



Autoridad Independiente
de Responsabilidad Fiscal

2020 Report on the budgetary execution, public debt and expenditure rule of the Public Administrations

16 July 2020

2020 Report on the budgetary execution, public debt and expenditure rule of the Public Administrations

- 1. Introduction**
- 2. Macroeconomic Scenario**
- 3. Fiscal scenario**
- 4. Recommendations**

a. Context of the report

The analysis framework for the report on the 2020-2021 Stability Programme Update is maintained

**PERSISTENT
ECONOMIC
UNCERTAINTY**

Maintenance of the first report's analytical framework, featuring alternative assumptions without probabilistic analyses, with a review and update of the main results

**FISCAL UNCERTAINTY:
Uncertain budgetary framework
Outdated fiscal targets**

Impossibility for AIReF to report on compliance with fiscal targets

b. Purpose and scope

AIReF has had to adapt its analysis to the absence of a defined fiscal framework

Legal Purpose

- Assessment of compliance with fiscal targets in 2020

Impediments

- Outdated fiscal targets
- Lack of individual targets for Regions

Report's final aim

- Deficit and debt forecast at year-end
- With scenarios, without confidence intervals

Update of 20-21 macroeconomic forecasts and fiscal forecasts for the current year

Analysis for all sub-sectors

Scope

Analysis and individual report of the 17 Regions

For the first time since the start of the pandemic

Analysis of the 24 main local governments and 26 city councils with medium-term sustainability problems

c. Main results

Scen 1 – Scen
2


GREATER GDP CONTRACTION

Greater contraction of GDP in Q2 2020: adverse evolution of some highly significant activities in Spain's productive structure that are very negatively affected by social distancing and the contraction of international tourism flows


 1.2 – 0.7

GG DEFICIT AND DEBT INCREASE

Deficit: due to the effects of new measures in both scenarios (minimum wage, ERTes, self-employed, TAs) and to a lesser extent, due to the revision of the macroeconomic forecasts on the first.

 1.0 – 0.6


Debt: due to the new macroeconomic and fiscal assumptions


 2.6 – 1.2

CHANGE IN THE DISTRIBUTION OF THE IMPACT OF THE CRISIS BY SUB- SECTORS

CG assumes part of the deterioration suffered by other sub-sectors through transfers

- Additional transfers to SSF: 15,700M€
- Non-Reimbursable Fund for Regions: €16,000M

 CG DEFICIT

 SSF DEFICIT
Regions

1. Introduction

2. Macro scenario

3. Fiscal scenario



c. Main results

1. Introduction

2. Macro scenario

3. Fiscal scenario

		2020			
		AIREF SCENARIO 1		AIREF SCENARIO 2	
		SPU report	Current	SPU report	Current
GDP (%)		-8.9	-10.1	-11.7	-12.4
DEFICIT (%)	PAs	-10.9	-11.9	-13.8	-14.4
	AC	-4.5	-7.7	-5.6	-8.3
	SSF	-5.0	-3.9	-6.1	-5.1
	Regions	-1.5	-0.4	-2.0	-0.9
	LGs	0.0	0.0	-0.1	-0.2
DEBT-TO-GDP RATIO (%)		115	117.6	122	123.2

c. Main results

In the next debt monitor, an exercise will be carried out to simulate debt paths with different fiscal consolidation strategies, incorporating the interaction between fiscal consolidation and growth.

- Redirecting the debt-to-GDP ratio to levels that do not compromise long-term sustainability requires a firm commitment to adjusting structural fiscal imbalances.
- Fiscal consolidation strategy: considerations on the pace, composition and incorporation of the effects on growth
- Simulations: different rates of fiscal consolidation (structural adjustment) that will impact growth through the fiscal multiplier

DEBT-TO-GDP
RATIO
(%)

115

117.6

122

123.2

d. Recommendations to the Government

The current priority is to respond to the crisis in the short term, without neglecting the medium-term fiscal strategy and avoiding uncertainty about the applicable fiscal and budgetary framework.

In this sense, AIReF makes the following recommendations:

Clarification of the fiscal framework applicable to all PAs

- Activate the exceptionality clause
- Clarify consequences of non-compliance in coherence with the current situation
- Set stability and debt targets so that the PAs can prepare their 2021 budgets within multi-year scenarios and facilitate the monitoring of these by AIReF and the PAs themselves and

Establish a medium-term national fiscal strategy that guarantees financial sustainability

- Utilise all levels of the Administration to ensure adequate coordination and joint responsibility
- Consider debt level and fiscal risks
- Set tentative schedule and milestones
- Serve as a framework for the PAs' Rebalancing Plans and promote their coordination with national recovery and resilience plans

Ensure efficient expenditure and redesign public policies

- Explore the implementation of the proposals made by AIReF in the Spending Review within the framework of the medium-term fiscal strategy

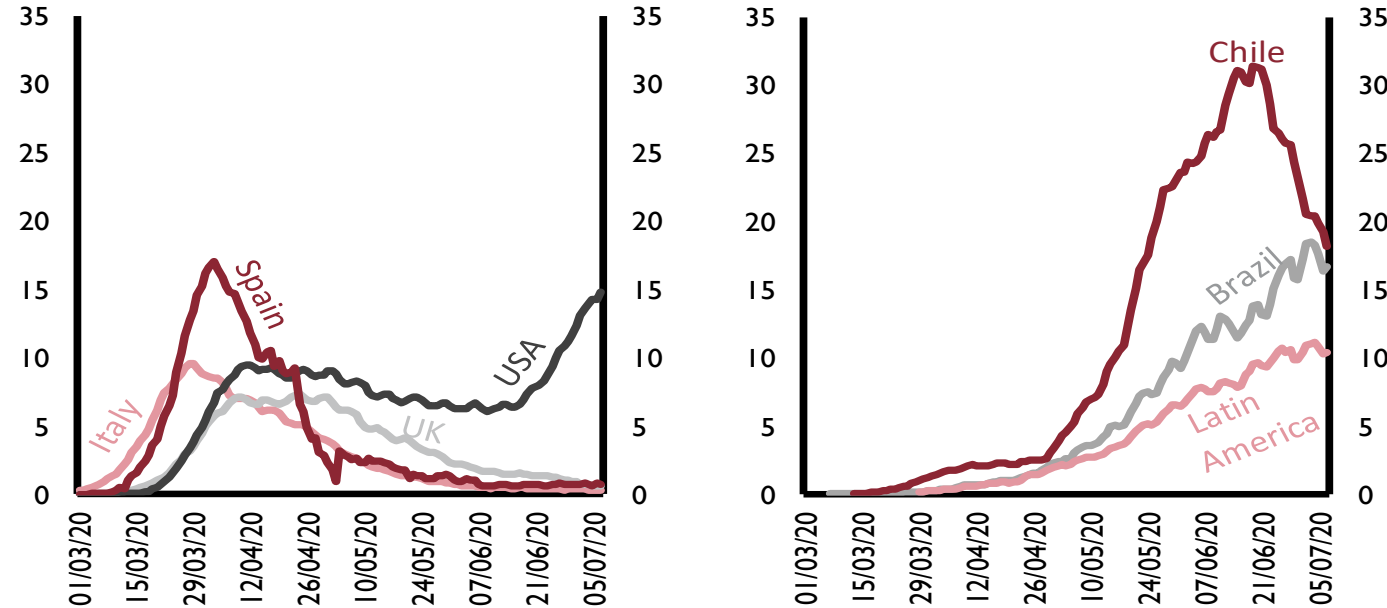
2. Macroeconomic scenario

AIReF has updated its macroeconomic scenarios and lowers the level of growth expected for 2020

- In the May report on the Stability Programme, AIReF established two scenarios for the evolution of Gross Domestic Product, based on assumptions about the duration of the pandemic and the influence that certain structural characteristics of the economy may have on its capacity to recover
- This has now been updated, taking into consideration:
 - The most recent evolution of the pandemic.
 - The latest information on the evolution of the Spanish economy and its external environment.
 - The economic policy measures adopted before 7 July.
- The consistency of all these elements is achieved through the use of AIReF's quarterly model.

COVID-19 intensifies globally and holds uncertainty at unusual levels

DAILY VARIATION IN THE NUMBER OF PEOPLE AFFECTED BY COVID-19 PER 100,000 INHABITANTS. (10 DAY MOVING AVERAGE)

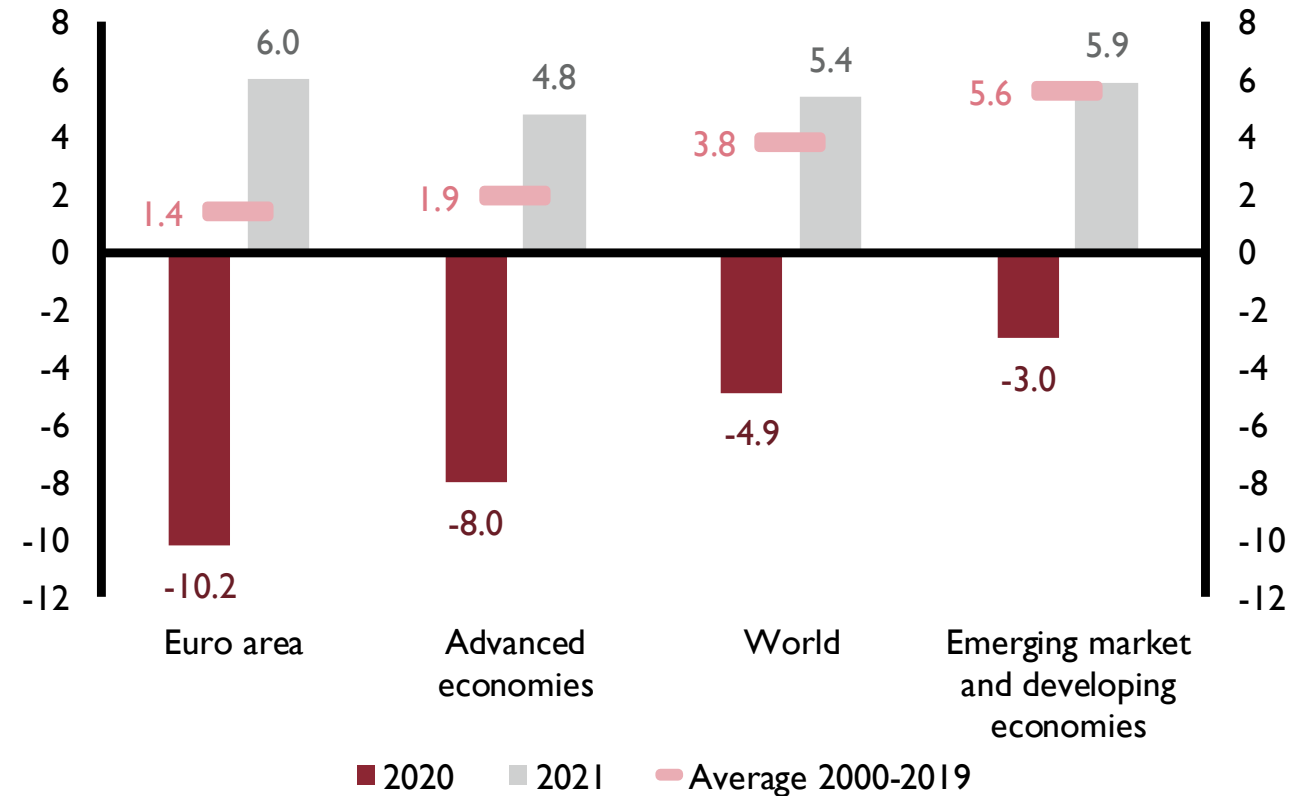


Source: Johns Hopkins University, CSSE. Up to 5 July 2020.

- The pandemic has subsided in Europe, but its epicentre has moved to the United States, Latin America. Some countries where the virus seemed to be disappearing (Australia, New Zealand) have been forced to reintroduce social distancing measures.
- Globally, a new maximum is reached daily in terms of the number of new daily cases.

The world economy is entering an extreme recession of a global and synchronised nature

GDP GROWTH FORECASTS BY GEOGRAPHICAL AREAS



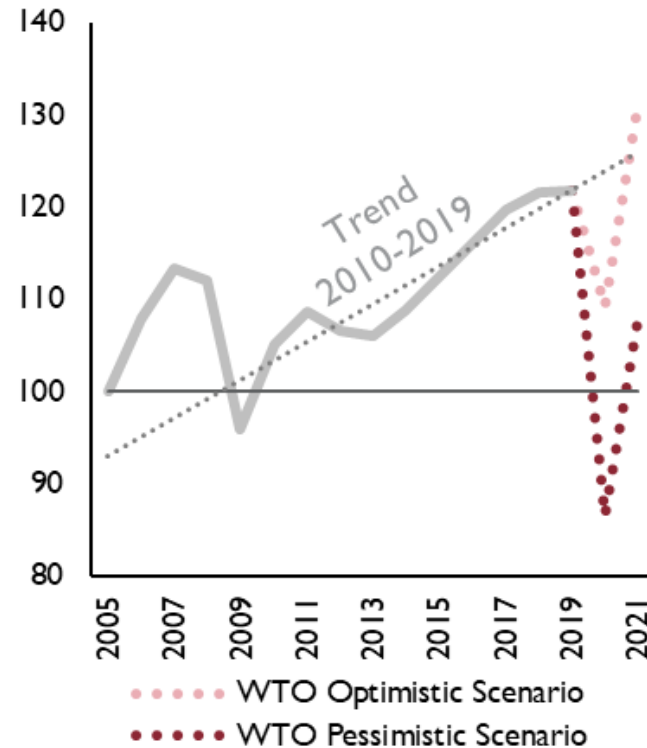
Source: IMF.

- The IMF's (and EC's) most recent growth forecasts broadly revise the expected growth for 2020 downwards by geographical areas.

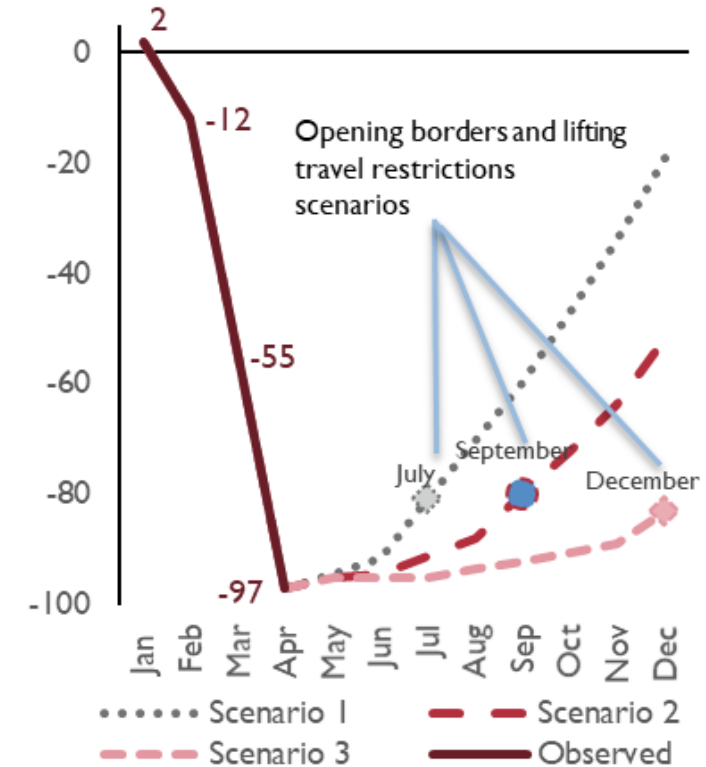
The crisis is severely disrupting international trade and tourism flows

- 1. Introduction
- 2. Macro scenario
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EUROPEAN IMPORTS OF GOODS EVOLUTION
SCENARIOS.VOLUME INDEX (2005=100).



WORLDWIDE TOURISM FLOWS EVOLUTION
SCENARIOS



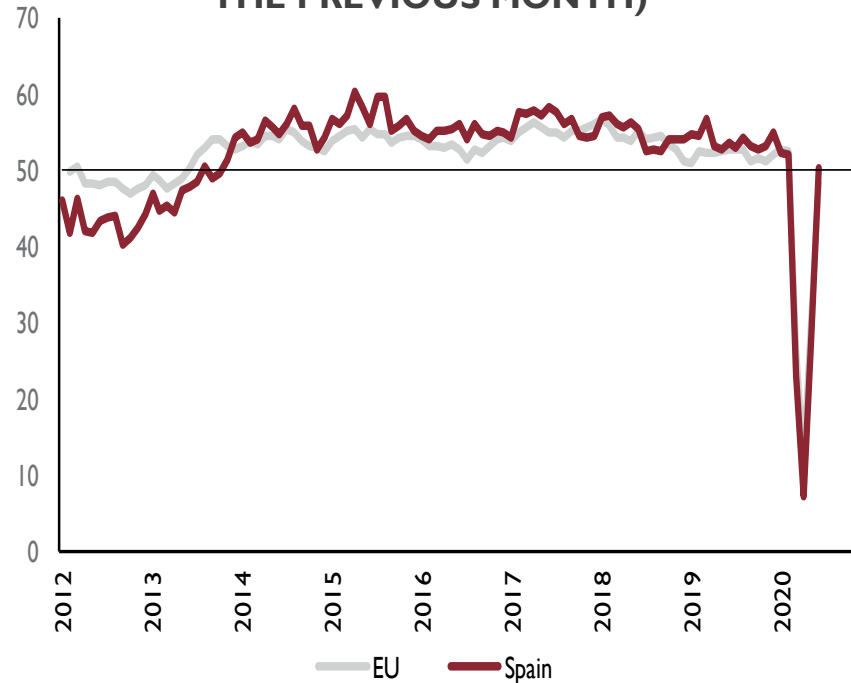
Sources: World Trade Organization and World Tourism Organization.

- The World Trade Organization and World Tourism Organization's scenarios indicate an extreme contraction in goods trade and in international travel.

