermore, it shares the need to review specific elements of the rules in force and the LOEPySF, but recognise the great difficulties involved in undertaking a reform that requires broad consensus. At the regional level, the MINHAC agree to comply with some of the recommendations made on the expenditure rule, but deviated from those related to the stability and government debt targets. In particular, it has already complied with the recommendation on completing the information on the annual reports on compliance with the expenditure rule. However, it considers that the stability targets must be symmetrical and not consider the expenditure rule, because legally this is only required at sub-sector level, and continues to defend the elements of the current system in which the debt targets are formulated in maximum terms.

AIReF reiterates the need to ensure internal coherence in the system of fiscal rules to ensure its effectiveness and the desirability to perform a full approximation when analysing the fiscal discipline framework.

- **Promote the enforcement of the fiscal rules through the application of the corrective measures of the LOEPySF.** The activation of the corrective measures of the LOEPySF and their standard application nationwide is, in AIReF's opinion, a key aspect for guaranteeing the effectiveness of the fiscal rules. To this end, various recommendations have been made aimed at specific city councils and their corresponding guardianship bodies for approving the EFPs and, where appropriate, applying the graduality provided for in the LOEPySF for reiterated non-compliance of the EFP. Furthermore, AIReF recommended to the MINHAC to promote a regulatory change to specify the content and the extension of the financial guardianship competences of the LGs, as well as the procedures provided for in cases in which their powers are not exercised according to regulations.

Based on the formulation of the recommendations aimed at obtaining approval of the EFPs and the graduality for non-compliance of the EFP, some discrepancies in the interpretation have been identified with regard to the compliance with the fiscal rules of the local corporations with an EFP in force. With respect to these recommendations, AIReF has requested MINHAC to formally clarify the binding nature of the limits established by the EFPs in force of the LGs for each fiscal rule, that, to date, has not been done.

The MINHAC has explained that it does not consider it unnecessary to establish a common framework for financial guardianship powers of the LGs, since, although it recognises the difference in the financial guardianship regulations, it indicates that the corrective measures deployed by the LOEPSF are already defined, in addition to the annual meeting of financial guardianship bodies to clarify and standardise criteria.

AIReF considers that this regulatory and legal disparity does not contribute to an adequate and standardised application of these financial guardianship powers and that there are shortcomings that need to be resolved.

- **Increase transparency.** AIReF reiterated numerous recommendations with the aim of providing greater transparency to the implementation of fiscal policy:
 - First, provide more information in the SPU (budgetary projections for the G G; government debt target and information on the expenditure rule by sub-sector and more information on contingent risks) and in the GSB (corporations included in the Central Administration sub-sector in terms of the ESA (European System of Accounts) 2010²⁷; specific information on the debt target and expenditure rule of the CA and the information necessary to calculate the Pension Revaluation Index).
 - Second, it was reiterated to the Spanish Ministry of Economy and Business (hereinafter, MINECO) that it should adopt and publish the measures necessary to correct significant biases identified in the autumn forecasts for public consumption, and that the macroeconomic outlook is accompanied by an inertial or *no-policy-change* scenario and a separate quantification of the economic impact of these measures.
 - Lastly, some specific recommendations were made in the context of the Territorial Administrations. At the local level, it was recommended to the MINHAC that the data it publishes should reflect the latest situation in the economic financial data of the LGs, including data recorded after the end of the year. In the regional context, it was recommended that some Regions include information on the expenditure rule in their budgets and that others should publish the models and parameters used in their macroeconomic forecasts, in accordance with that set forth in Directive 2011/85/EU²⁸.

27 European System of National and Regional Accounts of the European Union. See [Regulation \(EU\) 549/2013](#) of the European Parliament and Council of 21 May 2013 relating to the European System of National and Regional Accounts of the European Union.

28 See [Directive 2011/85/EU](#) of the Council of 8 November 2011 on the requirements applicable to the budgetary framework of the member States.

The MINHAC deviated from the foregoing recommendations, mainly claiming that the information available was already sufficient and, in the case of the Pension Revaluation Index (PRI), that the information is sensitive. It only committed to analysing the possibility of including information about debt targets. Conversely, the MINECO indicated that it is working on the review of the models used. The Regions generally committed to include information on the expenditure rule and publish the foundations of their macroeconomic forecasts.

AIReF does not share the explanations given by the MINHAC and insists on the need to provide the relevant elements to carry out the legally required analysis and improve the transparency of the implementation of the fiscal framework.

Likewise, in 2018 AIReF made several recommendations geared towards compliance with the fiscal rules at year-end, aimed at the CA and the Regions and LGs individually. In particular, in regard to the CA, AIReF asked the MINHAC to coordinate a transparent procedure for controlling the monthly execution to monitor possible deviations in the budgetary forecasts and, in particular, the revenue from tax. In the case of the Regions, the recommendations centred on preventing deviation from the expenditure rule, requesting the design of immediate correction mechanisms and, only occasionally are recommendations made for controlling the deficit. Lastly, the recommendations for the LGs consisted in the adoption of measures to comply with the fiscal rules at year-end. Whilst the MINHAC explained that it considers it unnecessary to implement the requested mechanisms, the Territorial Administrations have generally been in favour of following these recommendations. However, it was observed that the Regions deviated from following the recommendations when it comes to controlling the deficit, and that some LGs deviated as they did not recognise that there was a risk of non-compliance.

The effectiveness of most of the recommendations undertaken by the PAs will be verified in 2019. In the case of recommendations to comply with the fiscal rules at year-end, their effectiveness will be seen in 2019 with the publication of the compliance data for the previous year. However, in the case of recommendations aimed at the MINHAC with respect to the fiscal framework, in general, the same could be verified throughout 2019, as is the particular case of those relative to the SPU or the GSB, in relation to which verification of compliance will be carried out when the respective documents are submitted.

In addition to the recommendations, in 2018 AIReF made seven Suggestions for best practice, that are not subject to the “comply or explain” principle. In 2018 AIReF proposed the use of best practice in the fiscal policy context, all related to improving transparency. In particular, it recommended that the Regions specify the models and parameters used in the macroeconomic forecasts of their budgets; and that the MINHAC publish more detailed information on the contingent liabilities that may affect public accounts and integrate the key elements of the forecasts into a simplified framework of National Accounts, so that the relationship between economic activity, demand and employment, on the one side, and the revenue flows and financing needs, on the other, may be understood.

3. Institutional activity

3.1. Institutional relations

In 2018, AIReF continued its intense institutional activity both nationally and internationally. In accordance with Organic Law 6/2013 and the 2018 Action Plan, AIReF's President appeared before the Congress of Deputies on several occasions. In the international arena, AIReF's President, in his capacity as Chairman of the EU Network of Independent Fiscal Institutions (IFI), continued to promote the network's activity and, in particular, its leading role in the debates on the future of the EU's fiscal governance framework.

In 2018 AIReF's President appeared before Congress and the Senate on seven occasions, thus increasing appearances compared to previous years. The AIReF's President appeared before the Budget Commission of the Congress of Deputies and before the Budget Commission of the Senate, the Finance Commission of Congress, the Toledo Pact Commission of Congress, the Regional Commission for Assessment and Modernisation of the State of Congress and the Special Commission of the Senate for Demographic Evolution on two occasions. In this way article 24 of the Organic Law establishing AIReF, indicating that the President must appear, at least once a year, before the competent committee of the Congress and Senate, was complied with in 2018.

In his appearance before the Budget Commission of Congress on 17 April, AIReF's President presented conclusions on the Report on the Macroeconomic Forecasts of the Draft General State Budget for 2018, endorsed by AIReF, as well as the Report on the Draft General State Budgets for 2018. In his appearance the President considered the likelihood of complying with the deficit target of 2.2% to be feasible but difficult to achieve for the GG in 2018. On October 17, AIReF's President appeared once more before the Congress' Committee on Budgets, in this case to analyse the Draft GSB for 2019. In his presentation, he made reference to the changes made to the study on the inertial scenario published in July at the request of the incoming Government in October, to analyse, from this starting point, the measures contained in the Draft State Budget for 2019 and assess the probability of compliance, considering it compliance with the target of -2.2% and -1.3% GDP in 2018 and 2019 respectively to be unlikely, after including

all the new information available in the analysis. In his presentation, he underscored how once again the main deviations were centred in the CA and SSF sub-sector. On 9 May, AIReF's President appeared before the Finance Commission of Congress, complying with his commitment to accountability for presenting the Report on AIReF's activity in 2017. Likewise, he appeared for a second time before the Toledo Pact Commission. In his closed-door appearance on 14 November, AIReF's President presented the main conclusions of the report on demographic forecasts developed by AIReF before the Toledo Pact Commission.

For the first time, AIReF's President appeared before the Regional Commission for the Assessment and Modernisation of the State of the Congress and the Special Commission for Demographic Evolution in Spain. On 28 February, AIReF's President appeared, for the first time, before the Regional Commission for the Assessment and Modernisation of the State of the Congress of Deputies in which he analysed the decentralisation model in Spain, paying special attention to the regional system. He underscored that to be able to take advantage of potential economic efficiency gains from this decentralised model, a sophisticated regulation framework of high institutional quality is required. In his appearance he highlighted three key points to take into account when reviewing the current framework, always taking a comprehensive approach: an accurate and detailed competence framework, decision-making processes that align incentives with cooperation, consensus and joint responsibility that complements self-governance with the shared government, a disciplined budgetary fiscal rule framework and an adequate design of the financing systems. Thereafter, on 17 December he appeared before the Special Commission of the Senate for Demographic Evolution in Spain to analyse the demographic challenges we are facing, and in which he underscored two principles: the ageing of the population, and the subsequent risk of *Japanisation* of the Spanish economy, and the ever-increasing trend of territorial distribution towards agglomerations in specific areas and depopulation in others. In his appearance, he highlighted the need to foster policies that favour the birth rate and immigration as key instruments to face the aforementioned challenges.

AIReF held numerous meetings with representatives from several Public Administrations and participated in forums for analysing the macroeconomic and fiscal situation of the different sub-sectors. Both the President and AIReF's staff held numerous meetings on a technical and management level with different departments of the Central State Administration. In turn, AIReF's President appeared before the Employment Commission of the Social and Economic Council in which he examined the National Accounts with special attention paid to the Social Security situation. He made bilateral contact with all the Regions, as well as holding in-person meetings with the Executives of Cantabria and Aragon, and several City Councils such as Madrid and Aranjuez. AIReF held the second meeting of the Regional working group on the macroeconomic outlook. In addition, throughout the year meetings were held and continuous contact was made with all the Regions as a result of the development of the *Spending Review*, as well as various meetings with experts. Furthermore, the President was a guest speaker at the Colegio General de Economistas (General Society of Economists) of Asturias and at Seminars on public finances held in the Canary Islands by the Association for Progress in Management, at which the macroeconomic and fiscal situation were analysed as well as the challenges facing the Spanish economy on different time horizons, performing a specific analysis on the situation

in Asturias and the Canary Islands, respectively. He also attended the General Council of Economists to inaugurate the 5th Seminar on Auditing in the Public Sector during which an in-depth analysis of the situation of the LGs was carried out. With regard to AIReF's technical staff, numerous meetings were held with different public agencies, which notably included the National Statistics Institute (INE), State Administration Agency (AEAT) and the Ministries for Economy and Business and Finance, amongst others.

AIReF also continued to attend meetings with academics and participate in specialised courses and forums for researchers and journalists at the national level. AIReF's President attended a conference jointly organised by the Bank of Spain and the International Monetary Fund to analyse the weaknesses of the current fiscal framework and outline the need to strengthen it through comprehensive reform. Thereafter there were various forums in which the challenges facing the Spanish economy were analysed, such as the 33rd Alicante Seminar on Spanish Economy and the Cercle d'Economia of Barcelona at which a series of conferences were held on the occasion of 10 years after the fall of Lehman Brothers. He attended ESADE twice to participate in the Risks Club, where the capacity of the European economy to face a new downward cycle was debated, and the Seminars on the future of the Monetary and Economic Union, in which he was asked to present a session on fiscal union. Lastly, the President was invited by the Association for Economic Information Journalists (APIE) to the Menéndez Pelayo International University in Santander to participate in a series of seminars on "The economy and blockchain What does the future hold". In particular, his presentation focused on the need to promote collective intelligence and on how AIReF, through various instruments such as the tools used to simulate and analyse the LGs, contributes to this mission. In his presentation he underscored the need to move towards a culture of designing evidence-based public policies and the need to be supported at all times by data analysis. In addition, AIReF staff were guest speakers and participated in several forums dedicated to fiscal and macroeconomic analysis, regional analysis and other areas related to AIReF's work, both in Spain (Madrid, Barcelona, Valencia, etc.) and abroad (Washington, Brussels, Frankfurt, Luxembourg, Dublin, Vilnius, etc). Lastly, AIReF itself organised various academic activities, most notably a Seminar on Fiscal Risks.

In 2018, AIReF consolidated its international activity on an individual level and as a member of the EU's IFIs network. In its own right, AIReF participated in and organised international seminars and conferences in the fiscal field. The President participated in the International Conference for Economic Policy Committees (EPC) organised by the Dutch EPC in The Hague, which once again was attended by the Presidents and Members of the German Council of Economic Experts and the French Conseil d'Analyse Économique (Economic Analysis Council), amongst others. Two seminars were organised with an international outlook; one on fiscal rule reform in which members from the IMF participated; and others on fiscal risks in which not only the IMF participated but also representatives from European Stability Mechanism (ESM), European Central Bank (ECB), the EU, and the EPC were present. AIReF participated in other international forums such as the conference organised jointly by the Bank of Spain and the IMF on challenges facing the Spanish economy, and the seminar on the sustainability of government debt organised by the ESM. AIReF has maintained regular technical collaborative activities with

other IFIs, notably those with the Irish IFI (IFAC) and the Congress Budget Office (CBO) of the United States. In addition, in April the results from the independent evaluation of AIREF by the OECD were officially presented by the OECD itself, which featured the Bank of Spain's assessment and that of the President of the IFI of the United Kingdom (Office for Budget Responsibility, OBR). Regarding the draft *Spending Review*, international contacts were made with the European Accounts Tribunal and with representatives from the European Commission.

At the level of the EU IFI network (EU IFIs), José Luis Escrivá completed his third year as Chair of the network after his office being renewed in November 2017. Giuseppe Pisauro from the Italian Parliamentary Office (UPB) holds office as Vice Chair. During 2018 he was also supported by a full-time Secretariat set up at the end of 2017. The year 2018 has been particularly relevant for the EU IFI network. First because substantial progress has been made with the different internal lines of work, publishing and disseminating documents and reports that contribute to the analysis and transparency of the fiscal situation and policy in the EU. In particular, in 2018 the EU IFI network published two reports, two rounds of the so-called *European Fiscal Monitor*, organised two technical seminars in addition to its normal activities of holding regular internal technical meetings and contacts with the networks of the European Commission and the OECD. Second, they have maintained constructive dialogues with Community institutions in all matters involving fiscal supervision that affect the IFIs, including considerations on fiscal governance in the EU. The EU IFI network is a very useful forum of cooperation and learning among its Members, and also provides mutual support faced with uncertain situations. In 2018, at the request of the Danish IFI, the network relayed the unilateral decision of the government to relocate to outside the capital and its possible negative impact on its operational capacity and functional autonomy. As a result of this successful activity, the network increased its Members, with three new incorporations in 2018. The number has risen to 30 institutions covering 26 countries in the EU. Poland is the only one without this type of institution and Belgium that, although it has the support of a plurality of national institutions, has decided not to become a member of the voluntary network.

BOX 9. ACTIVITY OF THE EUROPEAN UNION NETWORK OF INDEPENDENT FISCAL INSTITUTIONS (EU IFIs) IN 2018

- **Report on medium-term budgetary frameworks:** published in June and presented at the Conference organised by the European Commission on the Review of the Directive on National Budgetary Frameworks. The report provides evidence on the constant review of medium-term fiscal targets and identifies a range of best practices that may help to improve their efficiency. With the aim of disseminating the opinion of the IFIs to a wider audience, it was agreed to make a statement with the main conclusions supporting their reinforcement and the role of the IFIs.
- **Report on the methodologies for estimating the output gap:** published in December. "A practitioner's guide to potential output and output gap" provides an extensive review of the literature on estimation methodologies. With this report the first phase of the project of the working group created in the EU IFI network has been completed. In 2019, an analysis of the quality of the

estimates and implications for fiscal policy will be conducted. The EU IFI network considered this to be a key work area since the fiscal monitoring of the EU is based on these types of indicators.

- **European Fiscal Monitor:** has become a flagship initiative in the EU IFI network. The two editions per year concisely describe the view of the IFIs on the fiscal situation and compliance with rules in their respective countries. In addition, the permanent Secretariat, in cooperation with the Centre for Applied Macro-Finance at York University, produce a panoramic view of the IFIs. In 2018 fiscal targets were less ambitious despite the favourable cyclic conditions. They also conducted an analysis on the endorsement or production of the macroeconomic forecasts by the IFIs .
- **Micro-simulation and now-casting techniques** were analysed in two seminars with contributions from Members of the EU IFI network and independent experts. AIReF participated in both seminars. Guest speakers included the Commission's Joint Research Centre with a seminar on micro-simulation and York University and Now-Casting Economics with a seminar on now-casting.
- **Meetings:** three internal meetings were held at the network level during the months of May (Rome), July (Seoul) and November (Bratislava) and one with the Committee for European Affairs in January (Brussels). Externally, the EU IFI network participated in the 8th and 9th meeting of the EU IFI network with the DirectorateGeneral for Economic and Financial Affairs (DG ECFIN), at their annual meeting with the alternate members of the Economic and Finance Committee (EFC) and 10th meeting of the Parliamentary Budget Offices and IFIs, organised by the OECD in Seoul (July). The Chair of the EU IFI network maintained contact with the European Fiscal Board and the Chairman of the Economic and Finance Committee.
- **Dialogue with Community Institutions:** as well as participating in the said DGECFIN conferences and meetings, of note are the exchanges on the future of the fiscal governance framework of the EU and the role of the IFIs in the same. As a result of these considerations, in February the EU IFI network published a statement of their position on the Commission's proposal for a directive to reinforce fiscal responsibility and a medium-term approach in the Member States. The EU IFI network welcomed the proposals made by the Commission for reinforcing the IFIs on an institutional basis and offers its collaboration to move this initiative forward. Despite notable progress, the IFIs remain vulnerable institutions requiring adequate protection to maintain their independence and functional autonomy. They also support the functional reinforcement of the IFIs and greater attention paid to sustainability and the medium term.

3.2. Communication Activities

Communication is a key element of AIReF's strategy, since it is one of the main channels through which its reports, recommendations and assessments make a real impact in its central function of defending the financial sustainability of the Public Administrations and budgetary stability. The need to define and develop a balanced strategy has become increasingly relevant, due to the Institution's increased visibility and reputation, based on its independence, transparency and commitment to accountability.

While in the first phase the focus was to raise awareness of AIReF among a more specialised audience, over time, the scope of its activities has increased and, in turn, to meet this need to reach a wider audience it has progressively increased its use of new digital tools that has involved improving its website, greater presence on social networks, distribution of newsletters as well as preparing more friendly versions of content adapted to these digital mediums.

This expansion of channels and content has been combined with an intensification of informative meetings with all types of audiences, as described in the previous section, in particular with the media, key channels for AIReF's work to reach public opinion.

On the same lines, it is also worth noting the segmentation and regionalisation of information distribution, with direct sending of information to local media and attention to their information needs, as well as with the organisation of *streaming* sessions via webcast in certain situations that have proved highly recommendable.

As a result of this comprehensive vision of the communication strategy, AIReF in 2018 continued to consolidate its position as leader in matters involving sustainability and preventive control of public finances. The Authority has positioned itself as a key institution and necessary reference point when addressing the issues of financial sustainability and the stability of the country's public finances. Special attention is paid to AIReF's assessments in the context of the evolution of the national economy by other public agencies, private entities and the media. They are also particularly relevant when they affect the economy of the Regions and Local Governments. Unlike other agencies monitoring public activity, the work conducted by AIReF is *ex ante* and therefore is pre-emptive in nature, and for this reason it is important that its work is communicated in a balanced way to the widest possible audience. Likewise, the work commissioned to AIReF in areas such as the *Spending Review* has made it more relevant among the public.

The main aim of AIReF's communication strategy is the dissemination of the reports that the institution must prepare in accordance with its regulations, as well as the recommendations issued with these reports, which are governed by the principle of "comply or explain" Likewise, it seeks wider dissemination for the opinions given by the Institution and the studies requested by the Government, the Fiscal and Financial Policy Council, the National Commission of the Local Administrations and the Financial Commission for Social Security.

In addition, it is worth noting AIReF's effort towards increasing its public presence and disseminating the new work produced by its technical team both in the media as well as other target public audiences such as academics and reference institutions in the economic arena. In 2018, for example, it is worth noting the dissemination of the demographic forecasts produced by AIReF for the first time, which made them one of the few institutions of this genre that make their own demographic forecasts, as the Budget Office of the Congress of the United States does.

Furthermore, AIReF has its own macroeconomic measurement and monitoring tools to analyse financial sustainability and budgetary stability. By disclosing the use of these types of tools, based on transparency principles, AIReF has become a point of reference and consultation for both academia and the media.

In 2018 AIReF has also made a concerted effort to promote the Independent Fiscal Institutions network of the European Union, chaired by José Luis Escrivá, and the international seminars and conferences in which AIReF has participated over these last few months, thus increasing its influence on an international level.

For optimal dissemination of all this content, in 2018 AIReF used different channels to achieve maximum dissemination, such as meetings or briefings with the media and the issuance of press releases and briefing notes, individual meetings with journalists and opinion leaders, publication of all the news on the website, sending the news by email to different institutions and interest groups and the use of social networks.

Overall, in 2018 it published 92 news articles on its website, down 9% compared to 2017. This was due to some high-impact publications scheduled in 2018 that had to be postponed to 2019. Apart from news items, it has published content directly related to AIReF's activity, such as Reports, Opinions, Working Papers or documents that reflect the operation of the institution and fulfil AIReF's interest in providing maximum transparency to its activity.

