FISCAL TRANSPARENCY IN THE GENERAL GOVERNMENT IN SPAIN

OPINION 1/21

Autoridad Independiente de Responsabilidad Fiscal

The mission of the Independent Authority for Fiscal Responsibility (AIReF) is to ensure strict compliance with the principles of budgetary stability and financial sustainability enshrined in Article 135 of the Spanish Constitution.

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LIST OF ACRONYMS

CG	Central Government
GG	General Government
GSA	General State Administration
SPU	Stability Programme Update
PPP	Public-private partnerships
ARs	Autonomous Regions
LGs	Local Governments
IMF	International Monetary Fund
IGAE	General Intervention Board of the State Administration
INE	National Statistics Institute
OECD	Organisation for Economic Co-operation and Development.
GSB	General State Budget
EU	European Union

EXECUTIVE SUMMARY

Fiscal transparency refers to the set of activities of the General Government aimed at informing the general public about the past, present and future state of the public accounts and on the structure and functions of the government that determine fiscal policy and its outcomes (IMF, 2008)[1]. In this regard, raising the transparency of public finances is one of the strategic objectives of the Independent Authority for Fiscal Responsibility (AIReF) as it is a powerful channel for improving the efficiency of public spending and for promoting a good design and sustainability of public accounts. The empirical evidence stressed its importance when improving the design and effectiveness of budgetary policy and institutional quality.

The IMF has been conducting fiscal transparency evaluation exercises for countries that request them and has developed its own code of good practices[2]. In the case of Spain, the IMF analysed fiscal transparency in 2005. AIReF therefore considers appropriate to conduct this exercise with more recent information. The approach follows the IMF methodology, as it allows comparison with international standards and other peer countries. It also allows to extend the analysis to the Autonomous Regions (ARs).

AIReF has evaluated a total of 36 indicators, organised into three pillars: I) Fiscal reporting; II) Fiscal forecasting and budgeting; and III) Fiscal risk analysis and management. For each indicator, AIReF classifies the degree of achievement into four levels: not met, basic, good and advanced - and each of these situations is associated with a colour: red, yellow, light green and dark green, as shown in Table 1.

The evaluation of Pillar I is carried out for the General Government. In contrast, Pillars II and III refer to the Central Government and to the ARs (with some exceptions that do not apply at a regional level).

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[1] IMF. 2008. "Fiscal Transparency

[2] Fiscal Transparency (imf.org)

The analysis of fiscal transparency puts Spain in a similar position of its peer countries. Relevant areas for improvement have also been identified, mainly in medium-term orientation and fiscal risk management.

Compliance with good transparency practices is uneven depending on the pillar in question:

In **Pillar I**, on fiscal reporting, AIReF observes the best practices, in line with peer countries. The reports generally provide a comprehensive, relevant, timely and reliable overview of the state of public finances. This has been helped by the need to comply with international and EU standards. The most notable weaknesses relating to the transparency of fiscal reporting refer to the limitations of the explanations on historical revisions.

In **Pillar II**, on forecasting and budgeting, AIReF finds most of the practices to be good or advanced both for the Central Government and the Autonomous Regions, although there are significant limitations in medium-term budgeting, compliance with the timetable for preparing and submitting budgets and in forecast reconciliation. In practice, the budgetary process is fragmented, and it is not possible to ensure consistency between its main elements: the Stability Programme Update, the budgets of each administration and the Budgetary Plan.

In **Pillar III**, on the identification and management of risks to public finances, AIReF notes significant room for improvement. In particular, there is a need for a more exhaustive analysis of the risks that might affect public finances and the design of risk management strategies. Although, over recent years, the Central Government has improved in its analysis and management of the risks associated with exposure to the financial sector and to the Territorial Administrations, the implications of the risks associated with the macroeconomic scenario and contingent liabilities, such as guarantees and public-private partnerships, for the public accounts and for debt are scarcely analysed. AIReF also notes the absence of any analysis of long-term sustainability at a regional level.

TABLE 1. FISCAL TRANSPARENCY HEATMAP FOR THE GG PILLAR I

I. Fiscal Reporting
1.1.1. Coverage of institutions
1.1.2. Coverage of Stocks
1.1.3. Coverage of flows
1.1.4. Coverage of Tax Expenditures
1.2.1. Frequency of in-year reporting
1.2.2. Timeliness of financial statements
1.3.1. Classification
1.3.2. Internal consistency
1.3.3. Historical revisions
1.4.1. Statistical integrity
1.4.2. External audit
1.4.3. Comparability of fiscal data

TABLE 2. FISCAL TRANSPARENCY HEATMAP FOR THE CG. PILLAR I AND PILLAR II

II. Fiscal forecasting and budgeting	III. Fiscal risk analysis and management
2.1.1. Budget unity	3.1.1. Macroeconomic Risks
2.1.2. Macroeconomic Forecasts	3.1.2. Specific Fiscal Risks
2.1.3. MT Budget Framework	3.1.3. LT sustainability analysis
2.1.4. Investment Projects	3.2.1. Budgetary Contingencies
2.2.1. Fiscal Legislation	3.2.2. Asset and liability risk management
2.2.2. Timeliness of budgets	3.2.3. Guarantees
2.3.1. Fiscal policy objectives	3.2.4. Public-private partnership
2.3.2. Performance information	3.2.5. Financial Sector Exposure
2.3.3. Public Participation	3.2.6. Natural Resources
2.4.1. Independent evaluation	3.2.7. Environmental risks
2.4.2. Supplementary budget	3.3.1. Sub-national governments
2.4.3 Forecast reconciliation	3.3.2. Public corporations outside ESA scope

TABLE 3. FISCAL TRANSPARENCY HEATMAP FOR THE ARS. PILLAR II AND PILLAR III

II. Fiscal forecasting and budgeting	III. Fiscal risk analysis and management
2.1.1. Budget unity	3.1.1. Macroeconomic Risks
2.1.2. Macroeconomic Forecasts	3.1.2. Specific Fiscal Risks
2.1.3. MT Budget Framework	3.1.3. LT sustainability analysis
2.1.4. Investment Projects	3.2.1. Budgetary Contingencies
2.2.1. Fiscal Legislation	3.2.2. Asset and liability risk management
2.2.2. Timeliness of budgets	3.2.3. Guarantees
2.3.1. Fiscal policy objectives	3.2.4. Public-private partnership
2.3.2. Performance information	3.2.5. Financial Sector Exposure
2.3.3. Public Participation	3.2.6. Natural Resources
2.4.1. Independent evaluation	3.2.7. Environmental risks
2.4.2. Supplementary budget	3.3.1. Sub-national governments
2.4.3 Forecast reconciliation	3.3.2. Public corporations outside ESA scope

On the basis of the analysis performed, AIReF makes a series of proposals aimed at improving fiscal transparency in each one of the pillars:

Proposals on fiscal reporting (Pillar I):

- ✓ The INE and the IGAE must persevere in their efforts to make the historical revisions more transparent and easier to understand for end users of the information.
- ✓ Approving the internal regulation of the **Technical Committee on National Accounts**, giving its operation greater transparency by, at least, publishing its decisions.

Proposals on fiscal forecasting and budgeting (Pillar II):

- ✓ Developing a comprehensive medium-term budget framework for the General Government as a whole and for each administration, which implies:
    - o Broadening the content and detail of the Stability Programme Update so that it contains all the elements of a medium-term fiscal strategy.
    - o Preparing and publishing medium-term budgetary scenarios with at least the content and detail provided for by the General Budgetary Act.
    - o Communicating to the ARs the fundamental elements for drawing up their medium-term frameworks.

- ✓ Ensuring the consistency and reconciliation of the main budget planning documents: the Stability Programme Update, the General State Budget and the Budgetary Plan, by providing forecasts in national accounting terms in the budgets and further detail by sub-sector in the Stability Programme and the Budgetary Plan.
- ✓ Complying with the obligation to submit the draft budgets according to the timetable provided for in legislation, unless there is a legal reason for not doing so.
- ✓ Promoting a new strategic and budgetary planning framework linked to public policies, creating an integrated information and indicator system that makes the continuous evaluation of public policies feasible, as proposed in Project 1 of the 2018 Spending Review conducted by AIReF on the Evaluation of Subsidy Strategy and Procedure.

Proposals on Fiscal risk analysis and management (Pillar III):

- ✓ Preparing a report on specific fiscal risks, setting out the possible risks that may affect the fiscal projections. This should include information on the risks arising from the financial sector, the level of debt of public companies, natural disasters (including public health disasters), public-private partnerships, guarantee programmes, loans and judgments, asset and liability management and environmental risks.
- ✓ Once the fiscal risks have been identified and analysed, it is important to assign probabilities to their materialisation and to quantify their impact.
- ✓ The risk mitigation strategy should be made explicit, either for the risks as a whole or for individual risks.
- ✓ The Central Government and the ARs should each develop strategies to manage the fiscal risks generated by possible natural, health and environmental disasters that may have a budgetary impact.
- ✓ Preparing long-term debt projections, including a probabilistic analysis of their evolution in the medium term. These projections should detail expenditure factors related to health, education and ageing, and include comparisons with previous projections.

INTRODUCTION

What is a fiscal transparency evaluation?

Transparency in the actions of the public authorities in fiscal matters affects both fiscal information and the budgetary procedures of the General Government. Fiscal transparency, which is the subject of this document's evaluation, is a broad concept that includes aspects such as the clarity, reliability, frequency, timeliness, relevance and accessibility of the information relating both to the budgetary tools and the procedures followed by the General Government.

Fiscal transparency helps to improve citizens' knowledge of public decisions, facilitates supervision and quality policy-making. Fiscal transparency allows all agents to have a reliable picture of the state of the public accounts and the outlook and risks. Transparency of information is key for supporting fiscal supervision, sound policy-making and accountability.

The International Monetary Fund (IMF) has gained experience in analysing fiscal transparency and has developed its own Fiscal Transparency Code[3]. The IMF, a pioneer in this type of analysis, both for emerging countries and advanced economies, has developed a code of good practices that serves as a benchmark in this field at an international level.

It is on the basis of this code that AIReF evaluates the transparency of the fiscal information and budgetary procedures of the Spanish General Government. The evaluation carried out by the Independent Authority for Fiscal Responsibility (AIReF) for the case of Spain measures the extent to which the budgetary procedures and the information that is published and made available to the public, Parliament and the markets comply with international standards of transparency, as defined by the IMF. These criteria generally refer to the common standards of good practice which countries should aim for.

[3] Fiscal transparency principles; FTC Code Spanish 2014 (imf.org)

The OECD has also developed initiatives to promote fiscal transparency, which also focus on identifying the latest budgetary innovations. In particular, every three years it conducts a set of analyses and questionnaires that aim to reflect best practices in terms of the quality, comprehensiveness, timeliness and coverage of budget reports, as well as innovations or the most advanced practices in areas that have gained more importance in recent years[4], such as gender budgeting, green budgeting and performance budgeting[5]. In this opinion, the IMF Transparency Handbook has been followed as it offers a broader concept of fiscal transparency that goes beyond the preparation of budgets. Furthermore, extending the analysis to the ARs and comparability of the results with those of the Central Government made it advisable to use the IMF framework.

Why are we interested as an institution?

AIReF's strategic objectives include improving the quality and transparency of public finances. The existence of quality economic and financial information makes it possible to improve fiscal monitoring and supervision. There is a positive correlation between transparency and prudence in fiscal policy through improved accountability. Furthermore, empirical evidence finds a direct relationship between fiscal transparency and government effectiveness and expenditure efficiency, as well as an inverse relationship between fiscal transparency and debt levels and sovereign borrowing costs[6]. For all these reasons, AIReF includes improving the quality and transparency of public finances among its strategic objectives. Firstly, as a

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[4] See Budgeting and Public Expenditures in OECD countries 2019, where the following questionnaires are presented: Budget Practices and Procedures Survey; Fiscal Plans and Budgeting Framework Survey; Performance Budgeting Survey; Survey of Capital Budgeting and Infrastructure Governance; Network Survey on Parliamentary Budgeting Practices).

[5] Along the same lines, the Open Budget Initiative produces an index and a ranking that is frequently used in empirical work on fiscal transparency. In particular, on the basis of a questionnaire given to administrations in 117 countries, the public's access to the budgetary information of the Central Government, the formal opportunities for the public to participate in the National Budget process, and the role of budget oversight institutions such as Parliament, audit agencies, and independent fiscal institutions, is assessed. Spain ranks 45th out of 117 countries, behind Italy, Portugal, Germany and France. In addition, it does not reach the threshold to be considered a country that publishes sufficient information. The absence of versions of the budget documents accessible to the public and the delay in drawing up final or *ex-post* reports contribute to explaining this result. http://www.openbudgetindex.org.

[6] See L. Kemoe and Z. Zhang (2018). Fiscal Transparency, Borrowing Costs, and Foreign Holdings of Sovereign Debt (imf.org) and M. Seiferling and T. Shamsuddim (2015). Fiscal Transparency and the Performance of Government Financial Assets (imf.org); G. Montes, A. Albuquerque and A. Jordania (2019), "Fiscal transparency, government effectiveness and government spending efficiency: Some international evidence based on panel data approach. Economic Modelling 79, 211-225.

means of promoting fiscal sustainability and, secondly, as an instrument for supervising and monitoring the budgetary situation.

As guarantor of compliance with the Organic Law on Budgetary Stability and Financial Sustainability, AIReF must also ensure compliance with the principle of transparency. The Organic Law on Budgetary Stability and Financial Sustainability introduces the principle of transparency among the fundamental criteria for achieving budgetary stability and fiscal sustainability. Overseeing compliance with this principle falls within AIReF's remit. This evaluation, however, takes a broader approach than that laid down in the Organic law on Budgetary Stability and Financial Stability, which refers to the necessary quality and completeness of the General Government's accounting and the public availability of the forecasts used for budgetary planning, as well as the methodology, assumptions and parameters on which they are based.

Lastly, AIReF's experience in monitoring the budget cycle and macroeconomic forecasts since it was created allows for informed and critical reflection on fiscal transparency. The budgetary and fiscal information on which this evaluation is based is at the heart of much of the work carried out by AIReF, in its functions of both budgetary monitoring and evaluating macroeconomic and fiscal forecasts. Throughout its seven years of existence, AIReF has analysed and identified numerous limitations in the area of budgetary transparency, which have been translated into recommendations to the various General Government sub-sectors. This document allows AIReF to examine in depth, systematise, ratify and contextualise the diagnosis made in matters of transparency in previous reports and opinions.

How is a fiscal transparency evaluation carried out?

Following the methodology of the IMF Handbook, 36 indicators are constructed that address three dimensions; (i) reporting, (ii) budgets and forecasts and (iii) fiscal risks. The fiscal transparency evaluation performed in this Opinion follows the methodology of the IMF Fiscal Transparency Handbook[7]. The evaluation consists of 36 indicators, organised into three main areas: (1) Fiscal Reporting, which seeks to determine whether the reports contain relevant, comprehensive, up-to-date and reliable information on the state of the public finances; (2) Fiscal Forecasting and Budgeting, which examines the clarity of budgetary objectives and government plans, as well as the existence of comprehensive, timely and

[7] International Monetary Fund Handbook

credible projections of the evolution of the economic situation and public finances; and (3) Fiscal Risk Analysis and Management, which examines the quality of the analysis and management of risks to public finances.

For each of the 36 indicators, existing practices are classified by level (not met, basic, good and advanced), in accordance with the criteria of the IMF Handbook, and the result is presented in the form of heat maps that give an overview of the overall situation. A thorough analysis is performed for each one of the 36 indicators making up the three dimensions, indicating the degree of achievement of best practices. This report differentiates four categories, from lowest to highest: not met, basic, good and advanced. Each category is determined by a set of criteria and milestones as defined in the IMF Handbook. Thus, a rating of 'basic' is gained if the minimum requirements that the IMF believes all countries should achieve are met; a rating of 'good' is obtained if, although good practices are noted, there is room for improvement; 'advanced' refers to those circumstances in which best practices are achieved. Those circumstances in which the minimum required levels are not achieved are given a rating of 'not met'. Annex I to this document briefly describes what is considered a basic, good or advanced practice for each indicator. In addition, a colour correspondence is established so that the information can be summarised visually as a heat map[8].

AIReF applies the transparency analysis to all administrations as far as possible. Pillar I is joint for all the General Government sub-sectors as the fiscal reports of the General Government as a whole are analysed. Pillars II and III of this Opinion refer to the field of the CG and the ARs, although some indicators have not been assessed for the latter as they do not apply to the sub-national level.

[8] Red, yellow, light green and dark green for the categories of not met, basic, good and advanced, respectively.

1 THE GENERAL GOVERNMENT

PILLAR I. REPORTING

This pillar analyses whether the fiscal reports provide a comprehensive, relevant, timely, and reliable overview of the state of public finances. It includes 12 indicators arranged in four areas: reporting coverage (by administration and operation), frequency and timeliness, quality (in terms of international comparability and internal consistency) and integrity of the reporting, which in this case is measured by the degree of external evaluation and comparability between plans and final outcomes. The reports analysed are those relating to fiscal statistics in national accounting terms, budget implementation data and public accounting records.

Like other developed countries, this is the pillar in which Spain generally achieves the best score, with the highest number of advanced and good practices. In particular, it achieves advanced practice in five indicators, good practice in five and only two basic practices.

TABLE 4. FISCAL TRANSPARENCY HEATMAP FOR THE GG PILLAR I

I. Fiscal Reporting
I.1.1. Institutional coverage
I.1.2. Coverage of Stocks
I.1.3. Coverage of flows
I.1.4. Coverage of Tax Expenditures
I.2.1. Frequency of in-year reporting
I.2.2. Timeliness of financial statements
I.3.1. Classification
I.3.2. Internal consistency
I.3.3. Historical revisions
I.4.1. Statistical integrity
I.4.2. External audit
I.4.3. Comparability of data

1.1. Coverage

This area has four indicators and monitors the content of the reports published by the General Government as a whole. Specifically, coverage of institutions, stocks, flows and tax expenditure are analysed to determine whether the information provided offers a comprehensive view of fiscal activity. The result of the coverage assessment is positive with two good practices and two advanced ones.

1.1.1. Coverage of Institutions

ADVANCED

Consolidated information on the whole General Government sector and its breakdown by sub-sector is published, in line with EU requirements. Unlike other countries, where it is the National Statistics Institute that prepares all the national accounts, in Spain it is the General State Comptroller (IGAE), under the Ministry of Finance, which is responsible for preparing the General Government Sector Accounts. This is not a weakness or an advantage in the transparency framework, since it is mainly the content of the reporting that is assessed. These reports cover all institutional units comprising the GG sector. In particular, IGAE publishes quarterly consolidated revenue and expenditure information for all sub-sectors in national accounting terms (ESA 2010). Monthly information is also published on the sub-sectors, Central

Government, Social Security Funds and Autonomous Regions and consolidated information on these three sub-sectors. In the case of the Local Government sub-sector, information is only published on a quarterly basis. In addition, consolidated information on the corporate public sector is published, albeit with a long delay compared with other countries[9] since the last published information is currently for 2016.