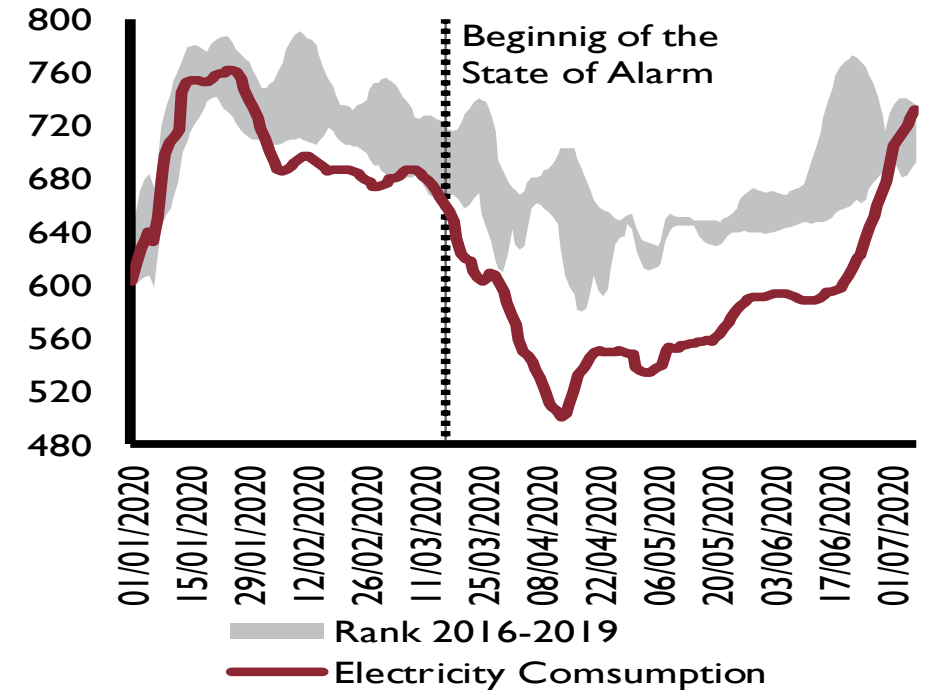
The Spanish economy has started a recovery that is gathering strength as the de-escalation process progresses

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PMI SERVICES INDEX (SEASONALLY ADJUSTED INDEX). <50 EQUIVALENT TO CONTRACTION // > 50 EQUIVALENT TO EXPANSION COMPARED TO THE PREVIOUS MONTH)



ELECTRICITY DEMAND. PENINSULAR ELECTRICITY SYSTEM (GWH). NOT CORRECTED FOR TEMPERATURE EFFECTS



Sources: IHS Markit, European Commission, *Red Eléctrica de España* (Spanish Electricity Grid)

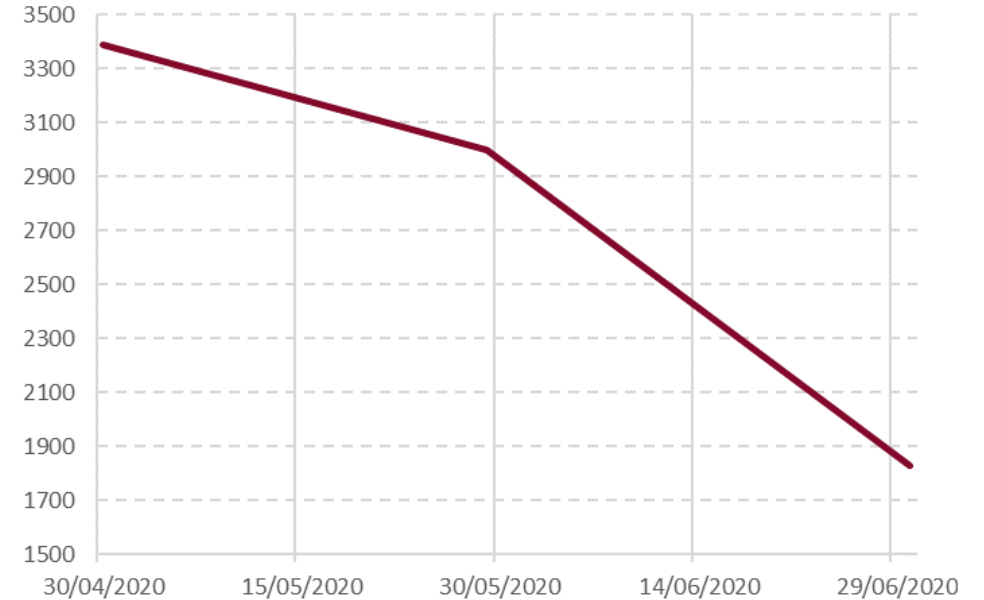
- Once the "hibernation" phase is over, the main economic indicators point to a relatively rapid recovery.

The labour market situation improves

**SOCIAL SECURITY AFFILIATION
(THOUSANDS OF PERSONS)**



**WORKERS UNDER AN ERTE SCHEME
(THOUSANDS OF PERSONS)**

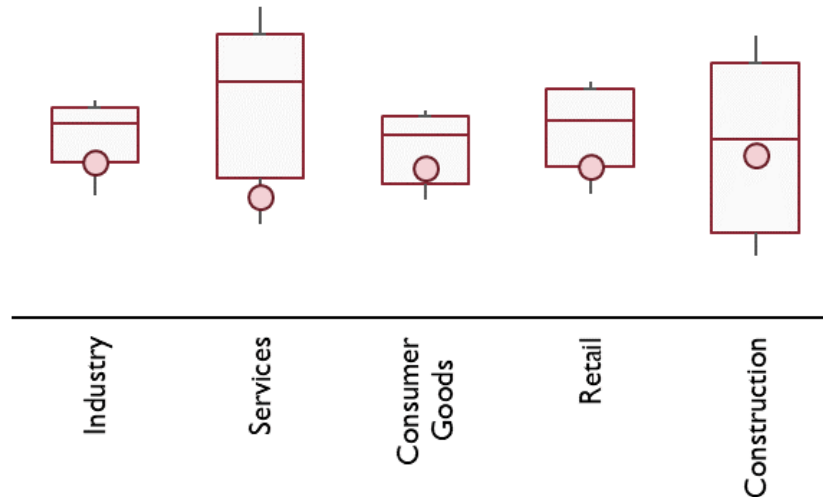


Source: *Ministerio de Inclusión, Seguridad Social y Migraciones* (Ministry of Inclusion, Social Security and Migration)

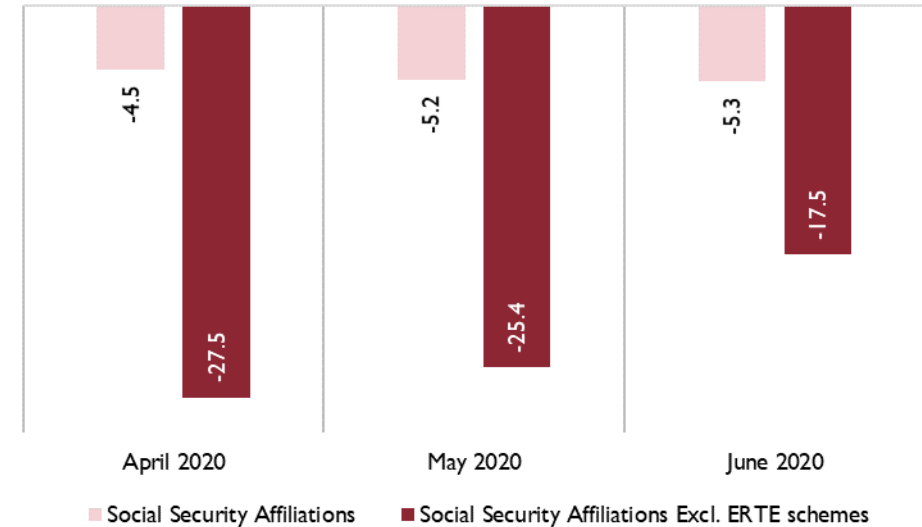
- After the deterioration recorded in the second half of March, affiliations to the Social Security have significantly improved and the number of employees under an ERTE scheme have decreased.
- By July 9th, 60% of workers affected by a force majeure ERTE had already returned to work.

Activity levels are still lower than “usual”

**ECONOMIC SENTIMENT INDICATOR
(JUNE IN COMPARISON TO ITS
HISTORICAL DISTRIBUTION)**



**EVOLUTION OF SOCIAL SECURITY
AFFILIATION AND ERTES (YEAR-ON-YEAR
GROWTH RATE)**

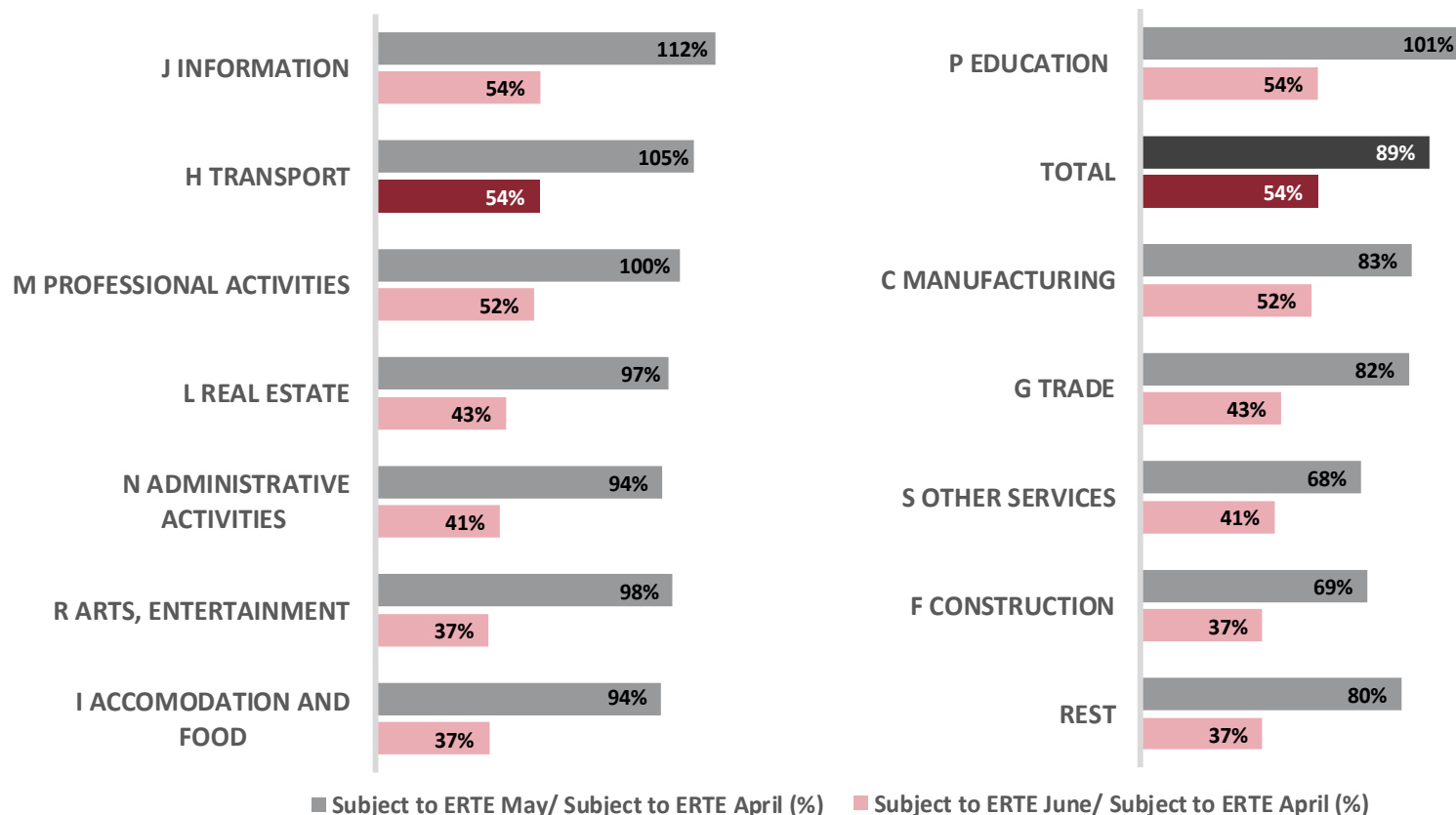


Source: *Ministerio de Inclusión, Seguridad Social y Migraciones* (Ministry of Inclusion, Social Security and Migrations), European Commission.

- The components of the Economic sentiment indicator remain low, except in construction.
- At the end of June, the number of affiliates was 700,000 lower than that observed in mid-March and 5.3% lower than in June of the previous year. The year-on-year drop amounts to 17.5% if workers under an ERTE are discounted.

Reactivation is very heterogeneous depending on the sector...

RETURN TO WORK OF WORKERS AFFECTED BY AN ERTE. BY ECONOMIC ACTIVITY (MONTHLY AVERAGES)

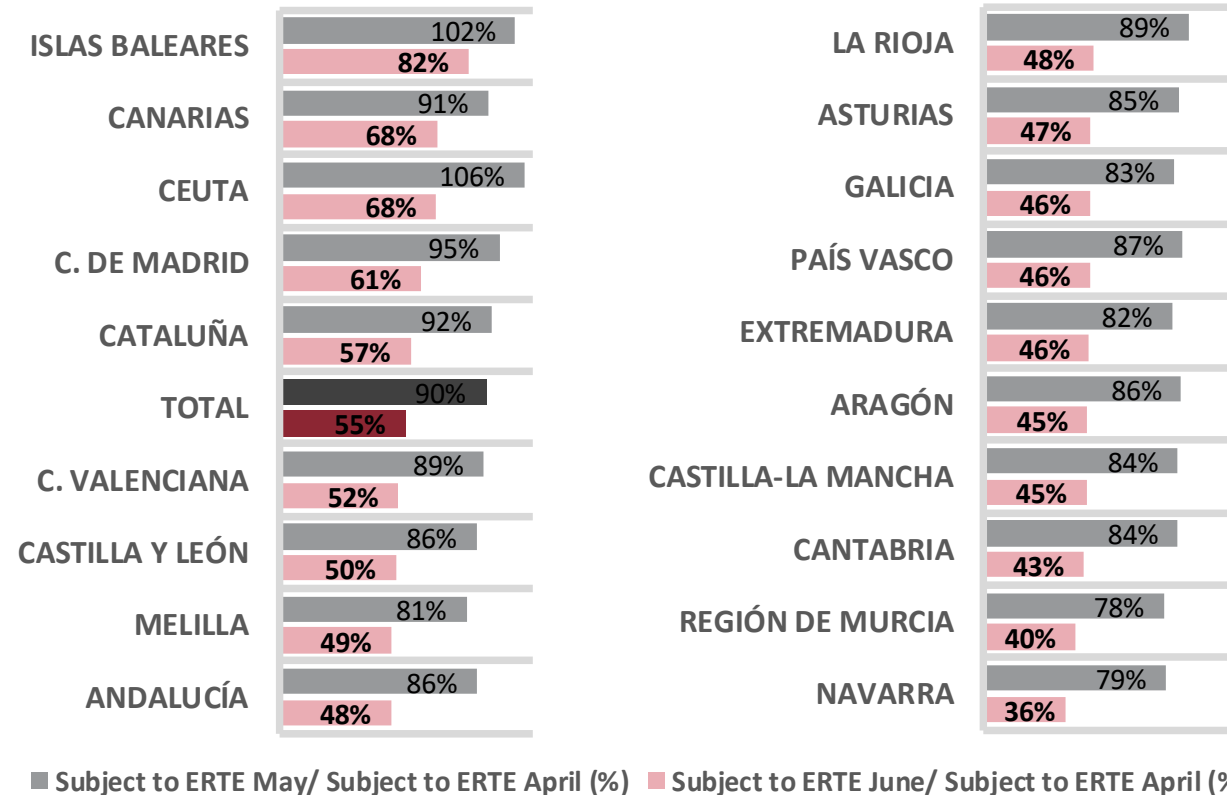


Source: *Ministerio de Inclusión, Seguridad Social y Migraciones* (Ministry of Inclusion, Social Security and Migrations).

- In some sectors such as construction, the number of workers under an ERTE scheme declined by over 60% vs. initial levels.
- In other sectors, the degree of return to work of those affected by an ERTE is moderate.

... and the Region

RETURN TO WORK OF WORKERS AFFECTED BY AN ERTE BY REGION (MONTHLY AVERAGES)



Source: *Ministerio de Inclusión, Seguridad Social y Migraciones* (Ministry of Inclusion, Social Security and Migrations).

- There is also heterogeneity in the degree of reactivation of the economy by region, due to the different rates of de-escalation of social distancing measures and differences in economic structures.

