



**REPORTS ON THE MAIN LINES
OF THE 2021 BUDGETS OF THE AUTONOMOUS REGIONS AND THE
LOCAL GOVERNMENTS**

3 December 2020

AIReF updates the preliminary assessment of the territorial administrations set out in the 5 November Report on the Budgetary Plan and Draft GSB for 2021

Report on the Main lines of the 2021 Budgets of the Autonomous Regions

- COVID execution and impact data as of September
- 13 draft budgets submitted
- Individual reports on each Autonomous Region

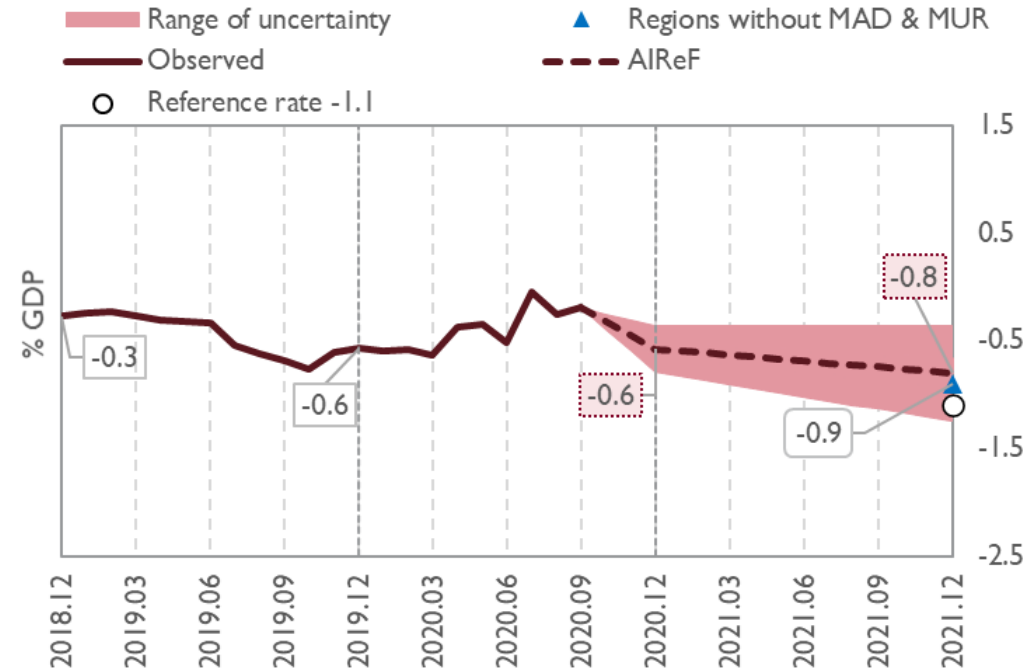
Supplementary Report on the Main Lines of the 2021 Budgets of the Local Governments

- 24 large local governments (LGs):
 - 16 City Councils with over 250,000 inhabitants
 - 5 councils or similar entities with highest budget
 - 3 Provincial Councils
- 26 LGs of over 20,000 inhabitants with sustainability problems

AIReF estimates a 2021 deficit of 0.8% of GDP for the regions

AIReF maintains its forecast with respect to the 5 November report

REGIONS' DEFICIT (% GDP)



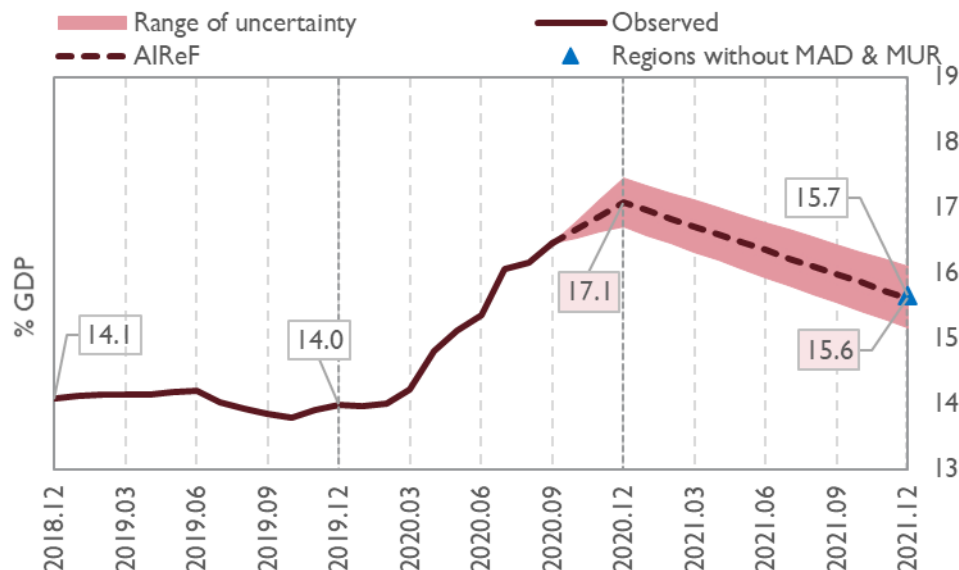
Source: AIReF

- More optimistic forecast than that of the Budgetary Plan and the aggregate of the regions (without Madrid and Murcia) mainly as a result of more contained expected growth in expenditure, associated with the duration of the health crisis.

The regions maintain their revenue in 2021

Revenue will stand at 15.6% of GDP, slightly below the regional forecasts

REVENUE (%GDP)



REVENUE (€BN)

	2020 €bn	2021 €bn	% change 21/20
Net revenue with NG funds	190	210	10%
Net revenue without NG funds	190	191	0%
RFS	117	115	-2%
COVID-19 Fund/extra	16	13	-16%
Tax on AT&DLA	7	7	5%
I>	2	2	11%
Other revenue	40	44	8%
NG funds		19	

- Revenue stabilises in 2021 in nominal terms without including the funds linked to the Recovery, Transformation and Resilience Plan (RTRP)
- Decrease in unconditional transfers from the State (16%)
- Recovery in regional taxes and other revenue linked to production
- Positive evolution of traditional structural funds from the EU's 2014-2020 operational programme

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Only Balearic Islands, Navarre and Galicia are planning new tax measures for 2021

In addition, impacts from measures taken in previous years are expected this year

IMPACT IN 2021 OF REVENUE MEASURES (€M)

Regions	Tax reduction measures		Tax increase measures		Other	
	€m	Tax	€m	Tax	€m	Item
Andalusia	-22	PIT			-90	Removal of medicine auctions (-) and disposal of investments (+)
Balearic Islands			1	Environmental		
Canary Islands	-38	PIT				
Catalonia			145 9 152	I> Tax on AT&DLA Environmental		
Galicia	-6 -1 -4	I> Tax on AT&DLA Gambling				
Murcia	-15	PIT				
Navarre	-50 -6	PIT WT	2 13	I> VAT and Insurance Premiums		
Rioja	-4	PIT	3 12	I> WT		
TOTAL	-146		337		-90	

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There are some discrepancies with the regions in the composition of the revenue