AIReF's presence in the Media also continued to increase in 2018. The data, analyses and opinions disseminated by AIReF were a key reference when addressing the issues of budgetary stability and sustainability of public finances in the media and in academia. The qualitative analysis shows that in 2018 a very smooth relationship with the media was consolidated, based on bi-directional communication. The media responded with wide coverage of the institution's publications, whilst also requesting more information. In quantitative terms, this is reflected in 6,031 hits in 2018 in the written press and 14,939 in on-line press. The statistics are slightly lower to those of 2017, which can be explained, as mentioned above, by the fact that in 2018 several high-impact information pieces were not published that would have increased its media presence, such as the Opinion on Sustainability of the Pension System, the *Spending Review* or the assessment of the General State Budget (not presented in Congress until January 2019).

During 2018, the coverage of the Institution provided by the audiovisual media was expanded. It is becoming more and more frequent that Spanish television channels such as RTVE, Antena 3, La Sexta, Cuatro, Tele Cinco, and Spanish radio stations such as Cadena Ser, Onda Cero, Cope and others include coverage of AIReF's reports and publications.

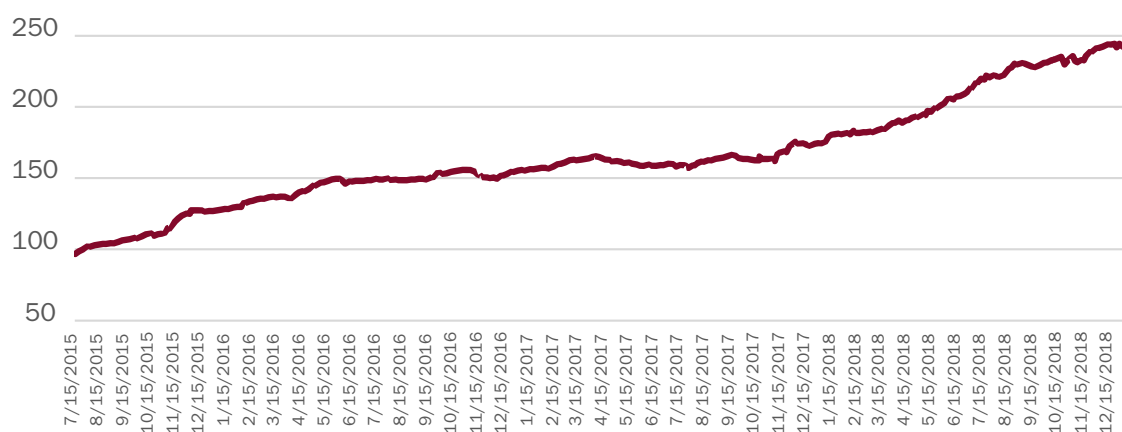
AIReF's website continues to be the main reference in the communication strategy. Data from Google Analytics shows an outstanding growth in the main Key Performance Indicators (KPI) of the dissemination activity, as can be seen in the table below. Activity data for the AIReF website showed an increasing trend in all parameters measured. The number of users increased by 36.8% in 2018 and the total number of sessions by 32.4%. The pages visited by

each user registered an increase of nearly 60% compared to 2017 and the number of pages visited during each session also registered a more than significant increase compared to the previous year, by nearly 20%. The continuous increases in the number of website users and website sessions confirm users' growing interest in the content published.

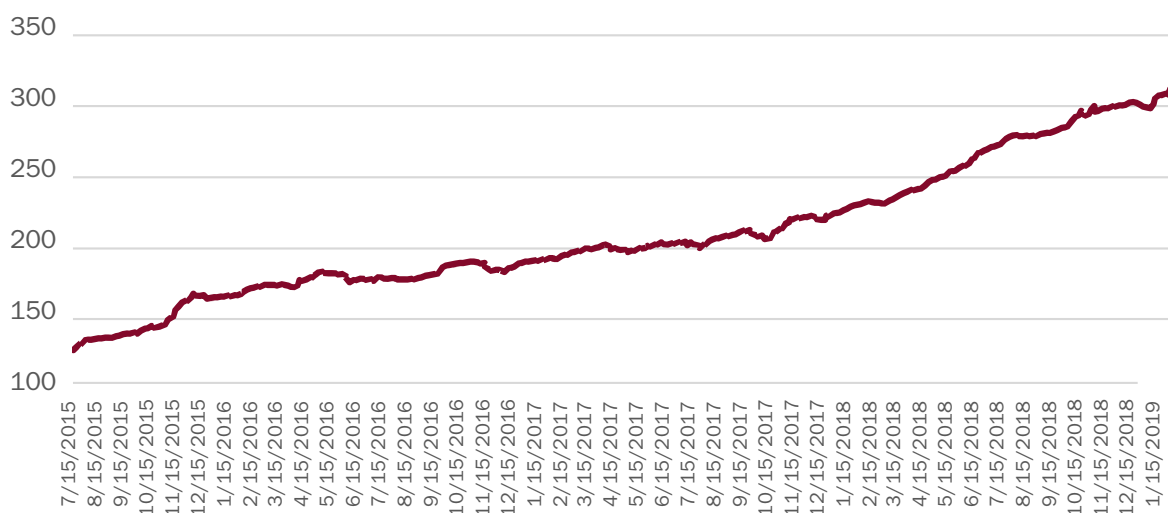
Table 7. **Main indicators of AIReF's website**

	2016	2017	2018	Year-on-year increase 2017 -2018
Website users	29.538	36.040	49.321	+36,9%
Website sessions	71.148	82.771	109.614	+32,4%
Pages viewed	279.061	454.004	718.533	+58,3%
Pages/session	3,9	5,5	6,6	+19,5%

Graph 4. **AIReF website users (moving average 365 days)**



Graph 5. **AIReF website sessions (moving average 365 days)**



In 2018, social networks increased in importance as one of AIReF's dissemination channels. Website activity also intensified as a reaction to the dissemination of content published through social networks. The most interactive channel was Twitter, which, by the end of the year, had 2,424 followers, practically doubling those of last year (1,251 followers). On LinkedIn, followers increased by 77.5%, to 387 followers.

This increase places AIReF as one of the IFIs with the largest number of followers on social networks. In addition, it is worth noting the high quality of AIReF's followers on social networks, including the main experts in matters of sustainability of public finances, politicians in charge of economic issues, qualified professionals in topics of macroeconomic analysis and statisticians, as well as journalists who cover this type of content in the Spanish media.

Lastly, in 2018 the institution continued to send information through monthly newsletters aimed at subscribers interested in their activities, which began in July 2017. The number of subscribers grew by 17.8% until the end of 2018 (457 subscribers) compared to 2017 (388 subscribers). The publication of regular tweets with links to the page to subscribe to the newsletter and the page banner are some of the actions that have influenced the increased number of new subscribers in 2018.

4. Access to information

One of the main requirements for the performance of AIReF's functions is timely access to economic-financial information on the PAs. In principle, the right to access this information is set forth in Article 4 of Organic Law 6/2013, of 14 December, providing for the creation of the Independent Authority for Fiscal Responsibility (AIReF). However, to optimise its application it is necessary that useful procedures are established for exchanging information between Administrations, as in AIReF's 2015-2020 Strategic Plan. AIReF's capacity to prepare useful, rigorous and objective reports may be seen to be affected by possible obstacles in accessing the necessary information. This risk is particularly high when there is a limited period for preparing and presenting said reports.

In February 2017 the European Commission indicated the need to reinforce AIReF's capacity to access the necessary information to exercise its functions. In its report on the application of the principles of the Treaty on Stability, Coordination and Governance, the Commission indicated that regulatory development of the Spanish legislation on AIReF's access to information had introduced some potentially significant exceptions²⁹. To be precise, the Ministerial Order of 2015, regulating information exchange, introduced the obligation to first request the information from the Economic Financial Information Centre of the Ministry of Finance³⁰. This Order was subsequently repealed, when AIReF appealed the corresponding articles before the contentious-administrative jurisdiction.³¹

29 See European Commission: [Spain: Country annex to the Report from the Commission presented under Article 8 of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union](#).

30 See Ministry of Finance and Public Administration: [Order HAP/1287/2015, of 23 June](#), determining the information and referral procedures that the Ministry of Finance and Public Administrations shall permanently keep at the disposal of the Independent Authority for Fiscal Responsibility (AIReF).

31 See Ministry of Finance and Public Function: [Order HFP/232/2017, of 14 March](#), partially repealing Order HAP/1287/2015, of 23 June, determining the information and referral procedures that the Ministry of Finance and Public Administrations shall permanently keep at the disposal of the Independent Authority for Fiscal Responsibility (AIReF).

Other institutions such as the OECD and the Accounts Tribunal also indicate the need to resolve certain problems regarding information access as one of the main challenges pending resolution. In the OECD's assessment of AIReF in 2017, it was noted a Memorandum of Understanding (MoU) between AIReF and the Government could be a good basis for more collaborative and predictable access to information.

Since 2016 AIReF has been using a system to monitor collaboration with requests for information from different PAs. This system was completed in 2017 to incorporate requests made to all territorial administrations. The implementation of this system continued into 2018 to follow-up on the requests made to the Information Centre of the Ministry of Finance, the Regions and the Local Corporations. In general, each request for information is linked to the preparation of any of the reports that AIReF must issue under current regulations. For reasons of procedural economy and administrative efficiency, each request is grouped into various information requests, requests that may be subject to a separate response and/or individual monitoring, either due to reference to different fiscal rules, different financial periods or due to being provided by different bodies.

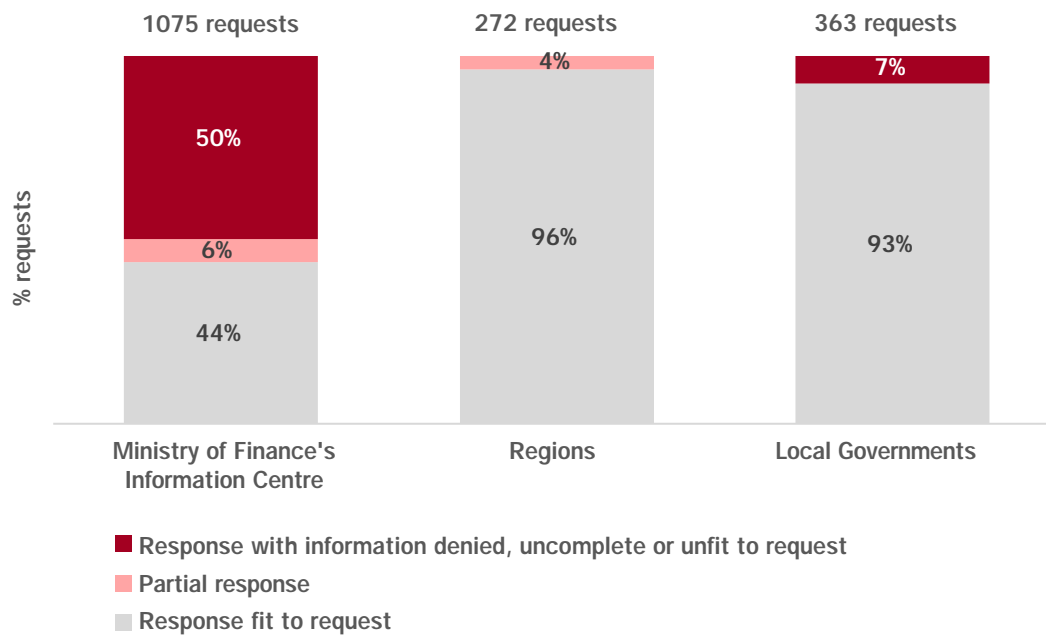
In 2018 the greatest number of rejected requests or unsuitable responses came from the Information Centre of the Ministry of Finance. Requests made to the Regions and LGs were responded to and consistent with the request in more than 90% of cases. In 2018, 50% of AIReF's requests for information to the Information Centre (IC) were denied, 44% unanswered and the remaining 6% was not consistent with the request. In contrast, only 4% of the requests made to the Regions received a partial response and, in the case of the LGs, only 7% were not consistent with the request, denied or not responded to.

AIReF classifies requests into three categories (see figure 3):

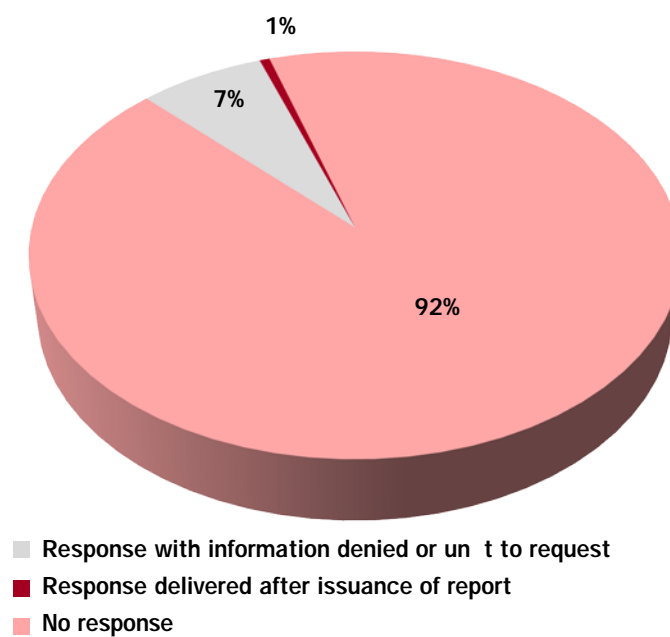
- First, requests with a response consistent with the request, that is, suitable for the evaluation to be carried out: over 90% of the requests made to the TAs and only 44% of those made to the IC.
- Second, requests with a partial response not sufficient for the analysis: 6% of the requests to the IC and 4% of those made to the Regions.
- Lastly, requests for information denied, not consistent with the request or not submitted (not valid for the analysis): this is the case for 50% of the requests made to the IC.

Requests not answered by the Information Centre of the Ministry of Finance have been classified according to the fiscal rule to which they refer. In this way, 25% of them refer to elements necessary for calculating the stability target, 25% to the debt target, 22% to components for the calculation of the expenditure rule, and the rest to a combination of elements that affect several of these rules.

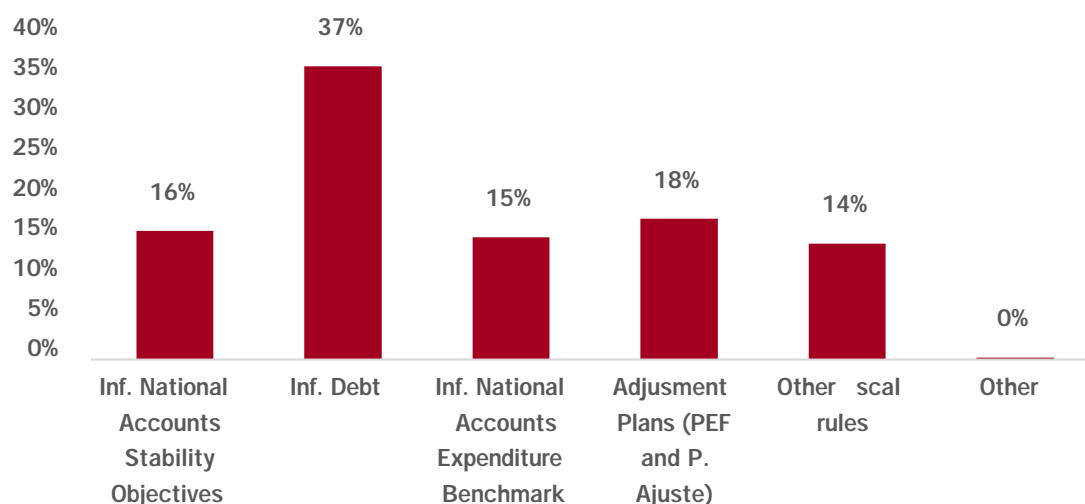
Graph 6. **AIReF website users (moving average 365 days)**



Graph 7. **Brekdown of certain responses by the Ministry of Finance's Information Centre (2018)**



Graph 8. **Breakdown of requests without response from the Information Centre, by type of information requested (2018)**



BOX 10. ADVANCES IN THE ACCESS TO THE INFORMATION NECESSARY FOR THE PERFORMANCE OF AIREF'S FUNCTIONS.

The amendments introduced into AIReF's Organic Statute with the publication of Royal Decree 105/2018, of 9 March, strengthen its independence, with advances in terms of access to information, preparation of its budget and monitoring of recommendations.

With regard to the referral of information, the Organic Law establishing AIReF established the obligation held by the PAs to provide any economic-financial information requested, with the only restriction that this would be necessary for the performance of AIReF's functions. The adoption, in 2014, of AIReF's Organic Statute, limited the scope of the law in two ways: on the one hand, auxiliary or supporting information was left out of this obligation, and, on the other hand, it limited AIReF's access to the information already prepared in compliance with the Organic Law on Budgetary Stability and Financial Sustainability or other statutory or regulatory provisions.

Royal Decree 105/2018 lifts the first of the limitations, since from now on AIReF may access, on request, auxiliary or support information and this is considered to be an improvement on the second as, if honoured, it mitigates the restrictive effects by facilitating the creation of collaboration procedures in which to specify and clarify the content and information referral deadlines and address the specific aspects to assess in the different reports. In addition, this Royal Decree details the information that the Ministry of Employment and Social Security must provide for the issuance of the opinion regarding the PRI and includes the provision contained in the Organic Law establishing AIReF with respect to the obligation of the Technical Committee on National Accounts to provide AIReF with the reports issued in the exercise of its functions.

5. Monitoring of the 2018 action plan

This chapter is dedicated to the monitoring of the execution of 2018 Action Plan and the progress made in the targets established in the 2015-2020 Strategic Plan. In this way, the Activity Report becomes an essential element of the institution's accountability to society. To facilitate the monitoring of the Plan, a table with the proposed actions has been included as an annex, classified according to the aims and lines of action of the 2015-2020 Strategic Plan and according to their situation at the end of the year.

The 2015-2020 Strategic Plan³² is a tool that guides the definition, execution, follow-up and assessment of AIReF's activity. This Plan was designed at the start of the institution's activity to reflect the main objectives of the organisation during the term of office of its President. Over the last year the Plan has been reviewed to reflect the institution's new targets, simplify the planned actions and include, where possible, the independent recommendations made by the OECD in 2017. This review of the Plan was presented by AIReF's President in the Budget Commission of the Congress of Deputies in May last year.

The 2018 Action Plan is the tool that facilitates the transfer of strategic lines of action included in the 2015-2020 Strategic Plan to AIReF's day-to-day operations. This Plan is prepared according to the provisions of Article 5 of AIReF's Organic Statute³³, establishing that in the first quarter of the year the institution shall prepare and publish an Action Plan that includes, in addition to mandatory reports, the studies that have been requested. Said Plan must be approved by the President, after being submitted for the consideration of the Steering Committee.

The 2018 Action Plan guarantees fulfilment of the tasks commissioned to AIReF, such as the issue of reports and opinions, and makes headway in other areas. Of these it is worth noting the contribution to a better stance towards budgetary stability, the financial sustainability of the PAs, the improvement of transparency and budgetary practices in the management of public

³² See AIReF: [2015-2020 Strategic Plan](#).

³³ See [Royal Decree 215/2014, of 28 March, approving the Organic Statute of the Independent Authority for Fiscal Responsibility](#), and its subsequent amendments.

accounts and the contribution towards Spanish society perceiving the benefits of budgetary stability and financial sustainability, alongside the creation of an efficient and transparent AIReF as a cross-cutting action

As in previous years, the implementation of the 2018 Activity Plan has been conditioned by the limited availability of human resources, although progress is being made in this direction.

Of note is the expansion of the institution's Staff Establishment Plan, approved in March by the Executive Board of the Inter-ministerial Remuneration Committee (CECIR), and with which six new positions were created; however, the incorporation of this staff did not come into effect until May and continued to be implemented gradually up until December. Moreover, two new expansions were carried out: at the end of May CECIR approved a new Analyst position and in September notice was received of a new job position created to be filled. With these modifications, the institution's workforce is progressively getting closer to the number of resources originally planned and reflected in the report prepared by AIReF in collaboration with the International Monetary Fund at the start of its operations.

Despite having staffing limitations, AIReF continues to make substantial progress in each pillar of the 2015-2020 Strategic Plan. Inevitably not all activities planned in the 2018 Action Plan were able to be completed, in some cases due to circumstances beyond AIReF's control, and in others due to the need to reassign available resources in a framework of flexibility and adaptive capacity. In this way, some of the activities have not been completed in 2018 and have been reprogrammed for the following year, being included in the 2019 Action Plan.

Within the scope of its first strategic pillar, *Contribute to budgetary stability*, AIReF continued developing, improving and making use of its analytical tools for monitoring the economic and budgetary situation. Work was continued on the short, medium and long-term macroeconomic forecasting models; on estimating and integrating the equations of the MTA quarterly model; on the development of revenue forecast models; and on the incorporation of a benchmarking analysis, amongst other areas. Initially work was continued on developing and using the MiPred-Cat model developed by AIReF in 2017 for short-term forecasts for the Region of Catalonia, although thereafter it was no longer updated due to the change of circumstances and uncertainty in said Region. The land registry data of each local corporation was incorporated into the budget data and AIReF started to study the possibility of modelling the same. Work was carried out on the maintenance and improvement of the models for forecasting healthcare and educational expenditure and the possibility of developing a specific model for expenditure on social services was studied, from which the option of preparing this model in the short term was ruled out.

Work continued on the development, improvement and maintenance of tools for the monitoring of budgetary execution of the different PAs. These tasks include, amongst others, the integration of different institutional sectors, the maintenance of simulation tools, review of the methodology designed to assess uncertainty, the broadening of the individual analysis of the monthly execution of the Regions, the continual update of the LG database or the analysis of the different regulations in the management of the regional budgets, starting with the creation of a database for regional budgetary legislation. In addition, the databases on the Regions

were also expanded, specifically a database with information for analysing the computable expenditure of the Regions for the purposes of the expenditure rule was created, facilitating the preparation of more accurate forecasts and more frequent reviews of the same.