AIReF macroeconomic scenarios: downward revision in 2020 and upward in 2021

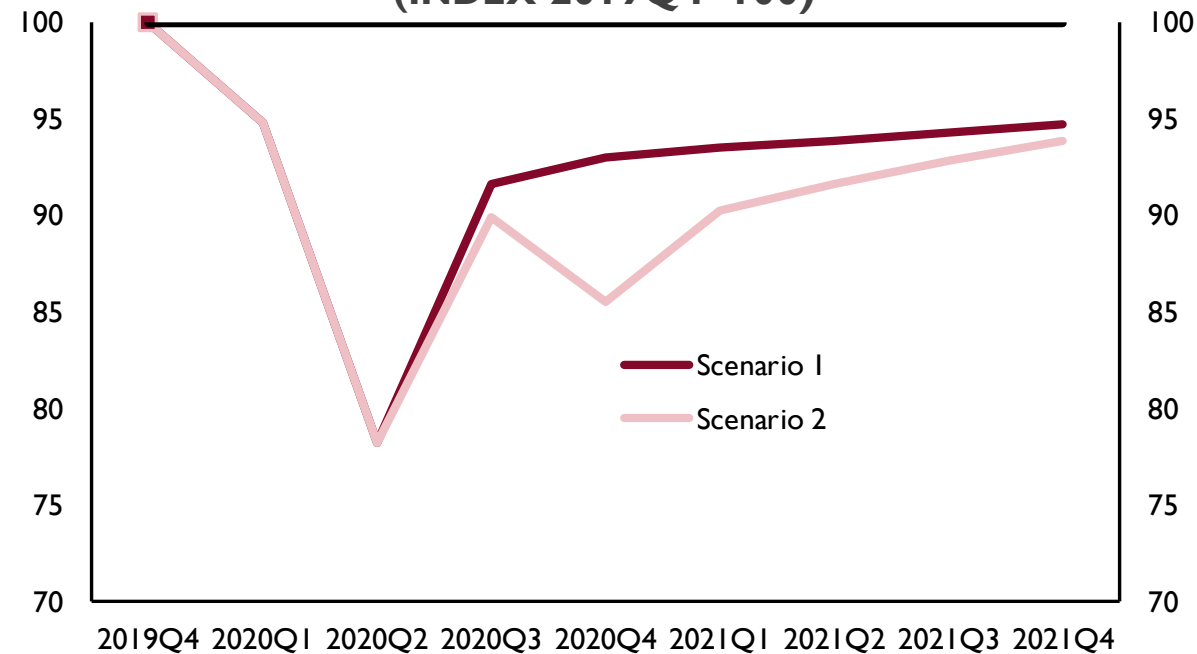
MACROECONOMIC SCENARIO					MAY SCENARIOS			
	SCENARIO WITHOUT NEW OUTBREAK		SCENARIO WITH NEW OUTBREAK		SCENARIO WITHOUT NEW OUTBREAK		SCENARIO WITH NEW OUTBREAK	
VOLUME	2020	2021	2020	2021	2020	2021	2020	2021
GDP (% Y-oY. Unless otherwise stated)	-10.1	5.2	-12.4	5.8	-8.9	4.6	-11.7	5.8
Private consumption	-11.6	6.6	-14.0	6.7	-9.0	3.7	-13.0	5.3
Public consumption	6.4	-1.8	7.9	-2.8	5.4	-1.8	7.7	-3.4
GFCF in Equipment	-37.7	18.4	-43.9	17.8	-36.2	18.5	-45.2	22.0
GFCF in Construction and Intellectual Property	-18.7	11.3	-30.6	16.2	-18.7	10.7	-31.1	16.5
Domestic Demand (contribution to GDP growth)	-10.5	5.5	-13.6	5.5	-9.1	3.8	-13.2	4.7
Exports	-29.2	15.2	-36.8	12.8	-30.3	15.9	-35.7	13.1
Imports	-33.2	18.8	-44.0	14.5	-34.3	15.4	-44.3	11.4
External Demand (contribution to GDP growth)	0.5	-0.2	1.3	0.3	0.2	0.7	1.5	1.0
OTHER VARIABLES	2022	2023	2024	2025	2020	2021	2020	2021
Private consumption deflator	-0.2	1.0	-0.8	0.8	-1.9	1.0	-2.4	1.0
Household savings rate (%GDI)	11.0	8.4	12.2	8.9	9.5	9.2	11.6	9.4
Total Employment FTEE	-10.7	4.2	-12.8	4.6	-9.7	2.6	-12.9	3.1

Source: *Ministerio de Asuntos Económicos y Transformación Digital* (Ministry of Economic Affairs and Digital Transformation) and AIReF's calculations.

- The downward revision for 2020 reflects the contraction in the second quarter that was larger than initially estimated, rather than a different assessment of the speed of recovery.
- In 2021, private consumption and employment were revised upwards, due to the extension of ERTes and other measures to support household income.

The new estimates emphasise the fall in GDP in the second quarter, which would be followed by an incomplete recovery

CHANGE IN THE LEVEL OF REAL GDP COMPARED TO THE
FOURTH QUARTER OF 2019
(INDEX 2019Q4=100)

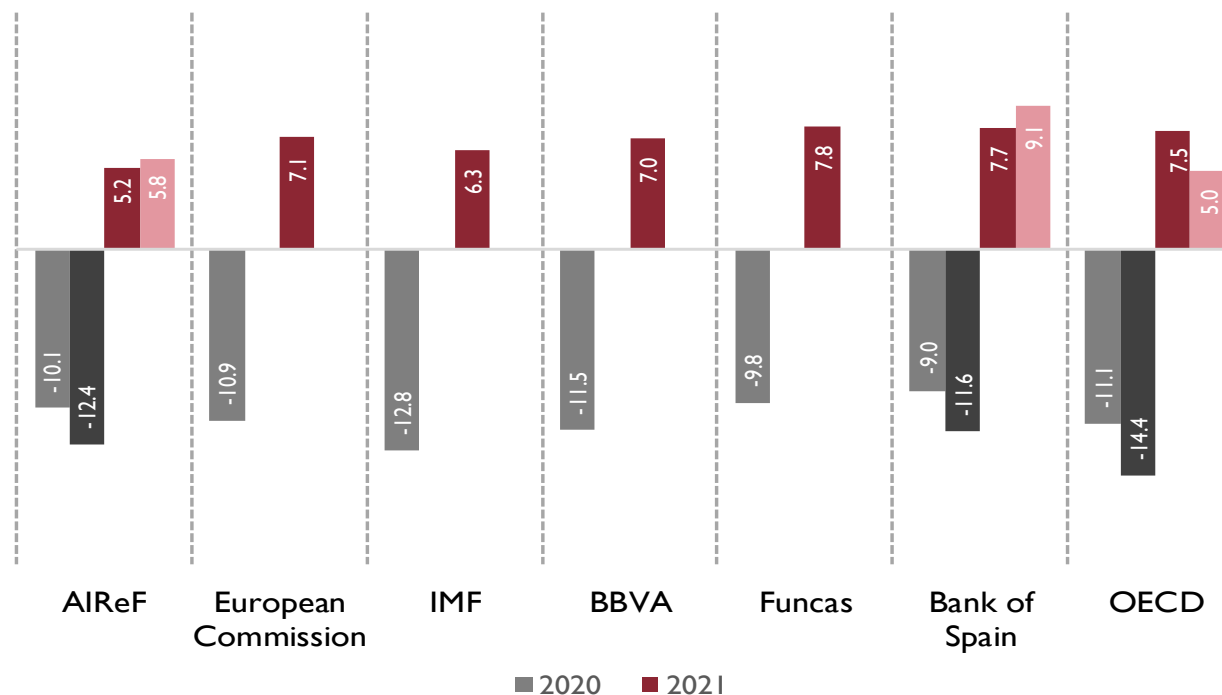


Source: INE and AIReF's calculations

- A very severe contraction of activity is estimated for the second quarter, amounting to 17.5% Q-o-Q (previously -14.7% scenario 1 // -17% under scenario 2).
- Starting in the third quarter, recovery will be intense in the scenario without a second outbreak, but insufficient to return to pre-crisis levels.
- By end-2021, GDP is expected to be over 5 percentage points of pre-crisis levels.

Most institutions have revised their forecasts downward

COMPARISON OF FORECASTS FOR GDP GROWTH IN SPAIN. 2020 and 2021 (YEAR-ON-YEAR GROWTH RATE)



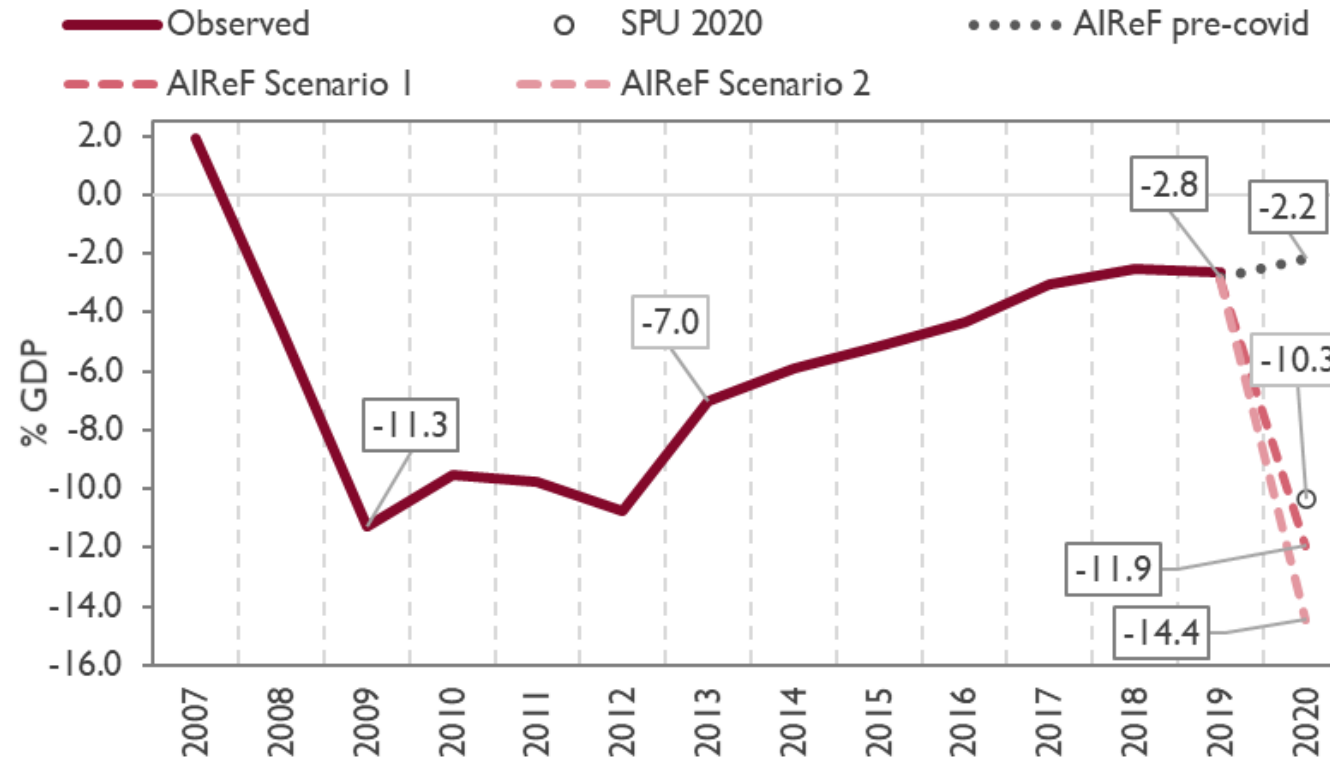
Source: IMF, BBVA Research, Funcas, Bank of Spain, OECD, European Commission and AIReF's calculations.

- Downside risks predominate in these scenarios, associated with the possibility of the pandemic lasting longer and being more intense, which, in turn, would increase the financial difficulties faced by companies and families.
- On the positive side, the European Recovery Plan represents an opportunity.

3. Fiscal scenario:

AIReF estimates a PA deficit of 11.9% for 2020, which could reach 14.4% if the most adverse scenario occurs

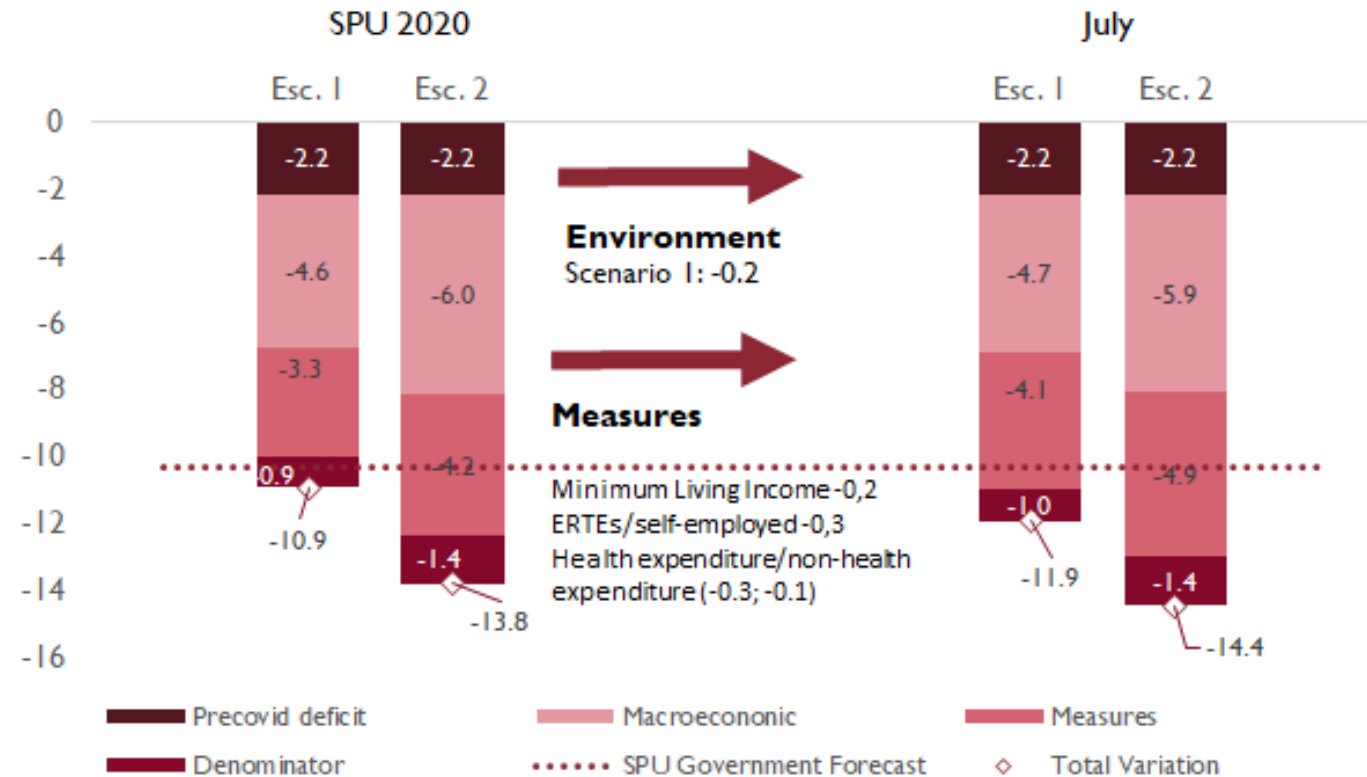
EVOLUTION OF THE PAS' BALANCE. (% GDP)



- The path of fiscal recovery achieved over the past ten years has been abruptly interrupted by the unexpected arrival of COVID-19

AIReF has increased its deficit estimate by 1% in scenario 1 and 0.6% in scenario 2

EVOLUTION OF AIREF'S PA BALANCE FORECAST. (% GDP)



- The change in the deficit estimate is mainly due to updated measures and, in scenario 1, also due to the macroeconomic environment
- Uncertainty, now marked by the pace of recovery and the risk of possible outbreaks, remains very high

The measures adopted to date represent an increase in the deficit of between 4.1% and 4.9% of GDP

Impact of measures (+ sign = greater deficit)		AIReF ESTIMATE - July 2020					
		Scenario 1			Scenario 2		
		Millions	% GDP	Dif. from SPU	Millions	% GDP	Dif. from SPU
Central Government		3,215	0.3	0.0	3,328	0.3	0.0
Expenditure measures		1,754	0.2	0.0	1,754	0.2	0.0
Health expenditure		1,147	0.1	0.0	1,147	0.1	0.0
Other social or economic expenditure		206	0.0	0.0	206	0.0	0.0
RDL measures 17/2020; ACM 09/06/2020; RDL 25/2020		401	0.0	0.0	401	0.0	0.0
Fiscal measures		1,461	0.1	0.0	1,574	0.1	0.0
FSS		32,103	2.9	0.5	36,563	3.3	0.5
Temporary Redundancy Plans (ERTEs)	Unemployment benefit	17,673	1.6	0.2	19,777	1.8	0.2
	Contribution exemption	5,346	0.5	-0.1	6,094	0.6	-0.1
Self-employed	Benefit for cessation of activity	4,729	0.4	0.1	5,791	0.5	0.1
	Contribution exemption	1,805	0.2	0.0	2,191	0.2	0.1
Temporary incapacity for work (TIW)		675	0.1	0.0	809	0.1	0.0
Other measures		132	0.0	0.0	158	0.0	0.0
Minimum Living Income		1,743	0.2	0.2	1,743	0.2	0.2
Regions		8,738	0.8	0.2	11,323	1.0	0.1
Region revenue measures (without AGE transfers)		312	0.0	0.0	312	0.0	0.0
Region non-health expenditure measures (without transfers to LGs)		1,415	0.1	0.1	1,415	0.1	0.1
Region health expenditure measures		7,010	0.6	0.1	9,595	0.9	0.1
LGs		2,009	0.2	0.0	2,787	0.3	0.0
LG expenditure measures		996	0.1	0.0	1,291	0.1	0.0
LG revenue measures (without AGE and Region transfers)		1,013	0.1	0.0	1,496	0.1	0.0
TOTAL MEASURES		46,065	4.1	0.8	54,001	4.9	0.7

The incorporation of the new measures and their updates mean a deterioration in the deficit of 0.8% in the first scenario and 0.7% in the second, compared to the previous forecast.

AIReF estimates that revenue will stand at 40.3% of GDP in 2020 in both scenarios

DIFFERENCE IN REVENUE BETWEEN AIREF'S SCENARIOS (% GDP)

	SPU (1)		Changes (2)		Current forecast (3)=(1)+(2)	
	Scen 1	Scen 2	Scen 1	Scen 2	Scen 1	Scen 2
REVENUE	39.5	39.4	0.8	1.0	40.3	40.3
TAXES	22.3	22.1	-0.1	0.1	22.2	22.1
<i>On production</i>	11.4	11.3	-0.1	-0.1	11.3	11.3
<i>On income</i>	10.4	10.3	0.1	0.1	10.5	10.4
<i>On capital</i>	0.5	0.5	0.0	0.0	0.5	0.5
CONTRIBUTIONS	13.1	13.1	0.8	0.9	13.9	14.1
Other revenue	4.1	4.1	0.0	0.0	4.1	4.1

- The increase in the weight of revenue compared to the estimate in the SPU is mainly explained by a change in the way exemptions from contributions are accounted for, which does not affect the deficit
- With the new macroeconomic scenario and the data known to date, tax revenue has been revised:
 - PIT: The drop compared to the report on the SPU has softened, but is still not in line with the Government figure
 - VAT, special taxes and CIT: Updated downwards although asymmetrically between different scenarios

In both scenarios, AIReF increases its expenditure forecast compared to the report on the SPU to between 52.2% and 54.8% of GDP.