Aggregate regional forecasts are only slightly higher than those of AIReF

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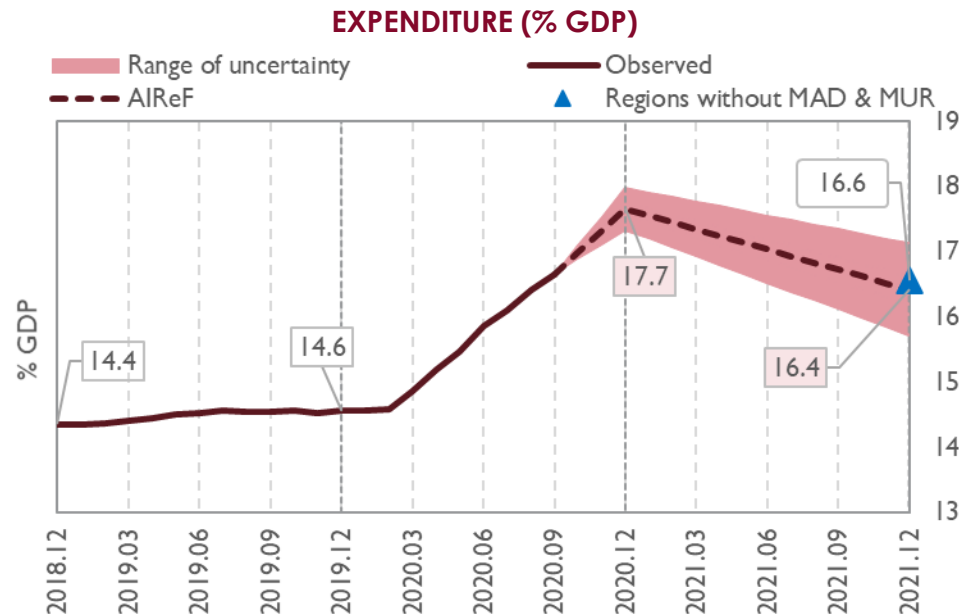
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- Different estimate of the extraordinary transfer from the State to cover the regional deficit:
 - Navarre and the Basque Country do not incorporate it
 - Canary Islands: amount less than 0.5%
 - Extremadura: amount higher than 1.5%
- Valencia incorporates a transfer from the State linked to the financing system of €1.3bn not included in the 2021 draft GSB
- Occasional differences in the evolution of regional taxes
- Some regions forecast very sharp growth in EU structural funds not linked to the RTRP

The regions will increase their expenditure in 2021 by around 2%

The weight of expenditure, without the RTPR, falls in 2021 to 16.4% of GDP, below the aggregate regional estimates



EXPENDITURE (€BN)

	2020	2021	% change 21/20
Net expenditure with REACT and RRF	197	219	11%
Net expenditure without REACT or RRF	197	201	2%
Healthcare	79	79	0%
Education	49	52	6%
Other expenditure	69	70	1%
RTRP Funds		19	

- Expenditure will grow in 2021 in nominal terms by 2%, without including the RTPR, and will fall by 1.3 points in weight of GDP
- The recovery from the health crisis is expected in the second half of the year. COVID expenditure:
 - Healthcare: 60% of 2020 expenditure
 - Education: Double that of 2020 for the full 20/21 academic year
- Growth in personnel costs at 3% (includes healthcare and education)
- Greater baseline growth in expenditure not associated with COVID-19 than in 2020
- Below aggregate regional estimates

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Estimate of the impact of the measures to mitigate the COVID-19 crisis in the regions

AREA	DESCRIPTION OF EXPENDITURE MEASURES	2020	2021
Healthcare	Recruitment of additional health staff, overtime and salary increases related to COVID-19. Hospital care expenditure, expenditure on pharmaceutical products, medical supplies and other current expenditure. Expenditure on healthcare agreements. Investments related to the health response to the pandemic.	7,349	4,443
Social services	Direct aid to families and intermediate institutions (social centres, local governments, etc.) to alleviate the social effects of the crisis. Social services' increased resource needs managed directly by the regions. Increase in amounts of guaranteed minimum income in some regions.	643	206
Economic promotion	Direct aid to companies in various forms (subsidies to SMEs, microSMEs and self-employed people, weekly cheques, compensation for social contributions, etc). Aid to promote recruitment. Strengthening of mutual guarantee and guarantee companies' resources. Approximately a quarter corresponds to investment aid and other capital expenditure.	1,480	888
Education	Staff reinforcement measures. Measures to adapt teaching to non-contact methods during lockdown (purchase of computer equipment and software, aid to homes and institutions). Lower expenditure effects reported by some regions have been discounted. Measures for the 2020/2021 academic year (€1.2 billion)	1,512	2,676
Training for employment	Cancellation of actions in this matter resulting from the deviation of the transfer for training for employment to the payment of direct benefits. Not all regions have reported measures to reduce this expenditure and the latest information does not include the additional allocation that was approved at the end of September. The regions' valuation may therefore be out-of-date.	-372	
Housing	Increase in subsidies for rental and remodelling of housing in addition to State funding.	185	51
Transport	Disinfection and safety preparation of passenger transport means. Other transportation expenditure related to the pandemic. The fall in turnover and the resulting compensation to holders of licences for transport services have been considered as impacts.	41	25
Other	Other measures related to COVID-19, including expected savings on certain expenditure items, for which non-implementation is forecast, which is also estimated by AIREF.	597	298
TOTAL EXPENDITURE MEASURES		11,436	8,587

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Recovery, Transformation and Resilience Plan

With the incorporation of the RTRP, revenue and expenditure will rise by 1.5% of GDP

		AMOUNT 2021	
		TOTAL	REGIONS
Recovery and Resilience Facility	Managed by CG and distributed to the other sub-sectors (€59,168m)	2% of GDP	0.8% of GDP
REACT EU	Managed by the regions (€10bn) and by CG (€2,436bn)	0.9% of GDP	0.8% of GDP

AIReF accepts the assumption of its neutral impact, but there are significant implementation risks:

- Delay in start-up: absorption capacity in 2021
- Uncertainty about approval of legislation and negotiation with European institutions
- Selection of sub-optimal projects

Expenditure associated with European mechanisms according to information in the GSB (100% “new” expenditure)

Only seven of the regions analysed have estimated their amount, most of them only for the REACT-EU funds

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Some regions forecast growth in expenditure higher than that forecast by AIReF

Materialisation of these expenditure increases would raise the regional deficit by 0.2 points

- AIReF has not incorporated these increases into its forecasts as it does not know the assumptions and measures on which they are based
- The expenditure associated with COVID-19 over 2021 will need to be in line with the evolution of the health crisis
- Temporary financing (transfers and European funds) should not be used for structural measures
- Budget planning should take into account the future impact of the planned increases

Risk of consolidating structural expenditure that cannot be sustained in the coming years



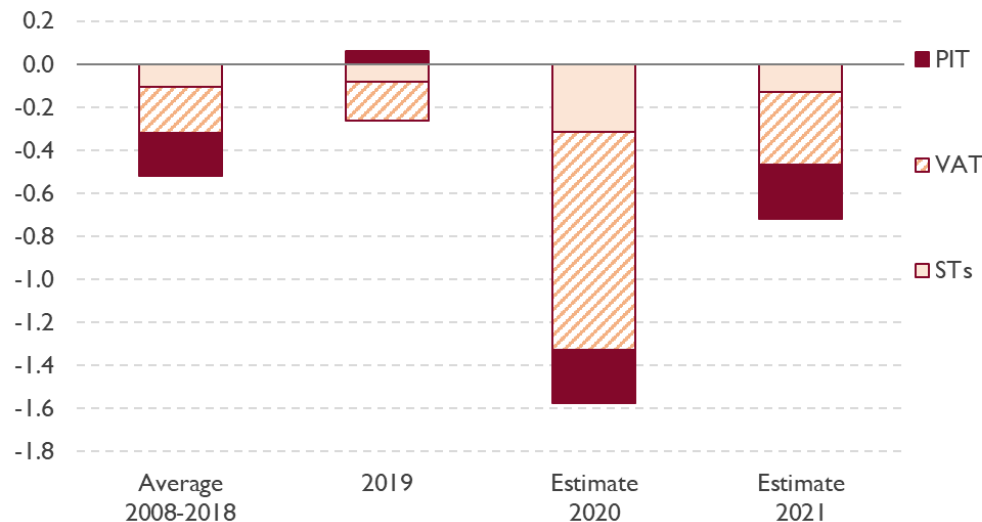
Medium-term outlook

AIReF warns of the risk of lower availability of revenue for the regions in 2022 and 2023