The Technical Committee on National Accounts is the body responsible for determining the institutional units making up the General Government sector, according to the ESA 2010 methodology. This Committee, made up of the IGAE, the INE and the Bank of Spain**,** clarifies the definition of the scope of the GG sector, resolves issues of interpretation of national accounting standards and issues reports that are forwarded to AIReF.

The list of entities that are part of the GG sector is kept up-to-date and published. The list of entities that make up the GG sector in ESA 2010 terms is published on the website of both the Bank of Spain and IGAE in the Inventory of the Public Sector Entities database (INVENTE). The IGAE website has a full inventory of S.13 General Government, updated as at July 30th 2019, although subsequent information is available through the INVENTE database. According to this information, the GG is made up of a total of almost 17,000 units, of which over 5,000 are government agencies and State-owned companies. The local sub-sector is the most numerous with over 15,000 units, followed by the regional sub-sector with around 1,300, the CG sub-sector with just over 300 and finally the SSFs with just 29 units.

1.1.2. Coverage of stocks

GOOD

The Bank of Spain prepares the detailed financial balance sheet of financial assets and liabilities at a GG level and for each sub-sector. The financial balance sheet is prepared and sent to the European Commission in accordance with the criteria established in the ESA 2010 methodology. Tables 7 and 27 of the annual and quarterly data transmission programme include an extensive breakdown of financial assets and liabilities at the total GG level and at the level of each sub-sector. This information is easily accessible on the Bank of Spain's website in a format that can be processed for analysis[10].

[9] National Accounting. Public Companies Information

[10] Financial Accounts of the Spanish Economy

Similarly, since the 2019 statistical review of the national accounts, the INE has published the non-financial balance sheet of the institutional sectors, including the GG sector. A consolidated balance sheet of the General Government is therefore currently available, although information on all assets, in accordance with the requirements of the ESA 2010 transmission programme, has only been available since 2012 and on dwellings since 1995. In addition, the ESA 2010 data transmission programme provides for the preparation of statistics that contain the stock of assets, with a lag of 24 months from the end of the year. The INE publishes this information on its website in a format that can be processed for its analysis, as well as the methodology used to prepare said estimates. A brief summary of this methodology is presented in Box 1.

Non-financial balance sheet methodology

The balance sheets for non-financial assets meet the reporting requirements agreed in the framework for European statistics (Eurostat). The information required refers to stocks in gross and net terms, valued at both current and previous year's prices, of non-financial fixed assets. Breakdowns by industry and institutional sector are also required.

The preparation of the balance sheets is generally based on the Perpetual Inventory Method (PIM) recommended by Eurostat, and available international manuals, as used in other countries. This method consists of estimating the stocks of non-financial assets by means of the accumulation of the historical investment series (Gross Fixed Capital Formation), taking into account the average and maximum lives of the assets, their obsolescence patterns and estimated depreciation rates.

In the case of land, the estimation is made following the methods recommended in the Compilation guide on land estimation (Eurostat and OECD, 2015).

To estimate the stock of inventories, the recommendations of the Compilation guide on inventories (Eurostat and OECD, 2017) are taken into account.

At any event, the estimation of stocks must be consistent with the flows of Gross Fixed Capital Formation and Consumption of Fixed Capital and take into account their possible revaluations or losses of value and other changes in volume.

In addition, partial information may be available by sub-sector on non-financial balance sheets in the general accounts of the General Government. The IGAE prepares the individual accounts of the General State Administration and the General State Account, which is configured as a single consolidated account of the State public sector (Constitutional Bodies, General Administration, autonomous bodies, the public entities referred to in Article 6.5 of the Recast Text of the General Budgetary Act and the management entities and common Social Security services), the regional

sector, through its own comptrollers (General Administration, autonomous bodies, public entities with special legal status and management entities and the common Social Security services) and the local public sector, through its own comptrollers (the General Administration, i.e., the local entity itself and the autonomous bodies referred to in Article 145.2 of the Law Regulating Local Public Treasuries). However, some of this information is not known until two years later and its dissemination is presented in documents that cannot be easily processed for statistical purposes.

1.1.3. Coverage of flows

ADVANCED

The financial statements of the General Government cover information on accrued revenue, expenditure and financing, as well as other economic flows, including changes in the value and volume of assets. The Bank of Spain is the body responsible for preparing the Financial Accounts of the Spanish Economy (FASE). The legal and methodological scope for the preparation of these accounts is the same as that of the non-financial accounts, that is, Regulation (EC) 549/2013, on the European System of National and Regional Accounts, known as SEC-2010, which is an accounting system that is harmonised with the System of National Accounts (SNA 2008), prepared under the sponsorship of the United Nations Statistics Division, the World Bank, the OECD, the IMF and the European Commission (Eurostat), and with the sixth edition of the Balance of Payments Manual of the IMF, in the area that falls within its scope. This framework constitutes a system of standardised, complete, coherent, integrated and internationally comparable accounts, which, in relation to financial instruments, allows the consistent preparation, for all sectors and sub-sectors of the Spanish economy and the General Government, of financial balance sheets and accounts of financial transactions and other flows (revaluations and other changes in volume).

The complete system of accounts comprises financial statements and cash flow accounts, which explain the changes between the balance sheets at the beginning and at the end of each period. Flow accounts are, in addition to those of financial transactions:

a) revaluation accounts, which include changes in the value of assets and liabilities as a result of changes in their prices or in the exchange rates of the currency in which they are denominated; and
b) the other changes in volume accounts, which reflect changes in the amount of financial assets and liabilities for other reasons, such as in the case of loan write-offs or changes in sectorisation.

The FASE provide information by instrument and with details of the counterpart sectors, which enables the consolidated accounts for each of them to be drawn up by eliminating asset and liability positions within the sector itself. In the case of the financial transactions account, the breakdown of the counterpart sector identifies the net financing flows recorded in the period between the different sectors.

The Bank of Spain also compiles the General Government debt statistics according to the Excessive Deficit Procedure (EDP), as well as the reconciliation between net borrowing and the change in debt. Debt according to the EDP is the concept of indebtedness used in the context of the Stability and Growth Pact (SGP) and, usually, in the analysis of the sustainability of public finances. This item includes General Government liabilities in the form of currency and deposits, debt securities and loans, valued at their nominal values (face value) and excluding liabilities issued by General Government held by other units in the same sector (consolidation).

With regard to information on non-financial flows, information is available through three complementary approaches: the budget, financial accounting and national accounting. The General Government is required to present in the annual accounts the statement of financial performance (which must be presented in consolidated form), the consolidated statement of changes in equity, the consolidated cash flow statement, in addition to the statement on the budget outturn and budgetary result. These accounts follow International Public Sector Accounting Standards (IPSAS).

a) **With regard to budgetary information**, General Budgetary Law 47/2003, of 26 November, establishes the content and structure to be followed by the budgets. This rule is applicable for the entire State public sector, with a similar budgetary structure established for the LG sub-sector. The ARs may have their own regulations, although many of them are currently assimilated to those of the State.

b) **With respect to the approach provided by** financial accounting, the General Government is required to present in the annual accounts the statement of financial performance (which must be presented in consolidated form), the consolidated statement of changes in equity, the consolidated cash flow statement, in addition to the budget outturn and budgetary result. These accounts follow International Public Sector Accounting Standards (IPSAS).

c) **Finally, in the framework of the System of National Accounts with its own methodology for the Member States of the European Union (ESA 2010),** the accounts of the General Government, like those of the other institutional sectors of the national economy and the rest of the

world, must be prepared in accordance with Regulation 549/2013 of the European Parliament and of the Council, consistent with the System of National Accounts of the United Nations, the World Bank, the OECD and the IMF and, similarly, in accordance with the Manual on the Government Deficit and Debt. Annex B to that European Regulation sets out a series of tables, content and dates of transmission to the European Commission. Depending on the type of information contained in each table, the body responsible for its preparation may be, in its non-financial approach, the IGAE or the INE and in the financial approach, the Bank of Spain.

1.1.4. Coverage of tax expenditure

GOOD

The General State Budget annually includes a report with the budget of tax expenditure. This report defines the concept of tax expenditure, analyses the main regulatory changes in the year and quantifies the expenditure describing the working hypotheses, the statistical sources used and the methodologies. The Tax Expenditures budget is defined as the quantified expression of the decrease in tax revenue that is expected to occur over the year, as a result of the existence of tax incentives aimed at achieving certain economic and social policy objectives. These incentives take the form of exemptions, reductions in income, reductions in tax bases, reduced tax rates, allowances, deductions in total tax due, total tax due less tax credits or total tax due less tax relief, tax withheld and prepayments, and refunds of the various taxes, and may be established by State regulations or by the transposition of European regulations[11].

The legal obligation to prepare the budget of tax expenditure derives from Article 134(2) of the Spanish Constitution, which states "and in it shall be recorded the amount of the tax expenditure affecting State taxes". It was incorporated for the first time in the 1996 budget law and was later included in the General Budgetary Law of 2003. The State tax expenditure budget has been drawn up since 1979, but it was not until 1996 that the legal obligation to incorporate an explanatory memorandum into the GSB was established. The specific content of this memorandum is not regulated and has been

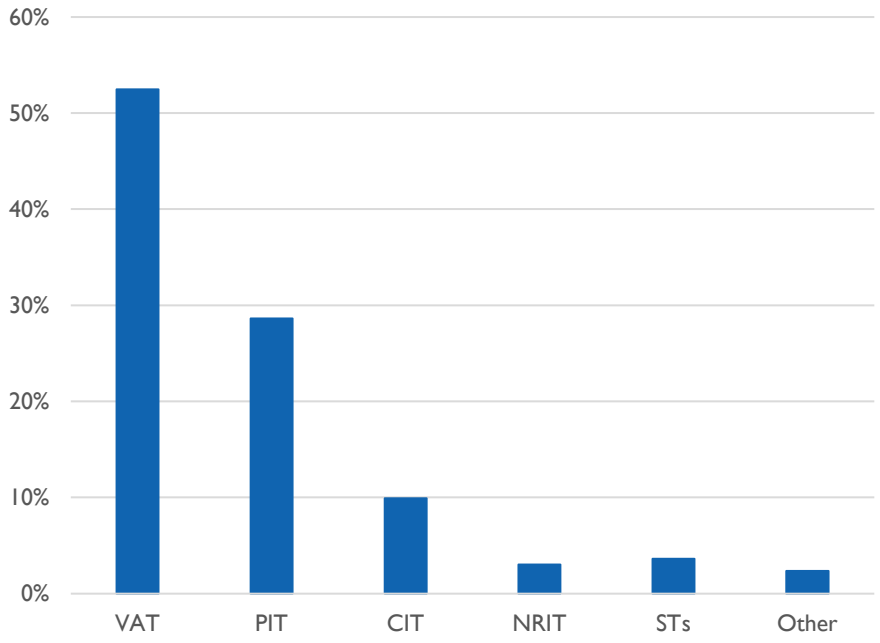
[11] In 2020, AIReF published the results of the review of tax benefits or expenditure in the framework of the 2019 Spending Review, with the main objective of evaluating the effectiveness and efficiency of 13 of the tax benefits amounting to more than €23 billion. In some cases, these benefits do not meet the objectives for which they were designed and in most cases potential efficiency improvements were detected.

defined over the years. As of today, AIReF considers it complete and detailed.

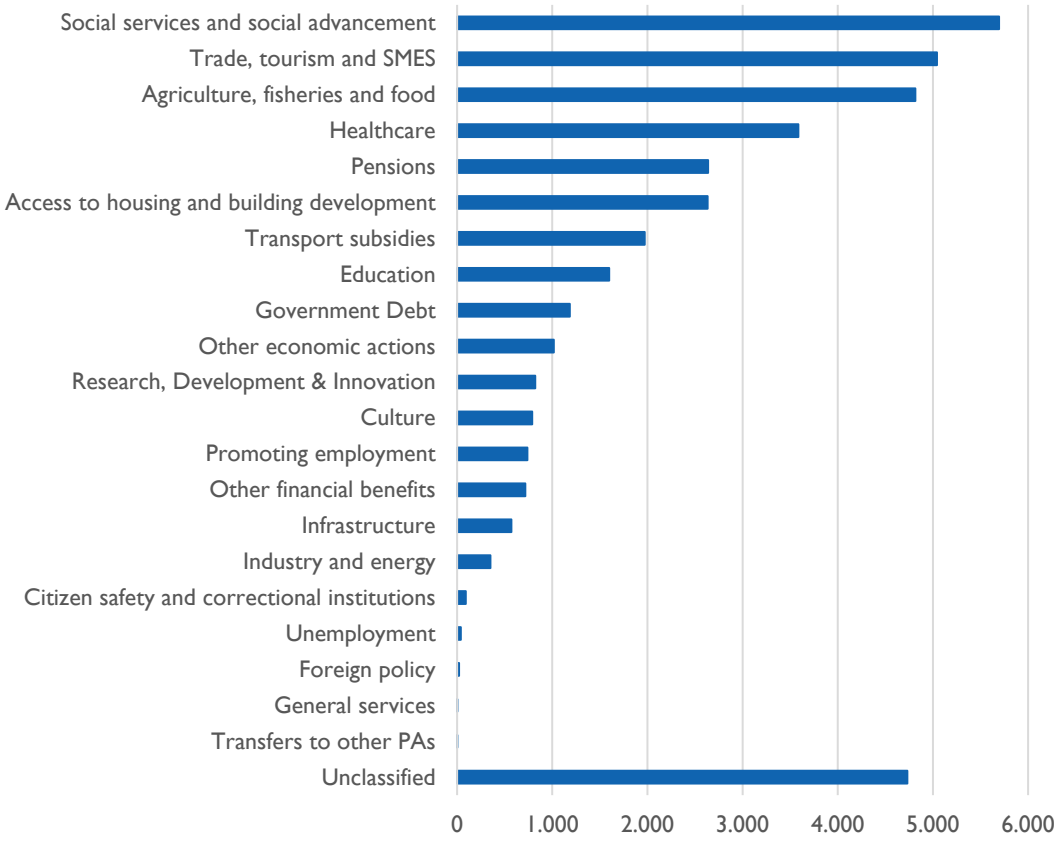
Transparency with regard to tax expenditure lies both in their importance and in their nature. The reason for devoting a specific section to tax expenditure in the transparency analysis lies both in their relative importance and in the fact that establishing this expenditure for certain activities is a form of financing of the public policies around which they are framed. This financing does not go through the control procedures and is not subject to the limitations that the budgetary process imposes on expenditure. Thus, once a tax expense has been approved, it is not subject to periodic review. In addition, there is no specific limitation on the volume of tax expenditure that can be established in either the budgetary legislation or the applicable tax rules.

Tax expenditure are classified by taxes and spending policies. In the report of the 2021 GSB, the total volume of State tax expenditure amounted to €39.05bn, which amounts to 3.2% of the GDP forecast by AIReF for this year and 16.5% of the non-financial expenditure of the State. Taking into account the distribution of tax expenditure for this year, the tax benefits of indirect taxation account for over 56% of expenditure (mainly due to the exemptions on certain products imposed by European legislation), while the distribution by expenditure policy to which they are linked allocates over 50% to social services and social promotion; retail, tourism and SMES; agriculture, fisheries and food; and health. The following graphs show the distribution of expenditure in 2021 by major taxes and spending policies.

GRAPH 1. DISTRIBUTION % BY TAX OF THE TAX BENEFITS (2021 GSB)



GRAPH 2. DISTRIBUTION BY SPENDING POLICY (2021 GSB)



The ARs also include detailed information on tax expenditure in their draft general budgets. All ARs include in their draft budgets information on tax expenditure by tax type. They include information both on the expenditure of the State taxes with an impact on their regional tax collection, as they are taxes that are partially assigned to the regions, and on the tax expenditure that they themselves establish. There is, however, a lack of homogeneity between what each AR considers to be tax expenditure. By way of example, the Region of Madrid does not consider as such the 100% allowance of the Wealth Tax or the reduction in the regional rate of Personal Income Tax. In this regard, there is scope for improved coordination in defining tax expenditure between the different ARs.

1.2. Frequency and timeliness

The indicators used to evaluate the frequency and timeliness of public sector reports examine whether they are published on a regular basis (monthly, quarterly and annually) and according to a specific schedule. The evaluation performed determines that the level of the practices in these indicators is advanced and good, respectively.

1.2.1 Frequency of in-year reporting

ADVANCED

In national accounting terms, monthly information is available for the Central Government, Social Security Funds and the ARs, and quarterly information is available for the Central Government and for the General Government as a whole. In the case of the CG, the Social Security Funds and the ARs, the IGAE publishes the fiscal information on a monthly basis before the end of the second month following the reference month in national accounting terms, both individually and on a consolidated basis[12]. It also publishes information with regard to the immediately previous month in terms of the State's national accounts, as well as information on cash collection and budget implementation of the CSA and the Social Security. General Government information is published on a quarterly basis together with that of the LG sub-sector and by the end of the following quarter. National accounting reporting complies with ESA 2010 standards as well as the IMF's SDDS standards[13]. Finally, the Bank of Spain publishes quarterly information on the

[12] Monthly report of the consolidated data of the Central Government, Regional Governments and Social Security Funds

[13] IMF SDDS Plus Annual Observance Report for Spain

public debt of the entire General Government before the end of the following quarter.

This information is published on a timely basis in accordance with a pre-established timetable posted on each institution's website. In addition to the websites of the respective bodies, all this information can be found in the Economic-Financial Information Centre of the Ministry of Finance[14], in accordance with the pre-established calendar published in the centre itself.

Specifically, with regard to the CG, budgetary information is also published monthly, in cash and national accounting terms. In general, the Ministry of Finance publishes monthly fiscal information in budgetary, cash and national accounting terms. Within a period of one month, the information published by the IGAE relates to the State in terms of cash and national accounts[15]. In addition, the IGAE also publishes information on the budget implementation of the Central State Administration (CSA) before the end of the month, which it supplements a few days later with greater detail and disaggregation by item, and the budget implementation of the Regional Bodies. For its part, the General Comptroller of the Social Security publishes budgetary information on the Social Security within the same period. Similarly, the State Tax Administration Agency publishes monthly collection reports.

At a regional level, the Ministry of Finance also publishes the budgetary implementation statistics on a monthly basis in order to obtain a consolidated and homogeneous total. The aforementioned information centre publishes monthly budgetary implementation data, which is essentially made up of the Central State Administration and the Regional Bodies, as well as of certain public health, social security and employment entities that need to be included for the necessary homogeneity and comparability of the data offered individually by the Autonomous Regions.

1.2.2 Timeliness of Financial Statements

BASIC

On an *ex post* basis, IGAE draws up the General State Account[16]. The IGAE prepares the General State Account as a Consolidated Single Account, which provides a clear overview of the activity of the entire state public sector. In the 2019 Account, 387 of the 391 existing entities have been consolidated, with the CSA acting as the parent entity for consolidation

[14] Ministry of Finance Information Centre

[15] Main indicators of the State's economic and financial activity

[16] General State Account 2019

purposes. A significant part of the jointly-controlled entities and associates held both directly and indirectly by the CSA are also integrated into the Account. The consolidated statements that comprise it are the statement of financial position, the statement of financial performance, the statement of changes in equity, the cash flow statement, the statement of the budget outturn and the notes to the accounts. It also includes the budgetary information of entities with a capped budget and the operating and capital budget outturns of entities with an estimated budget. It also sets out the reconciliation between the budgetary figures and the results obtained in national accounting terms of the CG and the Social Security Funds.