DIFFERENCE IN EXPENDITURE BETWEEN AIREF'S SCENARIOS (% GDP)

	SPU (1)		Changes (2)		Current forecast (3)=(1)+(2)	
	Scen 1	Scen 2	Scen 1	Scen 2	Scen 1	Scen 2
EXPENDITURE	50.4	53.2	1.8	1.6	52.2	54.8
Compensation of employees	12.5	13.1	0.1	0.0	12.6	13.0
IC + STK acq.mkt	9.1	9.6	0.3	0.3	9.3	9.9
Social benefits in cash	20.1	21.3	0.6	0.5	20.7	21.9
Interest	2.5	2.6	0.0	0.0	2.5	2.6
GFCF	2.7	2.8	-0.1	-0.1	2.6	2.7
Other expenditure	3.6	3.7	0.8	0.9	4.4	4.7
NET LENDING/BORROWING	-10.9	-13.8	-1.0	-0.6	-11.9	-14.4

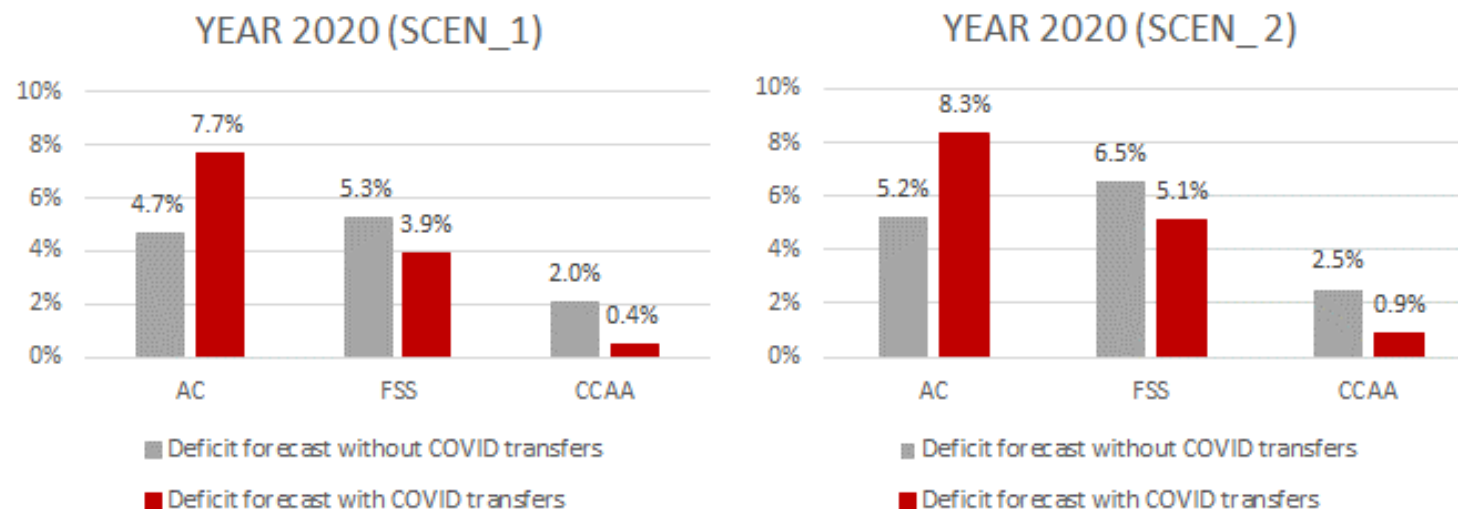
- The items responsible for this increase are mainly:
 - Social transfers in cash: Increased forecast of measures impact
 - Subsidies: Change of accounting method
 - Intermediate consumption: Regions' health expenditure (Increase and greater weight compared to other headings)

The fiscal scenario at the sub-sector level has changed compared to that presented in the report on the SPU

DIFFERENCE IN THE BALANCE BY SUB-SECTORS OF AIREF'S SCENARIOS (% GDP)

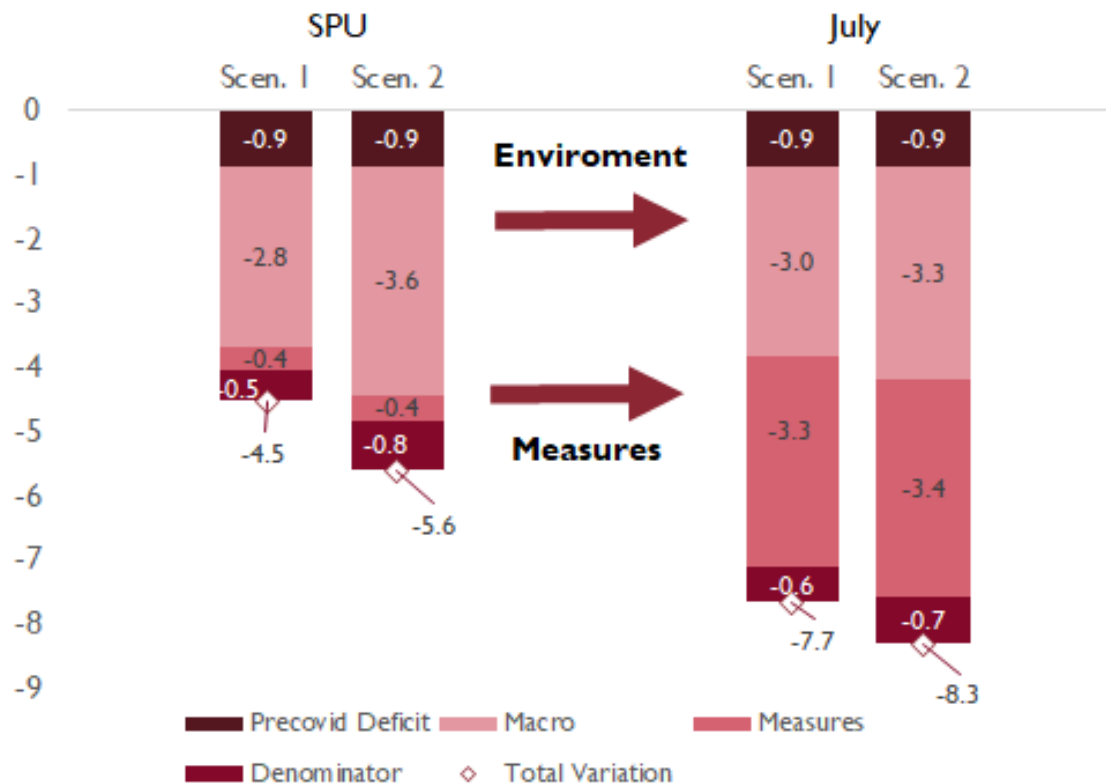
	2019	SPU		Changes		Current forecast	
		Scen. 1	Scen. 2	Scen. 1	Scen. 2	Scen. 1	Scen. 2
		2020	2020	2020	2020	2020	2020
PAs	-2.8	-10.9	-13.8	-1.0	-0.6	-11.9	-14.4
CG	-1.3	-4.5	-5.6	-3.1	-2.7	-7.7	-8.3
SSF	-1.3	-5.0	-6.1	1.1	1.0	-3.9	-5.1
Regions	-0.5	-1.5	-2.0	1.1	1.1	-0.4	-0.9
LGs	0.3	0.0	-0.1	0.0	0.0	0.0	-0.2

SUB-SECTORS' DEFICIT WITH AND WITHOUT TRANSFERS DUE TO COVID-19 (% GDP)



Central Government (CG): Assumes the budgetary deterioration of other sub-sectors via transfers

EVOLUTION OF AIREF'S FORECASTED CG BALANCE (% GDP)



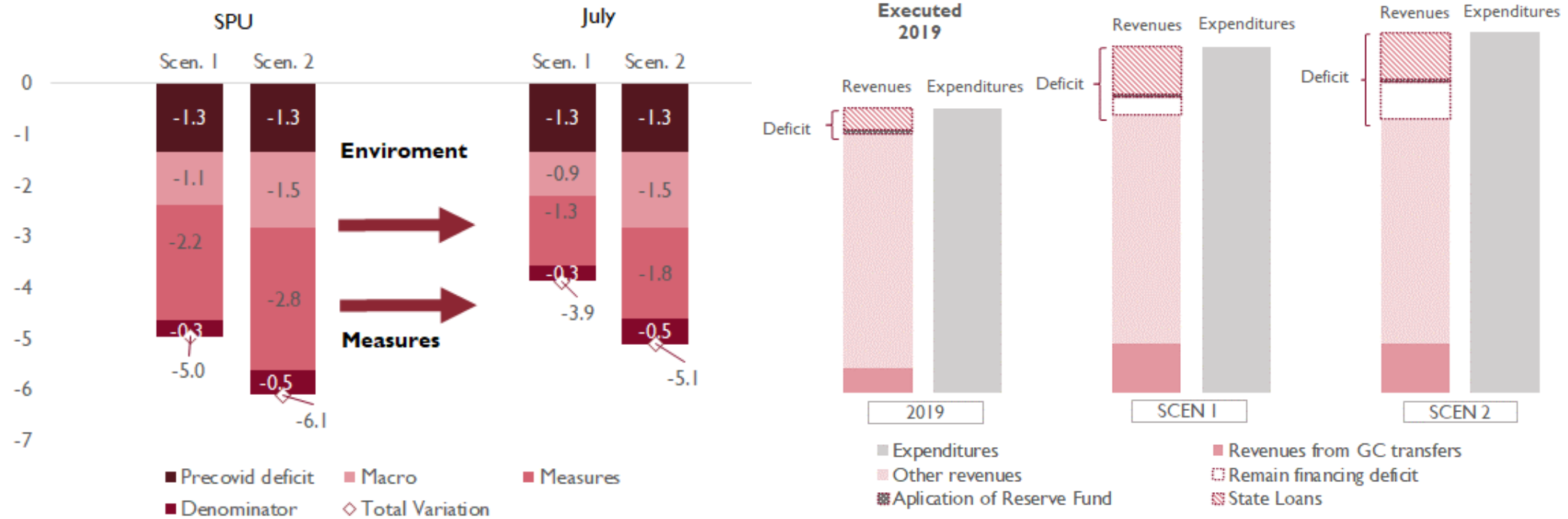
**COVID-19 Fund
for Regions
16,000M€**

**Social Security
Funds:
Additional
transfers
15,700M€**

- The CG deficit increases to 7.7% of GDP in Scenario 1, possibility of reaching 8.3%:
 - Transfers to other sub-sectors: SSF and Regions
 - Assumes deterioration of tax revenue

Social Security Funds: CG transfers partially offset measures taken to alleviate the COVID-19 crisis

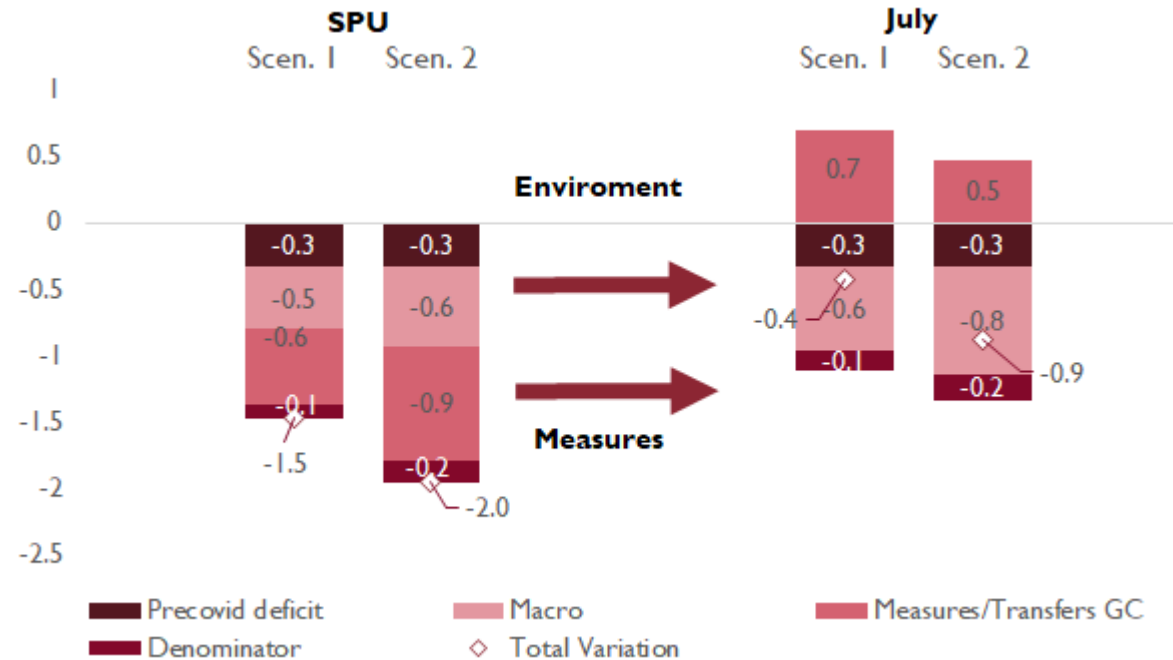
EVOLUTION OF AIREF'S FORECASTED SSF BALANCE (% GDP)



- The SSF deficit decreases to 3.9% and 5.1% of GDP according to scenario 1
 - Receives additional transfers from the AC: +1.4%
 - New measures are approved and existing ones are extended: -0.5%

Regions: The deficit forecast decreases compared to the previous report to 0.4 and 0.9% of GDP, depending on the scenario

EVOLUTION OF AIREF'S FORECASTED REGIONAL BALANCE (% GDP)



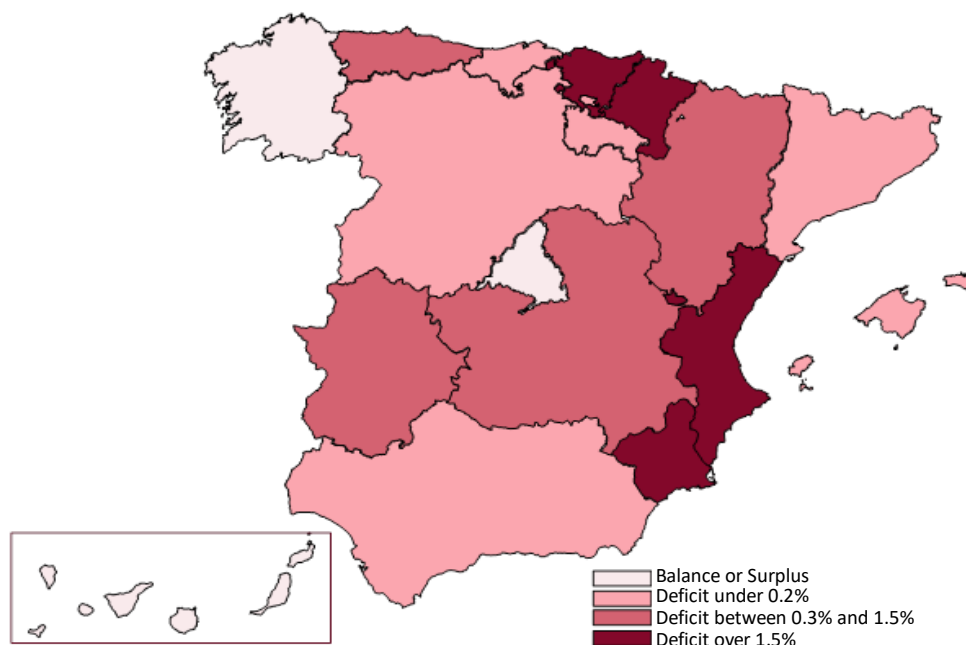
COVID-19 Fund: 16,000M€

- (Sections 1 and 2) Health expenditure: 9,000M€
- Section 3. Educational expenditure: 2,000M€
- Section 4. Revenue drop: 5,000M€

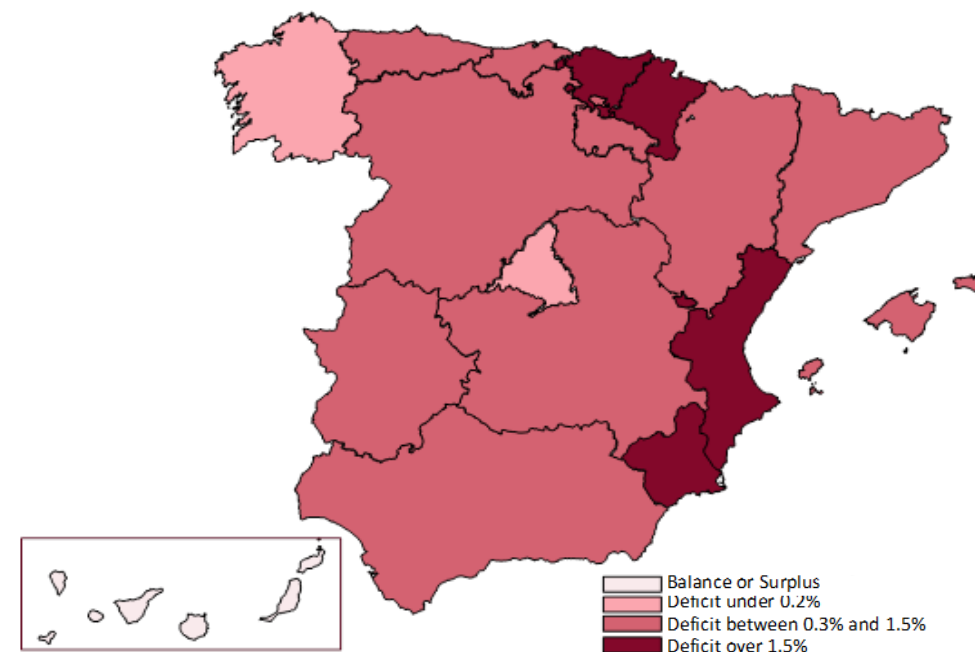
- The impact of the current crisis would be assumed by the CG and carried over to the following years in the regional sub-sector.
- Main changes since the previous report:
 - Transfers received from the CG by the COVID-19 Fund (+1.4%)
 - Greater impact of measures (-0.1%)
 - Higher estimate of healthcare expenditure with greater weight of intermediate consumption (-0.1%)
 - Revenue drop greater than expected for TATDLA and Regions under Provincial Regime (-0.1%)

Regions: The impact of COVID-19 could range between 0.9% and 2.5% of GDP depending on the Region and scenario in question.