A significant deterioration in the fiscal balance is expected in 2022 and 2023

- The impact of the crisis is once again postponed in the regional sub-sector
- In 2022, revenue may fall by around 10%:
 - Declining profile of funds linked to the RTRP
 - Non-repetition of extraordinary transfers from the State
 - Estimated fall in revenue from the ordinary regime system

DEVIATIONS IN FORECASTS OF REVENUE FROM PIT, VAT AND STS



(*) Deviation = Revenue collected without the impact of measures approved subsequent to the GSB - Budgeted

Positive: Revenue collected > Budgeted

For 2020, the Government's forecasts correspond to those contained in Royal Decree-Law 7/2020, which sets the instalment payments for 2020

Negative settlement of the financing system

- **2022: 0.4% of GDP**
- **2023: 0.3% of GDP**

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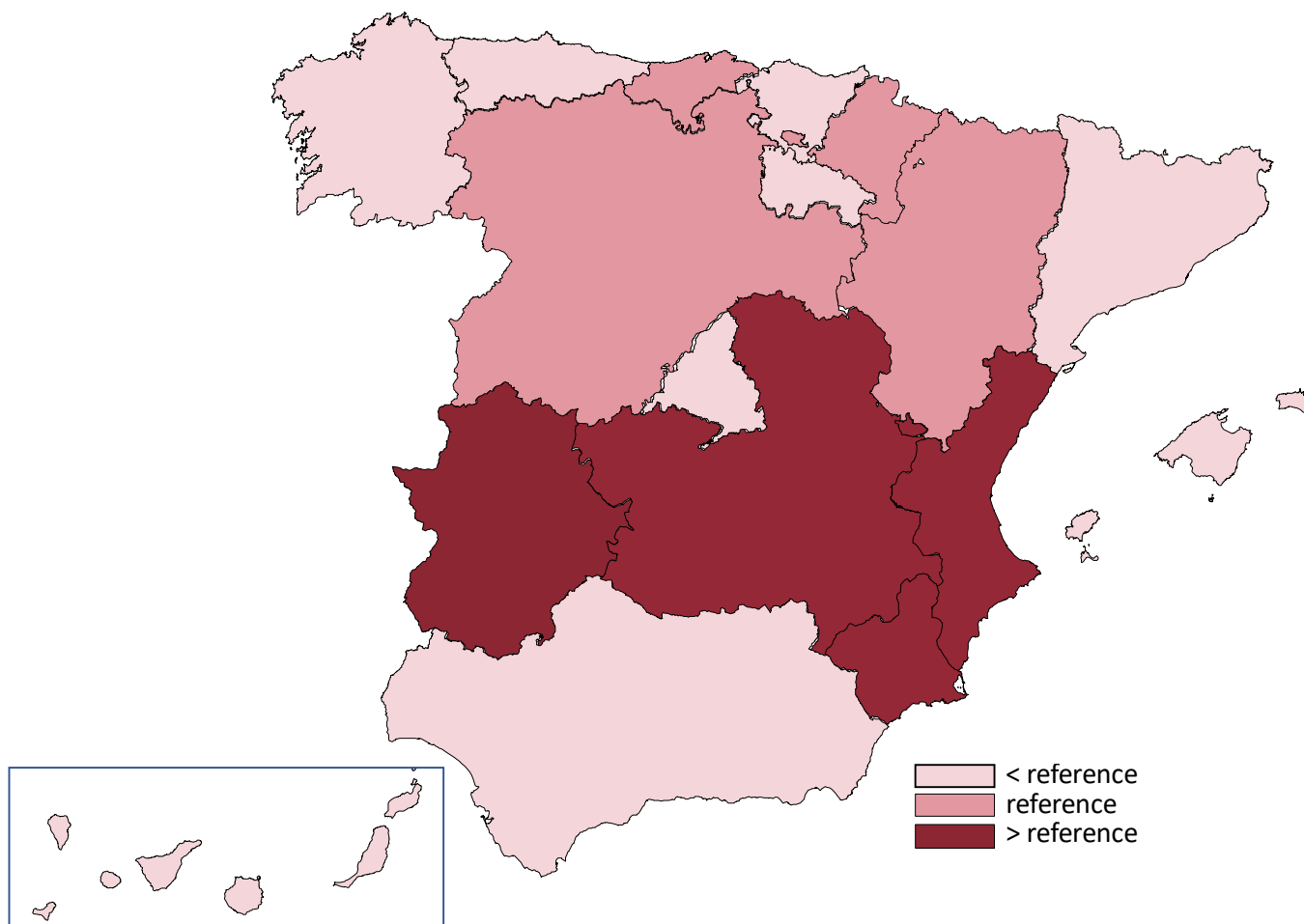
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Individual analysis: most regions will close the year below the reference rate of -1.1%

Nine regions will record a deficit of less than 1.1%, four equal to 1.1% and four higher

NET LENDING/BORROWING IN 2021 IN RELATION TO THE REFERENCE OF -1.1%. REGIONAL SUB-SECTOR



Source: AIReF

Individual analysis: The distribution of the extraordinary transfer from the State conditions the forecasts by region

Most regions forecast 1.1% of regional GDP, an assumption made by AIReF

FORECAST OF THE TRANSFER FOR DEFICIT

Regions	COVID-19 fund received in 2020 (% GDP)	Extraordinary transfer from the State for deficit (% GDP)		
		Regional forecast	AIReF estimated distribution under GDP criterion	Distribution under adjusted population criterion
Andalusia	1.5	1.1	1.1	1.4
Aragon	1.2	1.1	1.1	1.1
Asturias	1.4	1.1	1.1	1.3
Balearic Islands	1.6	1.1	1.1	1.1
Canary Islands	1.4	0.5	1.1	1.4
Cantabria	1.3	1.1	1.1	1.2
Castile and León	1.5	1.1	1.1	1.3
Castile-La Mancha	1.9	1.1	1.1	1.4
Catalonia	1.5	1.1	1.1	0.9
Extremadura	1.4	1.5	1.1	1.6
Galicia	1.2	1.1	1.1	1.3
Madrid	1.0		1.1	0.8
Murcia	1.3		1.1	1.3
Navarre	0.9	-	1.1	0.9
Basque Country	0.8	-	1.1	0.9
Rioja	1.6	1.1	1.1	1.1
Valencia	1.4	1.1	1.1	1.2