This Account is submitted to the Government for presentation to the Court of Auditors by October 31 of the following year[17] within 12 months of the end of the period. The General State Account, which contains consolidated information on the State public sector, is published ten months after the end of the year, while the IMF considers a maximum lag of nine months to be good practice so that this information may be taken into account when drafting the GSB. Previously, seven months after the end of the period, the Central State Administration Account is published. This contains information on the budgetary sections into which the ministerial departments are organised, as well as the funds without legal personality referred to in Article 2.2.f of the General Budgetary Law.

The Autonomous Regions also prepare their general accounts *ex post* and report to the Court of Auditors. The general comptrollers corresponding to each Autonomous Region are responsible for drawing up the general account annually, which is subsequently reported to the Court of Auditors or, as the case may be, any External Control Bodies they may have created. They are governed in terms of timing, content, attached documentation and deadlines for referral to the Court of Auditors in accordance with the provisions of their own financial or public finance regulations.

1.3. Quality

The quality area assesses whether the information published follows internationally established criteria and is consistent and comparable between reports. This is done by analysing whether the classifications are homogeneous in accordance with international standards and whether they have internal consistency. It also analyses how historical revisions of the databases are reported. Both the classifications and the internal consistency

[17] Article 130-132 of the General Budgetary Law 47/2003, of 26 November.

meet advanced practices, while the historical consistency meets a basic level in accordance with IMF standards.

1.3.1 Classifications

ADVANCED

The GSB follows a triple national classification system: economic, organic and by programme, consistent with international standards. The initial budgets present expenditure according to a triple classification that is consistent with the IMF standard; revenues present the organic and economic classification:

- The economic classification, which groups expenditure into chapters according to the economic nature of expenditure and revenue. These are broken down into articles, items and sub-items;
- The organic classification, which aggregates the expenditure in sections that identify the responsible bodies, although there are sections that are not directly management bodies, but are created because they are items of special importance (for example, the public debt section or the section on financial relations with the EU);
- The classification by programme, which aggregates expenditure according to the objectives pursued in budgetary programmes, which are aggregated in public policies. This structure identifies the targets pursued for each expenditure programme and establishes a series of indicators to assess compliance with the targets set. The quality of these targets and indicators is analysed in Pillar II, which has a specific indicator on performance information.

The budgetary structures are aligned with the chart of accounts for financial accounting. The chart of accounts is based on IPSAS standards and provides sufficient detail to reconcile the accounts with the economic classification. The budgetary implementation is the basic information used for financial accounting. The IGAE is the entity responsible for both registers.

The monthly and annual fiscal reports follow the economic structure set out in ESA2010 and expenditure is also published following the UN functional classification (COFOG) although at a later date. The fiscal reports also use budgetary implementation information as a basis for compiling data in national accounting terms. However, the reconciliation table between items is not published. Therefore, the only reconciliation performed is in terms of balance and is carried out monthly when publishing the budgetary implementation and national accounting data.

The classification at a regional level is similar to that of the GSB. The general budgets of the Autonomous Regions also follow the triple classification (organic, functional and economic). However, the ARs enjoy financial autonomy, so the work of homogenisation by the Ministry of Finance for both budgetary and national accounting information is essential for their comparability. As is the case for the State, the monthly and annual fiscal reports follow the economic structure set out in ESA2010 and expenditure is also published following the UN functional classification (COFOG) although at a later date.

1.3.2 Internal consistency

ADVANCED

Fiscal reports are internally consistent and include reconciliations between alternative measures of fiscal aggregates. Fiscal reports include the following reconciliations: (i) fiscal balance and financing, (ii) debt issued and debt holdings, and (iii) financing and the change in the debt stock. In accordance with Article 3 of Council Regulation (EC) No 479/2009, as amended by Council Regulation (EU) No 679/2010, Member States shall report to the Commission (Eurostat) the government deficits and tiers of government debt twice a year: the first time before 1 April of the current year (year n) and the second time before 1 October of year n. Both notifications show the details of the transition between the balance of non-financial budgetary transactions and the government surplus/deficit, as well as the items that explain the contributions of the surplus/deficit and other relevant factors to the change in the level of debt.

The Bank of Spain is the body responsible for debt statistics. It compiles the statistics related to securities issues, their trading on secondary markets and their distribution in the portfolios of the holding agents, and performs the reconciliation between net borrowing and the change in debt compiled according to the Excessive Deficit Procedure (EDP).

1.3.3 Historical revisions

BASIC

Revisions to historical fiscal statistics are published and only partially explained. The Bank of Spain publishes information notes on the revisions of the General Government debt according to the Excessive Deficit Procedure (EDP), detailing the most significant changes. Revisions of IGAE's fiscal statistics are not explained, except for major methodological changes, and it is common in the process of routine revisions that the monthly and annual series of national accounts are modified or corrected without warning or explanation as a result of the incorporation of new information not previously

available. The INE publishes information notes on changes in the national accounts series.

Therefore, additional improvements could be made in explaining the historical revisions of the information in the public accounts, following AIReF's recommendations. During the revision of the National Accounts series in 2019 performed by both the INE and the IGAE and following AIReF's recommendations on transparency, the INE was in favour of continuing to work on improving its statistics on an ongoing basis, while the IGAE published on its website an explanatory note with itemised information on the changes that had occurred in the national accounting data as a result of the statistical revision. Although it would be unrealistic to explain every single change that takes place as part of routine revisions, it would be a great improvement in the transparency of public accounts to include explanations of the most significant ones.

1.4. Integrity

This area includes statistical integrity, external audits and comparability practices. It analyses the reliability of publications in the public sector and its sub-sectors, whether they are subject to external review and whether they facilitate accountability through data comparability. The assessment of the three indicators mentioned is good.

GOOD

1.4.1 Statistical integrity

Fiscal statistics are published in accordance with international standards. Fiscal information is published according to the standard of the DSBB General Data Dissemination System, approved by the IMF (INE website). This system addresses all essential aspects of data collection and dissemination and the formulation of explicit plans to harmonise national procedures with best practices. You can directly access the information source, download it in SDMX format or consult the associated metadata. Data are included for General Government operations, General Government debt, State operations and State debt.

There is no single independent agency responsible for compiling all fiscal statistics, but the responsibility is shared between the Bank of Spain, the IGAE and the INE. The Bank of Spain is responsible for financial statistics, the IGAE for non-financial public sector statistics and the INE for other non-financial accounts. There is no specific government agency or independent body responsible for compiling all statistics. The Economic-Financial Information Centre was set up in 2014. This body centralises the dissemination of

economic-financial statistics on the General Government, although each statistic may still be consulted directly on the website of the body that produces it.

The Technical Committee on National Accounts, comprised of INE, IGAE and the Bank of Spain, does not have an operating regulation. Organic Law 6/2013, of 14 November, on the creation of AIReF provided for the creation of this committee and its subsequent regulation by means of an internal regulation. However, although it is in operation, a regulation governing it has not yet been approved, so it is governed by the principles of Law 40/2015 on the Legal Regime of the Public Sector.

1.4.2 External audit

GOOD

The Court of Auditors is an external and independent control body of the Government that annually gives an opinion on the General State Account submitted by the Government, issuing an opinion on the true and fair view of the economic and financial situation of the State. In the opinion of the court, except for the effects of the qualifications included in sub-section III.1 "Results affecting the representativeness of the General State Account", the General State Accounts for recent years present fairly, in all material respects, the economic, financial and net worth position, the changes in equity, the cash flows, the results for the year and the budget execution and settlement of the group of entities included therein, in accordance with the regulatory framework applicable to this General Account and with the accounting principles and criteria contained therein. The opinion is favourable with qualifications when, in order to be considered an advanced practice, there should be no qualifications or limitations.

With the aim of promoting the effectiveness and efficiency of public sector auditing, the court is making progress on its objective of reducing the time lag between public management and public sector auditing. In 2019, the Court of Auditors continued to make progress on one of the objectives set out in its Strategic Plan, which is to bring the control timescales as close as possible to the audited public administration. 60.41% of the reports approved during the year were for the management of 2017 and 2018, an improvement on the figure for 2018, which was 57.44% for the previous two years. This fulfils one of the IMF's recommendations in 2005 that efforts should be made to speed up the Court of Auditors' external audits in order to improve their effectiveness.

The Court of Auditors exercises its supervisory function over the entire public sector, at a State, regional and local level. The Court of Auditors extends its audit responsibilities to the sub-national level. This has not prevented 12

Autonomous Regions from creating their own External Control Bodies, which exercise audit functions over the Regional Government and the Local Governments within their territorial scope. These External Control Bodies should coordinate their work with that of the Court of Auditors and should forward all their reports to it.

1.4.3 Comparability of data

GOOD

Budgetary implementation reports can be compared with approved budgets, with initial appropriations and modifications of appropriations clearly recorded. Within the scope of the CG, the IGAE publishes detailed monthly reports on budgetary implementation both of the CSA and the Bodies with a capped budget. On the revenue side, the reports include forecasts, recognised claims and net receipts. On the expenditure side, information is provided on the initial appropriations included in the GSB and the budgetary modifications that give rise to the final appropriations, as well as the committed expenditure, net recognised obligations and payments made. This format allows a comparison in budgetary terms between approved budgets and implementation up to a high level of disaggregation. These comparisons can also be carried out at a similar level of detail in the outturn of the budget. At the level of the ARs, the reports contain the same level of detail and are published monthly by the Ministry of Finance, without prejudice to the fact that the regions publish budgetary information on their websites. However, this information is not comparable with that of other regions. Therefore, the information that the information centre publishes ensures the consistency and comparability of the information, as homogenisation adjustments are made.

No forecasts are made in national accounting terms, so there is no comparability with the implementation. The IGAE offers monthly information on the activity in national accounting terms of the CG, the Social Security Funds and the ARs, a consolidated version of these three sub-sectors and quarterly information for the LGs. The only fiscal forecasts in national accounting terms that are made correspond to the General Government and are included in the Stability Programme Update and in the budgetary plan, with no breakdown by sub-sector. In addition, a forecast in national accounting terms (grey series) is included in the draft GSB for the following year. Subsequently, at the time of the EU Deficit and Debt Notification in April and October of the current year, the Ministry of Finance also provides forecasts by sub-sector, but only in terms of balance. It is therefore not possible to make comparisons between the Government's fiscal forecasts and the final results, except with regard to meeting deficit targets.

The General State Budget cannot be compared with the forecast in national accounting, even in terms of balance. This lack of fiscal forecasts in national accounting terms has been compounded in recent years by the lack of information to reconcile the balance of the GSB with net lending/borrowing of the CG. Until 2016, the GSB included information on national accounting adjustments, but since the 2017 GSB this information is no longer published, possibly due to the incompatibility between the budgetary balance and the CG's budgetary stability target. The only information available that reconciles budget and national accounting is the report on Main Indicators of the Economic Activity of the State, which shows the monthly structure and evolution of the main revenue and expenditure operations carried out by the State, both in cash terms and national accounting terms, with a brief explanation at the end of the report on the reconciliation of the balances[18]

In contrast, the budgets of the ARs do contain national accounting adjustments. In general, the economic and financial reports accompanying the annual general budget contain information on national accounting adjustments, which, once incorporated into the budget balance, result in a balance in national accounting terms.

AIReF has made repeated recommendations to improve the comparability of fiscal data. Since its first reports, AIReF has recommended that the draft budgets should include a budget in national accounting terms for the CG and the Social Security Funds. Subsequently, since the presentation of the Draft GSB for 2017, it has recommended that at least the national accounting adjustments be published as was done up to that time. The Ministry of Finance postpones the preparation of the budgets in accounting terms to the appropriate moment and timescales, given the difficulty this poses. It also notes that it already sends information on national accounting adjustments in the two EDP notifications it makes to the EU. For these reasons, the Draft GSB for 2021 still lacks this information.

1.5. Conclusions of PILLAR I

It is in Pillar I on fiscal reporting that Spain achieves the best practices. In most of the indicators, the practice is considered good or advanced. In relation to the recommendations made by the IMF in 2005 (see Annex), significant progress has been made in terms of the availability of information

[18] Cash accounting and national accounting. Monthly report: Main indicators of the economic and financial activity of the State. IGAE

for all tiers of government and the delimitation of the public sector[19]. In general, membership of the euro area and the need to issue standardised information in terms of the European System of Accounts defined by EUROSTAT facilitate compliance with the requirements set out in the Fiscal Transparency Handbook.

Areas for improvement in fiscal reporting focus on the timeliness of financial statements, historical revisions, and the lack of reconciliation between the GSB and the national accounts. In both indicators, the practices are considered basic. However, with regard to timeliness, the IMF considers a maximum lag of nine months for drawing up the General State Account to be good practice, while the presentation takes place after ten months (on 31 October of the following year). There is therefore only one month separating it from achieving a rating of good practice. With regard to historical revisions, although there is no international standard that establishes the best practices in reporting the details of the revisions, it would be advisable for the different agents responsible for issuing the statistics to continue making progress in this area in order to improve transparency and to help final users of the information understand the changes. On top of this is the lack of fiscal forecasts in national accounting terms and the absence of information to reconcile the balance of the GSB with the CG's net lending/borrowing.

[19] Due to successive revisions to the IMF code of good practices, it is not possible to make a comprehensive comparison of the progress made with respect to the analysis carried out by the IMF in 2005.

2 CENTRAL GOVERNMENT

A. PILLAR II. FISCAL FORECASTING AND BUDGETING

This pillar reviews the budgeting process and the quality of the forecasts underpinning them. In contrast to Pillar I, which reviews the coverage, classification, timeliness and consistency of budgetary information and statistics, the aim here is to analyse whether governments provide a clear picture of their fiscal policy strategy, budgetary objectives and policies, and the implications of this strategy for the expected path of public finances. This requires an analysis of whether reliable, comprehensive and timely short- and medium-term forecasts of budget revenue and expenditure and the macroeconomic scenario underpinning these estimates are available.

The pillar includes 12 indicators arranged in four areas to be reviewed: comprehensiveness, orderliness, fiscal policy orientation and credibility. Among other elements detailed in Annex 1, this pillar examines whether the documentation details the strategic priorities of the Government, with clear and precise objectives and rules and a detailed breakdown of the expenditure of each ministry and public body. It also evaluates the existence of a medium-term fiscal framework (MTFF) that incorporates reliable projections of the main macroeconomic and fiscal aggregates for the two or four years following the current year, in accordance with the government strategy.

On a general basis, Spain meets good and advanced practices, but there are practices that are not even met with a basic level in very important matters, such as medium-term budgeting. Good and advanced practices

are achieved in procedures and legislation. Particularly noteworthy, however, are the three indicators which do not meet the level of basic practice: preparation of medium-term budgetary forecasts, timeliness of budgets and reconciliation of forecasts. There is also ample room for improvement in facilitating citizens' access to information (public participation) and reaching the most advanced practices in some peer countries in terms of performance budgeting.

TABLE 5. FISCAL TRANSPARENCY HEATMAP FOR THE CG. PILLAR II

II. Fiscal forecasting and budgeting
2.1.1. Budget unity
2.1.2. Macroeconomic Forecasts
2.1.3. MT Budget Framework
2.1.4. Investment Projects
2.2.1. Fiscal Legislation
2.2.2. Timeliness of budgets
2.3.1. Fiscal policy objectives
2.3.2. Performance information
2.3.3. Public Participation
2.4.1. Independent evaluation
2.4.2. Budgetary amendments
2.4.3 Forecast reconciliation

2.1. Comprehensiveness

Fiscal forecasts should present a complete and comprehensive picture of public sector revenues and expenditure and relevant macroeconomic variables. In particular, this section assesses whether the Government's forecasts comprehensively cover the operations of the entire General Government (budget unity) and the impact of the various measures on the public accounts; whether they provide forecasts of the main macroeconomic aggregates; whether the forecasts are made taking into account a medium-term horizon and whether investment planning is also performed. With the exception of the medium-term outlook, which does not

reach the minimum set by the IMF, AIReF considers that the other indicators are at either a good or an advanced level.

2.1.1 Budget unity

ADVANCED

The budget documentation incorporates all revenues and expenditure of the State public sector, which includes the Social Security System and the public enterprise sector. The GSB is made up of the budgets of the Central State Administration (CSA) and the so-called State institutional public sector, which includes the autonomous bodies, the Social Security, public enterprises, public corporations, foundations from the State public sector, independent administrative authorities, non-transferred public universities, consortia attached to the CSA, funds without legal personality and the other entities of the State public sector. There is only one entity - the Deposit Guarantee Fund - which, as it is part of the concept of CG in national accounting terms, does not present information in the General State Budget.

The GSB presents detailed and gross revenue and expenditure and offer consolidated information, although not on all entities. Detailed information on revenue and expenditure, both financial and non-financial, is included. Consolidation is carried out exclusively for those entities that have capped budgets; that is, those for which their appropriations represent a ceiling. Neither the corporate nor the foundation public sector are consolidated, as they present estimated budgets.

2.1.2 Macroeconomic Forecasts

GOOD

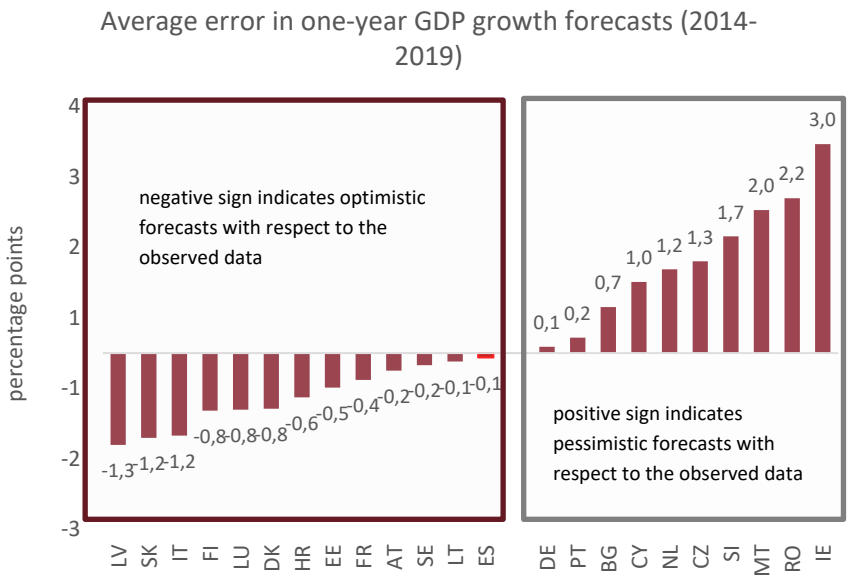
The macroeconomic forecasts made by the Central Government meet the criteria of good practices established by the IMF in terms of the level of detail of the main aggregates and the external assumptions underpinning them. In the case of Spain, the Central Government, and in particular the Ministry of Economic Affairs and Digital Transformation, prepares detailed medium-term forecasts (every four years) on the main macroeconomic variables, their components, underlying assumptions and methodologies in the Stability Programme Update carried out within the framework of the European budgetary cycle. These forecasts are based on the most recent information and include tables showing the expected evolution for the main basic assumptions, the components of GDP on the demand side (in volume and prices), the determining variables of the labour market and the sectoral balances. The documentation is completed with a discussion of the risks associated with the projections and a sensitivity analysis. In addition, since 2019, a retrospective assessment of the forecasts of the last five years is

incorporated in order to determine whether there is significant and systematic bias in the forecasts of any of the variables. A comparison of the projections with those of other international organisations and a methodological summary are also presented. Since the publication of the April 2014 Stability Programme Update, the Ministry of Economy's macroeconomic forecasts have been analysed and endorsed by AIReF.