SCENARIO 1



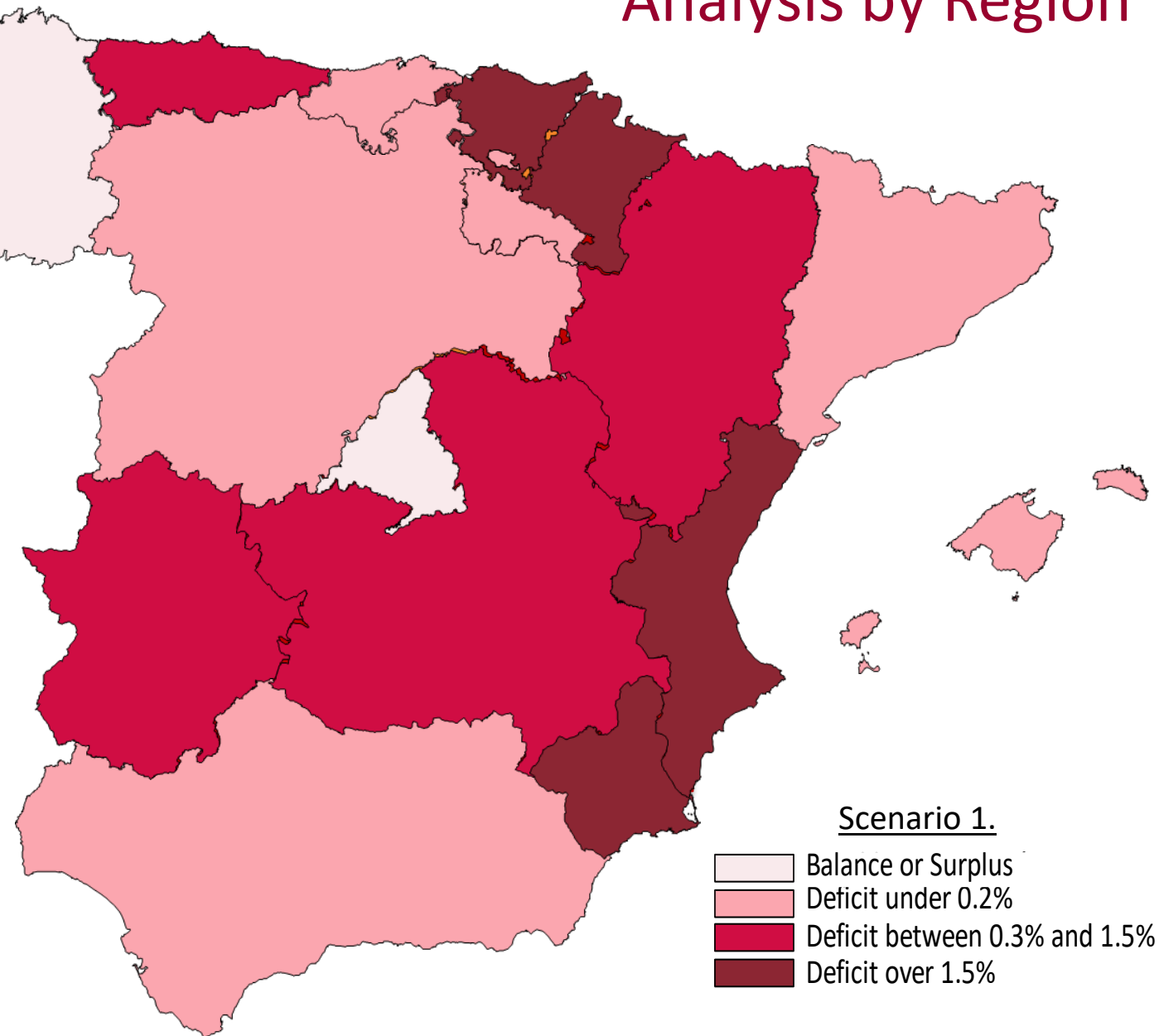
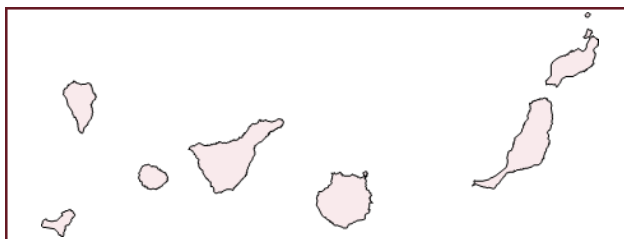
SCENARIO 2



- Basque Country and Navarre register a higher impact due to the fall in tax revenue
- The starting situation also determines the level of deficit for 2020

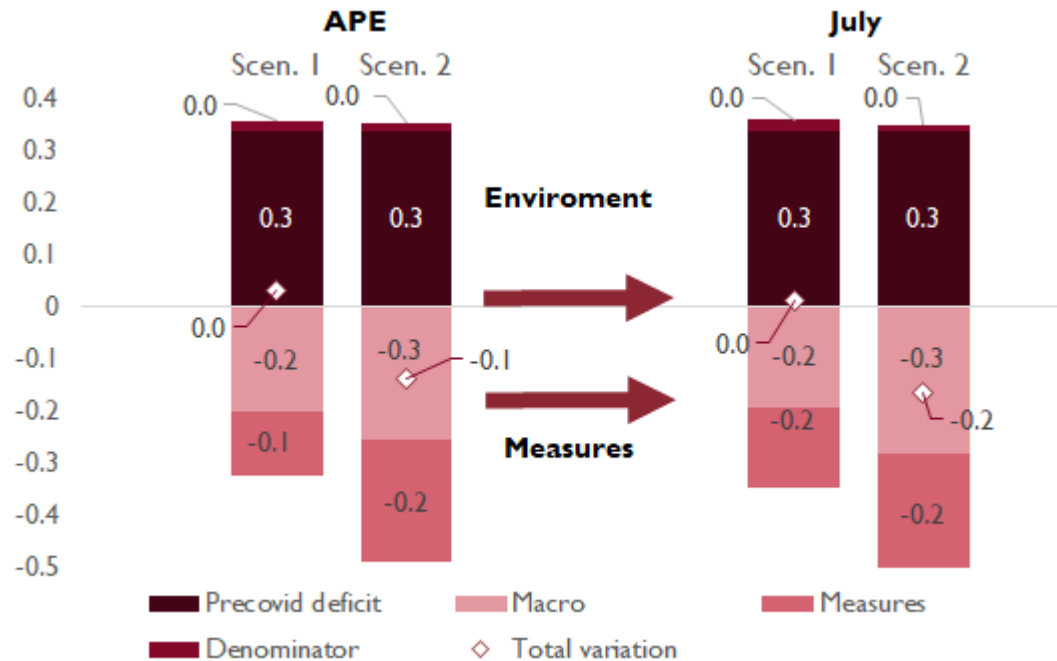
Analysis by Region

- 1. Introduction
- 2. Macro scenario
- 3. Fiscal scenario
 - A. Balance
 - i. Impact of measures
 - B. Revenue
 - C. Expenditure
 - D. Sub-sectors
 - E. Sustainability

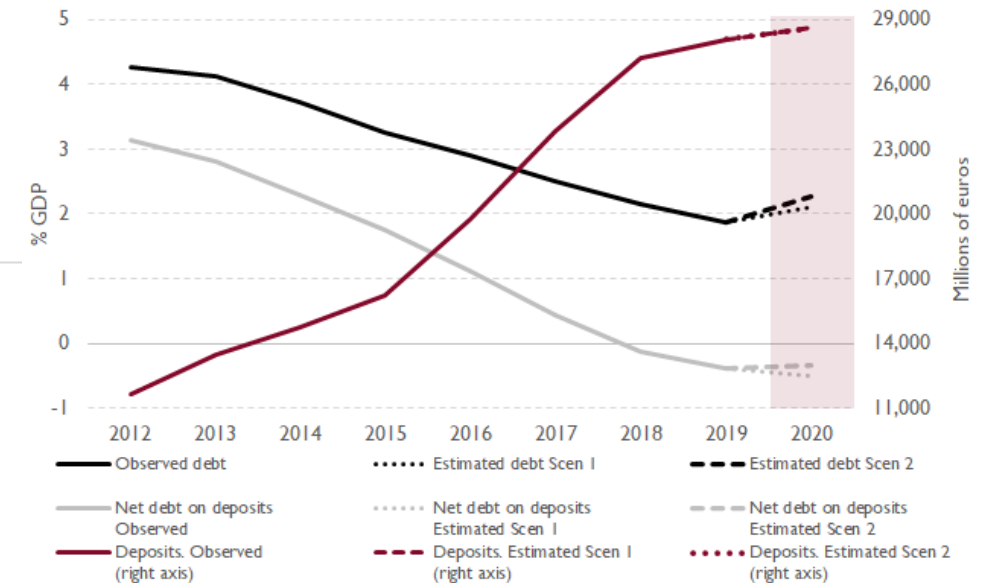


LGs: AIReF confirms its May assessment of the local sub-sector, placing it at equilibrium.

EVOLUTION OF AIREF'S FORECASTED LG BALANCE (% GDP)



EVOLUTION OF DEBT AND LIQUID ASSETS LG SUB-SECTOR IN 2012-2019 (AS A PERCENTAGE OF GDP) AND AIREF ESTIMATES FOR 2020



- Both revenue and expenditure estimates are reduced, influenced by the Provincial Councils
- The year-end forecasts for 2020, communicated to AIReF by the large LGs, confirm the result of dilution of the local surplus

LGs: The big LGs could incur a deficit for the first time since 2012

FORECASTS ON COMPLIANCE WITH FISCAL RULES 24 LARGE LGs

LOCAL GOVERNMENT	Stability target (ST)		Expenditure rule (ER)		Debt ratio (DR)
	2019	2020 forecast	2019	2020 forecast	2020 forecast
MADRID	✓	✓	✗	✓	31%
BARCELONA	✓	✗	✓	✓	30%
VALENCIA	✓	✓	✗	✗	40%
SEVILLA	✓	✓	✓	✓	32%
ZARAGOZA	✓	✓	✓	✗	88%
MÁLAGA	✓	✓	✗	✓	42%
MURCIA	✓	✓	✗	✓	84%
PALMA	✓	✗	✓	✗	44%
LAS PALMAS DE GRAN CANARIA	✓	✓	✓	✗	0%
BILBAO	✓	✓	✓	✓	1%
ALICANTE	✓	✓	✓	✗	7%
CÓRDOBA	✓	✓	✗	✗	52%

LOCAL GOVERNMENT	Stability target (ST)		Expenditure rule (ER)		Debt ratio (DR)
	2019	2020 forecast	2019	2020 forecast	2020 forecast
VALLADOLID	✓	✗	✓	✗	32%
VIGO	✓	✓	✓	✗	0%
GIJÓN	✓	✗	✓	✗	40%
L'HOSPITALET DE LLOBREGAT	✓	✗	✗	✗	29%
DIP. BARCELONA	✗	✓	✗	✓	0%
DIP. VALENCIA	✓	✓	✗	✓	26%
DIP. SEVILLA	✓	✓	✓	✓	0%
CABILDO INSULAR DE TENERIFE	✓	✓	✓	✗	8%
CONSEJO INSULAR DE MALLORCA	✓	✓	✓	✓	26%
DIPUTACIÓN FORAL DE ARABA/ÁLAVA	✓	✗	✓	✓	73%
DIPUTACIÓN FORAL DE GIPUZKOA	✓	✗	✓	✓	23%
DIPUTACIÓN FORAL DE BIZKAIA	✓	✗	✓	✓	77%

✓ Compliance

✗ Non-compliance

Debt on the DR <75%

Debt on the DR >75% and <110%

2020 FORECAST BY LG WITH SUSTAINABILITY RISK

RISK LEVEL	LOCAL GOVERNMENT	Main parameters to qualify the sustainability risk situation			
		(Outstanding debt + Negative treasury remnant)/Current revenue (CR)	APP	Op. balance Current/CR	Lending capacity/CR
Critical	Jaén	554%	598	-22%	-29%
	Jerez de la Frontera	439%	340	-5%	0%
	Parla	1168%	290	-24%	-23%
Very High	Barrios (Los)	630%	123	3%	4%
	Gandia	297%	16	12%	12%
	Totana	370%	103	10%	12%
HIGH	Arcos de la Frontera	109%	503	-11%	-9%
	Ayamonte	102%	418	66%	17%
	Barbate	Non-compliance with the duty to collaborate			
	Navalcarnero	378%	231	-13%	0%
	Palacios y Villafranca (Los)	170%	353	3%	5%
Moderate	Alcorcon	109%	11	18%	20%
	Algeciras	185%	13	0%	0%
	Aranjuez	271%	222	14%	5%
	Arganda del Rey	144%	39	11%	5%
	Línea de la Concepción (La)	215%	29	8%	8%
	San Andrés del Rabanado	224%	49	15%	15%
Low	Alboraia/Alboraya	136%	27	24%	-4%
	Almonte	115%	287	-11%	-15%
	Caravaca de la Cruz	129%	128	7%	10%
	Granada	85%	165	6%	9%
	Isla Cristina	102%	120	13%	13%
	Puerto Real	161%	185	17%	18%
	Rota	98%	136	6%	6%
	Sanlúcar de Barrameda	124%	37	15%	16%
	Valdemoro	98%	29	27%	29%

AIReF maintains the sustainability risk rating of all the entities analysed, except for:

- ✓ Arganda del Rey's improvement
- ✓ Arcos de la Frontera's decline

	Non-compliance with the duty to collaborate with AIReF
	The rating of its medium-term sustainability structural situation improves
	The rating of its medium-term sustainability structural situation worsens
	Its position within the sustainability risk situation rating group improves
	Its position within the sustainability risk rating group worsens



The public debt sustainability analysis indicates the need for a medium-term strategy

1. Introduction

2. Macro scenario

3. Fiscal scenario

A. Balance

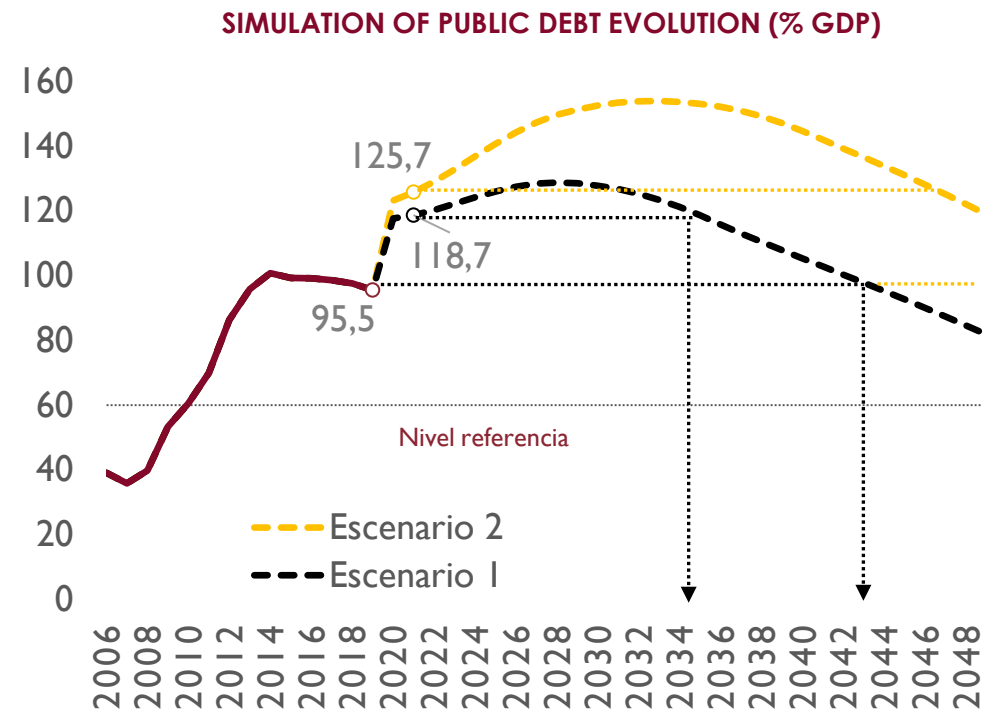
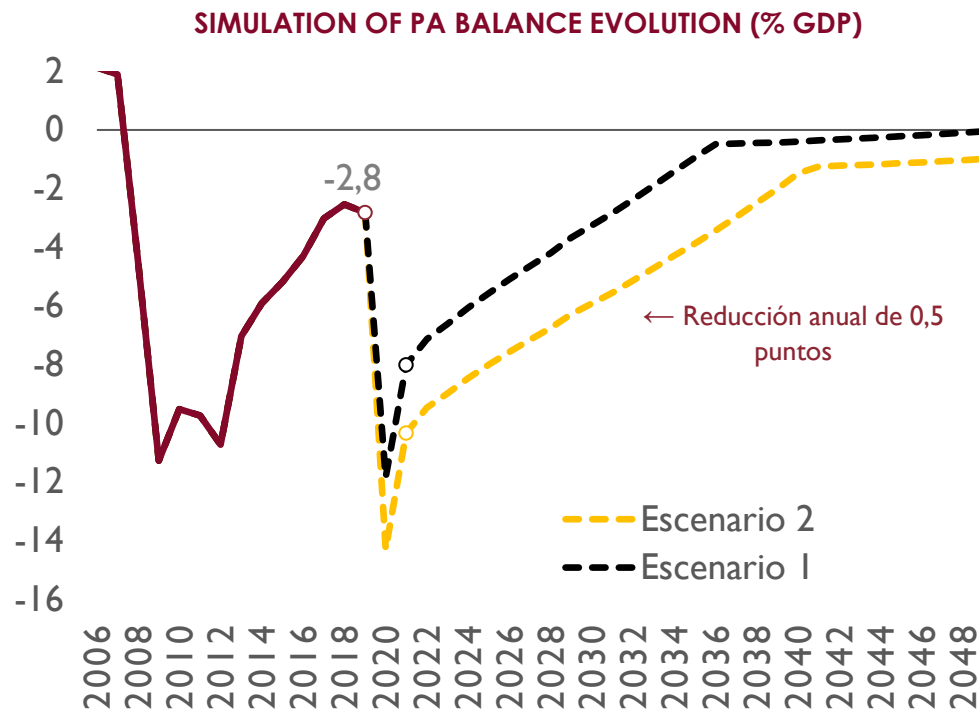
i. Impact of measures