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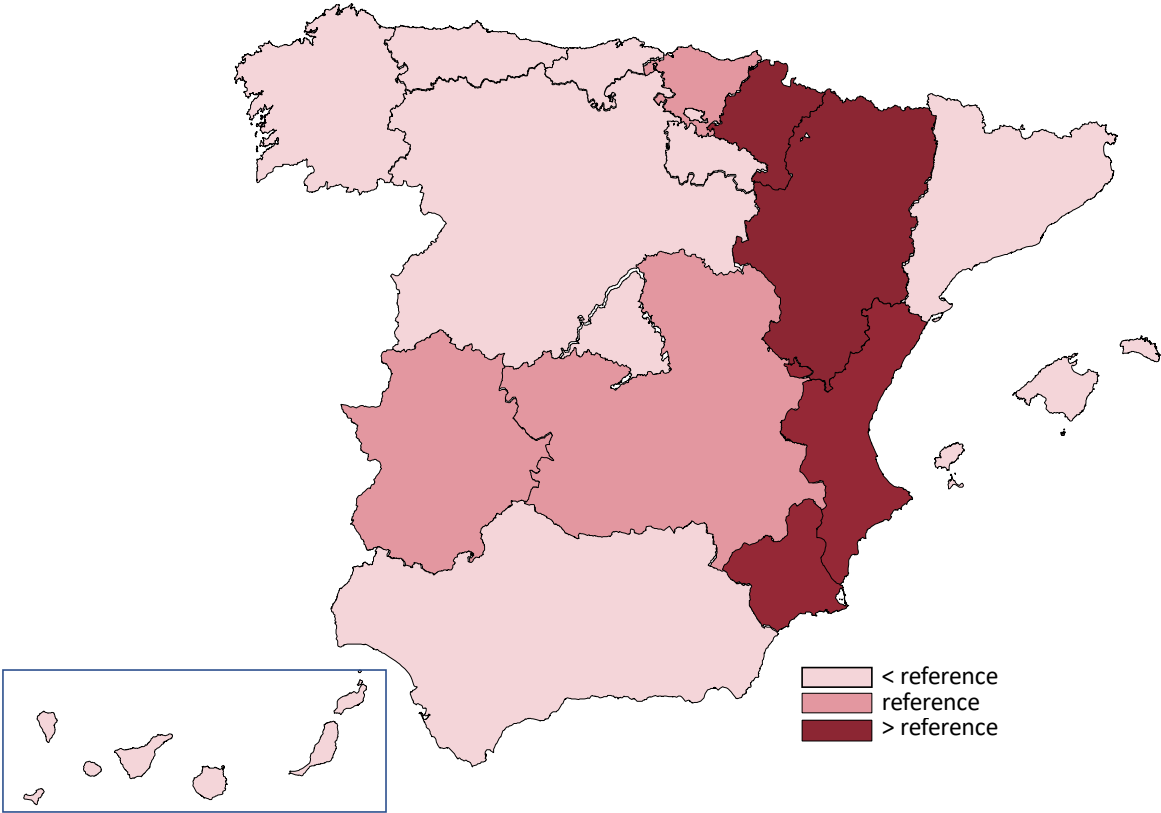
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Individual analysis: most regions will close the year below the reference rate of -1.1%

The individual situation changes under other criteria for distributing the transfer from the State

NET LENDING/BORROWING IN 2021 IN RELATION TO THE REFERENCE OF 1.1%. REGIONAL SUB-SECTOR UNDER DISTRIBUTION OF THE TRANSFER FROM THE STATE BY ADJUSTED POPULATION



Source: AIReF

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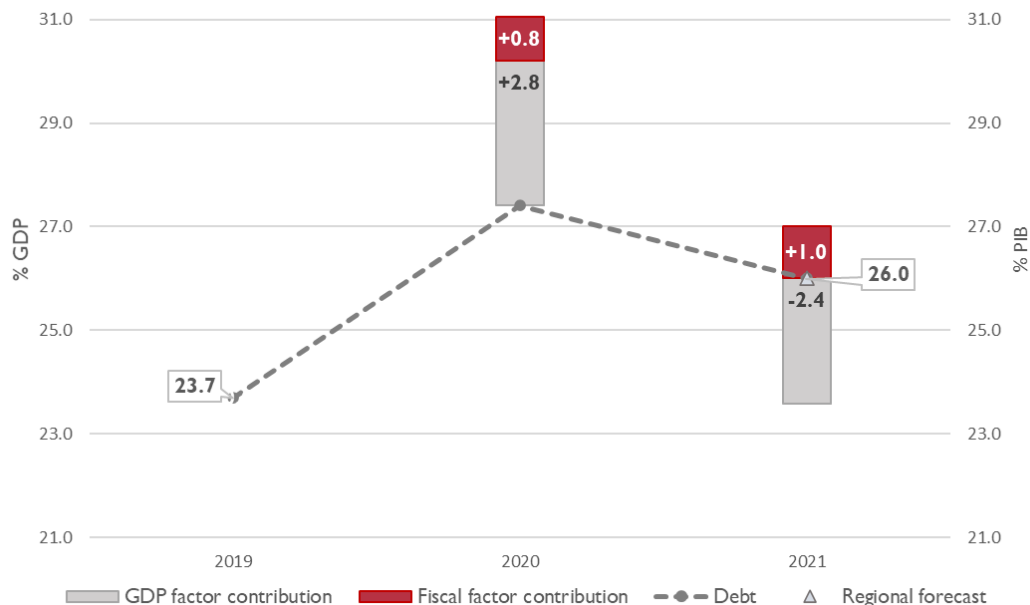


AIReF forecasts a 2.3-point increase in the debt-to-GDP ratio in 2021 over the 2019 level

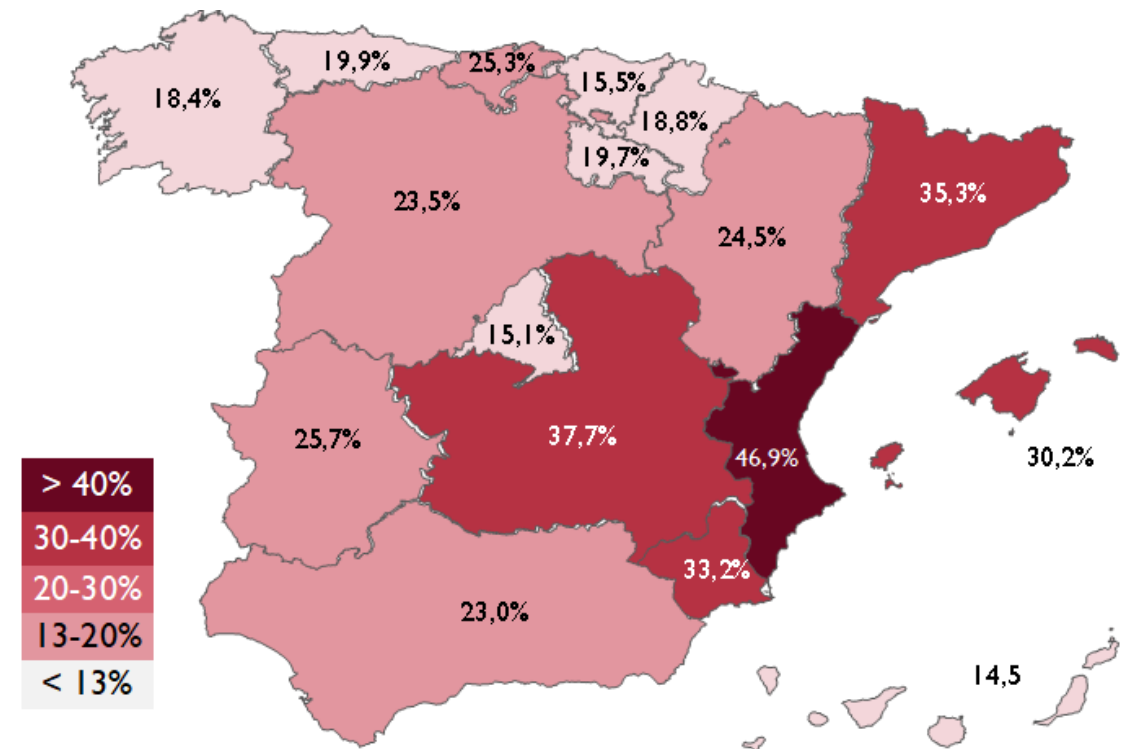
The situation by region remains very uneven.