In the field of budgetary stability AIReF has also made progress in identifying relevant topics for study, in the self-assessment of forecasts and the incorporation of benchmarking techniques. Work has been done in preparing documents on healthcare and education expenditure forecasts and on the expenditure rule, which are due to be published shortly. In the context of the LGs, the subjective scope of the entities subject to individual analysis of the sustainability risks has been extended, and work continues in this field to identify the risks and propose lines of actions. Moreover, the tools and work for self-assessment of the budgetary forecasts and analysis of deviations has been extended, extending them to each Region and a greater number of revenue and expenditure headings and groups, and work has started on increasing the frequency of the review (monthly). In this line of work, a tool has been developed for breaking down the determinant factors in the evolution of AIReF's macroeconomic forecasts and monitoring of the same. Progress has been made in using benchmarking techniques in the analysis of the Territorial Administrations, in particular in the context of the LGs.

AIReF has actively contributed to the use and improvement of the European and Spanish fiscal rules, undertaking several actions in this field. Work has been completed on the definition of a methodology to estimate and model the output gap, with the development of software and publication of a working document that has been presented in various forums, as well as continuing to participate in the output gap work group of the EU IFI network. Special mention should be made of AIReF's collaboration with the main independent fiscal institutions, as well as their participation in meetings and activities organised by the EU IFI network and the OECD. In many cases AIReF has contributed to the drafting of common positions with other IFIs, in particular under the guidance of the Chair of the EU IFI network held by, as mentioned earlier, José Luis Escrivá.

Substantial progress has been registered in AIReF's second strategic pillar, *Promote the financial sustainability of the Public Administrations*. Work has begun on preparing a publication on fiscal risks and progress has been made in defining the methodology for identifying and quantifying contingent liabilities in the different PAs. The use of medium-term fiscal forecasts and their connection with economic trends has been expanded. Sustainability risk indicators have been developed and work has been carried out on estimating synthetic indicators. In the analysis of the Social Security System own demographic projections have been developed and integrated, which were also disseminated in a working paper. In addition, substantial effort has been invested in analysing the long-term trends and dynamics of the main expenditure components, underscoring the preparation of an Opinion on the sustainability of the Social Security system and the work on updating and improving forecast modelling of healthcare and education expenditure in the Regions.

Amongst the actions detailed in AIReF's third strategic pillar, *Contribute to improving the efficiency of public expenditure and budgetary practices*, it is worth noting the *Spending*

Review and study of a minimum income benefit. The first involves a full assessment of public expenditure commissioned by the Government to AIReF and unprecedented in our country; as mentioned earlier, during 2018 the first phase of this assessment was implemented, including eight different projects whose conclusions will be submitted to the Government in early 2019. Over the last year AIReF also prepared an Action Plan for the second phase of the *Spending Review*, which the Council of Ministers reported in February 2019, and that will assess the fiscal benefits, hospital expenditure of the National Health system, recruitment incentives and transport infrastructures. The latter was commissioned by the Government in March 2018, as a result of the appearance of AIReF's President before Congress for the purposes of passing a popular legislative initiative for creating a new income benefit in the context of Social Security. Both works are described in greater detail in the first chapter of this Activity Report.

AIReF undertook numerous actions for promoting the transparency of the PAs and for improving budgetary procedures. Many of these actions involve continuous work, such as the analysis and preparation of recommendations for improving the information published by the PAs, the publication of economic-financial information of the LCs through the *Tableau* platform or starting work for publishing data on the Regions. Others are of a more specific nature, such as the preparation of a working paper analysing the budgetary structure for expenditure schemes and promoting the document by the EU IFI network on medium-term budgetary frameworks.

The institution continues to perfect its global communication strategy to fulfil the fourth strategic pillar, *Help Spanish society perceive the benefits of budgetary stability and financial sustainability*. Many of the actions included in this pillar are continuous in nature without prejudice to their review or continuous improvement. AIReF has continued to strengthen its relationship with journalists and opinion leaders, with the aim of transmitting the institution's targets and the conclusions of its work to a wider audience. As part of this social approach, it continues to work with different types of media, including those of greater social reach, such as the radio. It has strengthened its presence on social networks, where an improvement in terms of followers and interaction with different audiences has been noted. AIReF's new website is now live and is being continually updated, maintaining it as an obligatory point of reference for the financial and budgetary information of the Spanish PAs. Many of these actions saw the involvement of AIReF's President, who has participated in various interviews, meetings, forums and seminars with journalist and professionals as well as appearing before different commissions of the Congress of Deputies and the Senate. In general, this line of work has meant numerous contacts with territorial administrations, international agencies and other institutions.

Likewise, AIReF continued working on different tools to promote fiscal awareness in society as a whole and research in the field of fiscal policy. In this way, it should be noted that AIReF organised a seminar on fiscal risks in which experts from different national and international economic agencies took part (see box 11). It also convened, for the fourth year running, the procedure for awarding grants by competitive process to universities and other academic centres in Spain for promoting training and research in the field of economic and budgetary analysis for fiscal stability and sustainability; through this procedure 11 remunerated grants were awarded, out of which six were for research and five for training.

BOX 11. SEMINAR ON FISCAL RISKS

In November AIReF organised a seminar on the analysis of fiscal risks. This was an initiative for promoting dialogue between public decision-makers, professionals and researchers on the importance of identifying and quantifying the risks to financial sustainability.

The event was organised into three blocks. The first was moderated by Juan Rojas (European Stability Procedure) and was supported by a presentation by Alexander Tieman (International Monetary Fund) on the last Fiscal Monitor by the IMF and its balanced approach for identifying fiscal risks. The ensuing debate was led by Christophe Kamps (European Central Bank).

In the second block, Cristina Checherita-Westphal (ECB) gave an introduction on the debt sustainability analysis framework that the ECB uses, whose debate was led by Michal Horvath (York University and EU IFI Network). Óscar Arce (Bank of Spain) acted as moderator of this session.

The final block, moderated by Giuseppe Carone (European Commission), was dedicated to the interrelationship of demographic projections and the economy. In this session Carlos Cuerpo (AIReF) presented AIReF's proposed methodology for performing population projections. Sander van Veldhuizen (Dutch IFI, EPC) was the main *discussant*. AIReF's President, José Luis Escrivá, was responsible for closing the event.

AIReF fifth strategic pillar, *Create an efficient and transparent AIReF*, registered substantial progress. In addition to continuing to publish its reports according to the regulatory framework, it is worth noting its commitment to monitoring the recommendations made to the different Administrations, gaining further insight into the principle of “comply or explain”. Progress also continued to be made to consolidate an administrative and independent management structure, specifically, the “Administración Electrónica” (Electronic Administration) is implemented: a service for telematic payment and electronic processing of files for the electronic headquarters, as well as the development and implementation of fee management.

The Advisory Board continued to be an essential element in AIReF's accountability. This Board is an advisory body to the President, made up of nationally and internationally renowned professionals with at least ten years' experience in budgetary, economic and financial analysis. During 2018, the Board held four meetings; the Minutes of the same are public and are available on AIReF's website.

The monitoring of the progress made with regard to the 2018 Action Plan included in this Activity Report serves as a basis for the design of the 2019 Action Plan. In the first quarter of each year the Action Plan is approved for the year in progress, which takes note of the progress made in each of the strategic pillars and of the commitments included in the 2015-2020 Strategic Plan.

BOX 12. IMPLEMENTATION OF THE RECOMMENDATIONS OF THE OECD'S INDEPENDENT EVALUATION

The performance of an independent assessment was a commitment assumed by AIReF's President in his appearance before the Congress of Deputies in his role as candidate for the Presidency. This commitment, included in AIReF's 2015-2020 Strategic Plan, was fulfilled in 2017 under the coordination and assessment principles of the OECD¹.

This report was presented at a public event in April, attended by Marcus Bonturi, Director for Public Governance of the OECD, Robert Chote, Chairman of the Office for Budget Responsibility of the United Kingdom and the Parliamentary Office Network for Budgets and IFI of the OECD; and Pablo Hernández de Cos, Director of Economy and Statistics of the Bank of Spain.

In its assessment report, the OECD identifies the main challenges that AIReF faces and establishes a set of recommendations for ensuring continued good performance and viability in the long term. In total they made 20 specific recommendations, aimed at AIReF itself and other administrations in which they propose introducing improvements on accessing information, budgets and resources.

Inputs	Outputs
Development of information MoUs	Medium-term forecasts (3-5 years)
Early access to information	More tables, summaries and graphs in the reports
Multi-year budget. Procedures similar to other independent entities	More detail on forecasts
Reconsideration of resources	Forecast self-evaluations
Fee sufficiency assessment	Review policy on not publishing macro forecasts
Adjust new functions to resources	
Review of the reporting calendar	
Impact	Sub-national sphere
Be more selective when preparing recommendations	Maintain comparative analysis
More accessible, documents for the non-specialised public	Reinforce communication (press, parliaments, academia)
Expand media coverage (television)	Deepen the scope of the analysis, broadening coverage (smaller municipalities)
Targets for social networks	Continue developing the analysis on vertical distribution of the fiscal targets
More activity with academia/universities	
Periodic satisfaction surveys (parliamentary and academic)	

During 2018, AIReF has continued to implement the recommendations of this review, as well as urging the other administrations concerned to take the opportune actions. In accordance with the "comply or explain" principle that inspires the institution, AIReF has published an explanatory section on its website in which it details the recommendations that will be applied and the time frames for the same, as well as other recommendations that can not be applied by AIReF and the reasons why not². This information, which is regularly updated, is also included in the corresponding Annex to this Activity Report.

1 SEE OECD, [OECD Review of the Independent Authority for Fiscal Responsibility \(AIReF\)](#).

2 See AIReF, [Updated table on monitoring recommendations from the OECD independent evaluation](#), 16 January 2019.

Also applied in 2018 and included in the 2019 Action Plan are many recommendations from the independent review conducted by the OECD and the Fundación Hay Derecho, in compliance with the “comply or explain” principle promoted by AIReF. The OECD’s review was conducted in 2017, therefore fulfilling the President’s commitment to carry out a mid-term independent assessment of the institution; this assessment was led by experts from the Budget and Public Expenditure Department of the OECD with the support of experts from the Budget Office of the Congress of the United States and the Central Planning Bureau in Holland, as well as an expert in Spanish public finances (see box 12). In 2018 AIReF became the first institution assessed by the Fundación Hay Derecho, as further proof of its commitment to accountability and vocation as an independent and transparent agency (see box 13). The full report of said assessment is available on the Fundación Hay Derecho website³⁴.

BOX 13. ASSESSMENT REPORT BY FUNDACIÓN HAY DERECHO

On 13 December 2018, Fundación Hay Derecho presented the institutional assessment report on the Independent Authority for Fiscal Responsibility (AIReF) before the Congress of Deputies, part of a pilot project for institutional ranking intended to contribute to improving institutions in Spain, preparing institutional quality indicators that assess the functioning of our agencies.

The study is aimed at assessing the functioning of AIReF, including capacity and confidence indicators of the institution, making a distinction between those that depend on the institutional design and those that are the responsibility of the managers, through 29 indicators. Matters such as the adequacy of the size of the workforce, the profiles of the team, the budget, recruitment procedures, counterbalance when making decisions, transparency, independent assessments, etc. are assessed. All these indicators are part of those existing at an international level in the area of Good Governance.

AIReF is an agency particularly suited to a pilot project given that it is a recently-created entity, its size is small and its aim is to safeguard the sustainability of public finance as a way to ensure economic growth and well-being in Spanish society in the medium-to-long term. Furthermore, the management team are very aware of the need to subject themselves to independent assessment.

AIReF obtained a good score in the institutional ranking of the Fundación Hay Derecho: the report concludes that AIReF obtained an overall score of 80.5 points out of 100. This is a high score that indicates that, even though there is room for improvement, it is an institution that functions efficiently and has sufficient means to gain citizen confidence.

As points to improve, the report considers that AIReF has an infra-dimensioned workforce, that is, below the size recommended by the IMF when it was created; that the variable remuneration (productivity) actually serves to complement some specific benefits well below those found in other monitoring institutions, and that lesser contracts out weigh the total volume of recruitment.

34 See Fundación Hay Derecho (2018), [Assessment report on the Independent Authority for Fiscal Responsibility \(AIReF\)](#), 21 December.

AIReF has considered it pertinent to implement the “comply-or-explain” principle contained in its own regulations (Article 5.1 of the Organic Law 6/2013) and respond to the recommendations made by Fundación Hay Derecho in detail. To this end, since the 14 December 2018 there has been an explanatory section published on AIReF’s website, also included as an Annex in this Activity Report, indicating the recommendations and/or aspects for improvement contained in this report, and AIReF’s position with respect to the same, as well as the measures that have been adopted or are going to be adopted to make them effective¹.

1 See AIReF, [Table on monitoring recommendations from the assessment by Fundación Hay Derecho](#), 14 December 2018.

6. Economic management, human resources and transparency

6.1. Economic management

AIReF continues with its policy of transparency in economic management. The transparency section of the website contains information on the compensation of the members of the Steering Committee; the monthly execution of the expenditure budget, as well as the detail of expenses above 1,000 euros and the collection of income from its fee. In addition, it also includes the contractor's profile and the list of contracts, management assignments and collaboration agreements signed by AIReF and the subsidies granted.

Law 6/2018, of 3 June, on the GSB for 2018 approved a budget of 7.04 million euros for AIReF (see table 8). Of this amount, 1.56 million euros is allocated to the review of the expenditure on subsidies by the PAs (*Spending Review*). The expenditure finally executed during 2018 amounted to 6.60 million euros. The percentage of execution of AIReF's expenditure budget has risen to 93.75% in 2018. The detailed execution of the expenditure can be seen in the following table. The execution of different budget chapters reflects that the institution's performance in 2018 is in accordance with the provisions of its Action Plan.

In terms of revenues, the supervision fee is AIReF's main source of funding (see table 9). This fee (provided for in the second additional provision of the Law establishing AIReF) is paid by the PAs that receive the reports and unqualified opinions, depending on their budget. This financing system, which is innovative in the field of Independent Financial Institutions, allows AIReF's financial independence to be guaranteed. Independence is a key element that should serve as a basis for the exercise of its legally entrusted powers. Likewise, included as revenue item in the Law on General State Budgets for 2018 is a current transfer of 1.56 million euros from the Ministry of Finance to finance the *Spending Review*.

The amount collected from the fee paid in 2018 was 4.26 million euros, 77.69 % of the budget once the appropriations destined to finance the *Spending Review* are deducted. The State, Social Security and all the Regions have paid the fee. There were only three institutions that did not pay. As a new element and to alleviate the under-funding suffered by the Institution

since its creation, Article 89 of the Law on the General State Budgets for 2018 updated tax rate of the fee and fixed at 0.00128%, although this rate will not be applied until 2019.

In 2018, AIReF initiated and resolved the procedures for settling the fee owed by the PAs that in 2017 did not settle the amounts themselves yet earned the corresponding amount or did so outside the period established for that purpose. The rest of the funding came from the existing cash surplus, and income was generated from studies commissioned by the PAs.

Table 8. **Execution of expenditure Budget 2018 (thousands of euros euros)**

Concept	Budget 2018	Execution
Staff costs	3.910,83	3.886,69
- Steering Committee Members		544,26
- Officers		1.838,43
- Workers		85,50
- Performance incentives		1.102,25
- Quotas and social expenditure		149,96
- Training		60,96
- Social action and others		105,33
Operating costs	2.760,00	2.347,24
- Leasing, repairs and maintenance		86,42
- Office supplies		44,75
- Electricity and water		13,32
- Telephones and internet		87,42
- Cleaning		30,20
- Technical studies and work		1.309,60
- Third-party services		585,27
- Travel		62,56
- Publication costs		46,32
- Protocol services	4,68	4,42
- Other expenses		76,96
Paid internships	160,00	153,46
Investments	200,00	212,44
Advances to staff	12,00	0,00
Total	7.042,83	6.599,83

Table 9. **AIReF's revenue 2018 (thousands of euros)**

Item	Accumulated as of 31 December
AIReF fee 2018	4,259.37
– State	1,307.60
– Social Security	1,247.33
– Regions	1,390.13
– Local Corporations	314.31
Regularisation of previous years' fee	645.01
Studies	57.48
Other revenue (transfer Ministry of Finance for financing <i>Spending Review</i>)	1,560.00
TOTAL REVENUE	6,521.86

AIReF's provisional Balance Sheet prepared pending definitive approval of the annual accounts for 2018 is shown below, which will not be produced until May, after favourable Audit Report by the Delegated Intervention Board.

Table 10. **Condensed Balance Sheet of AIReF 2018
2 (thousands of euros) (provisional)**

ASSETS	2018	2017	NET EQUITY AND LIABILITIES	2018	2017
A) Non-current assets	5,827.56	5,742.63	A) Net assets	7,108.09	7,207.70
I. Intangible fixed assets	100.56	120.73	I. Contributed equity	4,624.86	4,624.86
II. Tangible fixed assets	5,727.00	5,621.90	II. Equity generated	2,483.23	2,582.84
B) Current assets	2,842.32	1,798.79	B) Non-current liabilities	0.00	0.00
III. Debtors and other receivables	158.28	221.44	C) Current Liabilities	1,561.79	333.72
V. Short-term financial investments	–	0.19	II. Short term debts	16.46	–
VI. Accrual accounts	95.11	99.96	IV. Creditors and other accounts payable	1,545.33	333.72
VII. Cash and other cash equivalents	2,588.93	1,477.19			
TOTAL ASSETS (A + B)	8,669.88	7,541.42	TOTAL NET EQUITY AND LIABILITIES (A+B+C)	8,669.88	7,541.42

6.2. Human resources

AIReF comprises three divisions and the President's cabinet of advisors. The Economic Analysis Division performs functions, among others, relating to monitoring the economic reality and assessing the macroeconomic forecasts included in the budgets. For its part, the Budget Analysis Division is responsible, among other functions, for the analysis and monitoring of the budget cycle as a whole. Lastly, the Legal Affairs Division sees to the institution's daily management tasks and provides a legal advisory service. The structure is largely horizontal and is underpinned by continuing collaboration and communication among the different units

AIReF's workforce is below the optimal size required to develop the functions assigned by Spanish regulations. It is considered that similar resources to other international agencies with comparable functions would be around 65 employees. In contrast, AIReF's current Staff Establishment Plan has 47 employees.

In 2018 AIReF's workforce was subject to three modifications to try and alleviate the lack of resources. First, in the amendment to the Staff Establishment Plan in March six new job positions were created, namely: an Analyst, Level 28; a Service Manager, Level 26, destined to the Area of State and Social Security in the Budgetary Analysis Division; a Service Manager Level 26 for the Regions and Local Corporations Area of the Budgetary Analysis Division; an Analyst, Level 28, for the Macroeconomic Forecasts Area of the Economic Analysis Division; a Secretary position, Level 17, for the Government Debt Area of the Economic Analysis Division; a Section Manager, Level 22, for the Management Area of the Legal Affairs Division; and an Analyst, Level 29, for the Advisory Board to the President's Office. Secondly, in May the CECIR approved a new job position as Spokesperson, Level 30, for the Advisory Board to the President's Office. Lastly, in September the CECIR took note of a job position created to be filled called Job Position, Level 26 for the Macroeconomic Forecast Area of the Economic Analysis Division. Notwithstanding the foregoing, it is still necessary to hire more staff in 2019.

6.3. Transparency

AIReF was created with the vocation to fulfil its mission based on 3 key principles: independence, transparency and accountability. In the development of its functions, the institution is fully committed to transparency through the two great pillars of Law 19/2013, of 9 December, on transparency, access to public information and good governance: active publication and the right to access information. Likewise, through its website, AIReF provides citizens with all the information about its reports, opinions and studies, as well as on the methodology and criteria used in their preparation, in an open and accessible way.

In the context of active publication, apart from complying with all obligations imposed by Law 19/2013, AIReF voluntarily publishes additional information on its website not required by applicable regulation, such as for example expenditure for amounts greater €1,000 or the acts of the Steering Committee. Furthermore, in compliance with the regulation on transparency, all natural

and legal persons have the right to access public information in possession of AIReF, public information being understood as the content or documents, in whatever format or medium, that has been prepared or acquired in the exercise of the institution's activities. In 2018, twenty-six information requests were received, all of which were responded to in a timely manner, with 10 days being the average response time. Lastly, AIReF is supported by a representative from the Transparency and Good Governance Commission.