B. Revenue

C. Expenditure

D. Sub-sectors

E. Sustainability



- Under an annual deficit correction scenario of 0.5% of GDP from 2021 to reach a primary surplus of 2%, it is estimated that returning to the 95.5% debt level recorded at the end of 2019 will take at least two decades.
- Even maintaining budgetary balance, the level of 60% would not be reached before 2050



Autoridad Independiente
de Responsabilidad Fiscal

www.airef.es



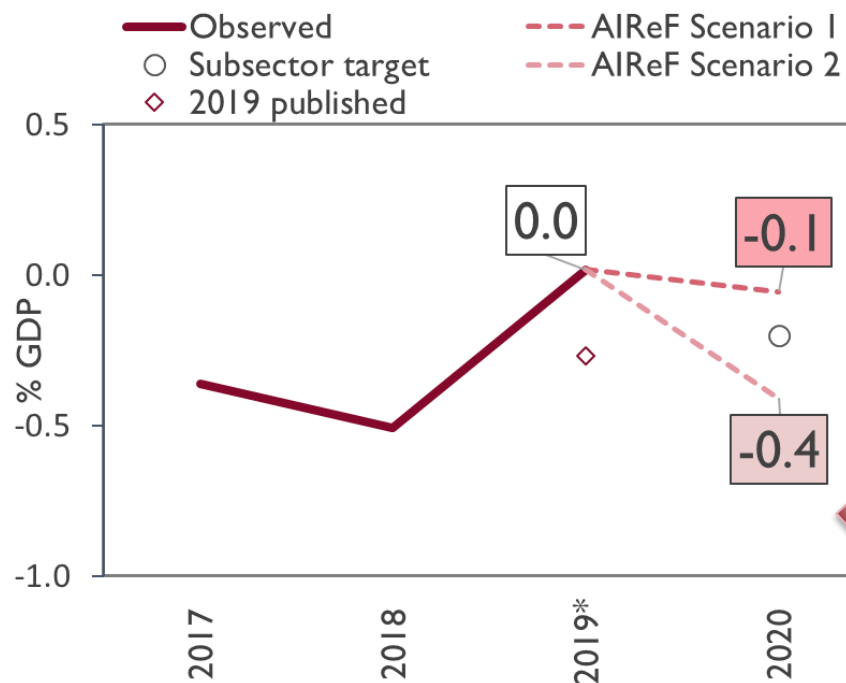
[@AIReF_es](https://twitter.com/AIReF_es)



Region of Andalusia



2020 Deficit (% GDP)



(*) Discounting the impact of the VAT IIS in 2019.

Scenario 1.

Activity decline:

↓ -0.4

Fondo
COVID-19:
↑ +1.4

Health
expenditure:

↑ -0.7

Measures:

↑ -0.2

Scenario 2.

Activity decline:

↓ -0.6

Fondo
COVID-19:
↑ +1.4

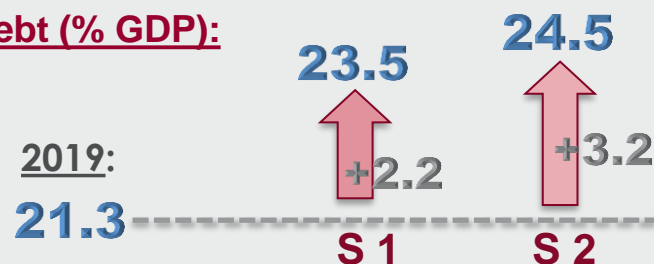
Health
expenditure:

↑ -0.9

Measures:

↑ -0.2

2020 Debt (% GDP):



Main effect : GDP decline (denominator effect)

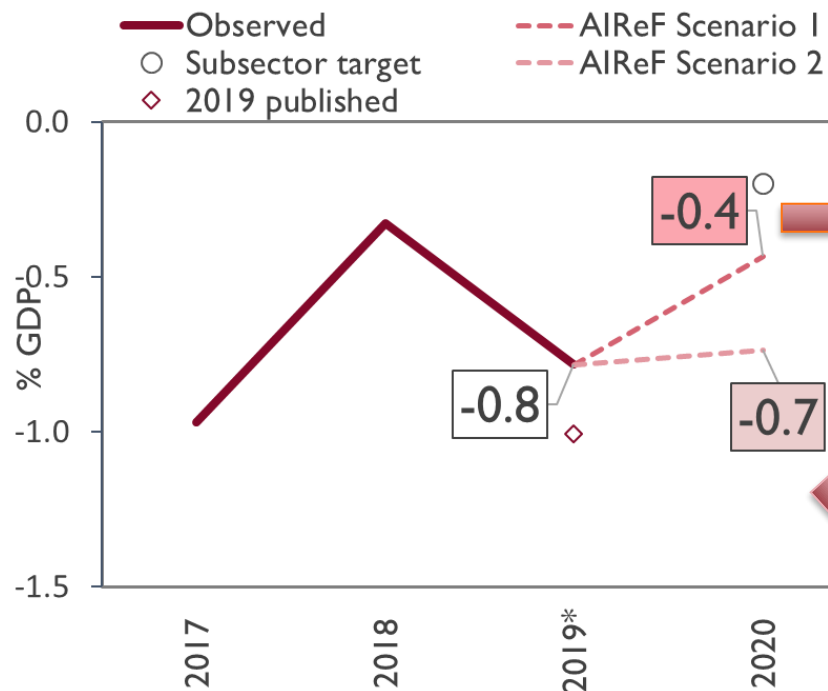




Region of Aragon



2020 Deficit (% GDP)



(*) Discounting the impact of the VAT IIS in 2019.

Scenario 1.

Activity decline:

↓ -0.4

Fondo
COVID-19:
↑ +1.2

Health
expenditure:

↑ -0.5

Measures:
↑ -0.1

Scenario 2.

Activity decline:

↓ -0.5

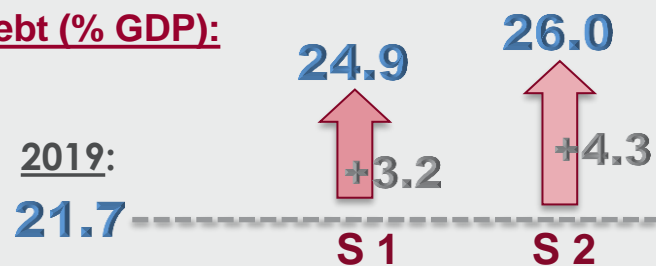
Fondo
COVID-19:
↑ +1.3

Health
expenditure:

↑ -0.7

Measures:
↑ -0.1

2020 Debt (% GDP):



Main effect : GDP decline (denominator effect)

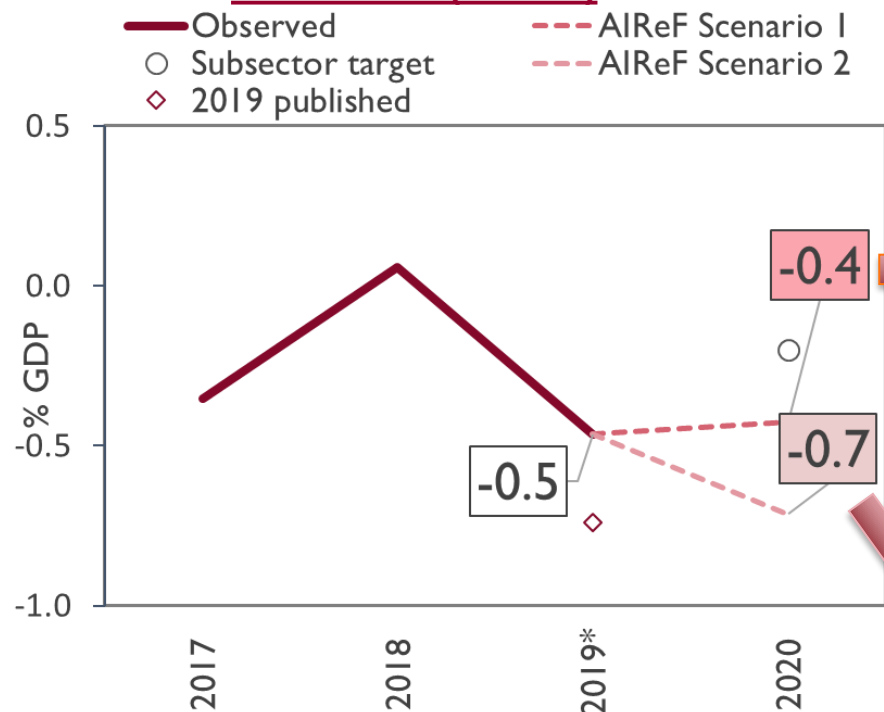




Region of Asturias



2020 Deficit (% GDP)



(*) Discounting the impact of the VAT IIS in 2019.

Scenario 1.

Activity decline:

↓ -0.5

Fondo
COVID-19:
↑ +1.3

Health
expenditure:

↑ -0.6

Measures:

↑ -0.4

Scenario 2.

Activity decline:

↓ -0.6

Fondo
COVID-19:
↑ +1.3

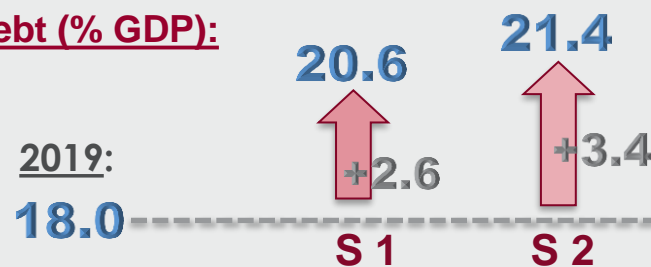
Health
expenditure:

↑ -0.8

Measures:

↑ -0.4

2020 Debt (% GDP):



Main effect : GDP decline (denominator effect)

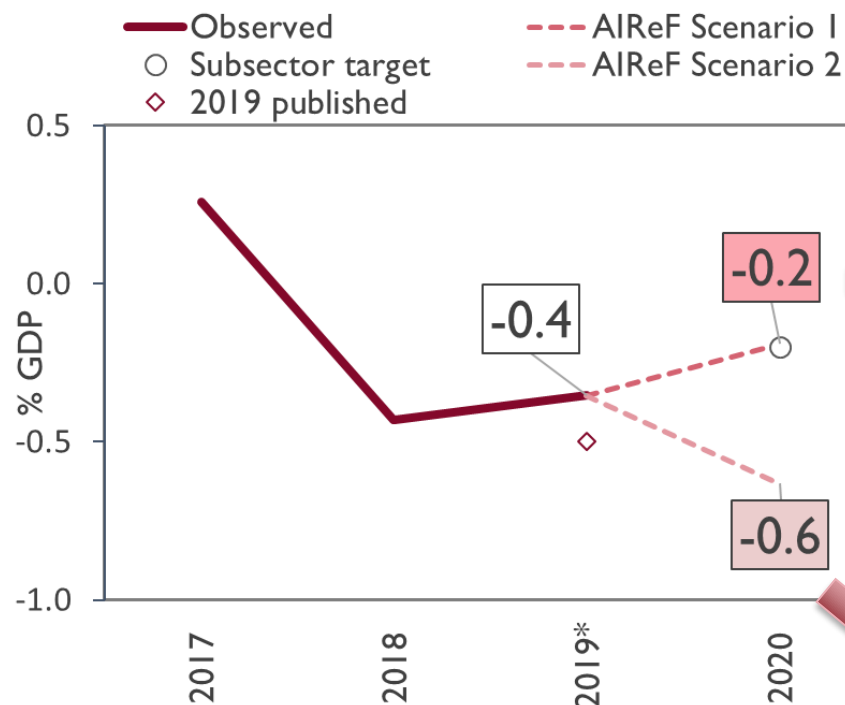




Region of the Balearic Islands



2020 Deficit (% GDP)



(*) Discounting the impact of the VAT IIS in 2019.

Scenario 1.

Activity decline:

↓ -1.1

Fondo
COVID-19:
↑ +1.4

Health
expenditure:

↑ -0.4

Measures:

↑ -0.1

Scenario 2.

Activity decline:

↓ -1.4

Fondo
COVID-19:
↑ +1.5

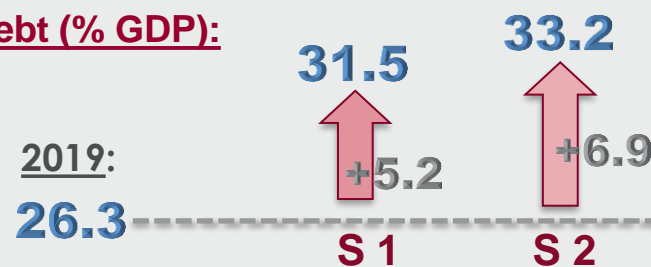
Health
expenditure:

↑ -0.6

Measures:

↑ -0.1

2020 Debt (% GDP):



Main effect : GDP decline (denominator effect)

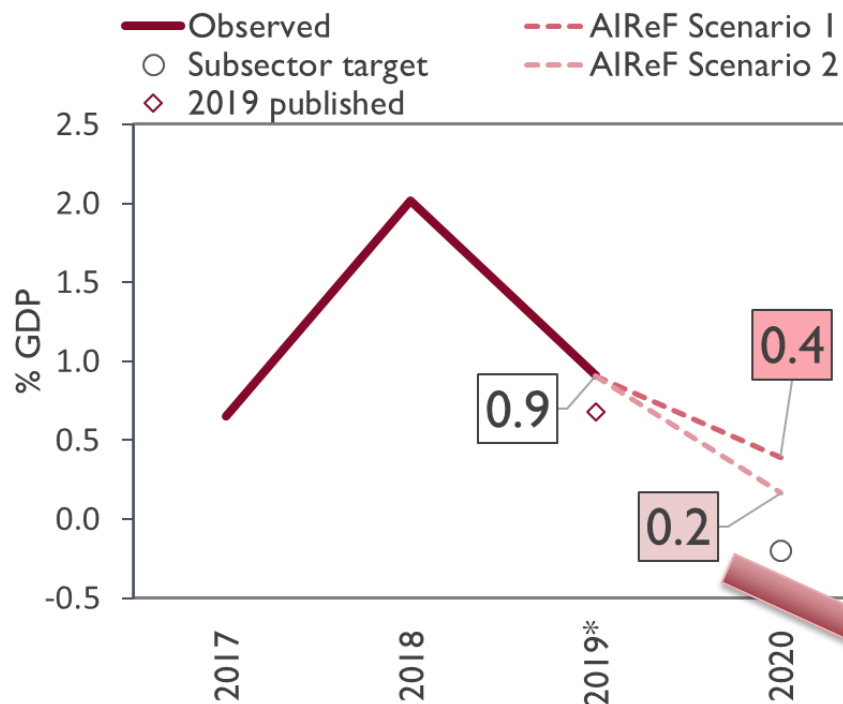




Region of the Canary Islands



2020 Deficit (% GDP)



(*) Discounting the impact of the VAT IIS in 2019.

Scenario 1.

Activity decline:

↓ -1.4

Fondo
COVID-19:
↑ +1.2

Health
expenditure:

↑ -0.6

Measures:

↓ -0.2

Scenario 2.

Activity decline:

↓ -1.7

Fondo
COVID-19:
↑ +1.3

Health
expenditure:

↑ -0.8

Measures:

↓ -0.2

2020 Debt (% GDP):

2019:

14.0

16.0

↑ +2.0

S 1

16.8

↑ +2.8

S 2

Main effect : GDP decline (denominator effect)

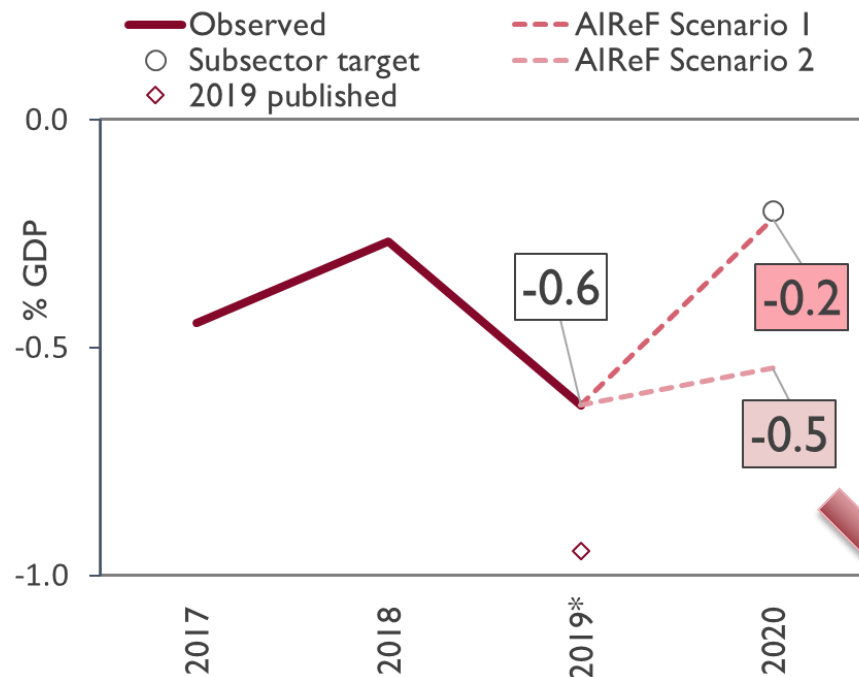
AIReF



Region of Cantabria



2020 Deficit (% GDP)



(*) Discounting the impact of the VAT IIS in 2019.