- GDP growth in 2021 would offset the forecast fiscal deterioration in 2021, allowing a fall in the debt-to-GDP ratio
- The forecast fiscal deterioration in 2022-2023 will lead to further increases in the debt ratio

FORECAST EVOLUTION OF REGIONAL DEBT (% GDP)



DEBT BY REGION 2021 (%GDP)



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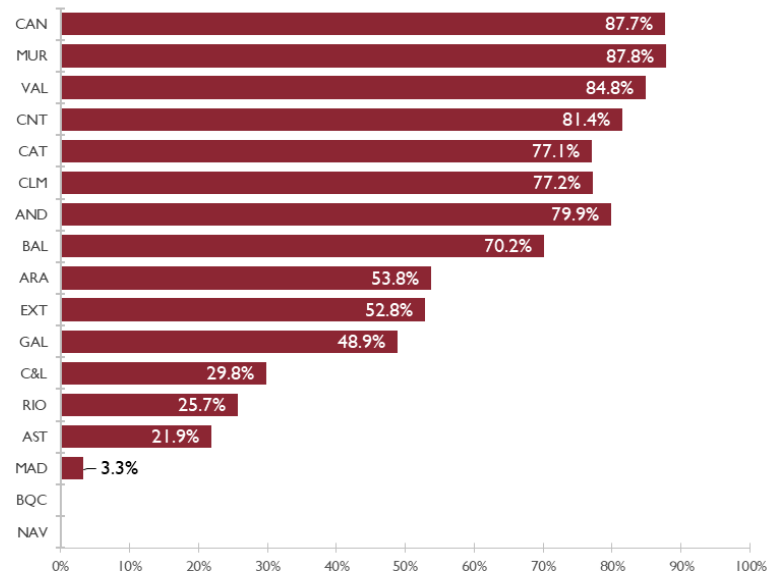
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Increase in the financial sustainability risk of the regional sub-sector as a whole

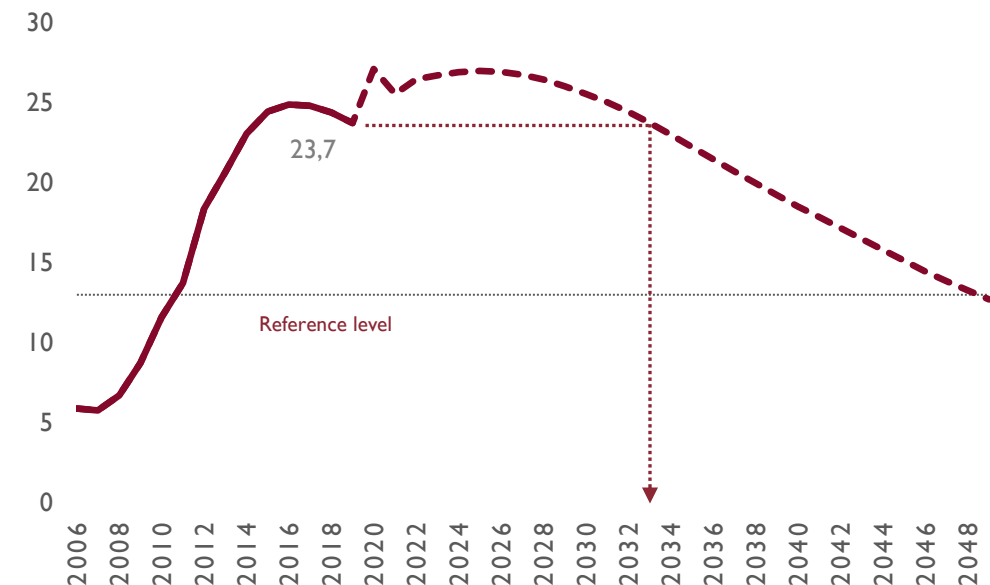
Reducing the debt ratio requires the design of a coordinated rebalancing plan

- Falling economic growth and deteriorating fiscal balances from 2022 raise the level of financial sustainability risk
- The extraordinary financing mechanisms will cover more than 90% of the 2020 borrowing needs, providing liquidity to the territories at a very low cost and avoiding the payment of higher spreads in the case of the most indebted regions
- Returning to the level of debt recorded in 2019 would require at least a decade

WEIGHT OF EXTRAORDINARY FINANCING FUNDS OVER TOTAL REGIONAL DEBT, JUNE 2020



DEBT PROJECTION ASSOCIATED WITH THE PROJECTED DEFICIT REDUCTION SCENARIO FOR 2023 (%GDP)



Recommendations

To the regions: New recommendations

- To incorporate **information on the Deviations in specific measures** underpinning the expenditure forecast, identifying potential sources of financing and their nature (temporary or permanent) and assessing their additional economic impact, both in 2021 on the level forecast at year-end 2020 and, where appropriate, in the following years.
- To adapt their actions in 2021 according to how the pandemic develops and the scenario that eventually materialises, aiming to **avoid structural increases in expenditure** that are not accompanied by the corresponding structural financing.
- To begin work on drawing up the **Rebalancing Plan** provided for in the Organic Law on Budgetary Stability and Financial Stability in line with the medium-term fiscal strategy of the General Government that will be designed to set out the path to fiscal recovery.

To the Ministry of Finance: The recommendation of 5 November remains alive

That it should establish a national medium-term fiscal strategy that will act as fiscal guidance and will realistically and credibly ensure the financial sustainability of the General Government.

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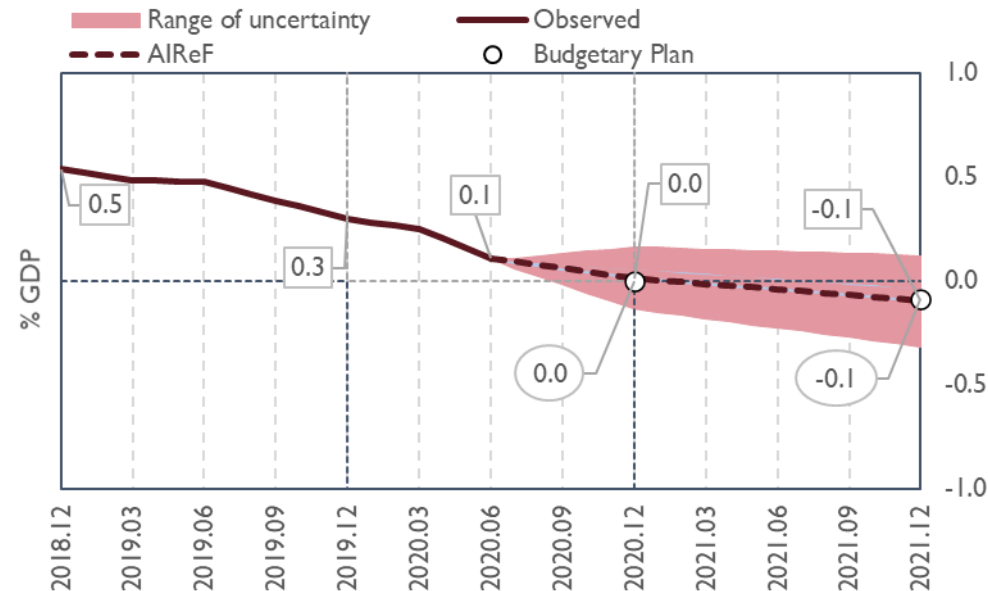
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The local governments will close 2021 with a deficit for the first time since the previous crisis