ANNEXES

Monitoring of reports and opinions

NEW RECOMMENDATIONS 2018

New recommendations	Type of recommendation	Recipient	Competent body	Mode of compliance	Status	Remarks
General report on the 2018-2019 EFPs of the Regions published on 06/27/2018						
Setting of realistic forecasts for Murcia by MINHAC so that the EFP is effective. MINHAC considers the situation of this Region in order to set a realistic forecast that allows the preparation of an EFP with a realistic scenario.	Medium-term focus	MINHAC	MINHAC	ACM	No answer	
General report on the 2018-2019 EFPs of the Regions published on 06/27/2018						
Incorporation of detailed information that supports the EFP scenarios: -Valencia: detailed information about expected settlement of healthcare concessions of previous years (current situation, pending proceedings, settlement made and expected value, and expected calendar) -Extremadura: detailed information about the expected growth of revenue from EU funds (detailed expenditure realisation and certification schedule). If the previous forecast does not occur, totally or partially, adapt the scenario with actions derived its control system for correcting the deviations observed	Budgetary stability	Valencia, Extremadura	Valencia, Extremadura	2018-2019 EFP	2018-2019 EFP compliance approved by CPFF on July 31st, 2018	Extremadura mentions in the EFP that the information about EU funds has been reported in the questionnaires complementing the EFP Valencia has sent the requested information about the expected settlements of healthcare concessions of previous years.
Revise expenditure measures for 2019. Valencia should revise the scenario and the planned actions for 2019 in the 2018-2019 EFP, specially regarding expenditure, including forecasts framed within the limits of compliance with the fiscal rules	Expenditure rule	Valencia	Valencia	2018-2019 EFP	2018-2019 EFP compliance approved by CPFF on July 31st, 2018	Valencia has reviewed its expenditure scenario for 2019 by about 134 million, including forecasts framed within the limits of compliance with the expenditure rule. However, no information was given about the measures underlying this revision.
Undertake actions aimed at compliance with targets. Murcia should effectively undertake actions aimed at compliance with the targets, avoiding those decisions that do not contribute to compliance with the fiscal rules.	Budgetary stability	Murcia	Murcia	2018-2019 EFP	2018-2019 EFP compliance approved by CPFF on July 31st, 2018	Murcia notes that the EFP has been revised as per AIReF's recommendations. The EFP includes 25 million of credits withholding
Monitoring of the expenditure rule. Madrid should apply the preventive and corrective actions planned in its monitoring and control mechanisms, in order to reach the expenditure growth compatible with compliance with the expenditure rule in 2018.	Expenditure rule	Madrid	Madrid	2018-2019 EFP	2018-2019 EFP compliance approved by CPFF on July 31st, 2018	Madrid notes in the EFP that it will apply the preventive and corrective actions planned in its monitoring and control mechanisms, when important expenditure deviations are appreciated that pose a risk to compliance with the expenditure rule
Report on the 2018-2021 SPU published on 06/27/2018						
Efforts to specify the measures planned in the SPU. Make an effort to specify the measures in order to be able to verify the plausibility of the fiscal path envisaged that, in any case, must ensure its consistency with the evolution of the relevant macroeconomic variables and with the discretionary measures to be adopted.	Medium-term focus	MINHAC	MINHAC	SPU	Commitment to compliance	MINHAC notes they will consider this recommendation in the upcoming Stability Programme Updates.
Medium term scal framework. Promote the implementation of a medium-term budgetary fiscal framework with greater consensus and participation of all actors involved to give more realism and credibility to the budgetary plan. Any move in this direction would strengthen the legitimacy and enforceability of the fiscal rules	Medium-term focus	MINHAC	MINHAC	SPU	Explanation	MINHAC considers that the budgeting framework process already encompass all actors involved, from the different sub-sectors pf the Administration that must the information regarding their medium-term fiscal plans to the different ministries of the CSA involved. AIReF considers that the breakdown and detail that the SPU currently contains do not allow this document to be considered as the real long-term fiscal plan. Greater development would be needed for each sub-sector, where more involvement at each level of the administration would improve the commitment the corresponding scenarios.

New recommendations	Type of recommendation	Recipient	Competent body	Mode of compliance	Status	Remarks
Report on the initial budgets of the Local Governments: 2018 published on 05/11/2018						
Financial guardianship of the LGs. That MINHAC should promote the regulatory changes required to specify the content and extent of the financial protection competences of the LGs, as well as the corrective mechanisms to apply to these bodies in the event that its powers are not exercised in accordance with the regulations.	Application of the LOEPySF	MINHAC	MINHAC	Regulatory amendment	Explanation	MINHAC acknowledges that “the financial guardianship standards are laid out in a dispersed manner in the consolidated case-law and in various standards...” Moreover, it welcomes the proposal but considers that within the corrective measures deployed by LOEPySF, the factual situations and the consequences of non-compliance of any fiscal rule seemed to be expressly permitted and notes that the annual meeting of the financial guardianship bodies is useful to clarify and to standardise the criteria for applying guardianship. AIReF considers that this difference in standards and case-law does not contribute to the adequate and uniform application of said financial guardianship competences and that there are gaps that should be solved. Therefore, it stresses the need for the regulatory development of these competences in order to define their content and scope, as well as the corrective mechanisms to apply to these guardianship bodies if they do not act in compliance with regulations, mechanisms different from those contained in the LOEPySF as they are applied to the managing administration and not to the guardianship body.
Regular updating of published data. MINHAC should amend the Order HAP 2015/2012, of October 1st regarding the provision of information, setting dates for the periodic updating of the data published by MINHAC in such a way as to reflect the latest situation in the economic and financial information of the LGs.	Transparency	MINHAC	MINHAC	Amendment of the Order HAP 2015/2012	Explanation	MINHAC considers that the obligation for LGs to provide information and its publication by the MINHAC guarantee a proper control of the LGs’ financial situations, and notes that, since 2017, the IGAE has published individualised information in national accounting terms of the main local corporations. In any case, it considers that the recommendation fits the MINHAC’s claims of providing and publishing information that is as up-to-date as possible for the proper monitoring of the situation of all PAs. AIReF stresses the need to regularly update the published information, because if the date is recorded after year-end, these publications do not include said data and therefore do not reflect the true economic-financial situation of the local corporation, which does not contribute to guaranteeing proper supervision/evaluation of this situation.
Application of the graduality of the LOEPySF due to repeated non-compliance with the EFPs. The City Councils of Barcelona, Bilbao and Madrid, with non-compliance with the targets agreed in their EFPs, reiterated in the cases of Barcelona and Madrid, and with a deficit target in Bilbao that is not in accordance with the stability regulations, should apply the graduality regulated in the LOEPySF for cases of non-compliance with the EFPs.	Application of the LOEPySF	City Councils of Barcelona, Bilbao, and Madrid	City Councils of Barcelona, Bilbao, and Madrid	Practical application	Explanation: City Councils of Barcelona, Bilbao and Madrid	The City Council of Barcelona notes its compliance with the targets agreed in their 2016-2017 EFP because it has fulfilled the computable expenditure path approved by Catalonia as guardianship body and achieved lending capacity in 2016 and 2017. Finally, it expresses its willingness to comply with the fiscal rules in 2018 and, if a deviation is perceived, the appropriate measure will be taken, essentially credit withholdings. The City Council of Bilbao points out the effectiveness during 2018 of an EFP approved by the Provincial Council of Bizkaia on March 14th, 2017. To comply with the budget stability target, it constantly monitors the execution of revenue and expenditure and, currently, the application of enforcement measures due to non-compliance with the EFP in 2018 is not needed. However, as soon as it appreciates real risk of non-compliance with the stability target, public expenditure will be adjusted. The City Council of Madrid considers that it has complied with the surplus targets of the EFP because it was approved due to non-compliance with the expenditure rule and, therefore, the targets mentioned in it are mere forecasts that do not act as a limit. However, it acknowledges the compliance with the expenditure rule in 2017 and, consequently, has adopted a credit unavailability agreement on April 24th, 2018, in the amount of 65 millions euros. AIReF has asked MINHAC to provide an explanation about the binding or non-binding nature of the limits established by the EFP in force for each fiscal rule, thus defining whether or not the graduality of law is applied (Articles 25 and following of the LOEPySF). While this explanation is not provided, AIReF applies the approach used by the MINHAC to date.
Preventive measures to guarantee compliance at year-end. Palma de Mallorca should adopt the corresponding preventive measures because of the high estimated risk of non-compliance with the stability target in 2018.	Budgetary stability	City Council of Palma de Mallorca	City Council of Palma de Mallorca	Practical application	Explanation	The City Council of Palma de Mallorca notes that the information sent for the May report has been revised as the year progresses and the information sent to the MINHAC on the second quarter of 2018 raises the closing forecast from 13 to 43 million euros surplus, with the assessment of compliance with the expenditure rule. Therefore, it expects compliance with the stability target set in the Adjustment Plan so it does not consider it necessary to adopt additional measures to guarantee compliance.

New recommendations	Type of recommendation	Recipient	Competent body	Mode of compliance	Status	Remarks
Consistency between EFP and Adjustment Plan. The City Council of Valencia, with moderate risk of non-compliance with the commitment made in its Adjustment Plan in 2018, should include commitments for 2018 consistent with the Adjustment Plan for the same year in the EFP to be approved, due to non-compliance with the 2017 expenditure rule.	Budgetary stability	City Council of Valencia	City Council of Valencia	EFP	Explanation	The City Council of Valencia notes that it has complied with the expenditure rule in 2017 and, therefore, it does not have to submit an EFP; it also expects compliance with the Adjustment Plan in 2018, both in terms of net lending/borrowing result and of debt stock in the long term up to December 31st, 2018. AIReF does not share this explanation because it consider that the City Council has not complied with the expenditure rule, as estimated by the MINHAC (upon the last settlement), the competent body on the subject. The City Council, on the contrary, estimates compliance on the theoretical maximum computable expenditure.
Committee of experts. That the MINHAF should convene and lead, for the City Councils of Jerez de la Frontera, Parla and Jaén, a committee of experts, attended by the protecting Region, where appropriate, to analyse the reasons for which these city councils have a critical level of sustainability risk and propose the most appropriate solutions.	Medium-term orientation	City Councils of Jerez de la Frontera, Parla and Jaén	MINHAF	Practical application	Explanation	MINHAC notes that it will act as per the LOEPySF, and that these corporations have adjustment plans. However, it notes that communication and collaboration will be enforced in order to solve the difficult situation of these Local Administrations AIReF considers that these situations cannot be solved by the established measures in the adjustment plans that the corporations concerned may have as they extend beyond compliance with the annual fiscal rules, and the reimbursement of the extra financing obtained.
Adoption of expenditure and/or income measures. The City Councils of Algeciras, Gandía, La Línea de la Concepción, Aranjuez, Totana, Navalcarnero, Isla Cristina and Ayamonte, due to their high medium-term sustainability risk, should adopt revenue and/or expenditure measures to reverse their situation.	Medium-term focus	City Councils of Algeciras, Gandía, La Línea de la Concepción, Aranjuez, Totana, Navalcarnero, Isla Cristina and Ayamonte.	City Councils of Algeciras, Gandía, La Línea de la Concepción, Aranjuez, Totana, Navalcarnero, Isla Cristina and Ayamonte.	Practical application	Commitment to compliance: City Councils of Algeciras, Aranjuez, Gandía and Isla Cristina	Algeciras reports that it is taking revenue and expenditure measures to reverse the situation. These measures will be reflected in the 2018 settlement but it is not specified what the measures are. AIReF considers that the City Council should specify and quantify the measures to which it has committed. Aranjuez reports the revenue measures (rise of property taxes, application of a differentiated property tax, steps to strengthen the executive collection, fee revision and tax inspection...) and expenditure measures (savings from granting the Solid urban waste collection and street cleaning to a new company, compliance with the savings planned in the Adjustment Plan, Chapter 1...) adopted. Gandía reports that it has adopted measures to raise taxes (property tax, vehicle tax, economic activity tax) and exercise expenditure restraint by reducing existing contracts. This is leading it to financial stability so the current APP is within the legal deadline and its account surplus is positive. Moreover, the Adjustment Plan considers early repayment in the years from 2019 to 2024, which allow an improvement in financial sustainability. Isla Cristina reports that it has adopted measure to reduce expenditure (collective dismissal of workers, set up of electronic tools to process the files) and increase revenue (tendering of the inspection service to detect new land registry units, reinforcement of collection and inspection), although some effects have been limited (compensations due to the collective dismissal of workers).
Monitoring of measures by guardianship bodies. The MINHAC, Valencia and Andalucía, as guardianship bodies, should monitor the provisions adopted by the City Councils of Algeciras, Gandía, La Línea de la Concepción, Aranjuez, Totana, Navalcarnero, Isla Cristina and Ayamonte, as they have medium-term sustainability risks.	Medium-term focus	MINHAC Valencia and Andalucía	MINHAC, Valencia and Andalucía	Practical application	Explanation: MINHAC Compliance or commitment to compliance: Andalucía	MINHAC notes that it will act as per the LOEPySF, and that these corporations have adjustment plans. However, it notes that communication and collaboration will be enforced in order to solve the difficult situation of these Local Administrations. AIReF considers that these situations cannot be solved by the established measures in the adjustment plans that the corporations concerned may have. Andalucía reports specific monitoring actions regarding the APP and financial debt for these City Councils, except for Ayamonte, from which they do not have information. Once they have it, pertinent actions will be taken. Moreover, they commit to report on future actions.

New recommendations	Type of recommendation	Recipient	Competent body	Mode of compliance	Status	Remarks
Adopt the necessary measures in order to improve sustainability. The City Councils of Alcorcón, Valdemoro, Sanlúcar de Barrameda, San Andrés del Rabanedo and Almonte, which have moderate sustainability risks, should take the necessary measures to ensure progress in the process of improving their situation in the medium and long term.	Medium-term focus	City Councils of Alcorcón, Valdemoro, Sanlúcar de Barrameda, San Andrés del Rabanedo and Almonte	City Councils of Alcorcón, Valdemoro, Sanlúcar de Barrameda, San Andrés del Rabanedo and Almonte	Practical application	Compliance: City Councils of Alcorcón, Valdemoro, Sanlúcar de Barrameda and San Andrés del Rabanedo	Valdemoro states that it will comply with the recommendation and that it has already been doing so by modifying the tax regulations in 2017 in order to obtain more revenue in 2018 and adhere to the 2018 Ministerial Fund of Prudence Management . Additionally, it will adopt the following measures: (i) reduction of expenditure ceiling in 2018 by 2.7 million euros, (ii) repayment of 1-2% of the current debt depending on the funding available and (iii) reviewing calculations and assessments of the 2017-2033 Adjustment plan as per the latest forecasts without worsening the targets that are considered prudent and achievable. San Lúcar de Barrameda states its intention of complying with the recommendation, which is aligned with the economic policy that it has been following. The specification and implementation schedule of the measures is listed in the Adjustment Plan, approved on April 20th, 2016. San Andrés de Rabanedo prepared the budgeting framework 2019-2021, which shows that it is starting to have lending capacity, positive cash surplus and the APP will be reduced, but, considering the amounts to be repaid, the Corporation should adopt the measures from the Adjustment Plan before 2021. Additionally, it has approved the modification of some tax regulations to raise the current income and the lending capacity. Alcorcón states that it is taking action to reveset the situation (using surplus to make early debt repayments, service provision efficiency audit, new 2018-2019 tax inspection plan and implementation of electronic administration).
Protection bodies should supervise the adoption of coercive measures by the LGs. Catalonia, the Provincial Council of Vizcaya and the MINHAC as financial guardianship bodies of the City Council of Barcelona, the City Council of Bilbao and the City Council of Madrid, should monitor the adoption by these LGs of the corrective measures regulated in articles 25 and following of the LOEPySF for cases of non-compliance with the EFPs, to prompt their adoption in the case of non-application within the time limit set.	Application of the LOEPySF	Catalonia, Provincial Council of Vizcaya and MINHAC	Catalonia, Provincial Council of Vizcaya and MINHAC	Practical application	Explanation: Provincial Council of Vizcaya, Catalonia Commitment to compliance: MINHAC	The Provincial Council of Vizcaya reports that, according to the quarterly information sent regarding 2018 budget, the City Council of Bilbao has complied with the deficit and debt targets and the expenditure rule at year-end. For this reason, coercive and enforced compliance measures, in case of non-compliance with the EFP in 2018, are not applicable. Catalonia does not agree with the way AIReF understands the current legislation. It considers that agreement for setting targets does not mention that the PAs with an EFP in force have to adjust to the provisions of this plan, as however is indicated about the reference rate of the expenditure rule. Therefore, as it considers that the City Council of Barcelona has complied with the EFP in 2016 and 2017, the coercive and enforced compliance measures of the LOEPySF, articles 25 and following, are not to be applied. MINHAC points out that it is following up and coordinating actions. However, it will reienforce the means of collaboration and communication in order to solve the difficult situation of the Local Administrations. AIReF has asked MINHAC to provide an explanation about the binding or non-binding nature of the limits established by the EFP in force for each fiscal rule, thus defining whether or not the graduality of law is applied (Articles 25 and following of the LOEPySF). While this explanation is not provided, AIReF applies the approach used by the MINHAC to date.
Report on the initial budgets of the Autonomous Regions for 2018 published on 05/04/2018						
Use of scal leverages available to continue progress in the debt reduction process. Among other actions, Extremadura, Valencia and Murcia should strictly monitor expenditure execution, and the immediate implementation of corrective measures against repeated deviations therefrom, so compliance with the expenditure rules and the deficit adjustment this compliance leads to are guaranteed.	Budgetary stability and expenditure rule	Extremadura, Valencia and Murcia	Extremadura, Valencia and Murcia	Practical application	Commitment to compliance: Extremadura, Valencia and Murcia	Extremadura indicates that the Region's General intervention board continuously reviews expenditure, with monthly budgetary execution monitoring, and with the possibility that the Council of the government agrees to credit withholdings if needed, in order to guarantee compliance with the stability target. Murcia reports that it has presented in the framework of the Regional Liquidity Fund Adjustment Plan for 2018, a range of measures to contain public expenditure, such as the credit withholding of 31.8 millions euros. Moreover, it carries out monthly budgetary execution monitoring, both in budgetary and national accounting terms, in order to minimise budgetary deviation as much as possible each year. Valencia points out that it has made a big effort in 2015-2017 as well as its willingness to continue improving in 2018. For this reason, it is monitoring the year's budget and continuing with the spending review process already started, avoiding measures that could lead to a discretionary rise in expenditure.

New recommendations	Type of recommendation	Recipient	Competent body	Mode of compliance	Status	Remarks
Mechanism for correcting deviations from the expenditure rule. Creation of a mechanism for correcting repeated deviations from the expenditure with the monthly information published regarding the expenditure rule. This mechanism can complete the intervention board's information and monitoring systems over the government or legislative bodies in the Region.	Expenditure rule	Andalusia, Balearic Islands and Madrid	Andalusia, Balearic Islands and Madrid	Practical application	Compliance: Andalusia, Balearic Islands and Madrid	Madrid explains that it already has a monitoring and control mechanism: it created a Sub-Directorate General that analyses the expenditure rule, among other variables, proposing any corrective measures considered necessary such as preventive credit withholdings. Furthermore, its 2018 Budgetary Law establishes that, if there is a risk of non-compliance with the expenditure rule, the Council of Government could approve a credit unavailability agreement, at the suggestion of the Regional Ministry of Economy, Employment and Finance. Andalusia states that it has a mechanism aimed to guarantee budgetary stability that allows the evolution of the expenditure to be adapted to it, and a Delegate Commission to coordinate and plan the actions approved by the Council of Government regarding fiscal and financial balance. Balearic Islands points out that experience from previous years shows the monthly execution of computable expenditure is not the best indicator to predict compliance at year-end, because it produces an important downward variation in December so, based in this indicator, no corrective measures would be needed without an extra analysis. In any case, it states that it has a mechanism to correct expenditure in case of non-compliance with the expenditure rule, envisaging credit withholdings or unavailability agreements if needed.
Include the expenditure correction mechanism in the EFP. Madrid should include an expenditure correction mechanism in the EFP due to non-compliance with the expenditure rule in 2017.	Expenditure rule	Madrid	Madrid	2018-2019 EFP	Compliance: Madrid	Madrid states that the control and monitoring mechanism for the expenditure rule has been specifically mentioned in the EFP.
Regulation of the expenditure rule. Include considerations regarding the financial situation of the Regions in their regulations on the expenditure rule in order to guarantee the effectiveness of the rule as a tool to achieve fiscal consolidation and stabilisation.	Expenditure rule and financial sustainability	MINHAC	MINHAC	Modification of the LOEPySF	Explanation	MINHAC deviates from this recommendation because any change in the current rules regulating the expenditure rule demands the adoption of an organic law. This can be difficult in the current situation and, in any case, regulating the national expenditure rule should be consistent with the EU expenditure rule, which will be applicable when Spain is out of the EDP and enters the Stability and Growth Pact. AIReF shares MINHAC's opinion that the modification of the LOEPySF requires the adoption of an organic law.
Information about the expenditure rule. Monthly and annual reports in which the expenditure rule for each region is published should be complemented with the detailed information of the elements considered when calculating the computable expenditure for each of them.	Expenditure rule	MINHAC	MINHAC	MINHAC website	Analysis of the potential for partial compliance	MINHAC commits to analysing the possibility of publishing this information annually on a disaggregated level, although noting that it advises against publishing this detail on a monthly basis because the differences that exist each year in the monthly budget execution rate renders the monthly computable expenditure less representative. AIReF is pleased to note MINHAC's commitment to comply with this recommendation, given the usefulness of the requested information in order to monitor and assess the expenditure rule.
Information about the expenditure rule. Publish the monthly, or at least annual, homogeneous series of the computable expenditure for each Region, adapting the published information from previous periods to the current rule calculation criteria.	Expenditure rule	MINHAC	MINHAC	MINHAC website	Explanation	MINHAC deviates from this recommendation because it claims that our regulation does not require updating the information from previous years to the reference information in each report and that it would require prior reworking of the existing information and an additional work load if we consider the available means and the rest of information requests. AIReF stresses the important role of having an homogeneous series of computable expenditure. This is not possible given the constant changes in interpretation by the MINHAC regarding the estimation of this variable. This impedes us from having a valuable source of information about the behaviour of the computable expenditure against monitoring and assessment of the expenditure rule.
Updating the guide for calculating the expenditure rule in the Regions, according to the latest criteria considered in the calculation and recorded in the last reports about the degree of compliance with the targets.	Expenditure rule	MINHAC	MINHAC	Guide for calculating the expenditure rule for the Regions	Analysis of the possibility of compliance	MINHAC shall assess the updating of the guide, adding, if needed, the corresponding methodological developments, especially as MINHAC wants to promote the review of the expenditure rule, as stated by the Fiscal and Financial Policy Council on July 19th, 2018. AIReF welcomes the updating of the guide in the interest of transparency.
Methodology of the expenditure rule. Make the method followed to calculate the expenditure rule transparent in advance, in order not to impede the room for manoeuvre of the manager in charge of its control and compliance.	Expenditure rule	MINHAC	MINHAC	Guide for calculating the expenditure rule for the Regions	Commitment to compliance	MINHAC commits to strengthening, whenever possible, the gateways for collaboration and information sharing with the regional managers, in order to increase understanding and agreement with the calculations derived from the expenditure rule.