Scenario 1.

Activity decline:

↓ -0.4

Fondo
COVID-19:
↑ +1.3

Health
expenditure:
↑ -0.5

Measures:
↑ -0.2

Scenario 2.

Activity decline:

↓ -0.5

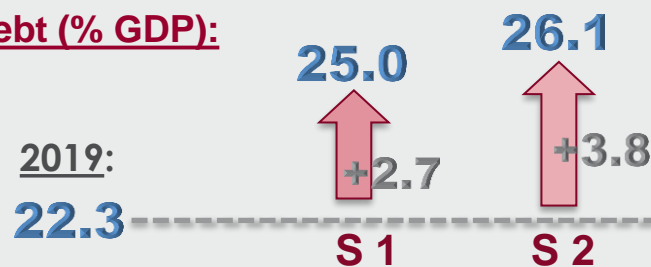
Fondo
COVID-19:
↑ +1.4

Health
expenditure:

↑ -0.7

Measures:
↑ -0.2

2020 Debt (% GDP):



Main effect : GDP decline (denominator effect)

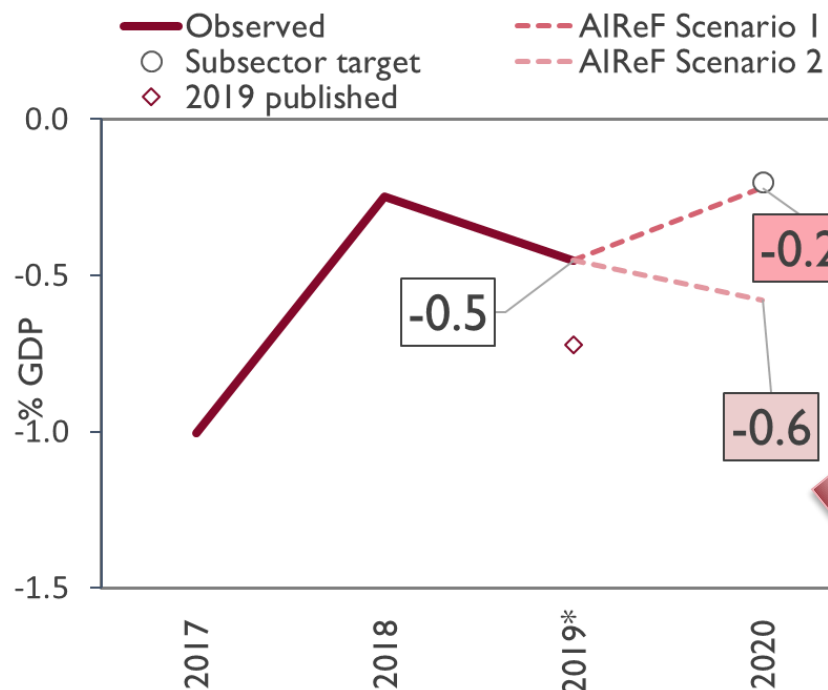




Castile and Leon



2020 Deficit (% GDP)



(*) Discounting the impact of the VAT IIS in 2019.

Scenario 1.

Activity decline:

↓ -0.3

Fondo
COVID-19:
↑ +1.6

Health
expenditure:

↑ -0.7

Measures:

↑ -0.1

Scenario 2.

Activity decline:

↓ -0.4

Fondo
COVID-19:
↑ +1.6

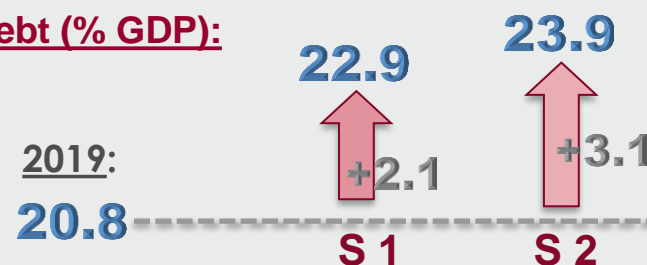
Health
expenditure:

↑ -1.0

Measures:

↑ -0.1

2020 Debt (% GDP):



Main effect : GDP decline (denominator effect)

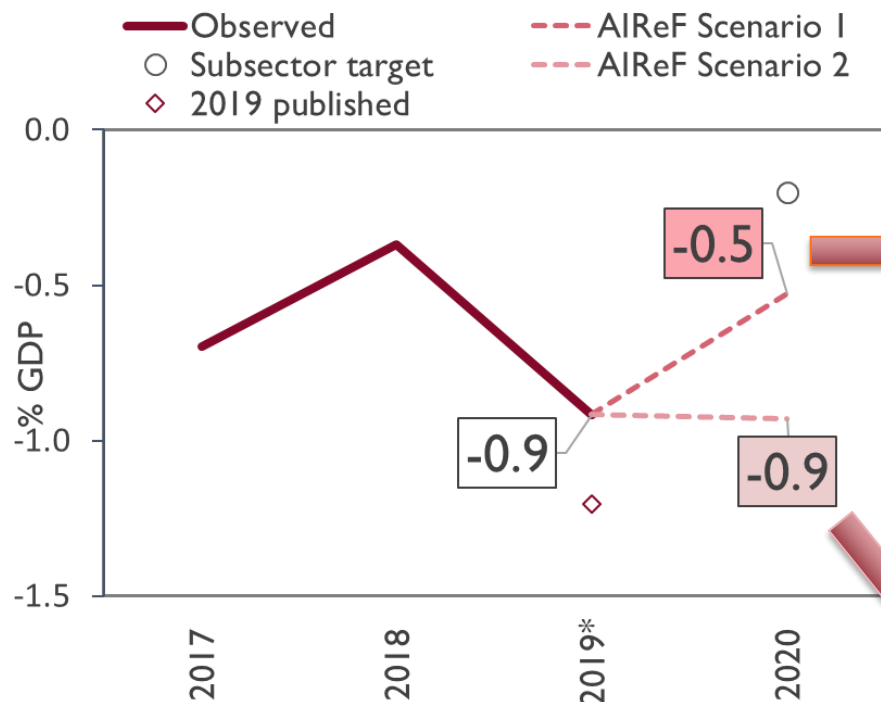




Region of Castile – La Mancha



2020 Deficit (% GDP)



(*) Discounting the impact of the VAT IIS in 2019.

Scenario 1.

Activity decline:

↓ -0.3

Fondo
COVID-19:
↑ +2.1

Health
expenditure:

↑ -0.8

Measures:

↑ -0.4

Scenario 2.

Activity decline:

↓ -0.4

Fondo
COVID-19:
↑ +2.1

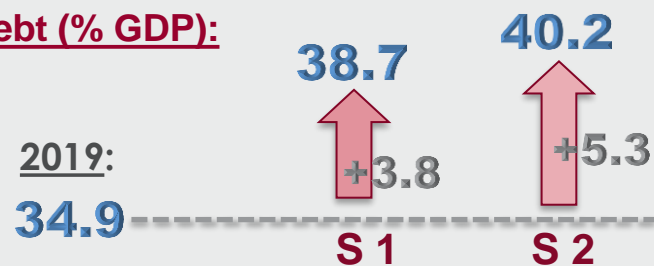
Health
expenditure:

↑ -1.1

Measures:

↑ -0.4

2020 Debt (% GDP):



Main effect : GDP decline (denominator effect)

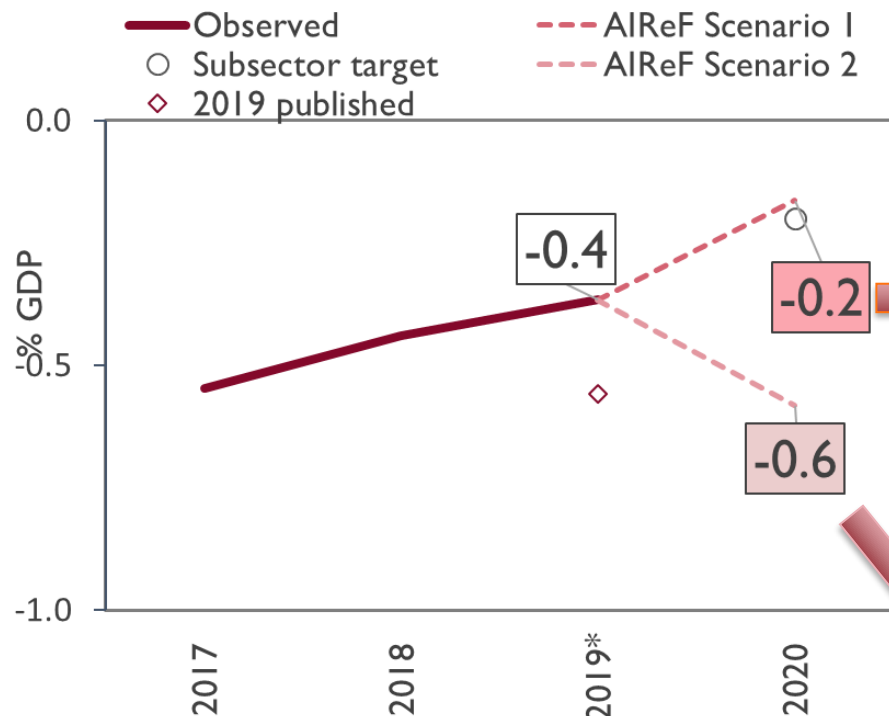




Region of Catalonia



2020 Deficit (% GDP)



(*) Discounting the impact of the VAT IIS in 2019.

Scenario 1.

Activity decline:

↓ -0.6

Fondo
COVID-19:
↑ +1.5

Health
expenditure:

↑ -0.7

Measures:

↑ -0.3

Scenario 2.

Activity decline:

↓ -0.8

Fondo
COVID-19:
↑ +1.6

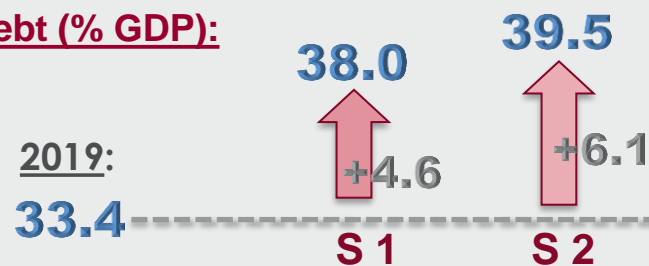
Health
expenditure:

↑ -1.0

Measures:

↑ -0.3

2020 Debt (% GDP):



Main effect : GDP decline (denominator effect)

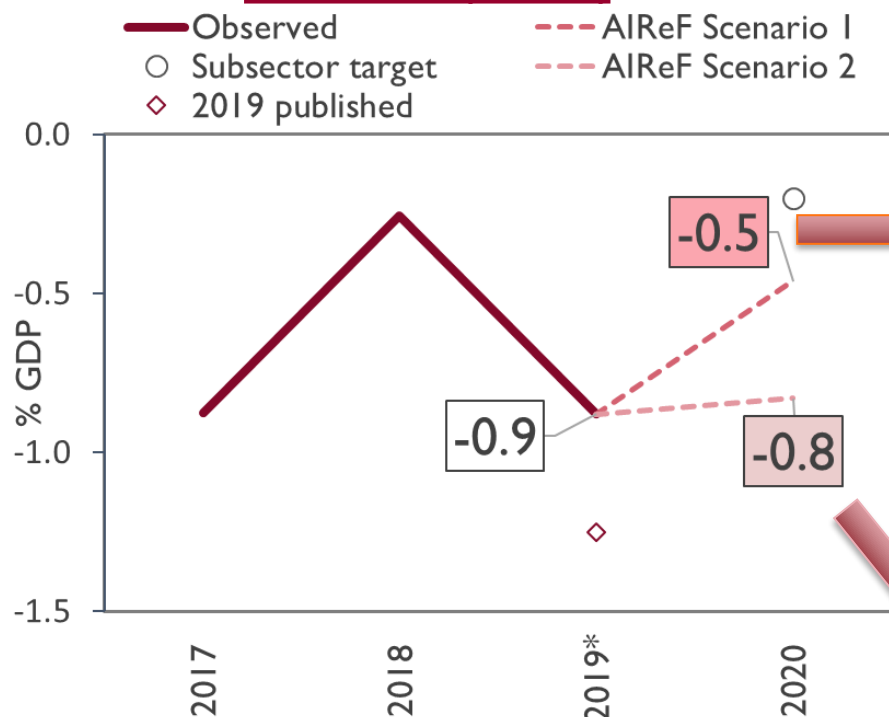




Region of Extremadura



2020 Deficit (% GDP)



(*) Discounting the impact of the VAT IIS in 2019.

Scenario 1.

Activity decline:

↓ -0.4

Fondo
COVID-19:
↑ +1.5

Health
expenditure:

↑ -0.7

Measures:
↑ -0.0

Scenario 2.

Activity decline:

↓ -0.5

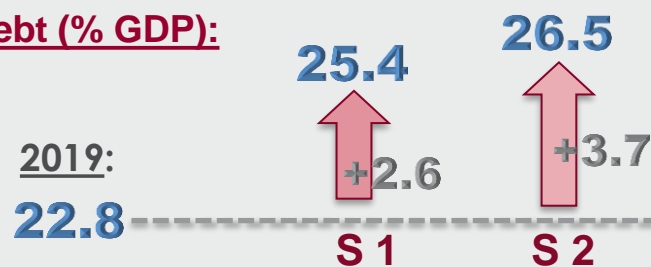
Fondo
COVID-19:
↑ +1.6

Health
expenditure:

↑ -1.0

Measures:
↑ -0.0

2020 Debt (% GDP):



Main effect : GDP decline (denominator effect)

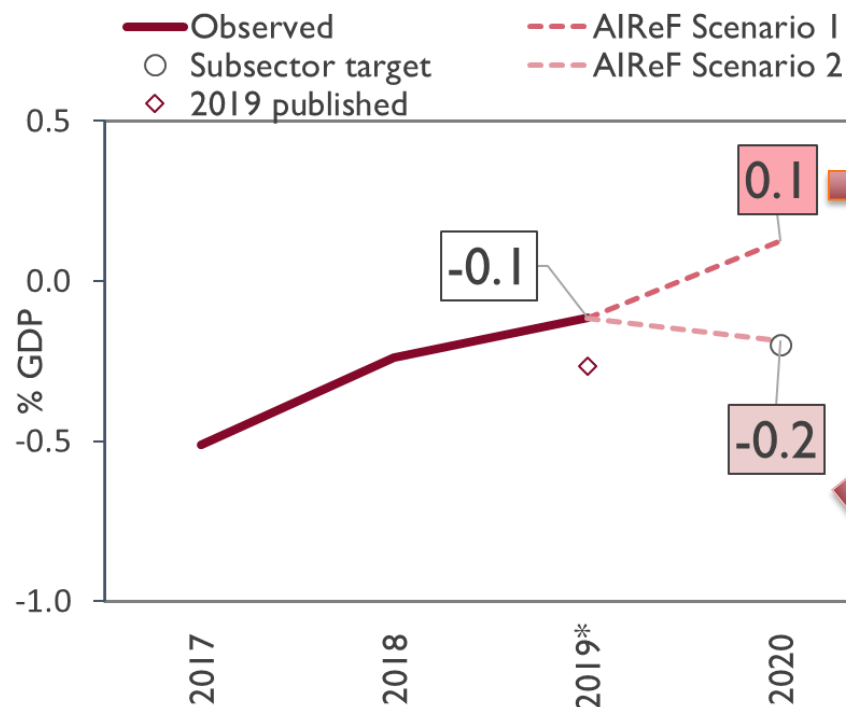




Region of Madrid

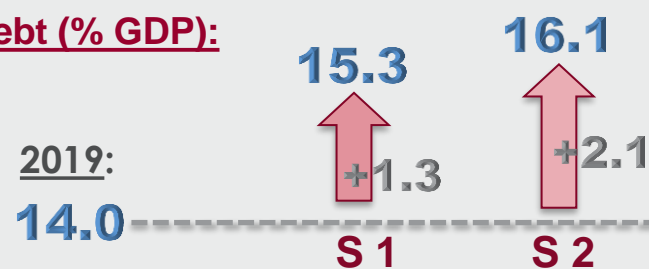


2020 Deficit (% GDP)



(*) Discounting the impact of the VAT IIS in 2019.

2020 Debt (% GDP):



Main effect : GDP decline (denominator effect)

Scenario 1.

Activity decline:

↓ -0.4

Fondo
COVID-19:
↑ +1.6

Health
expenditure:

↑ -0.6

Measures:

↑ -0.2

Scenario 2.