In its central scenario, AIReF estimates a deficit of the local governments of 0.1% of GDP, in line with the reference rate of the Budgetary Plan

LOCAL GOVERNMENT DEFICIT (% GDP)



Source: AIReF

- AIReF completes and corroborates its estimates of the local sub-sector with information from the 24 large LGs representing over 35% of the total result and 20% of accumulated savings
- According to AIReF's forecasts, the economic impact of applying savings accumulated in surplus years to expenditure will not consume all that obtained in 2019, given the legal and administrative constraints

Evolution of expenditure in the 24 large LGs

The expansion of expenditure in 2019 is key to the results for 2020 and 2021

LGs	Annual change (%)		
	2019	2020	2020 (Without Covid)
City Council Madrid	10.2	2.9	0.6
City Council Barcelona	0.5	6.2	2.6
City Council Valencia	7.3	6.6	2.2
City Council Seville	3.7	0.0	-1.7
City Council Zaragoza	-1.7	8.2	5.4
City Council Málaga	5.2	2.9	0.5
City Council Murcia	5.2	2.5	1.4
City Council Palma	2.7	5.9	3.4
City Council Las Palmas GC	1.3	2.8	0.6
City Council Bilbao	9.3	-3.7	-6.4
City Council Alicante	2.5	7.4	1.4
City Council Córdoba	3.0	13.1	8.4
City Council Valladolid	2.6	6.0	-0.7
City Council Vigo	-4.6	2.8	1.9
City Council Gijón/Xixón	-0.5	7.2	2.8
City Council L'Hospitalet	3.5	8.3	6.5
Council Barcelona	11.4	-3.0	-6.6
Council Valencia	9.7	9.9	8.6
Council Seville	-0.2	-5.1	-5.7
Island Council Tenerife	1.2	11.4	8.1
Island Council Mallorca	-5.5	2.0	-3.7
Provincial Council of Araba	2.7	4.1	3.4
Provincial Council of Gipuzkoa	2.2	15.3	2.0
Provincial Council of Bizkaia	1.1	8.4	-0.2
Total	4.3	4.9	1.0

- The group of large LGs have reduced their surplus in 2019 by almost 30%
- The group's expenditure in 2019 rose by over 4%, far exceeding the approved rate of 2.7%.
- The growth in expenditure in 2020 is estimated to be close to 5% (considerably smaller if the COVID effect is eliminated)
- The situation is uneven by LG
- In 2021, the results will depend on the amount of expenditure financed with previous savings

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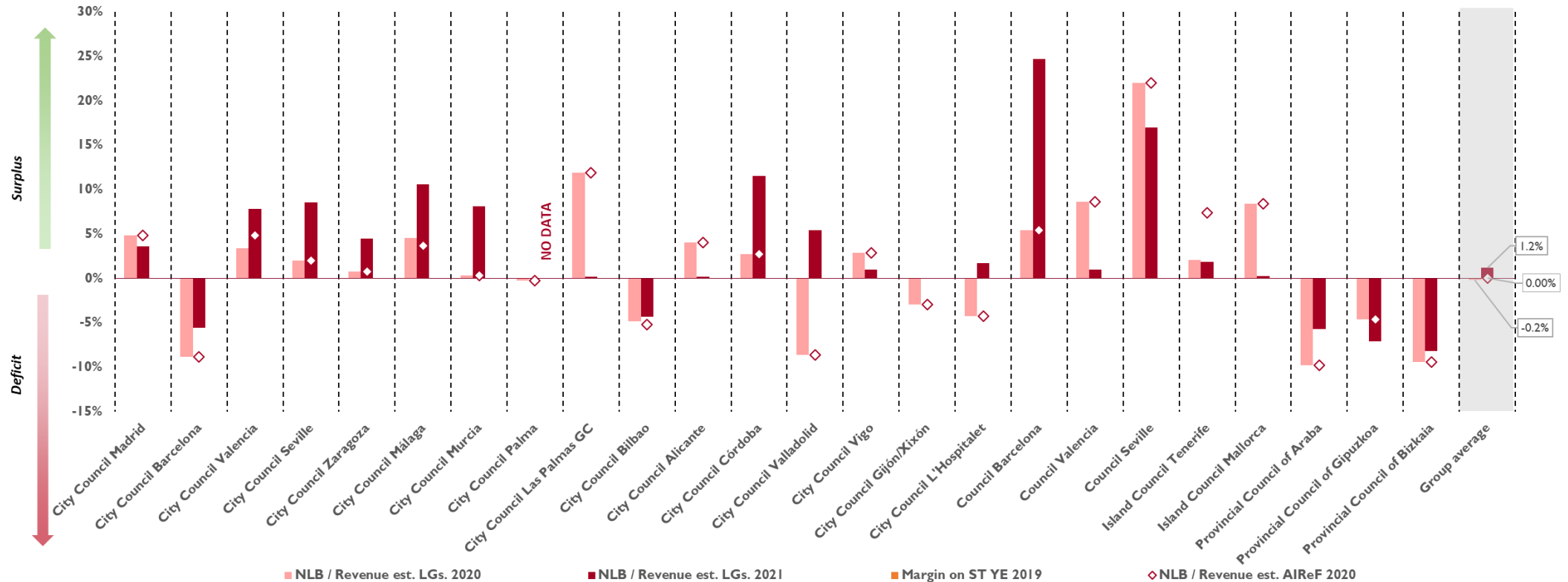
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COVID measures in 2020 will amount to 2% of expenditure, around €500m

Expected balances in 2020 and 2021. 24 Large LGs analysed

AIReF forecasts that the City Councils of Barcelona, Palma, Bilbao, Valladolid, Gijón and l'Hospitalet and the 3 Provincial Councils will close 2020 with a deficit



In 2021, it is estimated that the City Councils of Barcelona, Bilbao and Vigo and the three Provincial Councils will record a deficit, which may increase with the application of surpluses to expenditure

Outstanding debt of the 24 large LGs analysed

These LGs present healthy situations that allow them to generate balances to gradually reduce their debt