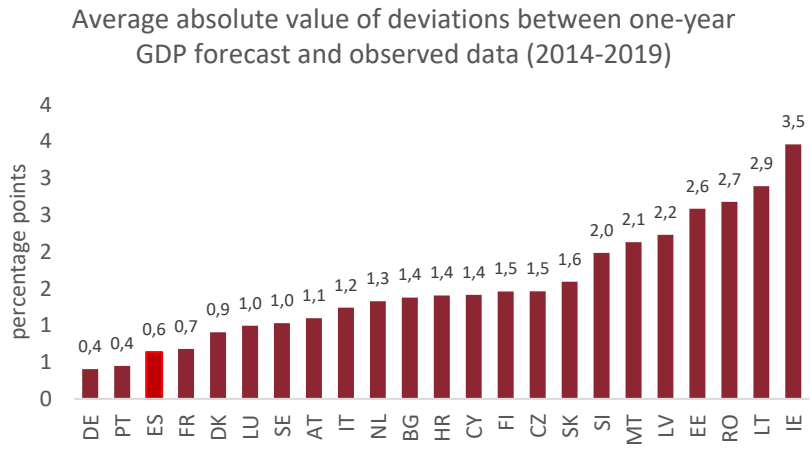
The General State Budget and the Budgetary Plans that the Government must submit to the EC by 15 October each year also present a sufficient level of information, although they have an annual budgeting horizon. The preparation of the GSB contains an update for one year ahead of the macroeconomic projections, which is included in a chapter of the Economic and Financial Report of the GSB and in the presentation to Parliament (yellow book). As in the case of the Stability Programme Update, the detail of the information is deemed adequate and meets the requirements of European and national legislation (summarised in the box below).

However, in order to be in line with international best practices, certain aspects relating to the integrity and explanation of the forecasts can be improved. While it is true that a large amount of information is produced throughout the year relating to macroeconomic forecasts that serve as inputs in the budget process, the absence of certain items makes it difficult for an external analyst to understand. The main issues to be improved include: (1) there is no regular practice of publishing the budgetary cost and impact of the various economic policy measures included in the macroeconomic outlook; (2) there is no comparison made between the previous forecasts and the current forecasts and the reasons for the revisions are not explained (for example, impact of the changes in the external assumptions, new available information or elements of judgement); (3) AIReF has sometimes identified a lack of consistency between the macroeconomic and budgetary forecasts with regard to some components of GDP (in particular relating to public Consumption and Gross Fixed Capital Formation); (4) the relationship between the main macroeconomic and fiscal variables is not explained on the basis of a simplified analysis framework.

GDP projections, on the other hand, are accurate, with a relatively small optimistic bias. Although it is not a criterion determining the IMF's assessment, it should be noted that the one-year GDP forecasts made by the Ministry of Economy and included in the Stability Programme Updates have been among the most accurate compared with other EU countries (i.e. a lower average error as shown in the graphs below).



Note: The graph shows the average of the differences between the observed data and the forecast data, i.e. a negative (positive) sign indicates that the GDP growth rate was on average lower (higher) than expected and the forecasts were therefore optimistic (pessimistic) on average.



Source: Real GDP forecast data are taken from the Stability and Convergence Programmes submitted between April 2013 and April 2019. Specifically, the forecast for year t+1 is taken from the Programme of year t. The observed data is taken from the first release corresponding to each year of the spring publication of AMECO. In other words, the observed data for year t is taken from AMECO's publication of the spring of year t+1.

When analysing the direction of deviations, it is observed that the projections have tended to very slightly overestimate the growth prospects of the Spanish economy. As in most countries, the size of the optimistic error widens as the forecast horizon increases (-0.35 percentage points is the average error in the three-year forecasts, compared with -0.06 in the one-year forecasts).

BOX. THE REQUIREMENTS OF MACROECONOMIC AND BUDGETARY FORECASTS IN SPANISH LAW

Following the international financial crisis, a far-reaching reform of budgetary frameworks at a European and a national level was launched. Aware of the importance of macroeconomic forecasts when estimating fiscal revenues and, therefore, expenditure levels consistent with a given deficit target, European legislation (Directive 2011/85/EU) laid down basic principles to be followed by the economic forecasts on which the budgets are based.

In the case of Spain, Royal Decree 337/2018[20] transposes these requirements applicable to macroeconomic and budgetary forecasts into Spanish law. Specifically, the main requirements are:

1. The forecasts will incorporate the latest available information

2. It sets out the external assumptions to be specified as a minimum (export markets, exchange rates, oil prices and short and long-term interest rates) and the need to analyse the risks that, should they materialise, may have an impact on real or nominal growth that will result in lower revenue growth and higher public expenditure.

3. The principle of prudence is incorporated, which establishes that budgetary planning will be based on the most likely or most prudent macroeconomic scenario.

4. Other aspects defined by the law are the need to compare the forecasts of other independent bodies or entities, in particular the European Commission.

5. It will also be necessary to conduct sensitivity analyses and *an ex-post* evaluation of forecasting errors, at least once a year, and measures will have to be taken to correct them if they show persistent biases.

[20] Royal Decree 337/2018, of 25 May, on the requirements applicable to macroeconomic and budgetary forecasts. (boe.es)

2.1.3 Medium-term budget framework NOT MET

According to the IMF, a medium-term budget framework (MTBF) is the set of multi-annual revenue and expenditure forecasts and procedures that allow fiscal planning to extend beyond the annual budget horizon. Although the passage of the annual budgetary law is the key element of budgetary policy, most fiscal measures have budgetary implications that extend well beyond the annual budget cycle. The annual outlook is therefore insufficient to analyse the effects of the measures being taken and to carry out sound fiscal planning. Medium-term budget frameworks cover the preparation, implementation and monitoring of multi-annual budgetary plans and contain expenditure and revenue forecasts. The level of breakdown with which these forecasts are made determines the score achieved in the IMF evaluation for this purpose. In countries with more advanced practices, multi-annual forecasts follow the same breakdown and classification as the annual budget.

Under this conception, Spain does not currently have a medium-term budget framework, despite the fact that the existing regulation[21] requires it to do so. In particular, the General Budgetary Law establishes that the GSB will be framed annually in the multi-annual budgetary scenarios. These will determine the limits, referring to the following three years, that the Government's actions must respect in the cases in which its decisions have a budgetary impact. In addition, the Organic Law on Budgetary Stability and Financial Stability states that the preparation of the budgets will be part of a medium-term budget framework compatible with the principle of annuality. In addition, both the aforementioned Organic Law and European legislation[22] specify that the preparation of a medium-term budgetary plan will be included in the Stability Programme, which will frame the preparation of annual budgets and will ensure budgetary programming that is consistent with the objectives of budgetary stability, public debt and compliance with the expenditure rule. It should also include an assessment of how the planned measures might affect the sustainability of public finances. An important issue is that, according to the legislation, any modification to the medium-term budgetary plan or deviation from it must be explained.

It should be noted that the Stability Programme Update meets the formal requirements of European and national legislation for medium-term

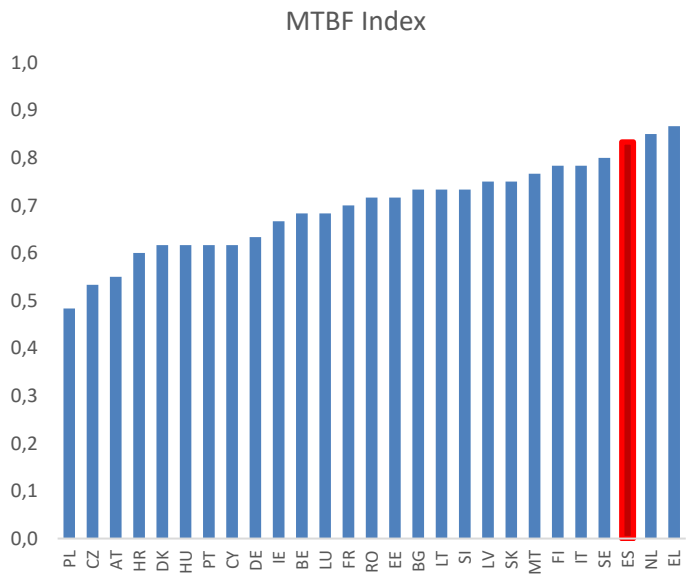
[21] Organic Law 2/2012, of 27 April, on Budgetary Stability and Financial Sustainability and General Budgetary Law 47/2003, of 26 November.
[22] European Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States.

budgetary plans (see the accompanying box). This document includes, for a period of three years, the deficit path of the General Government, disaggregating the projections of the main revenue and expenditure items, taking into account both their trends, on a no-policy change basis, and the impact of the measures planned for the period considered. It also includes the main assumptions underlying these revenue and expenditure projections and an assessment of how the planned measures might affect the long-term sustainability of public finances.

In practice, the budgetary process is fragmented, and it is not possible to ensure consistency between its main elements: the Stability Programme Update, the budgets of each administration and the Budgetary Plan. The Stability Programme Update (SPU), like the budgetary plan, does not provide a breakdown by sub-sector and there is no direct link with budgetary information. It may not therefore be considered a medium-term budget framework as defined by the IMF. The Stability Programme information is presented in accordance with the ESA 2010 economic classification - i.e. not in budgetary accounting terms – and in aggregated form for the General Government as a whole, with no breakdown of important items, such as pension or unemployment expenditure. This hinders its subsequent reconciliation with the draft budget, which in turn does not present information in national accounting terms, or even the adjustments necessary to reconcile the budgetary and national accounts balance. In order to be functional, a medium-term budget framework should be linked to the budget of each sub-sector and allow reconciliation of the national accounts headings set out for the fiscal path with the budget items at an aggregate level. That is why the SPU's multi-annual information is more of a medium-term fiscal framework (set of formal medium-term commitments to be taken as a reference, such as debt ceilings, surplus targets or expenditure ceilings), rather than in line with the definition of the budget framework used by the IMF.

The European Commission's analysis of National Medium-Term Frameworks

The EC carries out an annual questionnaire on the characteristics of the national medium-term frameworks and on the Stability and Convergence Programmes, which allows it to draw up a synthetic index on the quality of the national medium-term frameworks. The index approximates the quality of the national medium-term framework through five criteria (i) coverage of targets/ceilings included in national medium-term fiscal plans; (ii) connectedness between targets/ceilings included in national medium-term fiscal plans and annual budgets; (iii) involvement of national parliament in the preparation of national medium-term fiscal plans; (iv) involvement of independent fiscal institutions in the preparation of national medium-term fiscal plans; and (v) level of detail included in national medium-term fiscal plans.

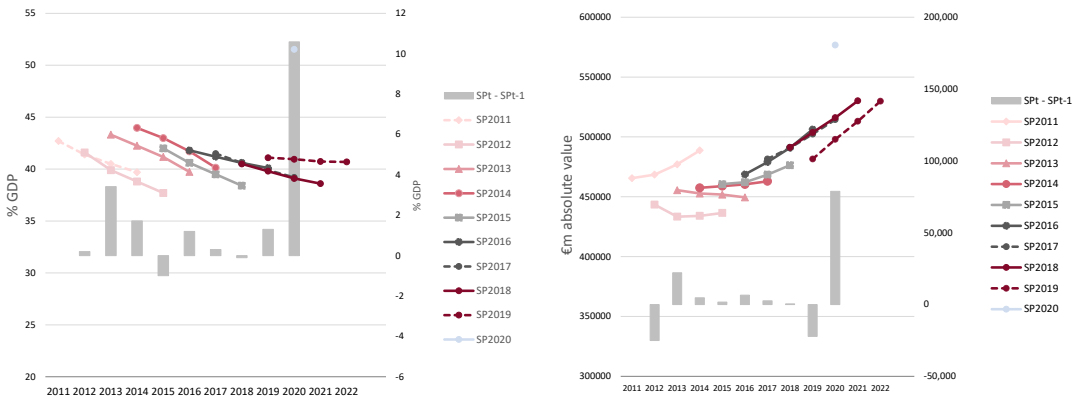


Source: European Commission. Higher values of the index represent higher quality of the medium-term national framework.

Spain is one of the euro area countries with the best performance in this synthetic index produced by the EC. The Commission's MTBF index does indeed accurately capture the various legislative improvements that have been incorporated into the Spanish fiscal framework in recent times. However, by its very design this synthetic index may be missing some aspects related to the practical implementation of the framework that are more difficult to capture (see "*How to strengthen fiscal surveillance towards a medium-term focus?*" EU IFI, 2021). In fact, the expenditure forecasts have been systematically revised upwards in successive updates of Spain's stability programmes. This is a common feature of other countries where, although the medium-term framework is set up as a restriction to future expenditure, in practice, far from being considered a ceiling, it has come to be seen as a floor on which to prepare the corresponding budget. This has led to questions about the requirements that these frameworks should meet in order to contribute towards improving fiscal discipline and the sustainability of public finances.

As a sign of this weakness, there is a clear lack of realism in the expenditure path set out in the annual Stability Programme updates. The weakness of the Annual Stability Programme Update as a medium-term budgetary framework is evidenced by the lack of realism of the expenditure path set out in each update. The primary expenditure forecasts are systematically revised upwards in the different stability programmes presented by Spain in the period 2011-2020.

GRAPH 3. PLANNED PRIMARY EXPENDITURE IN APU ANNUALLY (% GDP AND IN ABSOLUTE VALUE)



2.1.4 Investment projects

GOOD

Investment planning is important as its impact normally exceeds the annual horizon and because of its impact on growth. This section reviews whether detailed information on multi-annual investment commitments is incorporated so as to detect the existence of deviations from the budget. It also analyses the existence of transparent and competitive public procurement procedures.

The General State Budget contains information on multi-annual investment commitments. The GSB for each year includes in the green series an annex on real investments and multi-annual scheduling, in accordance with the organic classification and in regionalised terms. This includes the multi-annual investment commitments of the State and its agencies, public enterprises and foundations. These documents specify for each project the year of commencement, the year of completion, the region or province for which the project is designed, the total cost, and the amount allocated annually.

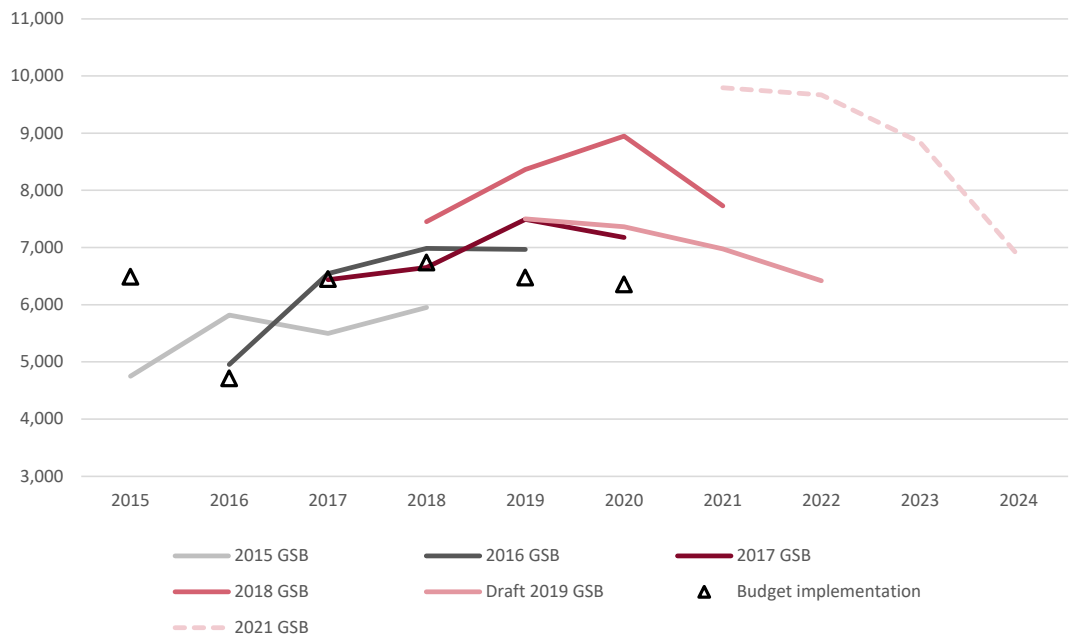
Multi-annual commitments are reviewed annually, sometimes significantly. Each financial year, part of the investment is rescheduled, shifting investments towards the future. However, the percentage represented by multi-annual real investment commitments has gradually decreased over

recent years, from 2.1% of the total of Chapter 6 of the GSB in 2015 to 1.3% in the 2019 draft GSB. However, in 2021, as a result of the investment projects and reforms to be financed from the "Next Generation EU" European Recovery Funds, commitments for multi-annual investments rise significantly in the period 2021-2023, when investments from these funds are planned to be implemented.

TABLE 6. MULTI-ANNUAL INVESTMENT COMMITMENTS (€'000)

(€m)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
2015 GSB	4,751	5,819	5,496	5,950						
2016 GSB		4,955	6,544	6,983	6,968					
2017 GSB			6,438	6,649	7,490	7,178				
2018 GSB				7,451	8,367	8,947	7,727			
Draft 2019 GSB					7,503	7,364	6,975	6,420		
2020 GSB										
2021 GSB							9,795	9,668	8,840	6,848
Budget implementation	6,490	4,714	6,449	6,739	6,479	6,358				

GRAPH 4. MULTI-ANNUAL INVESTMENT COMMITMENTS



Source: Ministry of Finance. GSB - annex on real investments and multi-annual scheduling

Major projects are awarded through public tenders. The awarding procedure is regulated in the Law on Public Sector Contracts[23], which transposes the European Directives on public procurement. In the CSA's transparency portal[24], all contracts awarded as from 1 January 2014 that have been concluded by any public sector contracting authority are ordered by ministerial department, detailing the work for the subject matter of the contract, the contracting authority, the procedure, the date of award and the amount. In addition, the Public Sector Procurement Platform makes it possible to consult the tenders published by the contracting authority and ascertain the status of each of the processes. However, the European Commission has recommended that Spain improve public procurement processes within the framework of the European Semester.

Feasibility analyses are carried out and published for new investment projects, although their depth is generally limited. The Ministry of Transport, Mobility and Urban Agenda[25] publishes on its website, within the framework of the Information Studies required by sectoral legislation, feasibility studies of new infrastructure projects supporting the timeliness of the project, the choice of the most advantageous alternative and a cost-benefit analysis that always obtains positive results.

AIReF has carried out an assessment of the transport infrastructure policy in the scope of the 2019 Spending Review in which it identifies room for improvement in the planning and governance of this type of expenditure[26]. This study highlights the need to improve the planning and selection of investments. In general, there is very ambitious planning without sufficient prioritisation of the investments. There is a clear tendency to underestimate the costs, risks and timescales of the projects and to overestimate their benefits (especially the estimates of the demand for travel). In addition, no real *ex ante* evaluation is performed on the investments to be made.