New recommendations	Type of recommendation	Recipient	Competent body	Mode of compliance	Status	Remarks
Report on the GSB for 2018 published on 04/17/2018						
Targets setting. The setting of targets for the different sub-sectors should take into account the fiscal situation of each of them, which will facilitate their monitoring and enforceability, providing greater credibility to the fiscal framework in force.	Budgetary stability	MINHAC	MINHAC	ACM on setting targets	Explanation	MINHAC admits that setting the targets of the different sub-sectors has been done in order to guarantee the compliance in the whole Spanish Kingdom but it is necessary to improve the target allocation to be consistent with the fiscal situation and the powers granted to each sub-sector. AIReF considers it essential that the MINHAC commits to distributing the targets among the sub-sectors in view of the credibility and enforceability of the fiscal rules.
Modification of the current fiscal framework. The framework established by the current LOEPySF should be revised to: a) Guarantee consistency between the fiscal rules and compliance with the principles on which they are based, b) Incorporate those aspects considered urgent and subject to transitional regulation in legal provisions other than the LOEPySF.	Application of the LOEPySF	MINHAC	MINHAC	Modification of the LOEPySF	Explanation	MINHAC shares the need to check certain aspects of the rules in force and the LOEPySF, but admits that doing this requires a broad consensus that is very difficult in the current situation.
Report on the macroeconomic forecasts of the Autonomous Regions' 2018 budget published on 01/23/2018.						
Publication of parameters for macroeconomic forecasts. Publication of the models and parameters used in the macroeconomic forecasts, following the provisions of Directive 2011/85/EU on the requirements applicable to the budgetary frameworks of the Member States.	Transparency	Castile-La Mancha, Madrid and Murcia	Castile-La Mancha, Madrid and Murcia	General regional budgets	Compliance/commitment to compliance: Murcia and Castile-La Mancha Explanation: Madrid	Murcia notes the model and parameters used in order to comply with the recommendation. These have been posted on the Region's transparency portal. Castile-La Mancha commits to compliance with this recommendation from the 2019 budget onwards and notes that it is working on a model Bayesian vector autoregression model (BVAR). This will be accompanied by a detailed reference of the methodology and main parameters used, along with the forecasts given by independent agencies. Madrid explains the methodology used to prepare the unemployment and economic forecasts. However, AIReF considers this incomplete (it has not been published yet and the models are too stylised).
Report on expected compliance with the 2018 targets and expenditure rule of the PAs published on 07/23/2018						
Actions to comply with deficit target in 2018. Valencia should facilitate the processing of the actions that enable the pending settlements to be made effective and, in any case, adjust its budgetary execution to the realisation of these revenues.	Budgetary stability	Valencia	Valencia	Practical application	Compliance	Valencia notes that it has reformulated revenue from this concept, without prejudice to the actions taken allowing to move forward in reforming the financing system. The Region hopes this means a change in the scenarios foreseen for the region.
Actions to comply with expenditure rule in 2018. Cantabria should adopt the agreements provided for and carry out the further actions that may be necessary to halt the expenditure growth appreciated and adjust its evolution to compliance with the fiscal rules.	Expenditure rule	Cantabria	Cantabria	Practical application	Compliance	Cantabria notes that from July it is processing a credit unavailability withholding for the amount of 13 million euros on August 24th and expects to reach 40 million euros.
Application and clarification of the fiscal framework. The application criteria of the current regulatory framework on the allocation of the regional surplus should be specified.	Application of the LOEPySF	MINHAC	MINHAC	Regulatory modification/development	Commitment to compliance	MINHAC notes it shares the necessity of carrying out a more satisfying development of the current regulation on the allocation of the regional surplus, but that the current situation makes it difficult to modify current regulation. However, it also notes that, to reach this target, a questionnaire has been designed to obtain the standardised information related to financially sustainable investments in order to know the exact proposals of each Region, their monitoring and the impact of making these investments on their finances.
Application and clarification of the fiscal framework. Promote the regulatory amendment needed to specify the nature and scope of the targets agreed in the EFPs and Adjustment Plans of the LGs, so that verification of their compliance and the application of the graduality of the Law in the event of non-compliance is uniform in all LGs throughout the country, avoiding situations of unequal treatment between them.	Application of the LOEPySF	MINHAC	MINHAC	Regulatory modification/development	Commitment to compliance	MINHAF agrees with the sense of this recommendation so it began to analyse all the regulations related with budgetary stability and its application. However, it knows that the current situation makes it difficult to modify the current regulation. They are working on a protocol of action to establish guidelines for the application and interpretation of the fiscal rules. Finally, it notes that the EFPs and the Adjustment Plans have different time horizons and do not match exactly in the information provided, so their scope and targets are different. AIReF considers it necessary for MINHAC to make a formal statement about the reference rate that should be used when the LGs have an EFP, with the corresponding policy development. However, the manual about the information system of the local corporations' EFP could initially be modified. (PEFEL2).

New recommendations	Type of recommendation	Recipient	Competent body	Mode of compliance	Status	Remarks
Approval of an EFP. The City Council of Valencia should approve an EFP as per the current regulation, due to non-compliance with the expenditure rule in 2017.	Application of the LOEPySF	City Council of Valencia	City Council of Valencia	EFP	Explanation	The City Council of Valencia maintains its decision to not approve an 2018-2019 EFP because it considers that it has complied with the 2017 expenditure rule, following its interpretation of using the entire limit allowed by the previous year's reference rate as a starting point, as there is no regulatory development to the contrary. However, it notes the policies adopted regarding accelerated debt repayment and expenditure containment, envisaging compliance with the limit set by the expenditure rule in the most restrictive case of its calculation. AIReF recalls the need for uniform application of the expenditure rule throughout the whole country, so it was recommended to MINHAC, as soon as possible, to carry out the regulatory development under the terms noted
Transparency of non-compliance with the expenditure rule. The City Council of Saragossa should be transparent regarding non-compliance with this rule in its mandatory reports, even if this does not require the adoption of measures.	Transparency	City Council of Saragossa	City Council of Saragossa	Intervention board report regarding compliance with the expenditure rule	Suspended	AIReF suspends this recommendation until the MINHAC follows the recommendation of specifying, by promoting the necessary regulatory changes, the nature and scope of the targets agreed in the EFP and Adjustment Plans of the LGs, in order to verify compliance. Without prejudice to the MINHAC working on a protocol of action in order to set guidelines for the uniform application and interpretation of the fiscal rules, AIReF considers it desirable for MINHAC to provide a formal opinion about the reference rate to be used when the LGs have an EFP, with the consequent regulatory development and modification of the manual about the information system of the EFP of the Local corporations (PEFEL2) for practical purposes.
Actions to guarantee compliance with the fiscal rules in 2018. The City Councils of Barcelona, Córdoba, L'Hospitalet de Llobregat and the Island Council of Tenerife should monitor and/or adopt implementing measures to ensure compliance with the fiscal rules at the end of 2018.	Budgetary stability, expenditure rule and financial sustainability	City Councils of Barcelona, Córdoba, L'Hospitalet de Llobregat and the Island Council of Tenerife	City Councils of Barcelona, Córdoba, L'Hospitalet de Llobregat and the Island Council of Tenerife	Practical application	Commitment to compliance: City Council of Barcelona Córdoba, L'Hospitalet de Llobregat and Island Council of Tenerife	The City Council of Barcelona states its intention of complying with the 2018 fiscal rules, mainly the stability target and that it is permanently monitoring the municipal budget and, if any risk of deviation is found, the corresponding measures will be adopted, essentially credit withholdings in order to rectify the situation. The City Council of Cordoba states its intention of strictly complying with the rules and that it is exhaustively monitoring monthly and quarterly execution. It has not received any warning about possible non-compliance from its municipal technicians and, if this is noted in the third quarter, it would immediately take the corresponding measures to correct it at settlement. L'Hospitalet de Llobregat confirms that, regarding AIReF's recommendations, since the second quarter of 2017 the Economic Municipal Services and the Municipal General Intervention Board have fully implemented measures to monitor the fiscal regulations and the expenditure rule in order to guarantee their compliance at the end of 2018. The Island Council of Tenerife reports the adoption of a set of measures as well as an implementation schedule, despite the fact it foresees the non-compliance observed in quarterly execution will be corrected without adopting significant measures given the small size.
Approval of an EFP. The City Council of Gijón should accelerate the adoption of the agreements so that the EFP due is approved as soon as possible.	Application of the LOEPySF	City Council of Gijón	City Council of Gijón	EFP	Compliance	The City Council of Gijón notes that it has taken the necessary steps to approve the EFP receiving approval from the Regional Government but not by the Plenary Corporate Session, and sending the EFP to the protection body. It has also stated that it will adapt the budgetary execution of the bodies of the consolidation perimeter to the forecasts contained in the EFP in order to comply with the stability target and the expenditure rule with a monthly monitoring from the City Council General Intervention Board.

New recommendations	Type of recommendation	Recipient	Competent body	Mode of compliance	Status	Remarks
Implementation of recommendations. The City Councils of Algeciras, Gandia, La Linea de la Concepcion, Aranjuez, Totana, Navalcarnero, Isla Cristina, Ayamonte, Alcorcón, Valdemoro, Sanlúcar de Barrameda, San Andrés del Rabanado and Almonte, should apply the recommendations made by AIReF in the report on the budgets approved for 2018.	Budgetary stability and expenditure rule	City Councils of Algeciras, Gandia, La Linea de la Concepcion, Aranjuez, Totana, Navalcarnero, Isla Cristina, Ayamonte, Alcorcón, Valdemoro, Sanlúcar de Barrameda, San Andrés del Rabanado and Almonte	City Councils of Algeciras, Gandia, La Linea de la Concepcion, Aranjuez, Totana, Navalcarnero, Isla Cristina, Ayamonte, Alcorcón, Valdemoro, Sanlúcar de Barrameda, San Andrés del Rabanado and Almonte	Practical application	Compliance: Valdemoro, Algeciras, Alcorcón, Gandia, Isla Cristina, San Lúcar de Barrameda, Aranjuez and San Andrés de Rabanado City Councils Explanations: Navalcarnero	<p>The City Council of Valdemoro responds to the recommendations in the report on the main budgetary lines, indicating the measures adopted and to be adopted in regard to the recommendation.</p> <p>The City Council of Algeciras states that it is adopting the necessary revenue and expenditure measures to reverse the situation, which will be reflected in the 2018 municipal budget settlement.</p> <p>The City Council of Alcorcón states the measures being taken (early debt repayments, service provision efficiency audits, new 2018-2019 fiscal inspection plan and implementation of electronic administration).</p> <p>City Council of Gandia states that it is following AIReF recommendations because the measures to increase taxes adopted in 2016 and the constraint of the expenditure in current contracts have lead to a path a financial stability (compliance with APP; positive treasury surplus for general expenditure and debt reduction by early repayments).</p> <p>The City Council of Isla Cristina mentions the measures adopted (collective dismissal of workers, electronic file processing) and the ones to be adopted (inspection service to detect new land registry units)</p> <p>San Lúcar de Barrameda states its intention to comply with the recommendation and the specification and implementation calendar of the measures are reported in the current Adjustment Plan approved on April 20th, 2016.</p> <p>Aranjuez communicates the measures adopted: in respect of revenues, the rise on property taxes, application of a differentiated property tax, reinforcement of executive collection and fee review and tax inspection campaigns. In respect of expenditures, the reallocation of the Solid urban waste collection and street cleaning contract, and the compliance with the savings provided in Chapter I of the Adjustment Plan.</p> <p>San Andrés de Rabanado notes that the situation of the City Council has changed: it has started to have lending capacity, positive treasury surplus and the APP is going to be reduced. Given the amount to be repaid the LG should adopt the measures envisaged in the 2021 Adjustment Plan, like the modification of some tax regulations to increase current revenue and lending capacity.</p> <p>Navalcarnero reports the adoption of actions that have resulted in MINHAC resolutions (i. e. adherence to the management fund or grant of extrabudgetary advances to cancel debts). It does not consider more debt reduction measures to be necessary, which would lead to the impossibility of offering the basic services and the City Council's viability through the Adjustment Plan.</p>
Uniform implementation of the stability regulation by guardianship bodies. The Regions of Valencia and Aragon, as the supervisory bodies of the City Councils of Valencia and Zaragoza, respectively, should request that the aforementioned City Councils apply the recommendations made to each of them, in uniform application of the stability regulations.	Application of the LOEPySF	Valencia, Aragón	Valencia, Aragón	Practical application	Compliance: Valencia Suspended: Aragon	<p>Valencia states the protective measures taken in respect of the City Council Gandia (request clarifications for approval of the 2018-2019 EFP approved by the Plenary Session of the City Council and the requirement of updating the treasury plan due to non-compliance with the PMP foreseen in Article 18.5, LOEPySF) and the City Council of Valencia (discussions have taken place due to the reports evaluating the fiscal rules issued as a result of the 2017 settlement)</p> <p>Aragón: AIReF suspends this recommendation until the MINHAC follows the recommendation of specifying, by promoting the necessary regulatory changes, the nature and scope of the targets agreed in the EFP and Adjustment Plans of the LGs, in order to verify compliance.</p> <p>Without prejudice to the MINHAC working on a protocol of action in order to set guidelines for the uniform application and interpretation of the fiscal rules, AIReF considers it desirable for MINHAC to provide a formal opinion about the reference rate to be used when the LGs have an EFP with the consequent regulatory development and modification of the manual about the information system of the EFP of the Local corporations (PEFEL2) for practical purposes.</p>
Uniform implementation of the stability regulation by guardianship bodies. That the Principality of Asturias, as the financial supervisory body of the City Council of Gijón, should request that this entity prepare, approve and submit as soon as possible the EFP that it must submit as a result of non-compliance with the expenditure rule for 2017.	Application of the LOEPySF	Asturias	Asturias	EFP	Compliance	<p>The Principality of Asturias communicates that on July 13 2018, the City Council of Gijón sent it the EFP prepared due to non-compliance with the expenditure rule in 2017, which did not end up being approved by the Plenary Corporate Session. As the legal time periods have elapsed without approval of the EFP, on 30 July the Principality requested that it apply article 25 of the LOEPySF.</p>

New recommendations	Type of recommendation	Recipient	Competent body	Mode of compliance	Status	Remarks
Individual report on the main budgetary lines of the Canary Islands 21/12/2018						
Surplus allocation. The Region should clarify the intended allocation in 2019 of the total amount of the surplus it expects to achieve in 2018.	Budgetary stability, financial sustainability and expenditure rule	Canary Islands	Canary Islands	Practical application	Compliance	The Canary Islands points out that the expected ease of compliance with the 2018 debt target essentially originates from the surplus generated in the same year. The Region indicates that an important part of this surplus resulted in an increase in its own liquidities during 2018, given the nature of the same and the facts that produce it, having applied the same to the reduction of indebtedness in order to optimise the management of its cash and minimise the cost resulting from indebtedness. It adds that these facts recorded in 2018 are similar to those that occurred in 2017, a year in which it also presented lending capacity.
Individual report on the main budgetary lines of Extremadura and Murcia 21/12/2018						
Measures for compliance in 2019. In the approval of the budget for 2019 it should avoid measures that may impair compliance with the fiscal rules, and carry out, as far as possible, actions in favour of such compliance.	Budgetary stability and financial sustainability	Extremadura, Murcia	Extremadura, Murcia	Initial budget 2019	Explanation: Extremadura and Murcia	Extremadura indicates that the Region's budget has already been approved without significant alterations with respect to the document analysed by AIReF. Murcia notes that it has prepared its budgets with the utmost prudence and responsibility and that it basically incorporates the increases approved by the central Government at a general level (staff costs and educational agreements) as well as decisions of the Regional government (restore part of the extra payment suspended in December 2013), but taking these decisions responsibly, being very frugal with investments for 2019 within the framework of the approved expenditure limit. It also notes that it has substantially reduced its deficit in recent years but that its margin of improvement is very limited in 2019 due to the increase in expenditure imposed by the central Government and the refusal to reform the financing system. AIReF considers that the Region should take actions that favour compliance with the fiscal rules
Expenditure rule. The budget adopted should be accompanied by a proper measurement of growth forecasts of computable expenditure by adjusting, as appropriate, the growth of expenditure to a scenario aimed at compliance with the fiscal rules.	Expenditure rules	Extremadura	Extremadura	Initial budget 2019	Explanation	Extremadura reiterates that it continuously reviews expenditure through the Regional intervention board with monitoring of monthly budgetary execution and the possibility for the Government Council to adopt credit non-availability agreements where necessary. AIReF considers that, without prejudice to the existence of the procedure described for the revision of expenditure, the Region's budgets should include an adequate computable expenditure forecast for the sake of the due transparency (Article 6 and 27 of the LOEPySF) as well as for the correct monitoring and compliance with this fiscal rule.
Individual reports on the macroeconomic forecasts of Murcia 21/12/2018, Madrid, Provincial Council of Navarre, Valencia and Balearic Islands (14/12/2018)						
Referral to AIReF prior to publication of the draft budgets. The Regions should send AIReF, prior to the publication of the draft budgets, information on the macroeconomic forecasts underlying the budgets and the corresponding request for endorsement. Additionally, for the Balearic Islands, it is recommended that there are no ambiguities in the draft budgets.	Application of the LOEPySF	Murcia, Madrid, Navarre, Valencia and the Balearic Islands	Murcia, Madrid, Navarre, Valencia and the Balearic Islands	Practical application	Compliance: Navarre, Balearic Islands, Madrid, Murcia	Navarre points out that to achieve such compliance, once Navarre's macro scenario has been prepared in the first half of August of each year, the Department of Economic Development will send the documentation necessary for the endorsement report prior to the preparation of the preliminary draft of the General Budget of Navarre, which begins in September. Balearic Islands notes that it will send, prior to the publication of the draft budgets, the underlying macroeconomic forecasts and verify that there are no ambiguities regarding the macroeconomic forecasts used as reference. Madrid provides the corresponding explanations on the methodology used to prepare the forecasts. Murcia notes that it will take into account the recommendation and in the future will instruct the competent body so that this information can be sent to AIReF, within the time limits and in the appropriate form, prior to the publication of the draft budgets and thus be able to incorporate AIReF's endorsement, as appropriate, in said draft.
Report on the 2018-2019 EFP for Andalusia 3/12/2018						
Expenditure rule 2018. For 2018, the Region should implement direct and immediate actions to ensure compliance with the expenditure rule, recording them in the EFP and consequently adapting the EFP's budgetary scenario.	Expenditure rule	Andalusia	Andalusia	2018-2019 EFP	2018/2019 EFP pending approval	

New recommendations	Type of recommendation	Recipient	Competent body	Mode of compliance	Status	Remarks
Report on the main budgetary lines of the Public Administrations 2019 published on 26/10/2018						
Monitoring of execution of measures. In the framework of the automatic prevention measures under article 18 of the LOEPySF, the MINHAC should carry out continuous monitoring of budgetary execution in order to check that there are no deviations in the impact of the revenue and expenditure measures foreseen in the Budgetary Plan	Budgetary stability	MINHAC	MINHAC	Practical application	Explanation	The MINHAC points out that all information relating to the execution of the State's accounts and the consolidated statement of the PAs, excluding LGs, which is prepared on a quarterly basis, is published monthly. These consolidated financial statements contain all the information on revenue and expenditure execution sufficient to monitor and detect deviations with respect to the budgetary forecasts and the expected impact of the measures contained in the Budgetary Plan. AIReF considers that the mere monthly publication of this information is not sufficient to carry out effective monitoring of the execution of the measures incorporated into the Budgetary Plan.
Specific execution monitoring procedure. The MINHAC should articulate a procedure for monitoring the execution of the Central Administration and Social Security, which specifically includes: a. A monthly monitoring by the Ministry of Finance of the degree of implementation and impact of the revenue measures, with special attention to the implementation of the new tax figures envisaged in the Budgetary Plan. b. An evaluation of the differential behaviour of the labour market as a result of the rise in the minimum wage and its impact on the fiscal variables. c. This monitoring should be carried out in close collaboration with AIReF and with the broadest publicity.	Budgetary stability	MINHAC	MINHAC	Practical application	Explanation	The MINHAC considers that it complies with this recommendation in its three aspects: a. It complies both through the State Tax Administration Agency (AEAT) that assesses the impacts envisaged associated with policy changes in traditional and newly created tax figures, and through the National Accounting Office of the IGAE that prepares and publishes the financial statements of the PAs in national accounting terms. b. Although the MINHAC points out that it is within the competence of the Ministry of Labour, it notes that it complies since it is sufficient with the preparation and publication of financial statements regularly undertaken by the National Accounting Office of the IGAE. c. It complies because the MINHAC claims to work closely with AIReF AIReF considers that, given the uncertainty about the impact of the measures envisaged in the Budgetary Plan due to the procedure for implementation and entry into force of the same alongside the high influence of these measures on compliance with the fiscal rules, it is necessary to carry out a specific procedure, adapted to the circumstances noted, which extends beyond the provisions of Article 18 of the LOEPySF
Greater control by the MINHAC of the territorial administrations. The Ministry of Finance, as the governing body regarding stability, should intensify the monitoring, control and early warning actions necessary to ensure compliance with the fiscal rules (within the scope of the Territorial Administrations)	Expenditure rule	MINHAC	MINHAC	Practical application	Explanation	The MINHAC notes that it already carries out a series of actions aimed at monitoring, control and early warning of compliance with the fiscal rules: - Regions: it analyses their draft budgets and carries out monthly monitoring of their budgetary execution, as well as configures the content of the Adjustment Plans and also analyses the content of the EFPs. If there is risk of non-compliance with the fiscal rules, it sends letters of formal notice communicating the appreciation of said risks and requesting the provision of information on the measures to be adopted. - LCs: requests are sent to the LCs that do not comply with fiscal rules or do not comply with the Adjustment Plans. AIReF points out the need to focus on prevention and believes that if territorial administrations report measures to put an end to the warning of risk of non-compliance provided for in article 19 of the LOEPySF, these should be published.
Programme in the medium term. On the occasion of the Stability Programme Update (2019-2022) next April, legitimate medium-term programming is carried out, anchored in a credible debt reduction path.	Medium-term focus	MINHAC	MINHAC	2019-2022 EFP	Explanation	The MINHAC points out that the SPU conforms to existing Community legislation on fiscal governance and is prepared jointly with the Ministry of Economy. It considers that AIReF's recommendation is a proposal to consider in the current debate surrounding community fiscal rules and that the possible modification of the European fiscal framework will entail an update of the future SPU requirements that will logically be linked to the Kingdom of Spain once the relevant adoption procedures have been carried out. AIReF reiterates the importance of an authentic medium-term planning instrument that, given the high level of debt of the PAs, takes debt reduction into account as an essential element. Without prejudice to the future debate at European level on the fiscal rules, currently the community rules configure the SPU as a fiscal planning instrument and the MINHAC should use this valuable tool for that purpose.