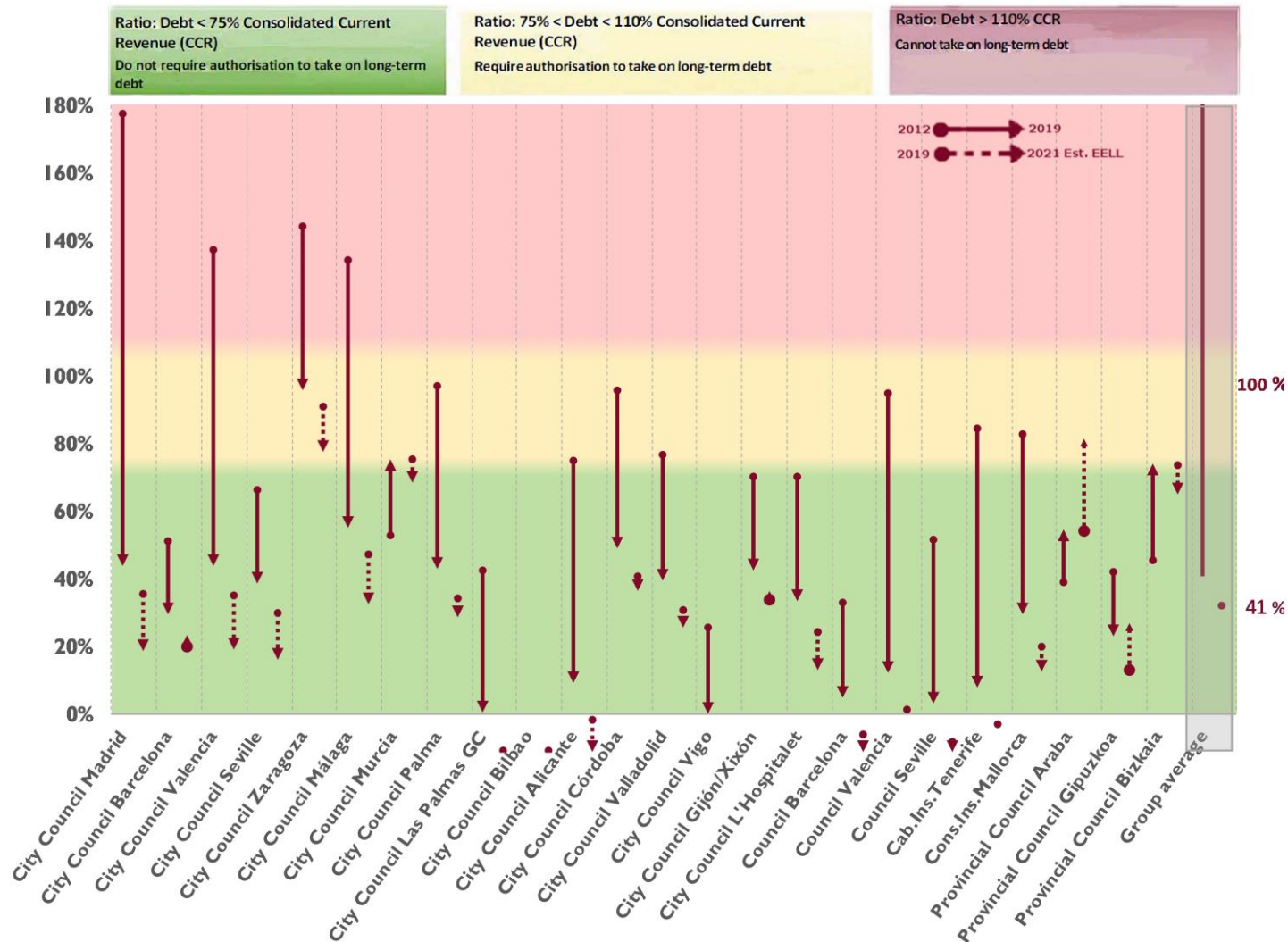
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- The group of large LGs have reduced their debt since 2012 by over 50%.
- The City Councils of Las Palmas de Gran Canaria, Bilbao, Alicante, Vigo, and the Councils of Barcelona and Seville no longer have financial debt.

Recommendations

To the large LGs: New recommendations similar to those for the regions

- To incorporate **information on the specific measures** underpinning the expenditure forecast, identifying the possible sources of financing and their nature (temporary or permanent) and assessing their additional economic impact, both in 2021 on the level forecast at year-end 2020 and, where appropriate, in the following years
- To begin work on drawing up the medium-term plans in line with the medium-term fiscal strategy of the General Government that will be designed to set out the path to fiscal recovery

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Rating of the risk situation of the 25 LGs with structural sustainability problems

RISK LEVEL	LOCAL GOVERNMENT	Main parameters for rating sustainability risk situation			
		(Outstanding debt+ Negative cash balance)/ Current revenue (CR)	APP	Balance of current operations/CR	Net lending borrowing/CR
Critical	Jaén.	649%	598	-49%	-22%
	Jerez de la Frontera	418%	340	-2%	1%
	Parla	1145%	290	-28%	-27%
Very High	Barrios (Los)	653%	123	12%	12%
	Totana	375%	103	6%	8%
HIGH	Alcorcón	116%	11	-3%	-2%
	Ayamonte	112%	418	1%	2%
	Barbate	271%	s.d.	-14%	-18%
	Gandía	346%	16	9%	10%
	Línea de la Concepción (La)	223%	29	2%	2%
	Navalcarnero	404%	231	21%	21%
	Palacios y Villafranca (Los)	195%	353	-7%	-8%
Moderate	Algeciras	185%	13	10%	10%
	Aranjuez	310%	222	13%	14%
	Arcos de la Frontera	107%	503	11%	11%
	Arganda del Rey	145%	39	7%	21%
Low	Alboraia/Alboraya	113%	27	14%	17%
	Almonte	101%	287	6%	7%
	Caravaca de la Cruz	125%	128	10%	11%
	Isla Cristina	108%	120	7%	5%
	Puerto Real	164%	185	3%	6%
	San Andrés del Rabanedo	222%	49	15%	15%
	Sanlúcar de Barrameda	127%	37	5%	17%
	Valdemoro	81%	29	1%	4%

RISK LEVEL	LOCAL GOVERNMENT	Main parameters for rating sustainability risk situation			
		(Outstanding debt+ Negative cash balance)/ Current revenue (CR)	APP	Balance of current operations/CR	Net lending borrowing/CR
No risk determining structural analysis	Granada	87%	165	7%	7%

All city councils maintain their rating, except for:

- Alcorcón and La Línea de la Concepción, which are downgraded
- Arcos de la Frontera, Gandía and San Andrés del Rabanedo, which are upgraded
- Granada, which is removed from the analysis of LGs with sustainability problems given the improvement recorded over recent years

Evolution of expenditure in LGs with sustainability problems

The growth in expenditure in 2019 is a determining factor for the results to be obtained in 2020 and 2021 and is particularly relevant for LGs with problems

LGs			
	2019	2020	2020 (Without Covid)
City Council Algeciras	1.9	-2.9	-4.9
City Council Jerez de la Frontera	-6.1	-3.7	-7.0
City Council Línea de la Concepción	5.0	-2.2	-2.2
City Council Sanlúcar Barrameda	1.7	2.8	-1.1
City Council Granada	-1.4	-5.7	-6.2
City Council Almonte	6.9	6.8	4.3
City Council Ayamonte	-2.5	1.9	1.2
City Council Isla Cristina	-3.8	0.5	-2.4
City Council Jaén	-2.4	10.4	10.3
City Council San Andrés del Rabanedo	7.8	17.2	14.3
City Council Alcorcón	12.8	-5.0	-5.7
City Council Aranjuez	18.6	11.5	9.0
City Council Navalcarnero	1.6	10.9	9.3
City Council Parla	-2.7	5.9	5.6
City Council Valdemoro	0.7	50.7	49.1
City Council Totana	-3.6	5.5	1.3
City Council Gandía	-2.2	-0.4	-5.7
City Council Barrios (Los)	5.7	-1.2	-4.0
City Council Caravaca de la Cruz	-2.7	-21.0	-23.3
City Council Palacios y Villafranca (Los)	2.7	25.0	24.6
City Council Barbate	11.6	-6.5	-8.5
City Council Puerto Real	9.6	20.8	19.3
City Council Arganda del Rey	6.3	2.9	-2.2
City Council Arcos de la Frontera	2.3	11.4	8.8
City Council Alboraya/Alboraya	27.1	10.1	8.9
Total	1.2	2.6	0.8

- The City Councils of Alcorcón, Aranjuez, Barbate and Alboraya increased their eligible expenditure by over 10% in 2019
- In 2020, reported increases are influenced by COVID-19, the non-estimation of non-executed spending that will be verified in the settlement and the existence of extraordinary operations

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Expected balances in 2020 and 2021. 25 LGs with problems