2.2. Orderliness

The orderliness area evaluates, firstly, whether legislation precisely lays down the role of the executive and legislative powers in the budgetary process

[23] Law 9/2017, of 8 November, on Public Sector Contracts, transposing to Spanish law Directives 2014/23/EU and 2014/24/EU of the European Parliament and of the Council of 26 February 2014.

[24] Transparency Portal

[25] Website of the Ministry of Transport, Mobility and Urban Agenda

[26] AIReF | SPENDING REVIEW PHASE II. TRANSPORT INFRASTRUCTURE STUDY

and whether it establishes a specific timetable for the budget to be presented, debated and approved. Secondly, it assesses whether budgets are presented, debated and approved in practice in accordance with these timetables. In this regard, the level of fiscal legislation practice is advanced. However, the timeliness of budgets has not reached the minimum standard set by the IMF in recent years.

2.2.1 Fiscal legislation

ADVANCED

Budgetary legislation sets out the timetable for the preparation of the budget, its content, drafting and structure, and details the role of the legislative in tabling amendments. The legislation contained in the Spanish Constitution, the Organic Law on Budgetary Stability and Fiscal Sustainability, the General Budgetary Law and the operating regulations of the Congress of Deputies (Lower House) and the Senate (Upper House) is complete and simple[27] in regulating the budgetary process.

The Constitution stipulates that the Government must present the General State Budget to the Congress of Deputies at least three months before the expiry of the previous year's budget. It provides for a carryover of the budget in the event that the Budgetary Law is not passed, and the Government may present draft laws that involve an increase in expenditure or a reduction in revenue. It also establishes the need for the agreement of the Government for any proposal or amendment involving an increase in appropriations or a decrease in revenue.

The General Budgetary Law details the procedure for submitting the draft budget to Parliament and its content. The concept of general budget, its scope *ratione personae*, its time scope and its mandatory content are defined. It details the level of specification of the appropriations, the date of submission and the supporting documentation that must accompany the draft law. In particular:

a) The project summaries of the expenditure programmes and their annual objectives.
b) Explanatory reports of the content of each budget, specifying the main amendments they contain in relation to those in force.

[27] The following are highlighted as fundamental rules: the Spanish Constitution (Articles 134 and 135), Organic Law 2/2012, of 27 April, on Budgetary Stability and Financial Sustainability (Article 15), General Budgetary Law 47/2003, of 26 November (Title II), Regulation of the Congress of Deputies of 10 February 1982 (Articles 133 to 135), and Regulation of the Senate (Articles 148 to 151).

c) An annex with the economic development of the appropriations, by spending management centre.
d) An annex, of a multi-annual nature, on public investment projects, including their territorial classification.
e) The settlement of the budgets of the previous year and an advance of the settlement of the current year.
f) Social Security accounts and balance sheets for the previous year.
g) The consolidated statements of the budgets.
h) An economic and financial report.
i) A report on tax expenditure.

The Organic Law on Budgetary Stability and Financial Sustainability defines national fiscal rules and regulates certain aspects of the budgetary process. These include the establishment of the non-financial expenditure ceiling, the setting of the stability and debt targets and the expenditure growth reference rate, and the drafting of a medium-term budgetary plan (minimum three years), which will the included in the Stability Programme (see Section 3.1 on budgetary objectives). It also sets out other aspects on the content of the budgets of each public authority, such as the requirement that they be accompanied by accurate information to relate the budget balance with the net lending or borrowing calculated in accordance with the standards of the European System of National and Regional Accounts.

2.2.2 Timeliness of budget documents

NOT MET

Although the Spanish Constitution itself requires the submission of the draft GSB at least three months before the end of the fiscal year, this provision has not been met in the last five years. Article 134.3 of the Spanish Constitution states that the Government must present the GSB to the Congress of Deputies at least three months before the expiry of the previous year (Graph 1). However, over the last five years they have been presented to Parliament with a great deal of delay. On some occasions, the delay has had a legal basis, bearing in mind that the legislation[28] establishes that a caretaker government cannot exercise, among other things, the power to approve the draft GSB. However, on other occasions, the delay was simply due to criteria of political expediency. Therefore, the practice considered basic for this indicator is not met.

The Spanish Constitution provides that if the Budgetary Law is not passed before the first day of the fiscal year concerned, the budgets of the previous

[28] Art. 21 of Law 50/1997, of 27 November, on the Government.

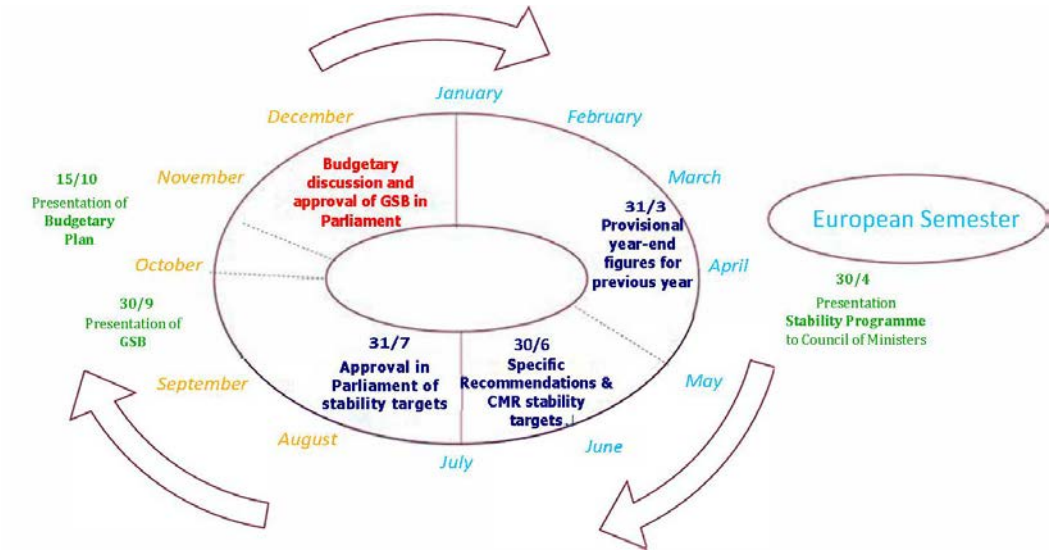
year will be considered automatically carried over. According to the experience of recent years, the government often resorts to the procedure of carrying over the GSB, which is not always based on legal causes but on criteria of political expediency. As a result, the budget carry-over has, in most cases, been extended by at least six months.

TABLE 7. GSB SCHEDULE

Year	Process	Date of presentation of GSB in Parliament	Date of approval of GSB
2017 GSB	2016 general elections and problems in forming government. That of 2016 is extended	4 April 2017	27 June 2017
2018 GSB	Lack of parliamentary majority and change of government. That of 2017 is extended	3 April 2018	3 July 2018
2019 GSB	The GSB was drawn up late. That of 2018 was extended. The President of the Government called general elections after the lack of a parliamentary majority	19 January 2019	Not approved
2020 GSB	The GSB was drawn up late. That of 2018 was extended again	It was not presented to Parliament due to a lack of sufficient parliamentary support	Not approved
2021 GSB	On 14 July 2020, the MO for preparing the 2021 GSB is published	28 October 2020	22 December 2020

The General Budgetary Law regulates, in line with the Constitution, budget carryovers. It is established that carryovers do not affect appropriations for expenditure corresponding to programmes or actions that end in the financial year when the budget is carried over or for obligations that lapse in that fiscal year.

GRAPH 5. BUDGET CYCLE IN THE CONTEXT OF THE EUROPEAN SEMESTER



2.3. Policy orientation

In this area, an assessment is made as to whether the budgetary information and forecasts made provide an accurate idea of budgetary policy orientation. In particular, the clarity of fiscal policy objectives and the monitoring of compliance with said objectives are analysed. Second, it is evaluated whether performance budgeting is carried out that facilitates understanding of government priorities, how resources are allocated to these priorities and their alignment with fiscal objectives. Finally, the publication of documents aimed at a wide audience of citizens is detailed in order to facilitate their participation in the budget process.

2.3.1 Fiscal policy objectives

GOOD

The Organic Law on Budgetary Stability and Financial Stability[29] lays down the procedure for setting the stability target, the public debt target and the expenditure growth reference rate for the General Government as a whole and for each of its component agents for the following three financial years. In the first half of each year, the Government, at the proposal of the Minister for Finance and following a report from the Fiscal and Financial Policy Council of the Autonomous Regions and the National Commission for Local Administrations in their respective fields, sets these objectives for the CG, the

[29] Article 15 of the Organic Law 2/2012, of April 27th, on Budgetary Stability and Financial Sustainability.

ARs, the LGs and the Social Security. The resolution of the Council of Ministers is submitted to Parliament for approval or rejection and the non-financial expenditure limit of the State Budget for the following year is also included. In setting the budget stability target, the expenditure rule and the structural balance achieved in the immediately preceding year must be taken into account.

The last stability targets approved were in 2020 for fiscal year 2020 and for the period 2021-2023, although their implementation was suspended due to the pandemic. The targets for 2020 and 2021-2023 approved by Parliament on February 21st 2020 were suspended in their application for both 2020 and 2021, due to the activation of the escape clause provided for in the Organic Law on Budgetary Stability and Financial Stability for extraordinary circumstances beyond the control of the General Government, as is the case of the current situation caused by the pandemic.

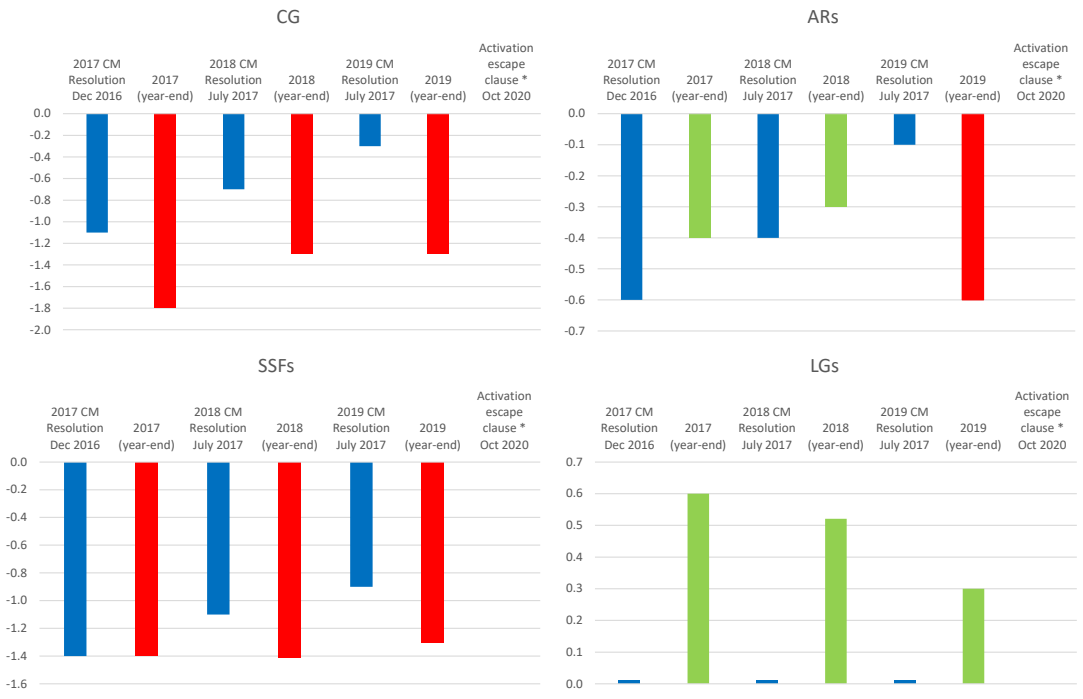
The Organic Law on Budgetary Stability and Financial Stability, which was approved in 2012 with a transitional period ending in 2020, should be reviewed. Over the years in which the Organic Law on Budgetary Stability and Financial Stability has been applied, certain weaknesses and limitations in the current regulation have come to light. AIReF has highlighted this situation on repeated occasions. This review should cover aspects such as the setting of consistent targets between the three fiscal rules, a medium-term perspective on debt targets and more information for the *ex ante* application of the expenditure rule, the development of the principle of transparency for the entire General Government, not only for the Territorial Administrations, and the treatment of the deficit of the Social Security Funds.

The distribution of deficit targets by sub-sector has sometimes been unrealistic, as the targets do not recognise the surplus of the LGs. The stability target for the General Government sector as a whole is distributed among the various sub-sectors. This distribution does not recognise that the LGs systematically post a surplus, which means that the lower deficit targets need to be set for the other sub-sectors (especially, the CG and the Social Security Funds), which are unrealistic. This lack of reality has sometimes been acknowledged by the Government itself when sending, on a very similar date, the deficit notification to the European Commission which does provide for a surplus of the LGs and a higher deficit for the other sub-sectors than that set as the target.

TABLE 8. MEETING OF TARGETS

Net lending (+) borrowing (-) as % of GDP	2017		2018		2019		2020	
	2017 CM Resolution Dec 2016	2017 (year-end)	2018 CM Resolution July 2017	2018 (year-end)	2019 CM Resolution July 2017	2019 (year-end)	Activation escape clause * Oct 2020	2020 (year-end)
Central Government	-1.1	-1.8	-0.7	-1.3	-0.3	-1.3	-	
Social Security Funds:	-1.4	-1.4	-1.1	-1.4	-0.9	-1.3	-	
Autonomous Regions	-0.6	-0.4	-0.4	-0.3	-0.1	-0.6	-	
Local Governments	0.0	0.6	0.0	0.5	0.0	0.3	-	
GENERAL GOVERNMENT	-3.1	-3.0	-2.2	-2.5	-1.3	-2.9		

GRAPH 6. MEETING OF TARGETS



2.3.2 Performance information

BASIC

The legislation regulates performance budgeting, although its practical application is very deficient. The GSB includes a breakdown of the inputs necessary to undertake each fiscal programme, but there is no list of objectives in terms of performance or impact. Each year, the GSB incorporates the programme reports prepared for each ministerial department, which contain a brief description of the programme and the activities to be carried out, and define a series of targets and indicators for

each of them. However, these indicators are generally inputs necessary to conduct the programme.

The reports do not always include quantifiable targets or indicators and their quality is not always adequate. Although the programme reports are updated annually, the low quality of the indicators in terms of relevance, clarity, precision and quantification and the lack of *ex post* monitoring or evaluation, makes them of limited use for decision-making. The quality and usefulness of this information is also hindered by the absence of medium-term budgetary scenarios.

Since 2018, spending review processes have been carried out that could be a starting point for the *ex post* evaluation of public policies. AIReF is carrying out these spending review processes in various areas. A common conclusion in almost all these projects is the need for performance orientation both in the design of the policies and in the procedures to enable their follow-up and subsequent evaluation. For this purpose, the analysis and proposals on budgetary procedures included in the cross-cutting project "Evaluation of Subsidy Strategy and Procedure" are particularly relevant.

The Draft GSB for 2021 contains reports on gender impact, on the impact on children, adolescents and the family and on alignment with the Sustainable Development Goals. While the gender impact report has been prepared since 2011, the report on the impact on children, adolescents and the family was published for the first time in the draft GSB for 2019, which in the end was not approved. In addition to the two aforementioned reports, the draft GSB for 2021 incorporates, as a new feature, a report on the alignment with the Sustainable Development Goals included in the 2030 Agenda for Sustainable Development of the United Nations. In addition, certain groups are mentioned, such as civil servants, pensioners and the unemployed, who are affected by a specific spending policy. However, in no case is there a thorough analysis of the implication of each policy for each group separately.

2.3.3 Public participation

BASIC

The Yellow Paper of GSB is the key document that the Government uses to transmit information to the public on the macroeconomic outlook and the main revenue and expenditure for the year. The Yellow Book presenting the GSB makes the information of the national and international economic context, recent trends in the Spanish economy and the forecast for the year for which the GSB is presented public and accessible. An analysis is also carried out per spending policy with material information on the most important aspects of each budget. In some years, a more summarised

document or White Paper of a more didactic nature has also been prepared, but this was discontinued in 2013. “The introductory paper to the reading of the General State Budget” is a document that offers readers a quick guide in order to access its content. Therefore, this paper (until the GSB for 2021 it was called the Blue paper) is an additional didactic document, addressed to the general public, irrespective of their profession and training, with the aim of facilitating the reading and understanding of the GSB in terms of its organisation and concept. The Blue series was created in 2021 and includes the Gender Impact Report, the Report on the impact on Children, Adolescents and the Family and the Report on the Alignment of the General State Budget with the Sustainable Development Goals of the 2030 Agenda[30]. This series contains a cross-cutting view of the General State Budget, but is not intended to help the understanding of an average citizen.

No public consultation process as such is conducted, but the public have several ways to influence the orientation of the GSB and general accessibility is considered to be good. The Budget Committee is the body that currently allows citizens to participate in the budget debate through civil society representatives proposed by the participating parliamentary groups. The Spanish Constitution[31] already proposes stepping up the participation of citizens and groups in public life, and provides for the direct participation of citizens in the legislation production process, allowing the Spanish people, by submitting 500,000 signatures, to initiate legislation. This participation was regulated[32] as a "citizens’ legislative initiative”. The World Bank's "*Voice and Accountability*" indicator reflects a country's citizens' perception of the extent to which they are able to participate in the election and decisions of their government, freedom of expression and association and the media. Spain ranked 39th in 2017, out of a total of 213, with a percentile of 81.28.

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[30] The absence of a specific document that facilitates access to budget information for the average citizen is one of the factors that contributes towards explaining Spain's modest rating in the Open Budget Index (see Home | International Budget Partnership.)

[31] Article 9 of the Spanish Constitution: “Citizens and public authorities are bound by the Constitution and all other legal provisions. It is incumbent upon the public authorities to promote conditions which ensure that the freedom and equality of individuals and of the groups to which they belong may be real and effective, to remove the obstacles which prevent or hinder their full enjoyment, and to facilitate the participation of all citizens in political, economic, cultural and social life. The Constitution guarantees the principle of legality, the hierarchy of legal provisions, the publicity of legal enactments, the non-retroactivity of punitive measures that are unfavourable to or restrict individual rights, the certainty that the rule of law will prevail, the accountability of the public authorities, and the prohibition against arbitrary action on the part of the latter.”

[32] Organic Law 3/1984, of March 26th, regulating the citizens’ legislative initiative.

2.4. Credibility

The credibility analysis looks at whether the forecasts underpinning budgets are subject to independent evaluation. Credibility is also assessed through the process of budget amendments and the reconciliation of current and future macroeconomic forecasts. Fiscal evaluation and budget amendment practices are rated as advanced. However, the monitoring of forecasts is a practice that is not met.

2.4.1 Independent evaluation

ADVANCED

The Independent Authority for Fiscal Responsibility is an independent fiscal institution that ensures compliance with fiscal rules. AIReF was set up in 2014 to ensure effective compliance by the General Government with the principle of budgetary stability provided for in Article 135 of the Spanish Constitution, through the continuous assessment of the budget cycle and public debt. It performs this mission by publishing reports, opinions and studies periodically in its area of responsibility.