REITERATED RECOMMENDATIONS

Reiterated recommendations	Type of recommendation	Background	Reason for reiteration	Recipient	Competent body	Mode of compliance	Status	Response
General report on the Regions' 2018-2019 EFP published on 06/27/2018								
Advance notice by the MINHAC of the information essential for preparation of the EFPs , to reduce the current uncertainties about the preparation of the EFPs: <ul style="list-style-type: none"> a. Communication to the Regions, at the time of the preparation of the EFPs, the forecast of RFS resources for the years included in the scope of the EFP b. Bring forward, coinciding with the preparation of the EFPs, the process of approval and distribution of the definitive budgetary stability and government debt targets and the definitive reference rate for the expenditure rule for the years included in the scope of the EFP 	Application of the LOEPySF	In the report on the 2017-2018 EFPs it was recommended to anticipate this information because not having essential background information for the second year of the temporal scope of the EFP (RFS resources, targets) reduces the ability to forecast and analyse the data relating to this year.	Non- compliance with the recommendation: The MINHAC responded that it provided the only possible forecasts of the RFS resources with the information available at the time and that bringing forward the process of adoption of the targets that will govern in the years of the plan would mean having a forecast with less information that could break the coordination between the internal deadlines and those of the European Semester. On the other hand, it did bring forward the publication of the report on the degree of compliance with the 2017 targets, favouring the start of the processing and, therefore, implementation of the EFPs. However, AIReF understands that the preparation and analysis of the plans would be facilitated with a standardised forecast for all Regions, although with provisional information, of the financing system resources and the targets toward which the EFPs should be planned.	MINHAC	MINHAC	Practical application		
Report on the 2018-2021 SPU published on 05/22/2018								
Include the following information in the Stability Program Update (SPU): <ul style="list-style-type: none"> • Budgetary projections for the GG sector and for each of the sub-sectors that incorporate the measures, showing contribution to the projected deficit reduction. • Government debt targets distributed by sub-sectors. • Detailed information for the analysis of the expenditure rule for each of the sub-sectors (computable expenditure and reference rates for all the years covered by the SPU). • More information on the risks that, if they materialise, may affect the budgetary stability or debt targets. 	Transparency	AIReF has emphasised, since the beginning of its activity, the importance of coordination between the fiscal scenario contained in the SPU and the annual budgets through which the different administrations, analysed as a whole, will be able to comply with the path set. In addition, the SPU is considered as a medium-term national fiscal plan, in accordance with article 4 of Regulation (EU) No 473/2013, and therefore must comply with the requirements of article 29 of the LOEPySF and the Directive 2011/85/EU.	Partial compliance with the recommendation: The MINHAC published a “no policy change” scenario (although not for the entire forecasting horizon, since it does not include 2020 and 2021), thereby responding to a reiterated recommendation from AIReF and representing important progress in terms of transparency (it allows the impact of the measures adopted and their transmission channels to be assessed). However, the 2018-2021 SPU continues to omit all the necessary information to corroborate the consistency between the budgetary scenario and the macroeconomic scenario, as well as omitting the assessment of the adjustment to the budgetary stability and government debt targets and the expenditure rule and the adequacy of the commitments made by each administration.	MINHAC	MINHAC	SPU	Analysis of the possibility of partial compliance	
Publication of Government Delegate Committee for Economic Affairs (CDGAE) evaluations on: <ul style="list-style-type: none"> -Compliance with the healthcare expenditure rule and the measures, if any, to be agreed to correct the deviations. -Percentage of excess deficit with respect to the target for each year decided by the CDGAE that must be offset in the budgets of subsequent years, specifying the years in which the Regions will offset this deviation. 	Transparency	In the report on the 2017-2020 SPU, AIReF recommended that the evaluations by the CDGAE should be published because the assessment of the effective impact of this instrument and of the measures that have been agreed, if any, requires greater transparency.	Non- compliance with the recommendation: The current National Spanish Reforms Programme for 2018 mentions the existence of the reports sent to the CDGAE with respect to non-compliance with the rule in 2016, which are not open to the public, and the existence of bilateral commitments with the Regions that have not complied, although their content is not determined nor published.	MINHAC	MINHAC		Explanation/No response	

Reiterated recommendations	Type of recommendation	Background	Reason for reiteration	Recipient	Competent body	Mode of compliance	Status	Response
Report on the initial budgets of the Local Governments: 2018 published on 05/11/2018								
Target setting according to the fiscal situation. The setting of targets for the various sub-sectors and administrations by MINHAC should take into account each one's fiscal situation, which requires that the expenditure rule is taken into account in the individual setting of targets.	Budgetary stability	<p>This recommendation has been reiterated on numerous occasions:</p> <ul style="list-style-type: none"> - Report on the draft GSB for 2018 - Report on expected compliance of the PAs in 2017 - Annual reports on the setting of individual targets for the Regions - Report on the initial budgets of Regions 2018 <p>The aim is to consider the financial situation of the different sub-sectors and provide rigour, realism and enforceability to the setting and subsequent compliance with the stability targets. The non-recognition of the recurrent surplus of the LG sub-sector makes it difficult to monitor the execution of budgetary commitments, thus reducing the enforceability of an increasingly devalued fiscal framework.</p>	Non- compliance with the recommendation: The practical application of this recommendation to the local sub-sector is particularly relevant as it is a sub-sector with consolidated surpluses since 2012, required by the application of the expenditure rule and where the setting of a stability target is unrealistic.	MINHAC	MINHAC	ACM	Explanation	
Common framework for the guardianship bodies. The MINHAF should establish and oversee a common framework for the exercise of the powers conferred to the financial guardianship bodies of the LGs, where the criteria and procedures are clearly defined and published in order to ensure uniform application of the LOEPySF in all LCs and throughout the national territory.	Application of the LOEPySF	In several previous reports AIReF has recommended the necessary coordination of all financial guardianship bodies led by the MINHAC, ensuring the uniform application of the stability regulations and ensuring that there is no unequal treatment in similar situations. The MINHAC has always responded that such coordination takes place at the annual meeting of the financial guardianship bodies where they debate and clarify the criteria for interpretation of the LOEPySF.	Non- compliance with the recommendation: When analysing the actions taken by the financial guardianship bodies of the LCs individually assessed in this report, both in the monitoring of compliance with the fiscal rules and the correction of situations of non-compliance, many differences in criteria have been found.	MINHAC	MINHAC	Regulatory development	Explanation	
Information on the expenditure rule. The MINHAC should include the calculation of the expenditure rule in the information that the LGs communicate on the main budgetary lines, approved budgets and budgetary execution, as well as an analysis of the consistency of this rule with the situation of balance or surplus that can be deduced from the planned revenue and expenditure scenario, assessed in national accounting terms.	Expenditure rule	In several previous reports, the last on the main budgetary lines of the LG budgets for 2018, AIReF has stressed the importance of the application of the expenditure rule in this sub-sector and in the LCs individually considered (mainly in the large city councils) and, therefore, its monitoring throughout the budgetary cycle, as a way to ensure compliance at year-end.	Non- compliance with the recommendation: The MINHAC justified this by the overload of work of the local intervention boards with multiple obligations to supply information and by the degree of non-execution of the expenditure budget of the LCs that makes the information on compliance with the expenditure rule during the year insignificant and generates confusion. However, AIReF considers that this argument would be valid for the stability target and does not argue this, and in order to make compliance with the stability targets and expenditure rule consistent, the calculations underlying both cannot and should not be separated, especially when they are mostly based on the same variables.	MINHAC	MINHAC	Amendment of the Order HAP 2015/2012	Commitment to compliance	

Reiterated recommendations	Type of recommendation	Background	Reason for reiteration	Recipient	Competent body	Mode of compliance	Status	Response
Report on the initial budgets of the Local Governments: 2018 published on 05/04/2018								
Targets setting. The setting of targets for the various sub-sectors and administrations should take into account each one's fiscal situation, which requires that the expenditure rule to be considered in the individual setting of targets.	Budgetary stability	The report on the draft GSB for 2018 already recommended this given the ease of compliance with the targets set for the territorial administrations in relation to those established in the CA and SSF. In addition, AIReF's reports on setting individual targets for the Regions have recommended the need to take into account the expenditure rule when setting individual targets for the Regions.	Non- compliance with the recommendation: There are still the same disparities in the distribution of the targets between sub-sectors	MINHAC	MINHAC	ACM on setting targets	Explanation	
Information on the expenditure rule. In later years the draft budgets and budgets of these Regions should include information on the expenditure rule.	Transparency	In several of its reports AIReF has highlighted the need for the budgets of all PAs, and, in particular, of the Regions, make their forecasts regarding compliance with all the fiscal rules transparent.	Non- compliance with the recommendation: It is noted that the budgets for 2018 of Aragon, Castile and Leon, Castile-La Mancha and Basque Country do not mention the expenditure rule, they only detail their estimates regarding compliance with the stability and debt target.	Aragon, Castile and Leon, Castile-La Mancha and Basque Country	Aragon, Castile and Leon, Castile-La Mancha and Basque Country	Draft budgets and budgets for 2019 of the Regions	Commitment to compliance: Aragon, Castile and Leon, Castile-La Mancha and Basque Country	
Debate on the expenditure rule. It is recommended to convene the working group on the expenditure rule of the Fiscal and Financial Policy Council to discuss and address relevant issues relating to the rule.	Expenditure rule	The various issues that are currently being debated on the methodology and regulation of the expenditure rule, as well as the lack of knowledge generally seen regarding certain elements considered in its measurement, require the transparent exchange of information, discussion and adoption of consensus decisions to allow all managers to have adequate knowledge and acceptance of the rule.	Non- compliance with the recommendation: There is no record that the working group has met since its creation.	MINHAC	MINHAC	FFPC	Compliance	
Report on the draft GSB for 2018 published on 04/17/2018								
Budgets in national accounting. An initial budget in national accounting terms should be prepared for the CA and SSF.	Budgetary stability	The General State Budgets included information about the national accounting adjustments until 2016. However, in 2018, for the second consecutive year, the draft GSB does not include information about national accounting adjustments.	Non- compliance with the recommendation: The Draft GSB for 2018 still does not include information to reconcile the budgetary balance with the net lending or borrowing. This issue could be solved if the budget would be presented in national accounting terms, facilitating its analysis and monitoring. It would also allow it to be linked to the medium-term fiscal scenario included in the SPU.	AC, SSF	MINHAC, Ministry of Labour, Migration and Social Security	GSB	Explanation	
Extension of the transitional debt period. It is recommended to use the appropriate legal mechanisms to extend the transitional period for compliance with the limit established in article 13 of the LOEPySF, adapting the requirements specified in the first transitional provision of this law and defining a credible and demanding reference path for the sustained reduction of the debt-to-GDP ratio.	Medium-term focus	On many occasions, as well as in the last one, the report on the initial budgets for 2018 of the Regions reiterated this recommendation as it has been proven that the 1st TP of the LOEPySF will not be complied with until 2037, according to the estimates of AIReF's baseline scenario. In the Regional sub-sector, the reference level of 13% is not expected to be achieved until 2036, and specifically in Catalonia, Castile- La Mancha, Murcia and Valencia before 2040.	Non- compliance with the recommendation: The transitional period has not been amended	MINHAC	MINHAC	Modification of the LOEPySF	Analysis of the possibility of compliance	

Reiterated recommendations	Type of recommendation	Background	Reason for reiteration	Recipient	Competent body	Mode of compliance	Status	Response
Information on ESA 2010 bodies in the GSB. The GSB should include information on the non-public entities that are included in the Central Administration sub-sector for the purposes of ESA 2010.	Transparency	The lack of a Draft GSB in national accounting terms makes it difficult to assess compliance and monitor the fiscal rules defined in national accounting terms. In this sense, it is essential that the GSB includes information about the economic and financial activity of the bodies that it sectorises, such as the Central Administration.	Non-compliance with the recommendation: The GSB still do not include the relevant information to verify the calculation of the fiscal rules.	CA	MINHAC	GSB 2019	Explanation	
Information on debt in the GSB. The information contained in the Draft GSB should be completed in such a way as to allow a specific assessment of CA compliance with the debt target.	Transparency	The lack of a Draft GSB in national accounting terms makes it difficult to assess compliance and monitor the fiscal rules defined in national accounting terms. In this sense, it is essential that the GSB include a detailed analysis of the Government's forecast on the evolution of the CA's debt.	Non-compliance with the recommendation: The GSB still do not include the relevant information to verify the calculation of the fiscal rules.	CA	MINHAC	GSB 2019	Analysis of the possibility of compliance	
Information on the expenditure rule in the GSB. The necessary information for the assessment of the expenditure rule should be included in the GSB. In particular, the impact of the main regulatory changes and their qualification as "permanent or non-permanent" for the purposes of the expenditure rule.	Transparency	The lack of a Draft GSB in national accounting terms makes it difficult to assess compliance and monitor the fiscal rules defined in national accounting terms. It is essential that the GSB includes information that allows the identification of the computable expenditure of the expenditure rule, with the regulatory changes that affect its compliance	Non-compliance with the recommendation: The GSB still do not include the relevant information to verify the calculation of the fiscal rules.	CA	MINHAC	GSB 2019	Explanation	
Information on the PRI in the draft GSB. The General State Budget should include the necessary information to calculate the PRI.	Transparency	Including the necessary information to calculate the PRI in the Social Security Economic and Financial Report was an improvement in transparency. The omission of the information indicated from the draft GSB justifies the reiteration of the recommendation.	Non-compliance with the recommendation: The necessary information to calculate the PRI is not included in the Draft GSB for 2018, information that was included in the GSB for 2017.	CA, SSF	MINHAC, Ministry of Labour, Migration and Social Security	GSB 2019	Explanation	

Reiterated recommendations	Type of recommendation	Background	Reason for reiteration	Recipient	Competent body	Mode of compliance	Status	Response
Report on the Macroeconomic Forecasts of the Draft GSB for 2018								
Inertial scenario The macroeconomic outlook should be accompanied with an inertial or “no-policy-change” scenario and a separate quantification of the economic impact of the measures adopted or planned, in order to facilitate understanding of the forecasts and make the connection between the macroeconomic outlook and the budgetary scenario explicit at all times.	Methodology and transparency	This recommendation is already contained in the report on the Macroeconomic forecasts of the draft GSB for 2017, and affects the areas of methodology and transparency. MINEICO responded to this recommendation with a commitment of partial compliance, stating that once the quantification of the impact of the measures taken or envisaged provided by the MINHAF is available, it would propose including real and nominal GDP growth forecasts in a “no policy change” scenario in future draft GSB. In this sense, AIReF welcomed the proposal, but insisted on the need to have a complete inertial macroeconomic scenario, accompanied by the quantified impact of the measures to facilitate the analysis of the scenario and the transmission channels of the measures, thus ensuring consistency between the macroeconomic scenario and the budgetary scenario.	Non- compliance with the recommendation: In this report on the macroeconomic forecasts of the Draft GSB for 2018, MINEICO did not provide a “no-policy change” macroeconomic scenario, nor a reduced version (limited to real and nominal GDP growth), nor the estimated economic impact of the fiscal measures included by the Government, thereby not complying with the commitment made in its response to AIReF. For this reason, AIReF reiterates its recommendation in the same terms, since it is not in a position to make the connection between the macroeconomic forecasts and the budgetary scenario explicit, as it does not have information on the budgetary variables beyond the evolution of aggregate public consumption.	Ministry of Economy and Business	Ministry of Economy and Business	18-21 SPU	Compliance	
Adoption of measures to correct bias in forecasts. It is recommended to adopt and publish the measures necessary to correct the significant biases observed in the autumn public consumption forecast.	Transparency	This recommendation responds to the requirements of Directive 2011/85/EU on the evaluation of the forecasts. It is described in the report on the macroeconomic forecasts of the DBP for 2018, where a large, unjustified and continuous bias in the official public consumption forecasts over the past 4 years was identified. The response provided by MINEICO indicated that if the central government forecast of public consumption growth in real terms were outside the consensus interquartile range, it would be adjusted so that it would be at the end of the interquartile range closest to the Government’s original forecast.	Reason for reiteration: sufficiency of the actions taken Public consumption is the variable on which the connection between the macroeconomic and budgetary forecasts is hinged. In a period of budgetary consolidation, biases underestimating public consumption are directly transferred to the GDP forecasts (underestimating them) and inversely to the net lending/borrowing of the PAs, which tends to be overestimated. The solution proposed by MINEICO is not sufficient, as it focuses on the formal criteria of the definition of bias in order to avoid the characterisation of “significant”, without solving the underlying problem.	Ministry of Economy and Business	Ministry of Economy and Business	Practical application	Explanation	
Report on expected compliance with the 2018 targets and expenditure rule of the PAs published on 07/23/2018								
Specification of measures in SPU report. Make an effort to specify the measures in order to be able to verify the plausibility of the fiscal path envisaged that, in any case, must ensure their consistency with the evolution of the relevant macroeconomic variables and with the discretionary measures to be adopted.	Medium-term focus	Report on expected compliance with the 2018 targets and expenditure rule of the PAs	This recommendation was reiterated as a response had not yet been received	23/7/18	MINHAC	MINHAC	Commitment to compliance	MINHAF notes that it will consider this recommendation in the upcoming Stability Programme Updates.

Reiterated recommendations	Type of recommendation	Background	Reason for reiteration	Recipient	Competent body	Mode of compliance	Status	Response
MINHAF's actions as guardianship body. As the guardianship body of the City Councils of Aranjuez, Totana and Navalcarnero, it should monitor the measures adopted by the city councils mentioned as they have high medium-term sustainability risk. In addition, as the guardianship body of the City Council of Madrid, it should supervise and, if necessary, apply the graduality of the law envisaged in articles 25 and following of the LOEPySF to this city council, for cases of reiterated non-compliance with commitments agreed in its EFP.	Medium-term focus	Report on expected compliance with the 2018 targets and expenditure rule of the PAs	The MINHAC deviates from this recommendation and AIReF considers it very important to promote the financial sustainability of these corporations	23/7/18	MINHAC	MINHAC	Explanation	MINAHFP notes that it will act in accordance with the LOEPySF, and that these corporations have adjustment plans. However, it notes that it will reinforce communication and collaboration in order to solve the difficult situation of these Local Administrations. AIReF considers that these situations cannot be solved by the measures established in the adjustment plans that the corporations concerned may have.
Actions by Valencia and Andalusia as guardianship bodies. That Valencia, as the guardianship body of the City Council of Gandia and the Region of Andalusia, the City Councils of Algeciras, La Línea de la Concepción, Isla Cristina and Ayamonte, should monitor the measures adopted by the same in order to reverse the situation of high medium-term sustainability risk in which they find themselves.	Medium-term focus	Report on expected compliance with the 2018 targets and expenditure rule of the PAs	AIReF considers it very important to promote the financial sustainability of these corporations	23/7/18	Valencia, Andalusia	Valencia, Andalusia	Compliance or commitment to compliance:	Andalusia reports specific monitoring actions in relation to the APP and financial debt in relation to these City Councils, except for Ayamonte, for which it does not have information. Once it has said information, pertinent actions will be taken. Moreover, it commits to reporting on future actions.
Implementation of measures due to non-compliance with the EFP. It is reiterated that, with non-compliance with the commitments agreed in its EFP, the City Council of Madrid should apply the graduality regulated in the LOEPySF.	Application of the LOEPySF	Report on expected compliance with the 2018 targets and expenditure rule of the PAs	This recommendation was reiterated as a response had not yet been received	23/7/18	City Council of Madrid	City Council of Madrid	Suspended	AIReF suspends this recommendation until the MINHAC follows the recommendation of specifying, by promoting the necessary regulatory changes, the nature and scope of the targets agreed in the EFP and Adjustment Plans of the LGs, in order to verify compliance. Without prejudice to the MINHAC working on a protocol of action in order to set guidelines for the uniform application and interpretation of the fiscal rules, AIReF considers it desirable for MINHAC to provide a formal opinion about the reference rate to be used when the LGs have an EFP, with the consequent regulatory development and modification of the manual about the information system of the EFP of the Local corporations (PEFEL2) for practical purposes.