AIReF forecasts deficits in 2020 in the city councils of La Línea de la C., Jaen, Aranjuez, Parla, Los Palacios y Villafranca and Barbate. In addition, deficits for extraordinary operations are forecast for Jerez de la Frontera, Alcorcón, Totana, Los Barrios, Arcos de la Frontera and Alboraya

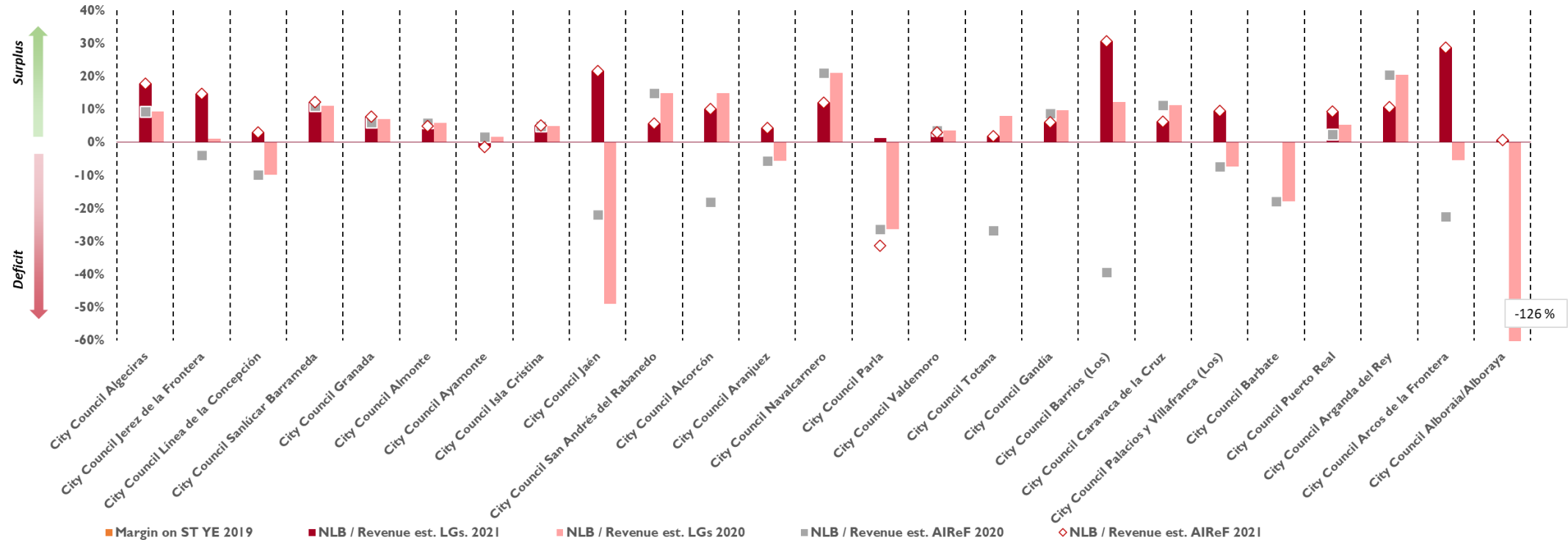
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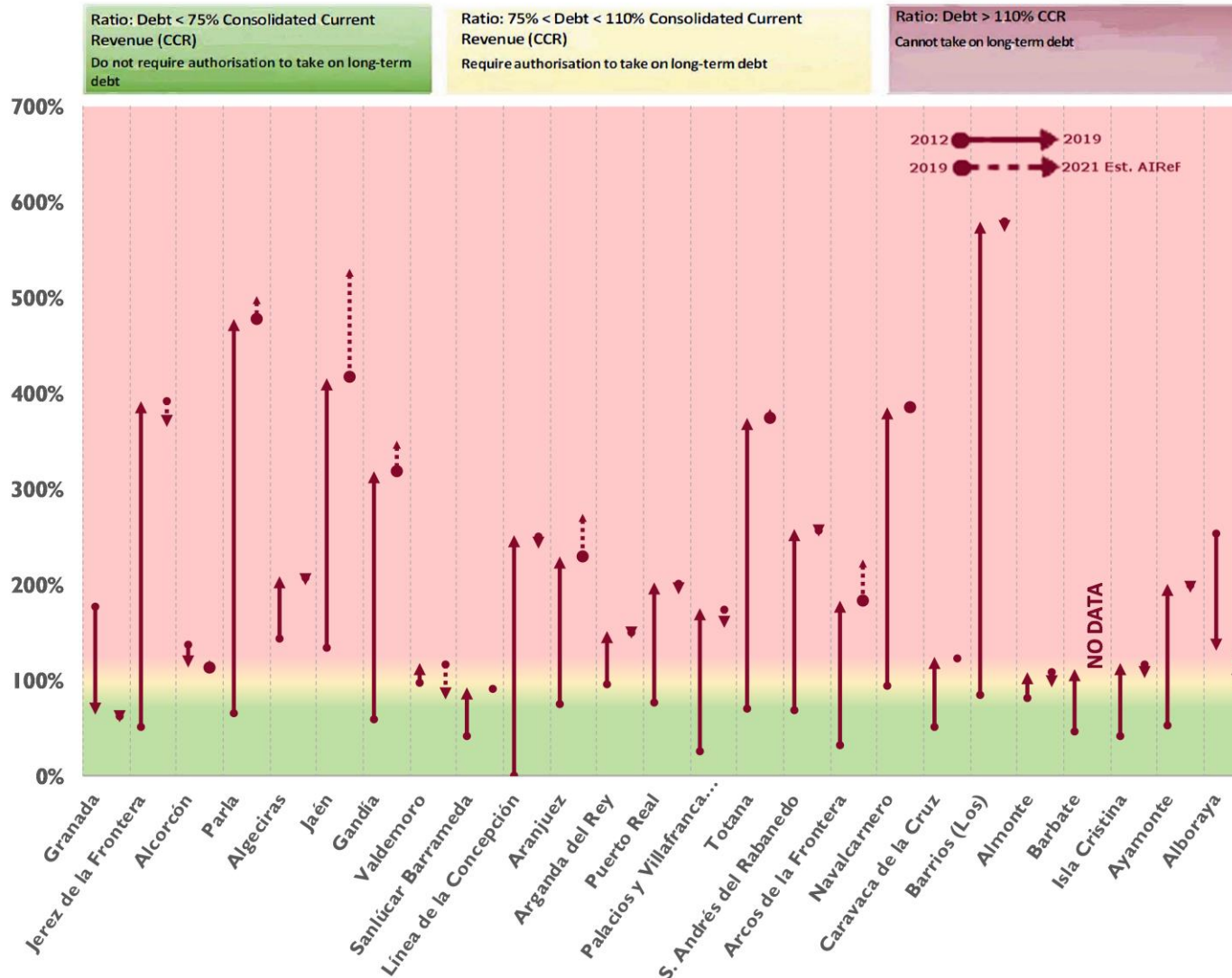
(*) Net borrowing in 2020 is significantly influenced by a non-recurring operation relating to the payment of a judgement. Without this, it would have a surplus.

(**) Net borrowing in 2020 estimated by AIReF is mainly the result of non-recurring operations not considered by the LG. Without these, the result would be a surplus.

Deficits are forecast in 2021 in the City Councils of Ayamonte and Parla. which may increase with the application of surpluses to expenditure

Outstanding debt of the 25 LGs with problems

These LGs have structural situations of sustainability risk which the current pandemic situation has worsened



Most of this group have not improved their situation in recent years

Since year-end 2019, worse positions are forecast for Jaen, Gandía, Parla, Aranjuez and Arcos de la Frontera

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