Activity decline:

↓ -0.5

Fondo
COVID-19:
↑ +1.6

Health
expenditure:

↑ -0.9

Measures:

↑ -0.2

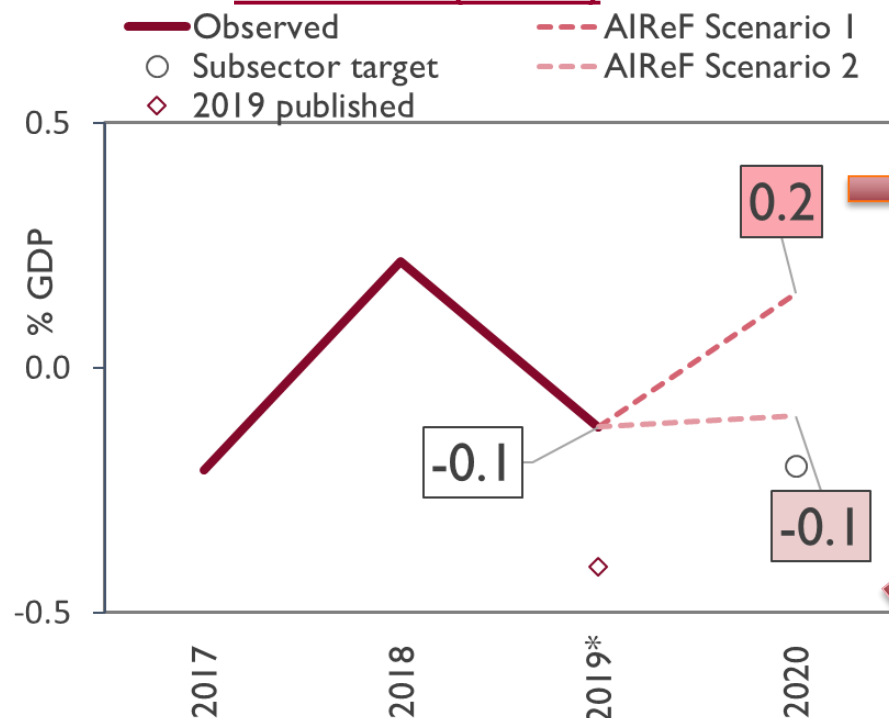




Region of Galicia



2020 Deficit (% GDP)



(*) Discounting the impact of the VAT IIS in 2019.

Scenario 1.

Activity decline:

↓ -0.3

Fondo
COVID-19:
↑ +1.2

Health
expenditure:

↑ -0.5

Measures:
↑ -0.1

Scenario 2.

Activity decline:

↓ -0.4

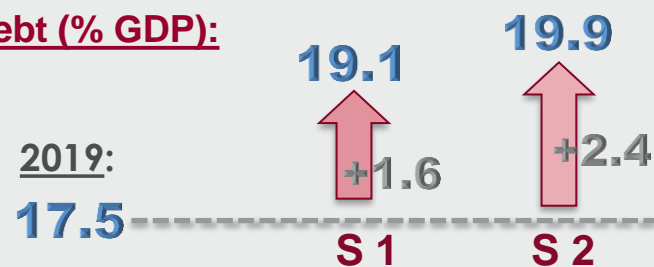
Fondo
COVID-19:
↑ +1.2

Health
expenditure:

↑ -0.7

Measures:
↑ -0.1

2020 Debt (% GDP):



Main effect : GDP decline (denominator effect)

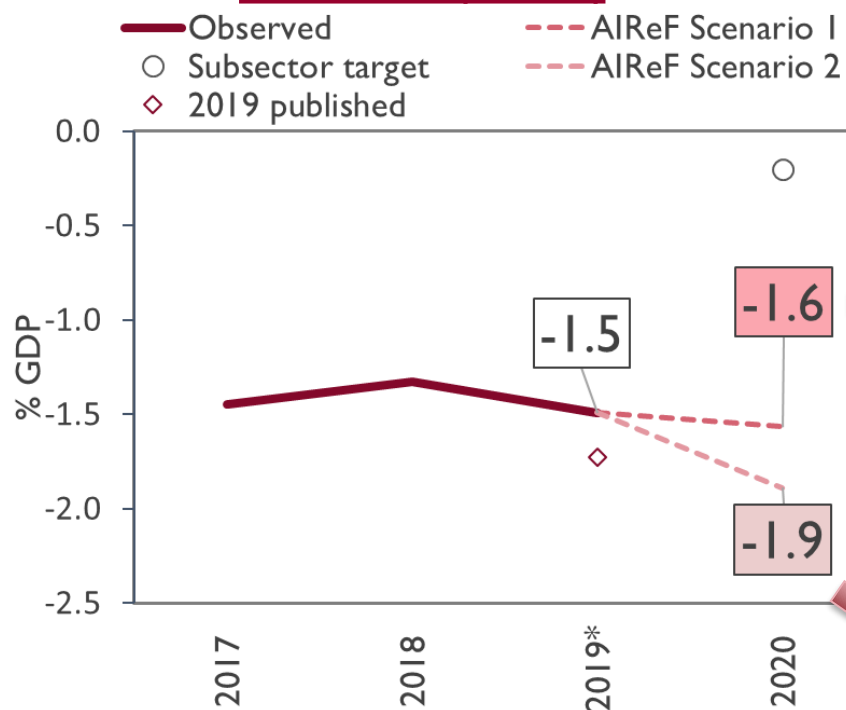




Region of Murcia



2020 Deficit (% GDP)



(*) Discounting the impact of the VAT IIS in 2019.

Scenario 1.

Activity decline:

↓ -0.5

Fondo
COVID-19:
↑ +1.2

Health
expenditure:

↑ -0.5

Measures:

↑ -0.1

Scenario 2.

Activity decline:

↓ -0.6

Fondo
COVID-19:
↑ +1.2

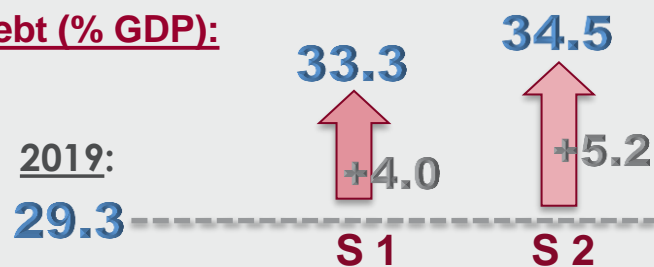
Health
expenditure:

↑ -0.6

Measures:

↑ -0.1

2020 Debt (% GDP):



Main effect : GDP decline (denominator effect)

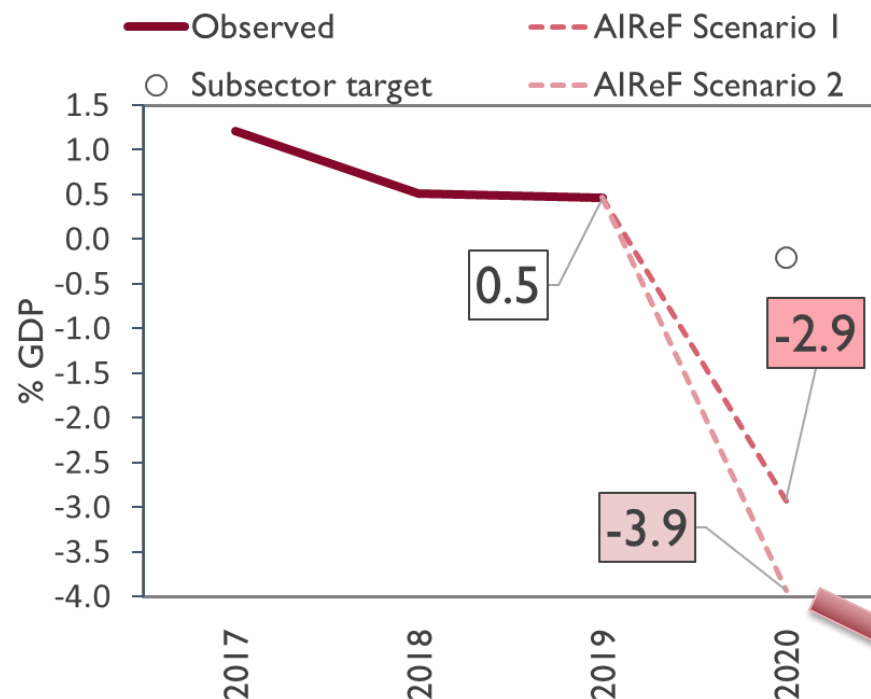




Region of Navarre



2020 Deficit (% GDP)



Scenario 1.

Activity decline:

↓ -3.7

Fondo
COVID-19:
↑ +1.0

Health
expenditure:

↑ -0.5

Measures:

↑ -0.3

Scenario 2.

Activity decline:

↓ -4.6

Fondo
COVID-19:
↑ +1.1

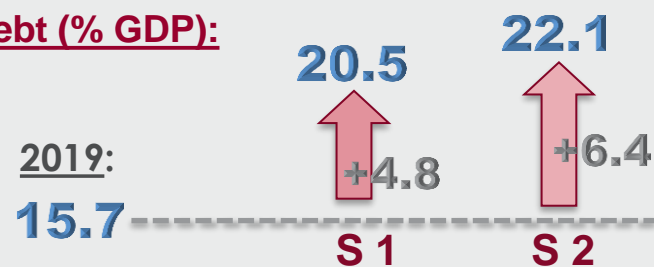
Health
expenditure:

↑ -0.8

Measures:

↑ -0.3

2020 Debt (% GDP):



Main effect : Revenue drop

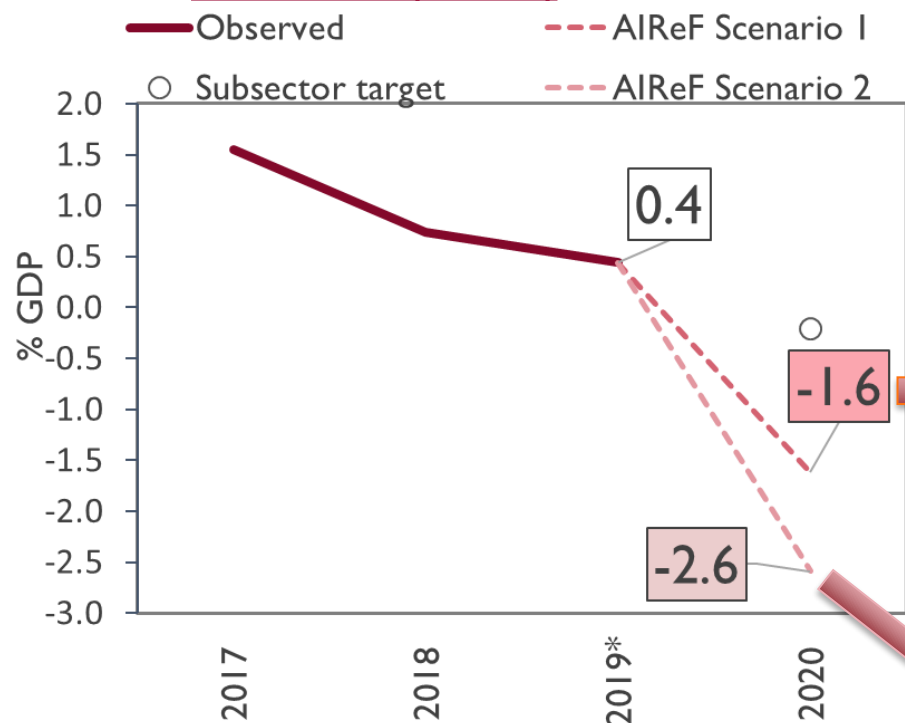




Region of the Basque Country



2020 Deficit (% GDP)



Scenario 1.

Activity decline:

↓ -2.4

Fondo
COVID-19:
↑ +1.1

Health
expenditur
e:

↑ -0.7

Measures:

↑ -0.1

Scenario 2.

Activity decline:

↓ -3.2

Fondo
COVID-19:
↑ +1.1

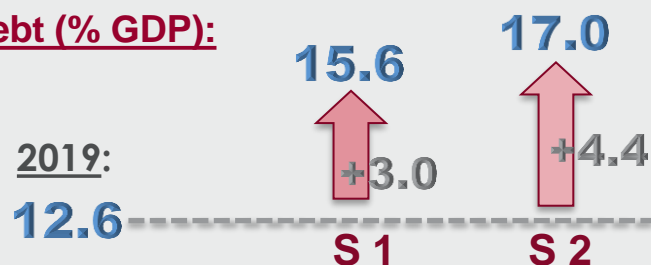
Health
expenditure:

↑ -0.9

Measures:

↑ -0.1

2020 Debt (% GDP):



Main effect : Revenue drop

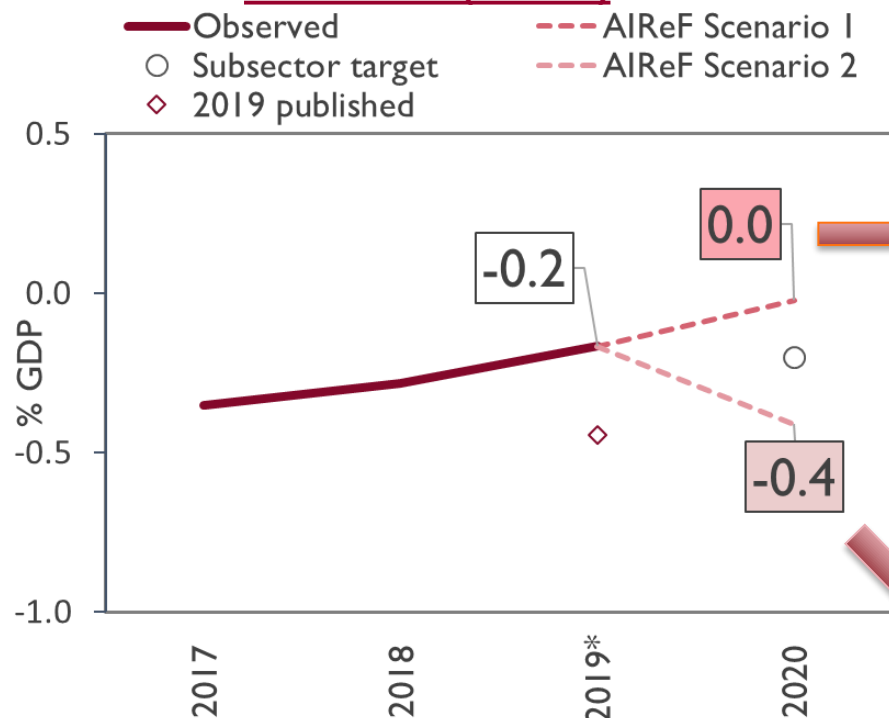




Region of Rioja



2020 Deficit (% GDP)



(*) Discounting the impact of the VAT IIS in 2019.

Scenario 1.

Activity decline:

↓ -0.4

Fondo
COVID-19:
↑ +1.6

Health
expenditure:

↑ -0.7

Measures:

↑ -0.0

Scenario 2.

Activity decline:

↓ -0.6

Fondo
COVID-19:
↑ +1.7

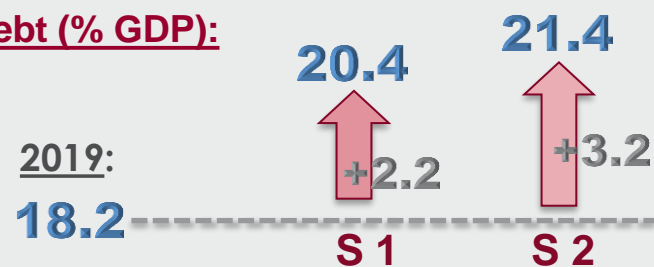
Health
expenditure:

↑ -0.9

Measures:

↑ -0.0

2020 Debt (% GDP):



Main effect : GDP decline (denominator effect)

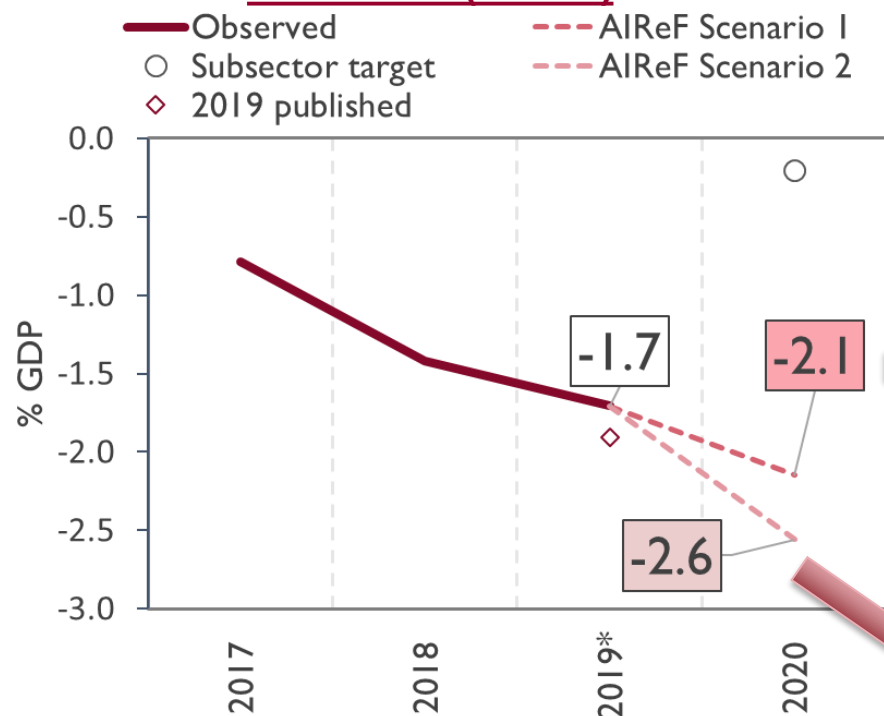
AIReF



Region of Valencia



2020 Deficit (% GDP)



(*) Discounting the impact of the VAT IIS in 2019.

Scenario 1.

Activity decline:

↓ -0.8

Fondo
COVID-19:
↑ +1.4

Health
expenditure:

↑ -0.6

Measures:

↑ -0.3

Scenario 2.

Activity decline:

↓ -1.0

Fondo
COVID-19:
↑ +1.4

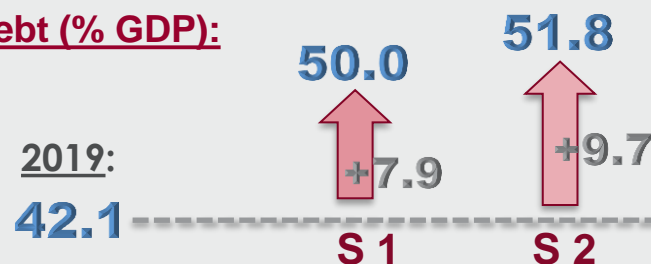
Health
expenditure:

↑ -0.8

Measures:

↑ -0.3

2020 Debt (% GDP):



Main effect : GDP decline (denominator effect)