Reiterated recommendations	Type of recommendation	Background	Reason for reiteration	Recipient	Competent body	Mode of compliance	Status	Response
Report on the 2018-2019 EFP for Andalusia 3/12/2018								
Additional immediate expenditure correction measures. For 2019, it is recommended to design immediate expenditure correction mechanisms, complementary to existing ones, to apply in response to deviations in the forecasts for the evolution of co-financed expenditure or expenditure growth above the expected level that jeopardize compliance with the expenditure rule. The description and operation of these mechanisms must be included in the EFP	Expenditure rule	In the report of 20 July 2018 on expected compliance with the fiscal rules of the Region of Andalusia for 2018 the recommendation made in the report on the initial budgets of the Region for that year, which showed the same risk, was maintained. It is noted in the report on the 2018-2019 EFP and mentioned again in the individual report on the main budgetary lines for 2019 of 21 December 2018	The AIReF considers that, given the non-compliance with the expenditure rule by this Region 2017, the mechanisms adopted by the Region are not sufficient: on the one hand, the Region's Draft Budget Law for 2018 which authorises the Governing Council to take measures to accommodate the execution of expenditure to the recognition of rights and thus ensure compliance with the stability target; on the other hand, due to the existence of the Delegated Commission for Fiscal and Financial Stability and the Organisation of the Public Sector, with functions of planning, promotion and coordination of the competences and actions of the Governing Council for fiscal and financial balance.	3/12/18	Andalusia	Andalusia	Pending approval of the 2018-2019 EFP	
Report on the macroeconomic forecasts for 2019 of Madrid (14/12/2018)								
Publication of macroeconomic forecasting models. Publication of the models and parameters used in the macroeconomic forecasts, following the provisions of Directive 2011/85/EU on the requirements applicable to the budgetary frameworks of the Member States.	Transparency	In the report on the macroeconomic forecasts of the 2018 budget of the Autonomous Regions, Madrid has already been requested to publish the models used in its macroeconomic forecasts	AIReF considered the explanations on the methodology used for the preparation of the economic forecasts and unemployment rate projections given by Madrid regarding the recommendation made last year on the 2018 budget to be insufficient. Now the same issue is raised in relation to the methodology underlying the 2019 budget, therefore the recommendation is reiterated.	14/12/18	Madrid	Madrid	Complied	Madrid provides data on the methodology used for the preparation of the economic forecasts (based on the data provided by the Adjusted Activity Indicator produced by the Madrid Statistics Institute) and for the estimation of the unemployment rate (it is based on calculating forecasts of the variables of employed and active population)

LIVE RECOMMENDATIONS

Live recommendations	Live recommendations	Live recommendations	Live recommendations	Live recommendations	Live recommendations	Live recommendations	Live recommendations	Response
<p>Advance notice by the MINHAC of the information essential for preparation of the EFPs, to reduce the current uncertainties about the preparation of the EFPs:</p> <p>a. Communication to the Regions, at the time of the preparation of the EFPs, the forecast of RFS resources for the years included in the scope of the EFP.</p> <p>b. Bring forward, coinciding with the preparation of the EFPs, the process of approval and distribution of the definitive budgetary stability and government debt targets and the definitive reference rate for the expenditure rule for the years included in the scope of the EFP.</p>	Application of the LOEPSF	In the report on the 2017-2018 EFPs it was recommended to anticipate this information because not having essential background information for the second year of the temporal scope of the EFP (RFS resources, targets) reduces the ability to forecast and analyse the data relating to this year.	<p>Non-compliance with the recommendation:</p> <p>The MINHAC responded that it provided the only possible forecasts of the RFS resources with the information available at the time and that bringing forward the process of adoption of the targets that will govern in the years of the plan would mean having a forecast with less information that could break the coordination between the internal deadlines and those of the European Semester. On the other hand, it did bring forward the publication of the report on the degree of compliance with the 2017 targets, favouring the start of the processing and, therefore, implementation of the EFPs.</p> <p>However, AIReF understands that the preparation and analysis of the plans would be facilitated with a standardised forecast for all Regions, although with provisional information, of the financing system resources and the targets toward which the EFPs should be planned.</p>	MINHAC	MINHAC	Practical application	Explanation	The MINHAC has noted that it did not have this at the time of preparation of the EFP.
<p>Include the following information in the Stability Program Update (SPU):</p> <ul style="list-style-type: none"> • Budgetary projections for the GG sector and for each of the sub-sectors that incorporate the measures, showing contribution to the projected deficit reduction. • Government debt targets distributed by sub-sectors. • Detailed information for the analysis of the expenditure rule for each of the sub-sectors (computable expenditure and reference rates for all the years covered by the SPU). • More information on the risks that, if they materialise, may affect the budgetary stability or debt targets. 	Transparency	AIReF has emphasised, since the beginning of its activity, the importance of coordination between the fiscal scenario contained in the SPU and the annual budgets through which the different administrations, analysed as a whole, will be able to comply with the path set. In addition, the SPU is considered as a medium-term national fiscal plan, in accordance with article 4 of Regulation (EU) No 473/2013, and therefore must comply with the requirements of article 29 of the LOEPySF and the Directive 2011/85/EU.	<p>Partial compliance with the recommendation:</p> <p>The MINHAC published a “no policy change” scenario (although not for the entire forecasting horizon, since it does not include 2020 and 2021), thereby responding to a reiterated recommendation from AIReF and representing important progress in terms of transparency (it allows the impact of the measures adopted and their transmission channels to be assessed).</p> <p>However, the 2018-2021 SPU continues to omit all the necessary information to corroborate the consistency between the budgetary scenario and the macroeconomic scenario, as well as omitting the assessment of the adjustment to the budgetary stability and government debt targets and the expenditure rule and the adequacy of the commitments made by each administration.</p>	MINHAC	MINHAC	SPU	Analysis of the possibility of partial compliance	<p>The MINHAC deviates from the recommendation in the following aspects:</p> <ul style="list-style-type: none"> - In relation to the forecasting of the main revenue and expenditure items, it considers that those for the GG sector should be sent, given that the European Commission analyses compliance with the deficit and government debt targets by the Kingdom of Spain. - In relation to the expenditure rule, it indicates that more detailed information is already included with forecasts for the period 2018-2021 of the expenditure on EU programmes financed completely with EU funds, cyclical expenditure on unemployment benefits, the effects of discretionary revenue and interest expenditure measures. - In relation to risks, it notes that the SPU reflects the current risks that could affect the stability targets, with the information available at the time of the preparation of the same and additionally section 6.3 “contingent liabilities”, in compliance with Directive 2011/85/EU, shows detailed information on the public guarantees and other off-balance sheet liabilities of the PAs. <p>AIReF believes that in a decentralised state such as Spain, a national medium-term fiscal framework should collect information disaggregated by sub-sectors, consistent with aggregate information for the GG sector.</p> <p>The MINHAC undertakes to examine the possibility of compliance:</p> <ul style="list-style-type: none"> - In relation to the government debt targets, in order to determine the extent to which the information to be included in the SPU in the future can be presented in a disaggregated manner by sub-sectors.

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Publication of Government Delegate Committee for Economic Affairs (CDGAE) evaluations on: -Compliance with the healthcare expenditure rule and the measures, if any, to be agreed to correct the deviations. -Percentage of excess deficit with respect to the target for each year decided by the CDGAE that must be offset in the budgets of subsequent years, specifying the years in which the Regions will offset this deviation.	Transparency	In the report on the 2017-2020 SPU, AIReF recommended that the evaluations by the CDGAE should be published because the assessment of the effective impact of this instrument and of the measures that have been agreed, if any, requires greater transparency.	Non-compliance with the recommendation: The current National Spanish Reforms Programme for 2018 mentions the existence of the reports sent to the CDGAE with respect to non-compliance with the rule in 2016, which are not open to the public, and the existence of bilateral commitments with the Regions that have not complied, although their content is not determined nor published.	MINHAC	MINHAC		Explanation/ No response	The MINHAC , in relation to the healthcare expenditure rule, points out that the CDGAE assessed, at its meeting on 26 October 2017, the degree of compliance in 2016 and constituted committees for each affiliated Region, having held bilateral meetings for all of them in the months of February and March 2018, which evaluated different actions for improvements in the efficiency of pharmaceutical expenditure and expenditure on diverse healthcare products. AIReF considers that the MINHAC does not give explanations about the reasons for which these assessments and measures are not published, since it is precisely their publication that is the subject of the recommendation. On the other hand, the MINHAC does not respond to the recommendation to publish the percentage of excess deficit with respect to the target for each year decided by the CDGAE that must be offset in the budgets for subsequent years. Therefore, it is not known whether these evaluations are being carried out as well as their content, which has a significant impact on compliance with the deficit target of the Regions.
Target setting according to the fiscal situation. The setting of targets for the various sub-sectors and administrations by MINHAC should take into account each one's fiscal situation, which requires that the expenditure rule is taken into account in the individual setting of targets.	Budgetary stability	This recommendation has been reiterated on numerous occasions: - Report on the draft GSB for 2018 -Report on expected compliance of the PAs in 2017 - Annual reports on the setting of individual targets for the Regions - Report on the initial budgets of Regions 2018 The aim is to consider the financial situation of the different sub-sectors and provide rigour, realism and enforceability to the setting and subsequent compliance with the stability targets. The non-recognition of the recurrent surplus of the LG sub-sector makes it difficult to monitor the execution of budgetary commitments, thus reducing the enforceability of an increasingly devalued fiscal framework.	Non-compliance with the recommendation: The practical application of this recommendation to the local sub-sector is particularly relevant as it is a sub-sector with consolidated surpluses since 2012, required by the application of the expenditure rule and where the setting of a stability target is unrealistic.	MINHAC	MINHAC	ACM	Explanation	MINHAC admits that the targets of the different sub-sectors have been set in order to guarantee compliance in the whole Spanish Kingdom but it is necessary to improve the target allocation to be consistent with the fiscal situation and the competences granted to each sub-sector. AIReF reiterates the need to set a surplus target for the local sub-sector, as permitted by article 11 of the LOEPySF, consistent with compliance with the expenditure rule, thus making the information contained in the notifications made to the European Union transparent, which already recognise this LG surplus.

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Common framework for the guardianship bodies. The MINHAC should establish and oversee a common framework for the exercise of the powers conferred to the financial guardianship bodies of the LGs, where the criteria and procedures in order to ensure uniform application of the LOEPySF in all LCs and throughout the national territory are clearly defined and published.	Application of the LOEPySF	In several previous reports AIReF has recommended the necessary coordination of all financial guardianship bodies led by the MINHAC, ensuring the uniform application of the stability regulations and ensuring that there is no unequal treatment in similar situations. The MINHAFP has always responded that such coordination takes place at the annual meeting of the financial protection bodies where they debate and clarify the criteria for interpretation of the LOEPySF.	Non- compliance with the recommendation: When analysing the actions taken by the financial guardianship bodies of the LCs individually assessed in this report, both in the monitoring of compliance with the fiscal rules and the correction of situations of non-compliance, many differences in criteria have been found.	MINHAC	MINHAC	Regulatory development	Explanation	The MINHAC welcomes the proposal but considers that the annual meeting of the financial guardianship bodies serves to clarify and standardise criteria for applying guardianship in the field of budgetary stability and financial sustainability. AIReF insists on the need to document such meetings, publish the commitments made and clarify the content and scope of the competences of these bodies in regulations. Without such documentation and publication the agreements adopted at those meetings do not bind the attendees beyond their desire to comply.
Information on the expenditure rule. The MINHAFP should include the calculation of the expenditure rule in the information that the LGs communicate on the main budgetary lines, approved budgets and budgetary execution, as well as an analysis of the consistency of this rule with the situation of balance or surplus that can be deduced from the planned revenue and expenditure scenario, assessed in national accounting terms.	Expenditure rule	In several previous reports, the last on the main budgetary lines of the LG budgets for 2018, AIReF has stressed the importance of the application of the expenditure rule in this sub-sector and in the LCs individually considered (mainly in the large city councils) and, therefore, its monitoring throughout the budgetary cycle, as a way to ensure compliance at year-end.	Non- compliance with the recommendation: The MINHAC justified this by the overload of work of the local intervention boards with multiple obligations to supply information and by the degree of non-execution of the expenditure budget of the LCs that makes the information on compliance with the expenditure rule during the year insignificant and generates confusion. However, AIReF considers that this argument would be valid for the stability target and does not argue this, and in order to make compliance with the stability targets and expenditure rule consistent, the calculations underlying both cannot and should not be separated, especially when they are mostly based on the same variables.	MINHAC	MINHAC	Amendment of the Order HAP 2015/2012	Explanation	The MINHAC notes that the assessment of the local intervention board on compliance or non-compliance with the expenditure rule, which is the body that best knows the LG's ability to close the year with the expenditure committed to with the expenditure rule target, will be included in the requested information concerning the main budgetary lines. AIReF reiterates the need to incorporate the calculation and communication of the expenditure rule in the preventive phases of the budgetary cycle, not only an assessment in terms of yes or no without detail of the calculation, in order to anticipate risks and implement measures that prevent them from occurring.
Targets setting. The setting of targets for the various sub-sectors and administrations should take into account each one's fiscal situation, which requires that the expenditure rule to be considered in the individual setting of targets.	Budgetary stability	The report on the draft GSB for 2018 already recommended this given the ease of compliance with the targets set for the territorial administrations in relation to those established in the CA and SSF. In addition, AIReF's reports on setting individual targets for the Regions have recommended the need to take into account the expenditure rule when setting individual targets for the Regions.	Non- compliance with the recommendation: There are still the same disparities in the distribution of the targets between sub-sectors	MINHAC	MINHAC	ACM on setting targets	Explanation	The MINHAC notes that considering the expenditure rule to set the targets is mentioned in article 15.2 of the LOEPySF and not in article 16 on the setting of individual targets. In addition, the scope for setting asymmetric targets is reduced (less deficit gap between Regions alongside the reduced amount of the deficit forecast for the sub-sector in the 2019-2021 period). The use of uniform individual targets that allow easy translation to the joint target for the Regional sub-sector must be assessed, providing transparency and visibility to its control. AIReF considers that setting the targets by taking into account the expenditure rule may facilitate the establishment of achievable paths that incentivise efforts and are more in line with the fiscal situation of each Region.

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Budgets in national accounting. An initial budget in national accounting terms should be prepared for the CA and SSF	Budgetary stability	The General State Budgets included information about the national accounting adjustments until 2016. However, in 2018, for the second consecutive year, the draft GSB does not include information about national accounting adjustments.	Non- compliance with the recommendation: The Draft GSB for 2018 still does not include information to reconcile the budgetary balance with the net lending or borrowing. This issue could be solved if the budget would be presented in national accounting terms, facilitating its analysis and monitoring. It would also allow it to be linked to the medium-term fiscal scenario included in the SPU.	CA, SSF	MINHAC, Ministry of Labour, Migration and Social Security	GSB	Explanation	The MINHAF points out that it publishes execution data of the CA and SSF in national accounting terms each month. This could lead to achieving a budget in national accounting terms in the future. However, detailed data would be needed sufficiently in advance, plus additional information and explanations. These exceed the current deadlines for preparing the draft budget, making it impossible, at the moment, to convert the budget to national accounting terms at the time of presentation. AIReF considers that, as the fiscal rules are expressed in national accounting terms, the existence of budgets in national accounting terms would facilitate their monitoring. However, in any case, the budgets should include the national accounting adjustments to verify compliance with the stability target, as required by the principle of transparency of article 6 of the LOEPySF.
Extension of the transitional debt period. It is recommended to use the appropriate legal mechanisms to extend the transitional period for compliance with the limit established in article 13 of the LOEPySF, adapting the requirements specified in the first transitional provision of this law and defining a credible and demanding reference path for the sustained reduction of the debt-to-GDP ratio.	Medium-term focus	On many occasions, as well as in the last one, the report on the initial budgets for 2018 of the Regions reiterated this recommendation as it has been proven that the 1st TP of the LOEPySF will not be complied with until 2037, according to the estimates of AIReF's baseline scenario. In the Regional sub-sector, the reference level of 13% is not expected to be achieved until 2036, and specifically in Catalonia, Castile- La Mancha, Murcia and Valencia before 2040.	Non- compliance with the recommendation: The transitional period has not been amended	MINHAC	MINHAC	Modification of the LOEPySF	Explanation	MINHAC agrees with this recommendation and will analyse and study this recommendation by AIReF. However, as this is an Organic Law, it requires a broad consensus, which is difficult provided the current situation. AIReF insists that it is desirable to set realistic targets.
Information on ESA 2010 bodies in the GSB. The GSB should include information on the non-public entities that are included in the Central Administration sub-sector for the purposes of ESA 2010.	Transparency	The lack of a Draft GSB in national accounting terms makes it difficult to assess compliance and monitor the fiscal rules defined in national accounting terms. In this sense, it is essential that the GSB includes information about the economic and financial activity of the bodies that it sectorises, such as the Central Administration.	Non- compliance with the recommendation: The GSB still do not include the relevant information to verify the calculation of the fiscal rules.	CA	MINHAC	GSB 2019	Explanation	MINHAF states that the GSB includes information about all those bodies required by the regulation and it also states that although, since 25th May, the Royal Decree regarding the requirements applicable to the macroeconomic and budgetary forecasts establishes the requirement of publishing the combined influence of the bodies and funds that do not form part of its ordinary budgets on the balances and debts of the Public Administrations, the GSB are not the most appropriate place to publish this information, as such bodies do not fall within their scope of application. AIReF considers that it is essential to include this information in the GSB because the bodies are part of the ESA 2010 and, therefore, they have an impact on compliance with the stability target.
Information on debt in the GSB. The information contained in the Draft GSB should be completed in such a way as to allow a specific assessment of CA compliance with the debt target.	Transparency	The lack of a Draft GSB in national accounting terms makes it difficult to assess compliance and monitor the fiscal rules defined in national accounting terms. In this sense, it is essential that the GSB include a detailed analysis of the Government's forecast on the evolution of the CA's debt.	Non- compliance with the recommendation: The GSB still do not include the relevant information to verify the calculation of the fiscal rules.	CA	MINHAC	GSB 2019	Analysis of the possibility of compliance	MINHAF considers that the Draft GSB contains sufficient information to determine the CA's compliance with the government debt target. However, it will consider the possibility of providing this information in a more accessible way, within the available means and provided it does not entail an increase in the operating costs.

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Information on the expenditure rule in the GSB. The necessary information for the assessment of the expenditure rule should be included in the GSB. In particular, the impact of the main regulatory changes and their qualification as “permanent or non-permanent” for the purposes of the expenditure rule.	Transparency	The lack of a Draft GSB in national accounting terms makes it difficult to assess compliance and monitor the fiscal rules defined in national accounting terms. It is essential that the GSB includes information that allows the identification of the computable expenditure of the expenditure rule, with the regulatory changes that affect its compliance	Non- compliance with the recommendation: The GSB still do not include the relevant information to verify the calculation of the fiscal rules.	CA	MINHAC	GSB 2019	Explanation	The MINHAC states that the information regarding compliance with the expenditure rule is included in the reports published by MINHAC, as per Article 17, of the LOEPySF in April and October and, additionally, for the current year, the IGAE publishes the evolution of the computable expenditure on a monthly basis, indicating, among other issues, the amount of regulatory changes with permanent collection increases or decreases. AIReF considers this information very useful but it does not allow verification of compliance with the expenditure rule in the draft GSB or in its approval, not complying the requirement in Article 6 of the LOEPySF, which states that the budgets should contain adequate and sufficient information on compliance with all the fiscal rules.
Information on the PRI in the draft GSB. The General State Budget should include the necessary information to calculate the PRI.	Transparency	Including the necessary information to calculate the PRI in the Social Security Economic and Financial Report was an improvement in transparency. The omission of the information indicated from the draft GSB justifies the reiteration of the recommendation.	Non- compliance with the recommendation: The necessary information to calculate the PRI is not included in the Draft GSB for 2018, information that was included in the GSB for 2017.	CA, SSF	MINHAC, Ministry of Labour, Migration and Social Security	GSB 2019	Explanation	The MINHAC shares the need for transparency regarding calculation of the PRI, but it considers that, as the PRI depends on sensitive information, the GSB is not the most appropriate place to include such information. AIReF recalls that Article 58 of the General Social Security Law establishes that the value of the variable used to calculate the revaluation index should be published annually.
Medium term scal framework. Promote the implementation of a medium-term budgetary fiscal framework with greater consensus and participation of all actors involved to give more realism and credibility to the budgetary plan. Any move in this direction would strengthen the legitimacy and enforceability of the fiscal rules	Medium-term focus			MINHAC	MINHAC	SPU	Explanation	The MINHAC considers that process for preparation of the budgetary framework already encompasses all actors involved, from the different sub-sectors of the Administration that have to send information on their medium-term fiscal plans, to the different ministries of the CSA involved. AIReF considers that the breakdown and level of detail that the SPU currently contains do not allow this document to be considered as an authentic medium-term fiscal plan. Greater development would be needed for each sub-sector, where more involvement of each level of administration would improve the commitment to their respective scenarios.
Adoption of measures to correct bias in forecasts. It is recommended to adopt and publish the measures necessary to correct the significant biases observed in the autumn public consumption forecast.	Transparency	This recommendation responds to the requirements of Directive 2011/85/EU on the evaluation of the forecasts. It is described in the report on the macroeconomic forecasts of the DBP for 2018, where a large, unjustified and continuous bias in the official public consumption forecasts over the past 4 years was identified. The response provided by MINEICO indicated that if the central government forecast of public consumption growth in real terms were outside the consensus interquartile range, it would be adjusted so that it would be at the end of the interquartile range closest to the Government’s original forecast.	Reason for reiteration: suf ciency of the actions taken Public consumption is the variable on which the connection between the macroeconomic and budgetary forecasts is hinged. In a period of budgetary consolidation, biases underestimating public consumption are directly transferred to the GDP forecasts (underestimating them) and inversely to the net lending/ borrowing of the PAs, which tends to be overestimated. The solution proposed by MINEICO is not sufficient, as it focuses on the formal criteria of the definition of bias in order to avoid the characterisation of “significant”, without solving the underlying problem.	Ministry of Economy and Business	Ministry of Economy and Business	Practical application	Explanation	Responded to by MINEICO on May 4th explaining that it is working on revising the models used in forecasting the public consumption in volume and its deflator

Live recommendations	Live recommendations	Live recommendations	Live recommendations	Live recom- mendations	Live recom- mendations	Live recom- mendations	Live recom- mendations	Response
Preventive measures for the Central Administration. It is recommended to close the gap in the LOEPySF concerning the application of preventive measures to the Central Administration in cases of risk of non-compliance with the targets set. In particular, it is recommended to establish a mechanism for enforcement of the CA's execution through monthly monitoring to be carried out with the utmost transparency, sending the reports prepared to Parliament and AIReF.			The MINHAC has deviated from this recommendation but AIReF considers that this gap in the LOEPySF should be remedied with the aim of strengthening the current fiscal framework so that, in the face of risks of non-compliance by the CA, there are preventive measures in place, as occurs for the territorial administrations.	MINHAC	MINHAC	Modification of the LOEPySF	Explanation	The MINHAC claims that all the available information that enables proper monitoring is published on a monthly basis with the aim of warning of the risk of deviation that may occur at year-end. All this information in such a short period of time allows for continued analysis of execution trends and an assessment of whether it is necessary to adopt measures that guarantee compliance with the budgetary stability targets. Its efficiency is shown in the measure of fractionated payments adopted in 2016, which together with other measures, allowed 2016 to close below the target set.
Debt targets of the Regions. The proposal of individual 2019-2021 debt targets should be accompanied by the indication that, when the Regions incur a deficit below the stability target set, the debt targets that serve to measure their compliance will be adjusted to the financing requirements actually recorded at the end of the year.	Financial sustainability	It has been reiterated in many reports: Report on expected compliance with the 2018 targets and expenditure rule of the PAs, individual reports on the main budgetary lines for 2019 of the Balearic Islands and Navarre	MINHAC has deviated from this recommendation, claiming several reasons. However, AIReF considers that allowing debt margins above the effective financing needs does not contribute to controlling debt and, therefore, the effectiveness of this fiscal rule. Therefore, it does not share the idea of rendering this fiscal rule meaningless and renouncing the existence of a realistic and effective debt target for the Regions.	MINHAC	MINHAC	Practical application	Explanation	The MINHAC claims different reasons not to follow this recommendation. These range from it not being possible nor convenient for various reasons, notably including the fact that the individual debt targets must be consistent with the overall targets approved (art 15 LOEPySF) and the fact that the government debt target of each Region must be consistent with its individual deficit target, to others, such as the fact that there are no incentives in the current context in the Regions to exhaust their debt margin and that this is formulated in maximum terms, as it is the Regions, in the exercise of financial autonomy, that must use this resource to finance their real financing needs.
Regular updating of published data. The MINHAC should amend the Order HAP 2015/2012, of October 1st regarding the provision of information, setting dates for the periodic updating of the data published by the MINHAC, beyond that originally established, in such a way as to reflect the latest situation in the economic and financial information of the LGs.	Transparency			MINHAC	MINHAC	Amendment of the Order HAP 2015/2012	Explanation	The MINHAC considers that the obligation of providing information by the LGs and its publication by the MINHAC guarantee a proper control of the LGs' economic-financial situations, and notes that, since 2017, the IGAE has published individualised information in national accounting terms of the main local corporations. In all events, it considers that the recommendation fits the MINHAC's claims of providing and publishing information as updated as possible to enable the proper monitoring of the situation of the PAs. AIReF stresses the need for regular updating of the published information, because if the data is recorded beyond the end of the year in question, these publications do not include this data and, therefore, they do not reflect the true economic and financial situation of the LC, which does not contribute to ensuring adequate supervision/assessment of this situation.
Committee of experts for Jerez, Parla and Jaén. It is recommended to convene and lead, for the City Councils of Jerez de la Frontera, Parla and Jaén, a committee of experts, attended by the protecting Region, where appropriate, to analyse the reasons for which these city councils have a critical level of sustainability risk and propose the most appropriate solutions.	Medium-term focus	Report on expected compliance with the 2018 targets and expenditure rule of the PAs	The MINHAC deviates from compliance with this recommendation and AIReF considers it very important to promote the financial sustainability of these corporations	MINHAC	MINHAC	Practical application	Explanation	The MINHAC notes that it will act in accordance with the LOEPySF, and that these corporations have adjustment plans. However, it notes that it will reinforce communication and collaboration in order to solve the difficult situation of these Local Administrations. AIReF considers that these situations cannot be solved by the measures established in the adjustment plans that the corporations concerned may have, as they go beyond compliance with the annual fiscal rules, and the reimbursement of the extraordinary financing obtained.