The Government's macroeconomic forecasts need to be endorsed by AIReF, with the Government required to comply with the recommendations made or explain any deviations. Unlike other independent fiscal institutions, such as the UK's Office for Budgetary Responsibility, which draws up the macroeconomic forecasts on which the Government's budget is based, AIReF must assess them in order to decide whether to endorse them. In addition, both for the draft budgets and for the Stability Programme Update, an assessment will be made, *inter alia*, on whether there are significant biases in the forecasts over a period of four consecutive years.

It also reports on the credibility of fiscal forecasts and assesses *ex ante* compliance with fiscal rules. The legislation for the establishment of AIReF and its Organic Statute establish the reports that AIReF must periodically issue to determine whether the draft GSB, the budgets eventually approved and the mid-year forecasts make it possible to achieve the stability and debt targets set for each year and to comply with the expenditure rule. This obligation extends to the budgets of the ARs if they incorporate a macroeconomic scenario other than that of the GSB. As a result of these reports, AIReF may make any recommendations it deems appropriate to improve the applicable fiscal framework, as well as to ensure compliance with fiscal rules at year-end.

2.4.2 Budgetary amendments

ADVANCED

Changes to the initially approved budget in its total amount or internal composition require a formal amendment procedure that is laid down by law[33]. The General Budgetary Law defines the existing amendments and the circumstances and requirements of each of them. The amendments are: transfers, generations, extensions, extraordinary appropriations and appropriation supplements and incorporations. Depending on the amendment and its amount, it is the responsibility of the Council of Ministers, the head of the Ministry of Finance or the head of the department concerned.

In general, amendments to the State budget are financed from the Contingency Fund or by reductions in other appropriations. The Contingency Fund was created in 2001 as a specific chapter within the GSB for an amount equivalent to 2% of total non-financial expenditure, in order to finance urgent, unforeseen and non-discretionary needs. Consequently, the amendments financed from the contingency fund or with a reduction in other appropriations do not imply a change to the total amount of the GSB.

An extraordinary appropriation or an appropriation supplement is of an exceptional nature and must be approved by the Council of Ministers and Parliament. They can only be approved when the other amendments, in response to needs that cannot be delayed, are not applicable. They will require the submission of a draft law to Parliament when they correspond to obligations from previous years, when they are financed with a reduction in other appropriations or when they are financial operations.

[33] General Budgetary Law 47/2003, Chapter IV, annual budgetary laws, Order EHA/657/2007, of March 15th, on documentation and processing of budgetary amendments.

BOX 1. AMENDMENT OF INITIAL APPROPRIATIONS (ARTICLES 51-58 OF THE GENERAL BUDGETARY LAW)

Transfers of appropriations: these are transfers of allocations between appropriations. They may be performed between different appropriations in the budget even by creating new appropriations, subject to restrictions: no transfers may be made between different budget sections, except for appropriations in the centralised procurement programme, and appropriations may not be transferred from financial operations to non-financial operations or from current to capital operations.

Appropriation generation: these are amendments that increase appropriations as a result of the realisation of certain revenues not provided for or higher than those forecast in the initial budget. These higher revenues may come, for example, from sales of goods and the provision of services, disposals of fixed assets, loan repayments, among others, and are allocated to expenses of a similar nature.

Extendable appropriations: exceptionally, appropriations intended for the payment of civil servant pensions and those intended to meet specific obligations derived from regulations with the status of law, which are limited and duly explained in the statement of expenditure of the GSB and, by virtue thereof, their amount may be increased up to the amount that the respective obligations reach, have the status of extendable. Appropriations to meet obligations arising from the State are also deemed to be extendable.

Extraordinary appropriations and supplementary appropriations: when any expenditure to be charged to the GSB must be made that cannot be delayed until the following year, and there is no adequate appropriation or the appropriation is insufficient and not extendable, and its allocation is not possible through the other categories provided for, an extraordinary or supplementary appropriation must be processed in addition to that initially provided for. The financing of these appropriations is set out in the law.

2.4.3 Forecast reconciliation

NOT MET

The GSB documentation does not include a reconciliation between current and past fiscal projections. The information contained in the GSB does not include information on the factors explaining the difference between the forecasts for revenue and expenditure in the previous budget and the current one. In particular, no distinction is made between changes resulting from policy measures and changes resulting from the evolution of the economy. However, in some specific cases (such as statistical changes or

significant closing settlements) the relevant clarifications are made. This information is not included in the Stability Programme Update or in the Budgetary Plan.

The GSB cannot be reconciled with the forecasts contained in the Stability Programme or the Budgetary Plan or with the targets of the fiscal rules. The GSB is drawn up exclusively in budgetary terms and is therefore not comparable in national accounting terms. Consequently, it does not contain sufficient information to compare it with the Stability Programme and the Budgetary Plan, which are drawn up in national accounting terms and which, moreover, do not contain a breakdown by revenue and expenditure sub-sector. Furthermore, for several years now, the GSB has not even included sufficient information to reconcile the budget balance with the budgetary stability target. In the same vein, it does not provide information on the application of the national expenditure rule or on the debt target.

2.5. Conclusions of PILLAR II

Within the area of the CG, there are three indicators of Pillar II on fiscal forecasting and budgeting that do not meet the minimum level. These three indicators that are not met relate to the medium-term budgetary planning, timeliness in presentation of the GSB and forecast reconciliation. The other indicators meet good and advanced practices, which are particularly noteworthy in independent evaluation, fiscal legislation and regulation of budgetary amendments, with room for improvement in the field of performance information included in the GSB and in public participation.

The absence of a medium-term budgetary framework is one of the main weaknesses of our budgetary system. Even though both domestic and EU legislation provide for this projection exercise, the medium-term forecasts made are performed at an aggregate level for the General Government as a whole and in national accounting terms, without developing their link with the annual budgets of the different public authorities. In the same vein, medium-term budgetary scenarios are not published by policy or department as indicated in the General Budgetary Law, so the GSB does not offer a medium-term orientation.

There is also room for improvement in the consistency of the forecasts to facilitate the integration and monitoring of all elements in the budget cycle. In general, the degree of comparability between the figures for the GSB, presented in budgetary terms, and for the Stability Programmes and Budgetary Plans, in national accounting terms, can be improved, but without disaggregating by sub-sector. In addition, the GSB does not include an explanation of the deviations between the forecasts and the data actually

observed. This implies that, in practice, it is impossible to ensure consistency between the main elements of the fiscal and budgetary planning process: the Stability Programme Update, the budgets of each administration and the Budgetary Plan.

There has been a frequent lack of timeliness in the submission of the draft GSBs in recent years. Although there are constitutional legal rules that require the submission of the draft GSB three months before the end of the fiscal year, this provision has not been met in the last four years.

With regard to fiscal rules, it is worth highlighting that the Organic Law on Budgetary Stability and Financial Stability needs to be revised. This is not only due to the fact that the transitional period provided for in the law has come to an end, but also due to the limitations identified in its operation, which AIReF, among others, has been highlighting.

There is ample room for improvement in the practical application of a performance-orientated approach to the budget. Although the budget is prepared by programmes with their corresponding reports, the system of indicators and information is insufficient to support evidence-based decision making. This is further reinforced by the absence of multi-annual orientation when preparing the GSB.

Finally, progress is noted in terms of information on the strategic orientation of the Government and on the results. In particular, estimates of the gender impact of budgets and on the environment have been incorporated in recent years, but improvements can still be made to bring it closer to best practices in advanced economies.

B. PILAR III. RISK ANALYSIS AND MANAGEMENT

Governments should carry out an analysis of fiscal risks, as they may lead to deviations in budget forecasts and estimates. A country's exposure to fiscal risks generally depends on multiple factors, such as the structure of its economy or the interrelations between the public and private sectors. Studies conducted by the IMF suggest that events with a high impact on the public accounts may be frequent and are highly correlated with each other (IMF, 2016[34]). In particular, between 1990 and 2014, macroeconomic shocks had a frequency of once every 12 years and had a fiscal cost of close to 9% of GDP. Risks of a fiscal nature (associated with natural disasters, existing links between the public sector and the banking or business sectors, etc.) have also had an impact of 6% of GDP on average, which in some cases rises to 30%-60% of GDP.

It is therefore important to analyse and improve the response capacity to these risks. Therefore, this pillar analyses different aspects related to the fiscal risk analysis and management that are grouped into three areas. The 12 indicators under the third pillar are divided into three main categories: (i) risk disclosure and analysis (three indicators), (ii) the specific management carried out in relation to such risks (seven indicators), and (iii) coordination between tiers of government and the public corporate sector (two indicators).

In general terms, this is the pillar where the CG presents the worst results, as was the case in 2005, with a third of the indicators not met. When looking at the aggregate results and compared with the other two pillars, the pillar of fiscal risks is the one that shows the worst performance. Of the 12 indicators analysed, a total of four are considered not met and in five more the level at which they have been met is considered to be basic. Only three practices are in a category of good or advanced, as can be seen in Table 9, which summarises the position of the 12 indicators.

[34] FMI (2016), Analysing and Managing Fiscal Risks—Best Practices," IMF Policy Paper (Washington DC).

TABLE 9. FISCAL TRANSPARENCY HEATMAP FOR THE CG. PILLAR III

III. Fiscal risk analysis and management
3.1.1. Macroeconomic Risks
3.1.2. Specific Fiscal Risks
3.1.3. LT sustainability analysis
3.2.1. Budgetary Contingencies
3.2.2. Asset and liability risk management
3.2.3. Guarantees
3.2.4. Public-private partnership
3.2.5. Financial Sector Exposure
3.2.6. Natural Resources
3.2.7. Environmental risks
3.3.1. Sub-national governments
3.3.2. Public corporations outside ESA scope

3.1. Risk disclosure and analysis

The area of risk disclosure and analysis includes three indicators. In particular, in this area it is reviewed whether detailed, grouped and accessible information on macroeconomic and fiscal risks is published. It is also assessed whether long-term fiscal sustainability analyses are performed. With regard to macroeconomic reporting and long-term sustainability analyses, the practices have been described as basic. However, the reports on fiscal risks do not meet the desired level of transparency and dissemination.

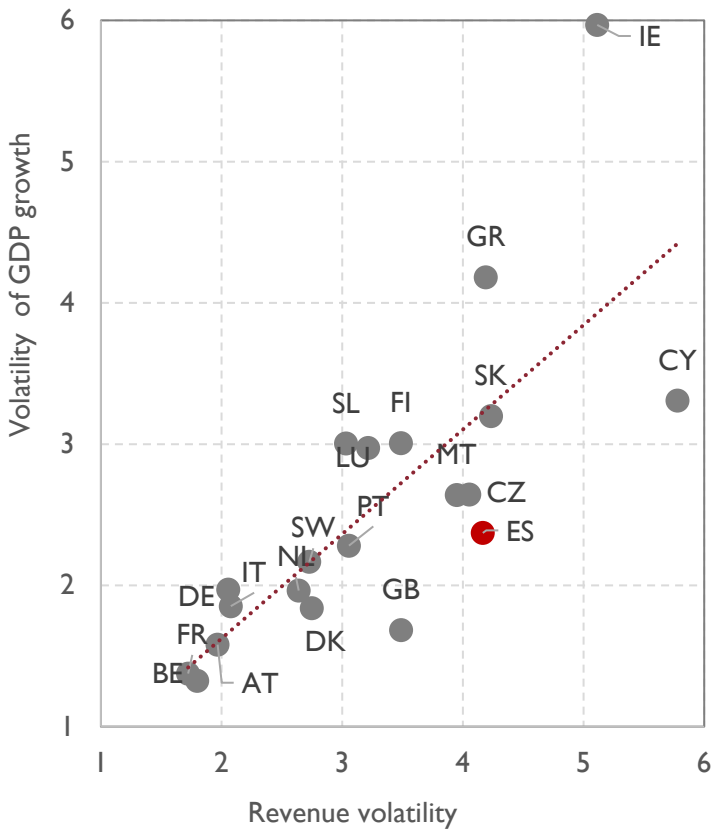
3.1.1. Macroeconomic risks

BASIC

The economic cycle has a decisive impact on the public accounts, both through revenue and other more short-term expenditure, such as that related to unemployment - the main automatic stabiliser. The cyclical position of the economy usually has a major impact on the level of tax revenue and on the evolution of expenses with a greater short-term component. In terms of tax revenues, the Spanish General Government is among the most volatile in Europe. Indeed, the elasticity or sensitivity of tax revenue to GDP growth is

generally considered to be around one. However, in the case of Spain, revenue elasticity is among the highest in Europe. This results in greater revenue volatility in relation to the evolution of GDP and implies a relatively larger fall in tax revenues during recessionary phases (see Graph 8). The situation is similar with regard to unemployment expenditure, given the high sensitivity of the job market to the economic cycle, with a job market that reacts intensively on the side of hiring and dismissal, although it is more rigid in terms of wages.

GRAPH 7. MACROECONOMIC AND FISCAL VOLATILITY AT A EUROPEAN LEVEL (1996-2019)



Source: AIReF

Estimates of the fiscal impact resulting from economic changes fall outside the budgetary documentation. The budgetary documentation accompanying the GSB includes the projection of one macroeconomic scenario. However, current practice does not include carrying out sensitivity exercises, alternative scenarios or probabilistic projections. This analysis is not included in the Budgetary Plan or in the Report on the Situation of the Spanish Economy either. However, in April each year the Government publishes a medium-term macroeconomic scenario and includes a sensitivity analysis. It is done to meet the requirements of the Stability Programme

Update, but is not used as a budgetary programming tool. For its part, since 2014 AIReF has been carrying out a probabilistic assessment of the Government's macroeconomic scenario in each of its reports, except in the assessment of the Stability Programme Update of May 2020 when the context of extreme uncertainty in the framework of the COVID-19 pandemic made it inadvisable to prepare macroeconomic scenarios.

There have been recent developments with regard to the publication and analysis of macroeconomic risks. Since May 2018, the law has required that the macroeconomic forecasts accompanying the GSB, the Budgetary Plan and the Stability Programme Update should be compared with those of the European Commission and sensitivity analyses be carried out. In addition, an *ex post* assessment of the forecasts should be conducted once a year in order to identify any biases in the macro-fiscal projections over the past four years[35] However, the practice of sensitivity exercises has not yet been systematically included in the budget documentation.

3.1.2. Specific fiscal risks: NOT MET

In addition to macroeconomic risks, there are specific fiscal risks that can have a major impact on public accounts and are not currently monitored by the General Government. These risks are of a diverse nature, such as those linked to a potential realisation of contingent liabilities or other uncertain events, such as a natural disaster, the bailout of public corporations, sub-national governments or banks. The ability of a government to react to these risks depends on the quality of the information on the impact and likelihood of occurrence of each of the risks identified. Proper management of these risks requires the definition of a joint strategy for all of them, which makes it possible to identify, quantify and manage the impact that they may cause, on the basis of a single aggregate document.

The only document on aggregate fiscal risks is the information that is published annually in compliance with Directive 2011/85. In accordance with Directive 2011/85/EU, Member States shall publish relevant information on contingent liabilities that may affect public budgets. In particular, information must be published on government guarantees, non-performing loans and liabilities stemming from the operation of public corporations, including the extent thereof. Member States shall also publish information on the participation of General Government in the capital of private and public

[35] Royal Decree 337/2018, of May 25th, on the requirements applicable to macroeconomic and budgetary forecasts.

corporations in respect of economically significant amounts. This information will at least refer to the previous year and will be updated in October for government guarantees and non-performing loans and in December for the liabilities of public units classified outside the General Government sector (public corporations, public enterprises and other entities that are not classified as public authorities according to ESA 2010). This information is also included annually in the Stability Programme Update, with a lesser degree of detail. The GSB does not include any section on fiscal risks, whether explicit or implicit.

The information that is published is highly aggregated and does not contain sufficient detail to assess the risk involved. The indicators are published aggregated by sub-sector without any qualitative explanation and without including risks that are considered material such as judgments, risks associated with the financial sector or sub-national authorities, which in recent years have had a major impact on the final deficit of the General Government. There is scattered information, which is not centralised or compiled and no assessment is made of its possible impact on the public accounts. Some of these liabilities are available in the financial statements of the public bodies, but they are not aggregated and not subject to centralised management. With regard to loans, there is a database with information on loans granted by the CSA.

The size of the operations that might lead to risks amounted to 6.8% of GDP in 2019 according to the latest indicators of Directive 2011/85, submitted in 2020. The total volume of guarantees, non-performing loans, outstanding debts from Public-Private Partnerships in which assets are not recorded on the balance sheet and the government debt of public corporations that are not consolidated within the General Government and which have recorded losses amounted to 6.8% of GDP in 2019. In addition, the public participation in the capital of units not included in the General Government sector amounted to 6.6% of GDP in 2019. However, operations that may give rise to risks have increased substantially following the crisis caused in 2020 by the pandemic. This exceptional situation has led to the Government adopting major liquidity measures aimed at maintaining the production structure, with the consequent increase in the risks deriving from guarantees operations, as discussed in indicator "3.2.3 Guarantees".

TABLE 10. INDICATORS ESTABLISHED IN DIRECTIVE 2011/85/EU

GG	2019	% GDP
Guarantees	61,521	4.9%
NPLs	2,880	0.2%
PPP	3,349	0.3%
Debt of public units outside the PS with losses	17,012	1.4%
	84,762	6.8%

There is detailed but scattered information in the annual accounts of the CSA and the other entities in the public corporate and foundation sector in relation to guarantees, court cases and contingent liabilities. The General Chart[36] of Public Accounts establishes the obligation to include liabilities and contingent assets in the report. The standard regulating provisions also refers to contingent liabilities, establishing that a provision must be recorded when there is a present obligation (legal, contractual or implicit) as a result of a past event and it is likely that there will be an outflow of resources and their amount may be reliably estimated. Where the obligation does not meet the above requirements and a contingent liability therefore exists, it will be reported in the notes to the accounts together with any contingent assets.

The 2019 CSA General Account includes a list of contingent liabilities of around €15bn, as well as consolidated information on provisions in public accounting terms[37]. The balance of provisions in public accounting terms amounts to almost €40bn, broken down by entity. For their part, the main contingent liabilities recorded in 2019 relate to:

- Appeals and claims in relation to the final VAT settlement for 2017 resulting from the new VAT management system (SII) (for €2bn)
- Equity loans granted to road concession companies in a weak financial position (for €250m)
- Legal actions by companies awarded toll road concession contracts (for €2.45bn)
- International arbitration for support schemes for renewable energies (€9.6bn)
- Other liabilities of entities included in the General Account (for €1bn)

[36] Recognition and measurement standard No. 17, "Provisions, contingent assets and liabilities», in line with IPSAS 19, sets out the recognition criteria that must be met to record a provision.

[37] Information contained in sections 14.5 and 14.6, together with 16.1 of the notes to the 2019 General State Account.

BOX 2. THE RISK ANALYSIS OF THE UNITED KINGDOM'S OFFICE FOR BUDGET RESPONSIBILITY (OBR)

The UK's Office for Budget Responsibility is an example of good practices in fiscal risk analysis and management. On an annual basis, the OBR prepares and publishes a report in which it identifies, quantifies and estimates the likelihood of the risks to which UK public finances are exposed. The report analyses macroeconomic risks (growth, inflation, interest rates, Brexit), together with other risks related to the possibility of higher than expected rises in social expenditure or lower revenue; contingent liabilities, implicit risks arising from the financial sector, etc.