RECOMMENDATIONS BY COMPETENT ADMINISTRATION

Competent administration	Formulated	Responded	Complied with or committed to compliance	Explained	Pending
Ministry of Finance	46	42	11	31	
Ministry of Economy and Business	2	2	2		
Ministry of Labour, Migration and Social Security	2	2			1
Andalusia	6	4	4		2
Aragon	2	1	1		1
Madrid	6	6	5	1	
P.C. Navarre	1	1	1		
Canary Islands	1	1	1		1
Cantabria	1	1	1		
Castile and Leon	1	1	1		
Castile La Mancha	2	2	2		1
Catalonia	1	1		1	
Valencia	6	3	3		
Extremadura	4	4	2	2	
Galicia					
Balearic Islands	2	2	2		
Rioja					
Basque Country	1	1	1		
Asturias	1	1	1		
Murcia	5	5	4	1	
Barcelona	2	2	1	1	
Bilbao	1	1		1	
Provincial Council of Vizcaya	1	1		1	
Madrid	2	1		1	1
Algeciras	2	2	2		
Gandia	2	2	2		

Competent administration	Formulated	Responded	Complied with or committed to compliance	Explained	Pending
Palma de Mallorca	1	1		1	
Linea de la Concepcion	2	0			
Valencia	1	1		1	
Aranjuez	2	2	2		
Totana	2	0			
Navalcarnero	2	1	1		
Isla Cristina	2	2	2		
Ayamonte	2	0			
Alcorcon	2	2	2		
Valdemoro	2	2	2		
Sanlúcar de Barrameda	2	2	2		
San Andrés del Rabanedo	2	2	2		
L'Hospitalet de Llobregat	1	1	1		
Island Council of Tenerife	1	1	1		
Gijón	1	1	1		
Valencia	1	1		1	
Córdoba	1	1	1		
Saragossa	1				1
Almonte	2	0			

MONITORING OF THE 2018 ACTION PLAN

REVISED 2015-2020 STRATEGIC PLAN		Proposals for 2018 Planned Actions	Situation 12/31/2017 Work performed
1 CONTRIBUTE TO BUDGETARY STABILITY			
a <i>Monitoring and analysing the economic and budgetary situation</i>			
i	Develop models to forecast and project macroeconomic and budgetary variables	1. Continuous review of the modelling work of the main macroeconomic variables. a. Integrated model of short-term forecasts (MiPred) dynamic factorial model (q+1 and q+2) b. BVAR model: Medium-term forecasts (q+3 to t+1) c. MetCap model: Advance quarterly regional GDP estimates d. Mipred-Cat model for Catalonia	Implemented. It is an ongoing task. Mipred-Cat model for Cataluña: work was carried out until the middle of the year, when its updating was stopped due to changes in the short-term situation.
		2. Design and integration of the MTA (AIReF quarterly model) that will contain: Demand, prices, expenditure, income and wealth, and credit and interest rates	Implemented. It is an ongoing task.
		3. Modelling of the income tax on real estate at the regional level. Incorporation of land registry data into the budget data of each entity.	Incorporation of the land registry data implemented, ongoing updates, and modelling study started.
		4. Development of quarterly revenue forecasting models based on the macroeconomic scenario.	Implemented. It is a continuous task.
		5. Maintenance of an internal database	Implemented. It is an ongoing task.
		6. Improving forecasts through the inclusion of microdata.	Not implemented. Resources have been focused on preparing the Opinion on the sustainability of Social Security
		7. Expanding the analysis models to include benchmarking related to the fiscal pressure on real estate tax among urban units of similar Local Corporations (LCs).	Inclusion of the fiscal pressure elements implemented and benchmarking analysis started.
		8. Maintenance and improvement of forecasting models for health and educational expenditure in the Regions. Study on the design of a specific model for expenditure on social services.	Implemented. It is an ongoing process. From the study performed on social services, it emerges that it will not be done in the short term.
		9. Study of a model to characterise the estimated impact of the Regions' measures in relation to their own and/or fully ceded taxes.	Implemented. A database has been prepared with all the own and totally ceded taxes.
		10. Revision of the forecast models of short-term social contributions and unemployment benefits.	Work in progress
		11. Modelling of CA expenditure: employee compensation, intermediate consumption and contributions to the EU in national accounting terms for the Central Administration.	Implemented. It is an ongoing task.
		12. Disaggregation of Central Administration expenditure by subheadings.	Implemented. It is an ongoing task.
ii	Develop data bases and establish and maintain budgetary execution data monitoring and early-warning systems for possible imbalances in each of the PAs.	1. Integration between the different institutional sectors. a. Reconciliation of macroeconomic and fiscal variables b. Reconciliation of financial and non-financial variables c. Application of shocks through elasticities d. Improvement of sectoral allocation methods	Implemented. It is an ongoing task.
		2. Simulation tools: components of GDP on the demand side, pension expenditure, public consumption.	Implemented. It is an ongoing task.
		3. Revise the methodology used to assess uncertainty.	Implemented. It is an ongoing task.
		4. Improve the individual analysis of the monthly execution of the Regions through the use of databases and Tableau.	Implemented. In the scope of the monthly publication of the execution monitoring, the existing databases have been extended and the monthly analysis has been included. The publication has been extended to the analysis of the expenditure rule risk by Region. It is an ongoing task.
		5. Continuous updating of the LCs database with the information published by the different agencies.	Implemented. It is an ongoing task.
		6. Analysis of the fiscal rules determining the aggregate of the sub-sector from individual data communicated by all LCs.	Implemented for all stages of the budget cycle. It is an ongoing task.
		7. Maintenance and expansion of the databases on the Regions. In particular, the creation of a database with the information available for the analysis of the computable expenditure of the Regions for the purposes of the expenditure rule.	Implemented. The database has been prepared and data is added to the computable expenditure related to the expenditure rule of the Regions. This allowed a monthly profile to be prepared and the risk of non-compliance with the expenditure rule to be forecasted in the reports.
		8. Analysis of the regulatory differences in the management of the Regions' budgets and their possible effects on execution.	Implemented. Creation of a regional budgetary legislation database. It is an ongoing task.

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	iii	Identify relevant budgetary stability issues to be specifically analysed in reports, or a more in-depth analysis in the form of working papers (WP)	1. Publication of reports, opinions or working papers (WP) on the following topics: - Healthcare and education expenditure forecasts - Expenditure rule (update of the WP already published)	Implementation almost completed. Pending publication	
			2. Continue with the assessment of the in-depth analysis of the sustainability of certain LCs with structural problems, identifying risks and promoting lines of action.	Implemented. It is an ongoing task.	
	iv	Self-assessment of the quality of the macro-fiscal forecasts made in the short and medium term	3. Continuous improvement of the evaluation system and analysis of the deviations and difficulties in the fiscal forecasts made throughout the year: analysis and redefinition, if appropriate, of the criteria and variables applied	Implemented and scope of corporations and variables under analysis extended.	
			4. Development of tools to breakdown certain factors in AIReF's forecast trends (update macro outlook, economic policy measures, data reviews, etc.) and their monitoring.	Partially implemented. It is an ongoing task.	
	v	Incorporation of benchmarking techniques into the analysis of the economic and budgetary situation of the PAs.	5. Inclusion of new socio-economic variables into the LCs database, required for the benchmarking analysis.	Implemented. It is an ongoing task.	
			6. Benchmarking analysis of the effective costs of the LC services and publication of results.	Implemented. Started with household waste disposal service and street cleaning. Pending publication	
			7. Analysis of the possibility of applying benchmarking-based techniques in Regions	Implemented. It is an ongoing task.	
b <i>Help to enforce and improve the design of national and EU scal rules.</i>					
	i	Internally develop the necessary capacities to estimate the variables used in determining fiscal rules, especially the structural balance and the output gap	1. Complete the new output gap forecasting and modelling methodology	Implemented. It is an ongoing task. Software being developed. Publication of working papers. Presentation at several forums (IFIs Network, ECB, etc).	
			2. Participation in the Working Group of the European network of IFIs on output gap	Implemented. It is an ongoing task. Participation in the Working Group continues.	
	ii	Analyse the application of fiscal rules, the consistency and compatibility between EU and national rules, and, if appropriate, propose methodological improvements	3. Analyse the strengths and weaknesses of the current framework of fiscal rules, both at European and national level	Implemented. It is an ongoing task.	
			4. Analysis the impact of modifications to European fiscal rules in the context of Spanish PAs	Implemented. It is an ongoing task.	
			5. Continued monitoring of the average payment period of the territorial administrations, studying and analysing the impact of recent regulatory modifications on this matter	Implemented. It is an ongoing task.	
	iii	Collaborate with the major international economic institutions and with the IFIs network to improve the evaluation of fiscal rules	6. Chairmanship of the EU IFI Network.	Implemented. It is an ongoing task.	
			7. Participation in the meetings and activities of the EU IFI Network, the OECD and the European Commission.	Implemented. It is an ongoing task. . Participation in meetings held in Seoul, Rome, Bratislava and Brussels, among other activities.	
			8. Formulation of the positions of the EU IFI network in terms of EU fiscal governance	Implemented. It is an ongoing task.	
	2 FOSTER THE FINANCIAL SUSTAINABILITY OF THE PUBLIC ADMINISTRATIONS				
	a <i>Analyse the long-term stability of public nances and relevant impacts of certain public policies</i>				
	i	Monitor and analyse the debt sustainability of each of the PAs	1. Begin work on the preparation of the first edition of the Publication on fiscal risks	Work in progress.	
			2. Development of a methodology to identify and quantify contingent liabilities at the GG level.	Work in progress.	
	ii	Systematise medium-term fiscal forecasts and their connection with economic trends	3. Expand the use of medium-term forecasts in the analysis	Implemented. It is an ongoing task. . The use of AIReF's medium-term projections has been extended and displayed in some of the reports issued in 2018.	
	iii	Construct and publish synthetic and easy-to-understand indicators to raise awareness of the importance of long term sustainability	4. Expand the sustainability risk indicators and estimate the type-S2 synthetic indicators for the PAs	Implemented. It is an ongoing task.	

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	iv	Analyse the Social Security system from the standpoint of long-term sustainability	5. Continuous improvement of the estimation processes for the variables relevant to the PRI estimate.	Implemented. It is an ongoing task.
			6. Update of the analysis using data from the 2016 and 2017 CPLS.	Implemented.
			7. Development of the pension microsimulation model by incorporating retirement decision-making behaviour into the model.	Work in progress.
			8. Integration of accounting aggregate and microsimulation models	Executed
			9. Development and integration of the demographic projections model	Implemented. Working paper published
			10. Publication of Working Paper on the impact that the pension reform has had on the pension starting in 2013-2015 and 2016 data update	Implemented. Working paper published
	v	Analyse trends and long-term dynamics of the main expenditure components: pensions, healthcare, education and social services, among others	11. Estimate the effect on pensions in the face of long-term changes in the population structure	Implemented. Working paper published
			12. Own population forecasts.	Implemented. Working paper published
			13. Update health and education expenditure forecast starting with the newly published data.	Implemented. It is an ongoing task.
			14. Continue to improve the regional healthcare and education forecast model based on information exchanges that are established, if appropriate, with the Regions or other administrations, institutions and agencies involved	Implemented. It is an ongoing task.
3 ENHANCE THE EFFICIENCY OF PUBLIC EXPENDITURE AND BUDGETARY PRACTICES IN THE MANAGEMENT OF PUBLIC ACCOUNTS				
a Provide objective elements, gures and recommendations to support the budgeting process, decision-making and the design of legislative initiatives				
	i	GG Spending Review (SR) based on strategy, procedure, efficiency and effectiveness evaluations.	1. Execution of the Action Plan of the review of expenditure on subsidies in the GG <ul style="list-style-type: none">- Strategy and procedure evaluation- Prescription medications- Active employment policies- University education scholarships- Promoting talent and employability in R+D+i- Strengthening business competitiveness- Sociedad Estatal Correos y Telégrafos, S.A.	Implemented
	ii	Analyse and provide technical support to the PAs in macro budgetary matters within its competence	2. Working Group with the Regions regarding macro-economic forecasts	Implemented. Two meetings held.
			3. Study on minimum income benefits	Implemented and pending final conclusions and publication
b Promote the transparency of the Public Administrations in the management of their resources				
	i	Identify gaps in the existing economic and budgetary information and help to standardise, simplify and disseminate said information	1. Continue the analysis and proposals for improvements in the economic and budgetary information published and provided	Implemented. It is an ongoing task. Expressed through recommendations and suggestions in the different reports.
	ii	Publish the data on the PAs that contribute to better awareness of them	2. Publish the evolution of the economic-financial information of each LC as well as their costs of services using Tableau	Implemented. It is an ongoing task.
			3. Start of the work for the publication of data of the Regions	Implemented. It is an ongoing task.
c Help improve budgeting processes and foster the application of the principle of the multi-year framework in budgetary planning				
	i	Analyse and diagnose improvements for results-based budgeting and other performance indicator systems	1. Working paper analysing the budget structure for spending programmes related to Evaluation Project 1 of the Spending Review	Work in progress.
	ii	Analyse and make proposals for applying a multi-year budgetary planning framework.	2. Completion of the IFI Network document on medium-term budgetary frameworks	Implemented. The IFI Network approved the document in May.

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	iii	Promote and help estimate and publish the short, medium and long-term economic and budgetary effects of the reforms undertaken by the PAS	3. Maintain and update the Debt Monitor (interactive through Tableau) (quarterly updating)	Implemented. It is an ongoing task.
			4. Monthly publication of monitoring in terms of national accounts of the GG and each of the sub-sectors with risk assessment of non-compliance with the stability target in terms of probability. This analysis is completed with the main tax figures and social security contributions in terms of cash on hand. This monitoring and publication is in addition to the assessment made in the reports.	Implemented.
			5. Include the publication of macro-fiscal historical series for Spain in the AIReF DataLab.	Implemented. The statistical processing of the series has been carried out and its publication on AIReF's website is pending.
			6. Review and improve the impact of the measures in terms of Social Security contributions	Implemented. It is an ongoing task.
			7. Keep an up-to-date database of measures with regulatory impact	Implemented. It is an ongoing task.
4 HELP SPANISH SOCIETY TO PERCEIVE THE BENEFITS OF BUDGETARY STABILITY AND FINANCIAL SUSTAINABILITY				
a De ne and implement a communication strategy				
	i	Define and roll out a global communication strategy including the website, media and social networks	1. Progress the strategy defined in the 2017-2019 Strategic Communication Plan in the following areas: - Strengthen relationships with journalists and opinion leaders - Reinforce our image in the media with the furthest social reach, such as TV and radio - Strengthen our activity on social networks	Implemented. It is an ongoing task.
	ii	Easy access for society to the work done by AIReF (website)	2. Improvements in the design of the web page	Implemented. It is an ongoing task.
	iii	Appearances before Parliament	3. Publication on the website of the President's appearances and informing the media.	Implemented. It is an ongoing task.
	iv	Participate in discussion forums to explain AIReF's work, promoting its work at the sub-national and international level	4. Meetings with the Territorial Administrations, international agencies and other institutions	Implemented. It is an ongoing task. . In the area of Territorial Administrations. Bilateral meetings have taken place in 2018 with those Regions and LCs that requested them. A seminar has been organised to present the LCs observatory and all of them have been invited, as well as the guardianship bodies
			5. Support the organisation of forums and debates and publicise AIReF's participation where appropriate	Implemented. It is an ongoing task.
b Promote scal awareness in society as a whole				
	i	Strengthen the informative nature of AIReF's documents to make them more accessible to the general public	1. Development of more dynamic outreach tools (infographics)	Implemented. It is an ongoing task. For example, explanatory sheets have been published regarding budgetary stability, debt sustainability, macro forecasts, and AIReF's analytical tools
			2. Development of different informational points, where appropriate, with the most relevant parts of the reports and publications	Implemented. It is an ongoing task.
	ii	Organise internal and external seminars and conferences about issues of budgetary stability and financial sustainability.	3. Seminar on Spain's historic debt sustainability	Replaced by the joint seminar with IMF, EC, and ECB on the identification of fiscal risks
c Promote economic research in the eld of scal policy				
	i	Publish working papers on matters within AIReF's scope of action	1. Identification of matters of interest for research, which, if needed, will be reflected in working papers: a. Labour market reform b. Spanish fiscal framework c. Output gap d. Historical debt series e. Health and education expenditure forecasts f. Expenditure rule (updating of the WP already published) g. Analysis of the budgetary structure by expenditure programmes related to Evaluation Project 1 of the Spending Review h. Impact of the pension reform on the pension starting in 2013-2015 and 2016 data update	Research carried out on the mentioned matters Documents published in 2018: labour market reform, fiscal framework and output gap, impact of 2013-15 pension system reform The work on the remaining matters has been developed but termination and publication is pending

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	ii	Establish mechanisms for collaboration with universities and research centres, international institutions and other independent fiscal institutions to undertake research	2. Participation in the technical working groups of the EU IFIs network	Implemented.
			3. AIReF presentations at universities	Implemented.
	iii	Programme of research fellowships and scholarships in AIReF	4. New announcement	Implemented
5	CREATE AN EFFICIENT AND TRANSPARENT AIReF			
	a	<i>Design and draw up reports, opinions and studies</i>		
	i	Provide more in-depth information with the greater use of graphic tools and connections to AIReF's web platform	1. Continue with the development of the FOCO section of the AIReF website, exploring new communication tools such as webcasts, animated presentations and videos.	There are no new publications in 2018
			2. Publish and update the main macro-economic outlook equations: Demand, prices, expenditure, income and wealth, and credit and interest rates	Implemented. It is an ongoing task.
			3. Develop interactive graphics to include in reports	Implemented. It is an ongoing task.
	ii	Prepare and publish the methodologies used in reports and opinions	4. Evaluate and adapt or upgrade, if necessary, the existing methodologies	Implemented. It is an ongoing task.
			5. Publish the new methodologies as they are developed	Implemented. It is an ongoing task. Population and pension expenditure forecasts
	iii	Advisory Board on economic, budgetary and institutional matters	6. Four meetings in 2018	Implemented
	b	<i>Substantiate the comply-or-explain principle and the duty of collaboration for information referral</i>		
	i	Adapt recommendations to each of the PAs and monitor in accordance with the comply-or-explain principle	1. Quarterly publication of recommendation monitoring	Implemented. It is an ongoing task.
			2. Commissioning and operation of the recommendations database	Work in progress.
	ii	Define, gather and monitor requests for information needed to prepare reports	3. Publication of the follow-up to the requests for information made by AIReF	Implemented. It is an ongoing task.
	iii	Development of memoranda of understanding, agreements or procedures for the exchange of information and the development of institutional relationships between AIReF and the main agencies of the PAs.	4. Continue with attempts form an agreement or similar instrument with the MINHAP on the supply of information and/or direct access to the databses necessary for the development of AIReF's work	Work in progress.
			5. Proposal to sign an MoU with the State Secretariat for Economy and Business Support.	Work in progress.
	c	<i>Efficient and transparent management of human and nancial resources</i>		
	i	Consolidate and maintain a competent team. Continuous staff training	1. Expand the staff establishment plan in order to obtain the appropriate staff to achieve AIReF's targets	Implemented
	ii	Create an independent administrative and management structure	2. Integrate the application of management fees with GEISER and with Sede Electrónica.	Implemented
			3. New features of the fee management application.	Implemented
			4. Evaluate virtual desktop solutions.	Implemented
	iii	Establish an assessment and monitoring system for AIReF's activity, including the mid-term external evaluation	5. Continuous monitoring of the Action Plan	Implemented
				In addition, an external assessment has been performed by the Fundación Hay Derecho



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