The analysis also includes a fiscal stress test, inspired by the stress test performed in the banking sector, which places this institution at the forefront of fiscal risk analysis. These tests show the exposure of public finances to an extreme event of low likelihood, but high impact. For example, it incorporates a scenario analysing the impact on public finances of a scenario combining a macroeconomic shock with a sharp fall in asset prices. This illustrates the interaction between many of the shocks that might affect the economy and helps to discern where the government's risk management and mitigation efforts should be focused.

3.1.3. Long-term sustainability

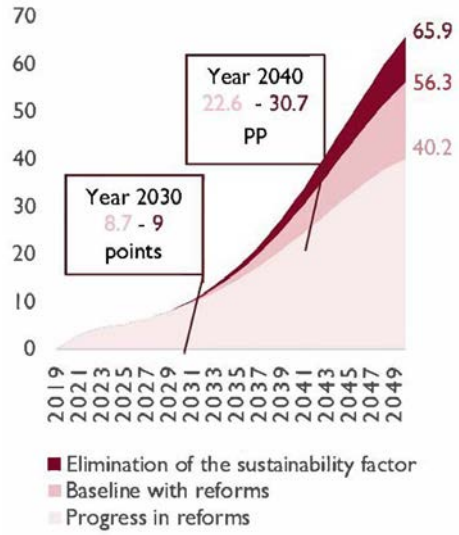
BASIC

The ageing of the population is a major fiscal risk in the long term. Life expectancy in Spain is among the highest in the world. Every projection from national and international institutions forecast that life expectancy will rise in the coming years. At the same time, the Spanish fertility rate is among the lowest in the world. Taken together, these factors result in a higher risk factor through their direct impact on health spending (related to an older population) and the pension system, and indirectly, through a smaller active population.

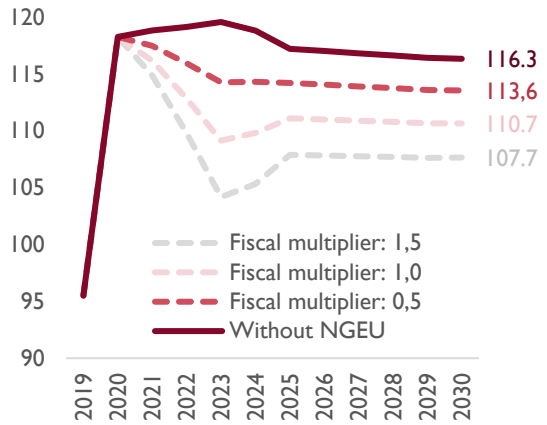
This practice is considered met at a basic level because the Government merely publishes projections of pension expenditure, without analysing the evolution of debt in response to various long-term micro-fiscal scenarios. The General Government debt-to-GDP ratio is among the highest in Europe, having reached 120% of GDP in 2020. However, the Government does not publish long-term debt projections and it does not perform a probabilistic analysis of its evolution in the medium term. There are no long-term projections of expenditure factors related to health, education and ageing, but there are projections for pensions. In addition, the documentation published by the Government does not include comparisons with previous

projections. AIReF performs a medium-term probabilistic analysis and publishes projections of the long-term debt ratio under different scenarios.

GRAPH 8. DEBT EVOLUTION WITH SIMULATION OF NEXT GENERATION EU RECOVERY PLAN



GRAPH 9. ADDITIONAL INCREASE IN DEBT IN THE EVENT OF ALTERNATIVE SCENARIOS OF INCREASED PENSION EXPENDITURE



3.2. Risk Management

This area evaluates the management and monitoring of specific risks to public finances. For this purpose, an analysis is conducted of the budgetary coverage of contingencies, the management of risks relating to assets and liabilities, guarantees, public private partnerships (PPPs), the financial sector, natural resources and the environment. In general, the practices in the CG on risk management are basic or not met.

3.2.1 Budgetary contingencies

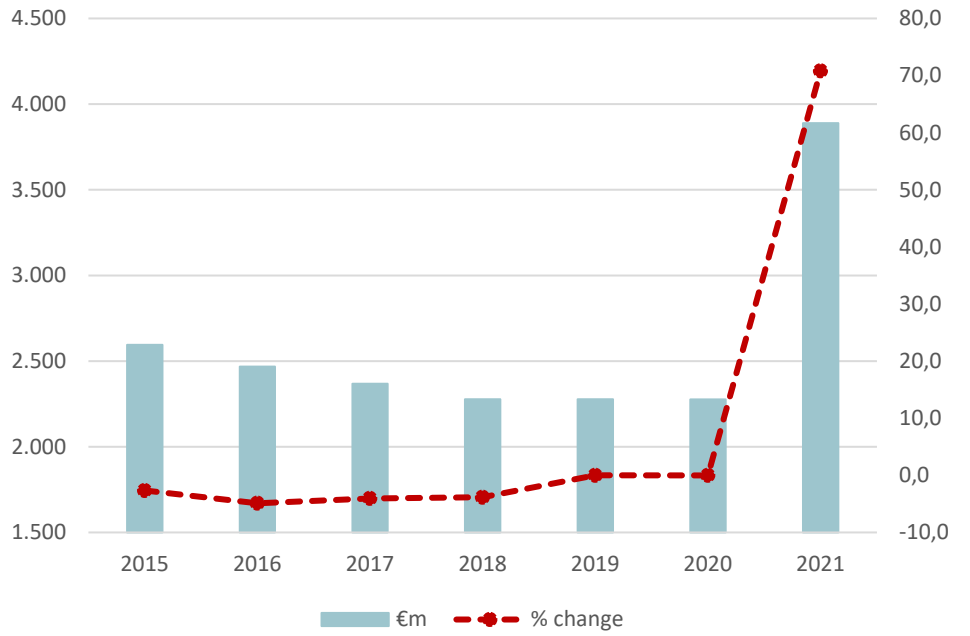
GOOD

The GSB includes an allocation for the Budgetary Implementation Contingency Fund to finance unforeseen expenditure that may arise during the year. This Fund is endowed with an amount equivalent to 2% of the non-financial expenditure of the State, excluding expenditure earmarked for financing the Autonomous Regions and Local Governments. It is included in a specific budget chapter, Chapter V of the economic classification, and it has its own section in the organic classification. Given that these contingencies arise systematically every year, having a mechanism in the budgets to finance such expenditure reduces uncertainty and eliminates budgetary deviations. The Organic Law on Budgetary Stability and Financial Stability lays down the obligation to also have a contingency fund for the entire General Government.

The criteria for using the fund are clearly defined, although they are not always respected. Budgetary legislation stipulates that the Contingency Fund is only intended to meet non-discretionary urgent needs and under no circumstances to finance changes aimed at covering expenditure or actions resulting from discretionary decisions by the Government that lack budgetary coverage. However, it has often been used to fund recurrent or at least not entirely unforeseeable costs, such as the participation of the armed forces in peacekeeping operations. This situation has been pointed out in the Court of Auditors' reports, with the Ministry of Defence being the main recipient of the contingency fund.

Parliament is regularly informed of the use of the fund. Use of the fund requires a resolution by the Council of Ministers on a proposal from the Minister for Finance. The Government sends a quarterly report on the use of the fund through the Budget Office to Parliament (specifically to the Congressional and Senate Budget Committees). This report is not public.

GRAPH 10. EVOLUTION OF THE FUND FOR CONTINGENCIES AND UNFORESEEN EVENTS



3.2. 2 Asset and liability management

NOT MET

Changes in the value of assets and liabilities are a source of fiscal risks, requiring a management strategy that does not currently exist. Uncertainty about interest rates, exchange rates in the case of debt holdings in foreign currency or life expectancy of civil servant pensioners determine and alter the value of liabilities. Impairment of the holdings in the capital of public corporations or late repayment of loans granted may alter the value of assets. Analysing and managing these risks requires a risk management strategy to be designed. The strategy should be public and reviewed at regular intervals.

Although the legal framework is comprehensive and adequate, it does not incorporate financial risk management strategies. The legal framework is firm, identifies those responsible with the ability to borrow, the authorisations and the limits that are set annually in the GSB. However, there is no medium-term debt management strategy that includes objectives such as average debt life, optimal portfolio composition between short and long term, inflation-indexed securities. Information on the issuance schedule, interest rates and the average life of the debt is published.

Although debt issues are authorised by law, an analysis of the risks associated with the debt portfolio is not published. The only analysis published is a sensitivity exercise in the Stability Programme Update. The one published in 2019 analyses the effect of an increase of 120 basis points in the

interest rate, a reduction of 4 percentage points in the growth of export demand and an oil price rise, compared with the baseline scenario in certain variables (GDP, public revenue and expenditure, public deficit, debt stock, employment and employment rate).

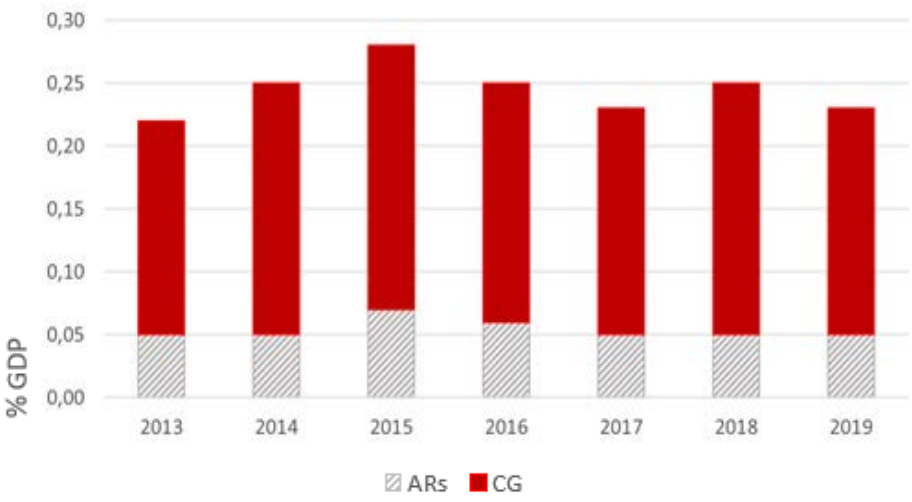
There is no public analysis of the risks associated with the General Government's financial assets. The portfolio of financial assets is published, but there is little analysis on the risks that affect it:

- **With regard to loans, a public database is available at CG level, but its monitoring is poor, without common guidelines or coordination**. PRESYA'2 (Loans and Guarantees 2) is an application for the management of the loans granted by CSA to third parties (individuals, companies, universities, ARs, etc.), as well as all types of guarantees, which said third parties set up to guarantee the repayment of loans. Most of the functions will be performed at an Area Controller level in each one of the ministerial departments that grant loans managed by PRESYA2. It does not offer comparable results of the different loan programmes in NPL terms, deferments, recovery due to called guarantees, recovery through legal collection proceedings, defaults, etc.
- **Capital in public corporations that are not considered part of the General Government.** Information is published on the economic and financial position of public corporations, which publish their accounts annually and are audited. However, there is no document analysing the risks to the public accounts of the CG's holding in the capital of these companies.

The indicators of Directive 85/2011 include non-performing loans granted by the General Government sector, which amounted to 0.23% of GDP in 2019. No information is published on specific non-performing loans. At a level of the CG, the volume of non-performing loans has fallen slightly, while for the ARs it has remained relatively stable. A loan is considered non-performing when:

a) interest or principal payments are 90 days or more past due
b) interest payable at 90 days or more has been capitalised, refinanced or delayed by agreement
c) payments are less than 90 days late, but there are other good reasons (such as a debtor's bankruptcy declaration) to doubt that payments will be paid in full.

GRAPH 11. EVOLUTION OF NON-PERFORMING LOANS



Source: Eurostat

In the spending review process conducted by AIReF in 2018, a specific loan programme for re-industrialisation was analysed, which revealed the limited capacity to identify and manage risk. Access to the Risk Information Centre of the Bank of Spain during the call and admission phase, which is not currently the case, would easily facilitate the identification and management of risk in the granting of these risks. In addition, fragmentation was identified in the monitoring and recovery functions. This may increase the propensity for the non-repayment of this loan from the Government, compared with other loans granted by the private sector, which, due to their greater specialisation, perform much more effective monitoring and recovery. At the end of 2017, these loans had an outstanding balance of €3.3bn and gross non-performing loans of close to €500m for the entire 2008-2016 period, equivalent to 15% of the programme's outstanding balance.

3.2.3. Guarantees

BASIC

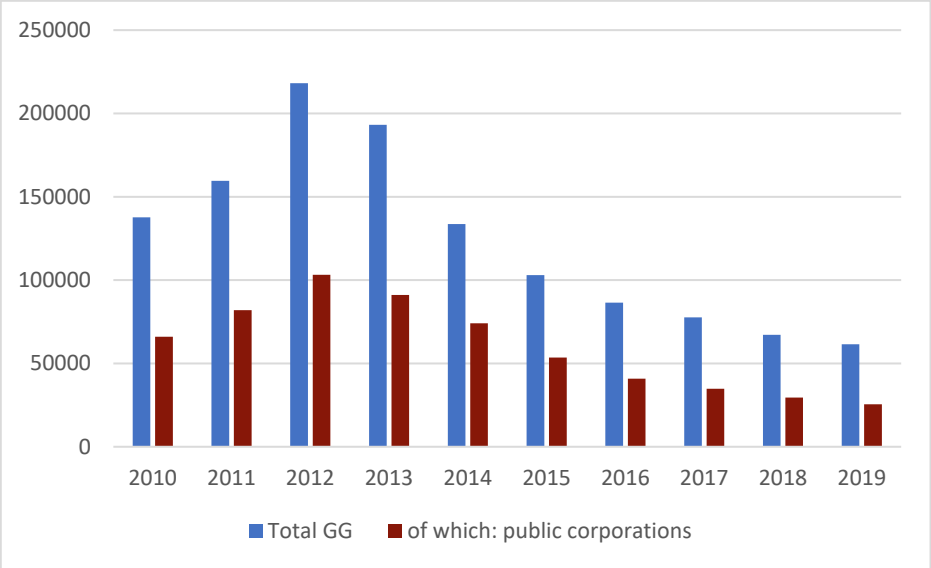
The guarantees or sureties granted are one of the main sources of fiscal risk. This item has also increased significantly, as it is one of the measures implemented to mitigate the crisis caused by the COVID-19 containment measures, as mentioned above. In general terms, the risk associated with the enforcement of guarantees is pro-cyclical, accentuating in periods of recession and falling in periods of economic growth.

In compliance with Directive 2011/85/EU, aggregated information is published annually on the single guarantees granted up to the previous year by the General Government, with breakdowns by sub-sector. The

outstanding balance of guarantees granted by the General Government as a whole and by sub-sector is published in aggregate in the Stability Programme Update (covering up to year t-1) and in the Indicators set out in the Annual Reporting Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, which are submitted annually[38]. These guarantees are single or individual, linked to debt instruments such as loans and bonds.

However, no detailed information on the beneficiaries of the guarantees is published. The indicators document shows the balance of guarantees granted, which represented 6.7% of GDP in 2017, identifying those to public corporations that are classified outside the General Government sector and those given to financial institutions. The latter group absorbs the most significant volume, amounting to 95% of the total for the GG and 99.9% for the CG. The volume of guarantees provided especially through the CG had been significantly reduced in recent years, until the outbreak of the COVID-19 pandemic.

GRAPH 12. EVOLUTION OF CG GUARANTEES (€M)



Source: Directive 2011/85 indicators

As a result of the COVID-19 crisis, the Official Credit Institute has been publishing monitoring reports on the COVID-19 Guarantee Line. Royal Decree-Law 8/2020 of 17 March approved a Line of State Guarantees of up to €100bn, through the Ministry of Economic Affairs and Digital

[38] Guarantees issued under the European Financial Stability Facility (EFSF) are not published, nor are guarantees in the form of financial derivatives, deposit insurance and similar structures.

Transformation, to help maintain employment and mitigate the economic effects of the health crisis. As at 31 December 2020, this programme has guaranteed a total of 944,588 transactions with a total amount of €87,085.8m.

TABLE 11. MONITORING OF THE COVID-19 GUARANTEE LINE, AS AT 31/12/2020

	Summary of guarantees requested		
	Self-employed persons and SMEs	Non-SMEs	Total Line
Operations (number)	926,663	17,925	**944,588**
Guarantee requested (€m)	64,121	22,965	**87,086**
Financing (€m)	80,222	34,426	**114,648**

Source: Official Credit Institute

The information is available in other reports, but in a scattered and incomplete form. The annual accounts of the CSA and the entities in the public corporate and foundation sector disclose the details of the guarantees granted by beneficiary, together with the corresponding provisions, where applicable. The CSA account for 2018 includes guarantees, maturity dates, the outstanding amount, changes in the year, provisions recorded, guarantees called and repayments. The main guarantees are concentrated in the Valencia Consortium, the Securitisation Fund for the Electricity System Deficit, the European Financial Stabilisation Facility, Sareb and the European Investment Bank, which amount to a total of €100.7bn, with a provision of €225m for the guarantee of the Valencia Consortium. An annual five-year maturity projection is also included. In addition to the above, other guarantees are granted, although for a lower amount, for works online from museums in an amount of €1.13bn.

Maximum issues of guarantees are limited annually in the budgetary law[39] and Congress is regularly informed about the outstanding balance and main features of the public guarantees granted. The maximum amount of guarantees to be granted by the CSA is set out in the articles of the GSB law. For 2019, it was set at €500m. The part that may be granted by the Council of Ministers (€460m) and that intended to guarantee the obligations arising

[39] See Title V of the GSB.

from credit operations concluded by shipping companies domiciled in Spain is also limited. The guarantees of public enterprises and public corporations are also limited. In 2019, a limit for SEPI of €1.21bn and for Renfe-Operadora of €54m was authorised.

No estimate is made of the probability that the guarantees will eventually have to be called. This estimate is technically difficult to make, but countries such as Australia, Chile and Colombia have developed methodologies based on the country's rating, statistical modelling and analyses of possible scenarios based on stochastic simulations.

3.2.4 Public-Private Partnerships

NOT MET

In recent years, the expenses for unlimited asset liability of the General Government in response to the termination of public-private partnerships generated significant obligations. There are different types of PPPs that involve a different risk level for the General Government. The private partner generally assumes the financing of the work that it builds and operates it for a period of between 10 and 30 years in exchange for a price for the service provided that is paid by the Government. It may be the case that the price is paid by the users and the Government offers guarantees or assumes liability in relation to the private partner's liabilities. These guarantees or obligations are not included in General Government debt statistics, so they may escape the control of public finances.

The total volume of risks assumed by the General Government in public-private partnership contracts and their possible fiscal impact is unknown to the CG. The information included in the Indicators set out in Directive 2011/85/EU includes outstanding obligations relating to PPPs where assets are not recorded on the General Government balance sheet. This includes the adjusted capital value that reflects the asset's current value, given that it reflects the Gross Fixed Capital Formation and the impact on the debt in the event that the General Government has to assume the assets during the life of the contract. According to the latest published data relating to 2019, the volume for the CG is insignificant (€134m), with the bulk of the risk being in the ARs (€2.76bn). According to a report by the European Court of Auditors, Spain is the third ranked EU country, after the United Kingdom and France, in terms of value and number of projects (€38bn in the period 1990-2016). The risks assumed as own risks by the General Government in the PPP contracts in force are not systematically published. Furthermore, the risks assumed as own risks by the General Government in the PPP contracts in force are not aggregated either.

The institutional framework is non-existent and there is no specific body in the CG responsible for designing, managing and implementing public-private partnership projects. There is no organisation specialised in this type of contract that establishes the guidelines and standardised tools, as well as standard contractual clauses, that serves as a benchmark for the different projects. There is no strategic approach to the use of PPPs that analyses their role in national investment or which would be the best areas to commit a significant percentage of future budgets. PPP projects are generally not subject to comparative analysis with other procurement options or to another specific value-for-money assessment tailored to these projects. Ineffective risk allocation and contracts with unbalanced distribution of responsibilities and obligations have been detected in some cases.

BOX 3. INDEPENDENT OFFICE FOR PROCUREMENT REGULATION AND SUPERVISION

The new Public Sector Procurement Act 2017 (Article 332) provided for the creation of the Independent Procurement Regulation and Supervision Office (OIRSC), which will absorb the National Evaluation Office (ONE). The OIRSC is an independent collegiate body whose purpose is to ensure correct application of the law, promote competition and combat illegal conduct in public procurement.

The ONE will analyse the financial sustainability of works concession contracts and service concession contracts in the terms provided for in Article 333 of the Public Sector Procurement Act. It is also a collegiate body chaired by the President of the OIRSC and comprising a member of the OIRSC, a representative of the IGAE, a representative of the Directorate-General of State Assets and another from the Directorate-General of European Funds. In addition, there will be a member proposed by business organisations and another expert member of recognised prestige in the field of public procurement not connected with business organisations who may participate but not vote.

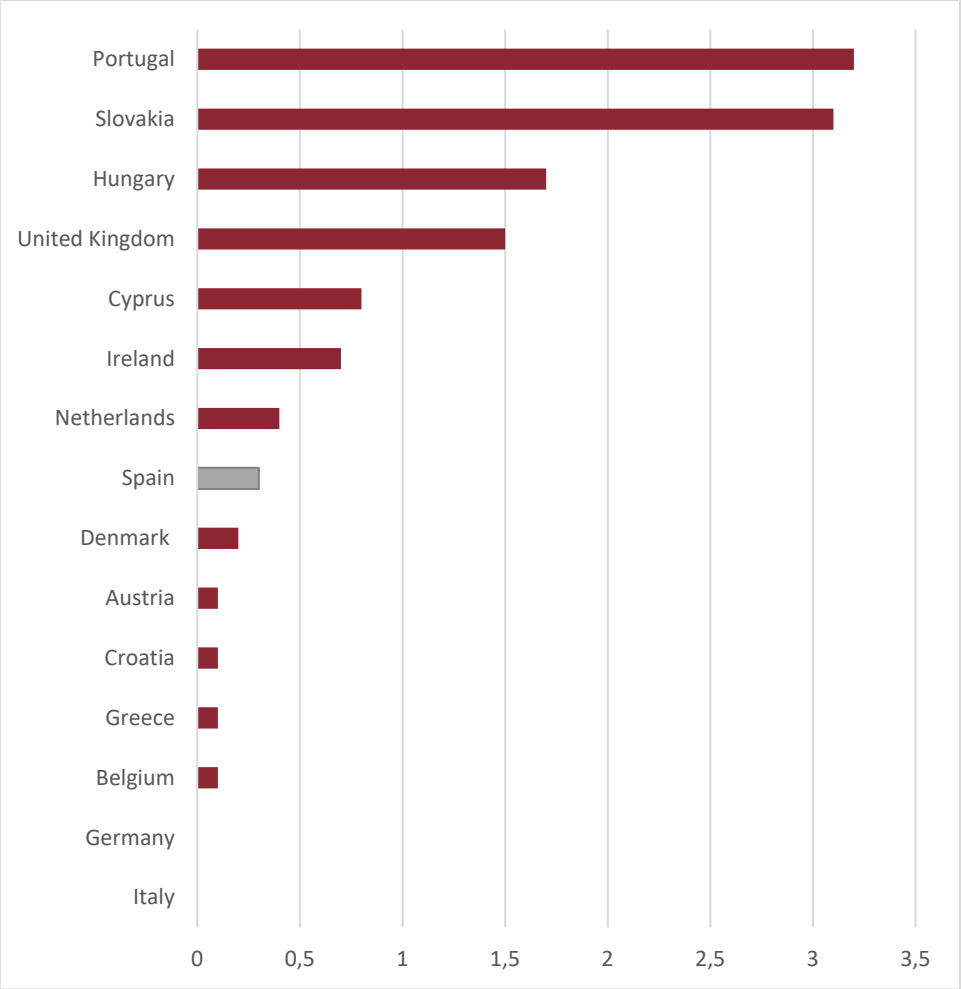
The ONE must report in advance on concessions with public financing or with a fee assumed by the contracting authority, offering an assessment of the reasonableness of the concession's profitability. The 'comply or explain' principle is applied to its recommendations.

The functions of the OIRSC include preparing an annual report that will contain the conclusions resulting from all the supervisory activity carried out and a public procurement risk map. In December 2019 and December 2020, the OIRSC published the respective Annual Public Procurement Supervision Reports for Spain.

There is no publicly available database of Public-Private Partnership projects that shows the commitments of public entities for the coming years. Keeping these projects off General Government balance sheets reduces the level of transparent information provided to the general public on long-term commitments and their associated liabilities and, therefore, on their impact on debt and deficit levels.

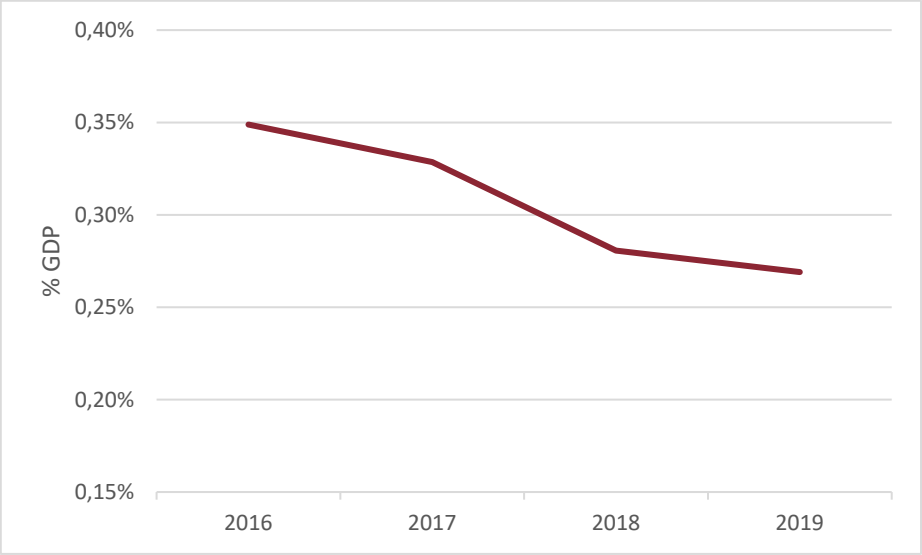
There is no limit on total annual payments for Public-Private Partnerships. Some countries set limits in their budgetary or procurement rules on the total volume of payments that can be committed under contracts of this type. The absence of these ceilings may generate significant budgetary tensions at times of fiscal consolidation.

GRAPH 13. OFF-BALANCE SHEET PPPS OF THE GENERAL GOVERNMENT IN EUROPE, 2016 (%GDP)



Source: Report of 13/2/2019 from the Commission to the European Parliament and the Council on implicit liabilities with potential impact on public budgets.

GRAPH 14. HISTORICAL EVOLUTION OF OFF-BALANCE SHEET PPPS IN SPAIN



Source: Eurostat

3.2.5 Financial Sector Exposure

ADVANCED

In Spain, the cost of aid to the financial sector is quantified and published annually by the authorities. The cost of financial crises can be very high. A crisis in the banking sector can entail various types of risk. Direct aid includes capital injections, the provision of guarantees and the financing of deposit insurance. A financial crisis may also result in a restriction in lending to companies and households, with the consequent negative impact on investment and consumption. According to Bank of Spain estimates, the direct cost of aid to banks alone stands at around €65bn (5 points of Spanish GDP).

The authorities have introduced major reforms since the last crisis. Due to the impact of the last global economic crisis, the Spanish authorities carried out a restructuring of the Spanish banking system. This process included the merger, absorption and reconversion of many small public savings banks ("*cajas*") into private banks. These measures included the reorganisation of the assets of the banking system (through the Asset Management Company for Assets Arising from Bank Restructuring) and the capitalisation of banks through public aid (through the Fund for Orderly Bank Restructuring). Finally, regulatory changes include an increase in capital requirements and the supervisory model (with the creation of the European Single Supervisory Mechanism). Over the past ten years, the restructuring process has entailed

a reduction in the network of branches of over 40% and one third of the workforce.

The Bank of Spain regularly analyses the stability of banks and carries out stress tests in conjunction with the European authorities. Substantial progress in terms of transparency has been made since the last crisis. The Bank of Spain's financial stability report is published every six months and analyses the vulnerabilities of the financial sector. The Bank of Spain includes its own stress tests and those of the European Banking Authority (EBA)/European Central Bank/Single Supervisory Mechanism. The EBA and the Bank of Spain tests are interspersed year-by-year (carried out every year).

Although indicators of the soundness of the financial system have improved, vulnerabilities remain. Despite the reforms, there is a high level of uncertainty about the economic impact of pending lawsuits. Furthermore, against a backdrop of historically low interest rates, the profitability and reduced solvency obtained by banks implies a risk in the event of a prolonged economic downturn.

The health crisis increases financial risks for the public sector. The crisis has led to an increase in indebtedness in the business sector, particularly among smaller companies and those operating in the sectors most affected by the health crisis. In the case of households, the reduction in income is increasing the financial vulnerability of some households, particularly those with higher levels of debt and whose incomes have been most affected. In this context, the Bank of Spain, in its financial stability reports, recognises the risk of an increase in non-performing loans that may eventually affect the banking sector and the public accounts.

3.2.6 Natural Resources

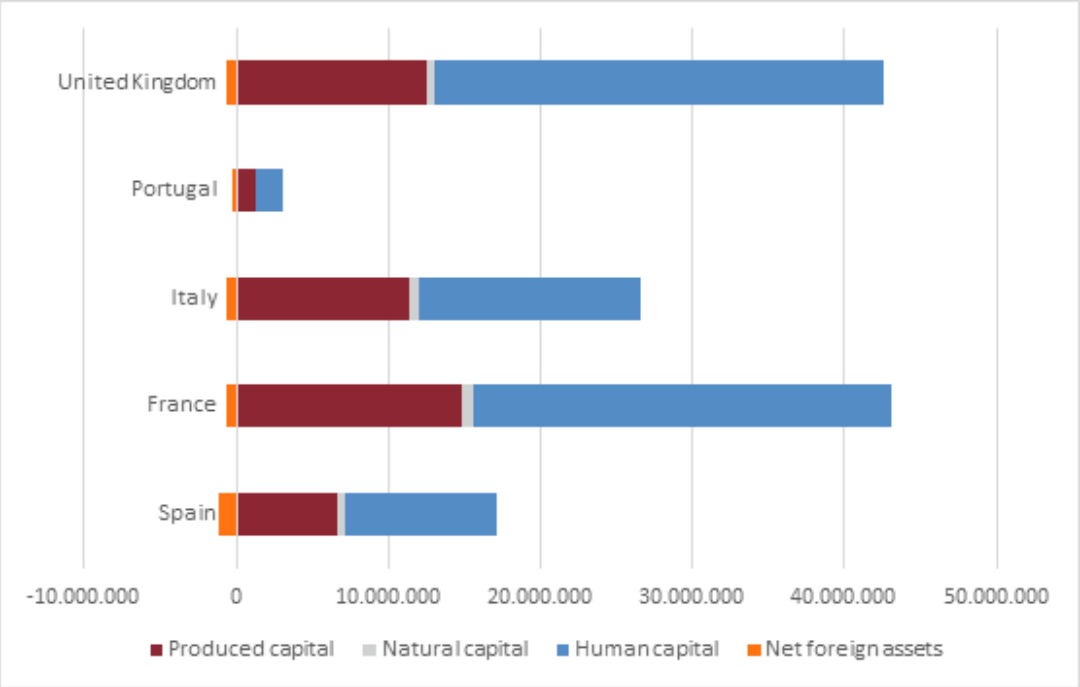
BASIC

Some countries have a large volume of fiscal revenue that depends on the price of natural resources, although this is not the case in Spain. This section analyses whether the fiscal risks resulting from the exploitation of natural resources covered by the World Bank's database on the wealth of nations[40] are managed. To make it comparable with IMF reports for countries similar to Spain, the field of study has been restricted to agricultural and forestry land, mining and hydrocarbons and protected areas. Natural resources of indisputable importance in Spain, such as coasts and beaches or fishing resources, are excluded. As shown in the graph, the percentage of natural

[40] Lange, Glenn-Marie, Quentin Wodon, and Kevin Carey, eds. 2018: The Changing Wealth of Nations 2018: Building a Sustainable Future. Washington, DC; World Bank.

resources in the total capital of Spain accounts for merely 3% of the total. This figure is similar to that of other developed countries and minimal compared with the natural capital or produced capital. These resources are mainly agricultural and forestry fields.

GRAPH 15. COMPARISON WITH OTHER COUNTRIES ($M 2014)



Source: prepared by AIReF on the basis of Wealth of Nations data, World Bank (2018). 2014 estimate of the net present value of operating income from various sources of capital.

In the field covered, the information of fiscal interest published by the Central State Administration is heterogeneous. The information in most cases is rich, but it is scattered and fragmented by sector. No account is drawn up in relation to publicly-owned natural assets, income obtained from them or the impact of their evolution on public finances. There is therefore no solid basis on which to assess and manage the risks. In the case of the exploitation of underground resources, the government publishes detailed information on the volume of production and the value of some of these natural resources that are an asset to the country (case of mining statistics). In other cases, such as hydrocarbon reserves, it has the information internally and estimates the value of the reserves.

There is no account of natural assets of public interest. In Spain, according to the Mining Act of 1973, the subsoil is publicly owned. There is therefore a compelling reason why the volume of public income obtained from exploitation fees for mineral resources, mineral water, coal and hydrocarbons, together with the forecast for the evolution of such income,

should be made public. Nevertheless, there is no operating account for publicly-owned natural assets.

In the case of agricultural, forestry and grazing resources, information on land ownership and use is also rich and detailed. There is a geographical information system for agricultural parcels which is also unified with the cadastral parcel grid. This is used for administrative (implementation of the European Common Agricultural Policy) and tax purposes. This information could be exploited in order to produce a risk inventory and establish a policy for managing such risk. Such a possibility would yield valuable results, especially for forest resource management, where ownership is often atomised, making risk assessment and management particularly difficult.

Finally, information is dispersed and segmented in the case of protected areas. There is no inventory and valuation of protected areas, partly because the responsibility for them is spread among the ARs (with the exception of marine areas) and, in part, because they cover different types of public and private property. There is an interest in placing an economic value on the environmental services provided by Spain's natural areas. In fact, the Natural Asset Valuation project in Spain, performed a decade ago, was a first approximation to such a valuation. This first initiative might result in a full assessment of the risk facing this sector and, on that basis, the development of a risk management policy.

3.2.7 Environmental risks

NOT MET

There is no public strategy to identify, quantify and manage risks to the public accounts that are environmental in origin. Law 17/2015, of July 9th, on the National Civil Protection System establishes a catalogue of risks with regard to which the competent tiers of government must approve special civil protection plans. Article 15.3 lists the following risks: "floods, earthquakes, tidal waves, volcanic events, adverse weather phenomena and forest fires" as well as other risks that are not environmental. This is, however, a catalogue for the purpose of planning civil protection measures. The law does not mention planning with regard to the potential budgetary and fiscal impact of the materialisation of these contingencies. Therefore, although there is indeed a catalogue in the terms reproduced, it cannot be concluded that it is for managing fiscal risks, even at a basic level. AIReF therefore considers that this practice is not met.

Particular mention should be made of an environmental risk that is not considered, namely climate change. Both long-term trends (rise in average

temperatures) and the increased frequency of extreme weather events will have a macro-fiscal impact that has not yet been analysed. Returning to the aforementioned law, the preamble specifically refers to climate change as a factor that heightens hazards relevant to civil protection planning. The law, intended for another purpose, does not include drought, deforestation and environmental degradation as a risk (because they are not for civil protection), which are a source of environmental risk with a potential fiscal impact.

Sectoral information is rich and timely (on forest fires, for example), **but it is after-the-fact information, not pre-planning for potential risks**. Particular mention should be made of flood risk management plans for river basins as an example of good practices. The plans include several tiers of government and include the obligation to carry out cost-benefit analyses on interventions aimed at managing this risk. However, floods are a partial aspect among the environmental risks with potential macro-fiscal impact, over which there is no overall public strategy.

3.3. Coordination:

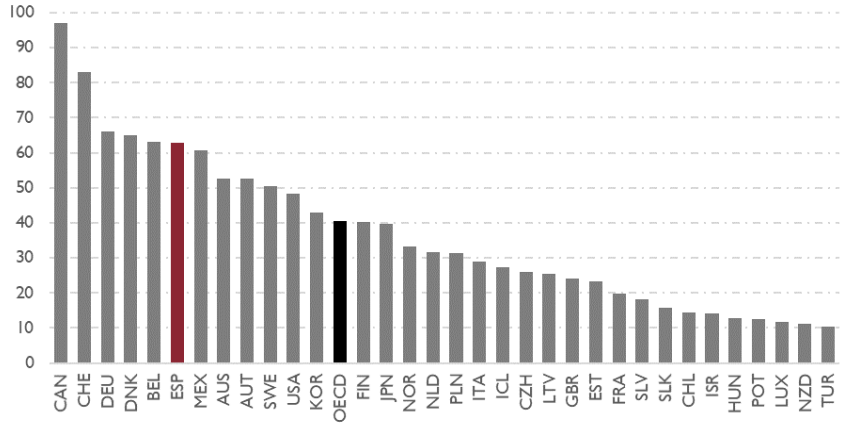
In this area, the degree of coordination between the tiers of government and between the General Government and the public corporate sector is assessed. The effectiveness of this coordination is advanced among the General Government, but basic among public corporations.

3.3.1 Sub-National Governments

ADVANCED

The degree of decentralisation of spending in Spain is among the highest in relation to peer countries, which entails a major challenge for coordination and monitoring. In Spain, a large part of the services of health, education (from childhood to university), social assistance, active employment policies and security are provided by the ARs. Almost two thirds of the total expenditure of the General Government is executed by the Territorial Administrations. Decentralisation of expenditure is thus at one of the highest levels in the EU and only below federal and highly decentralised countries such as Canada or Switzerland.

GRAPH 16. SUB-NATIONAL PUBLIC EXPENDITURE IN 2016 (% TOTAL GG EXPENDITURE)

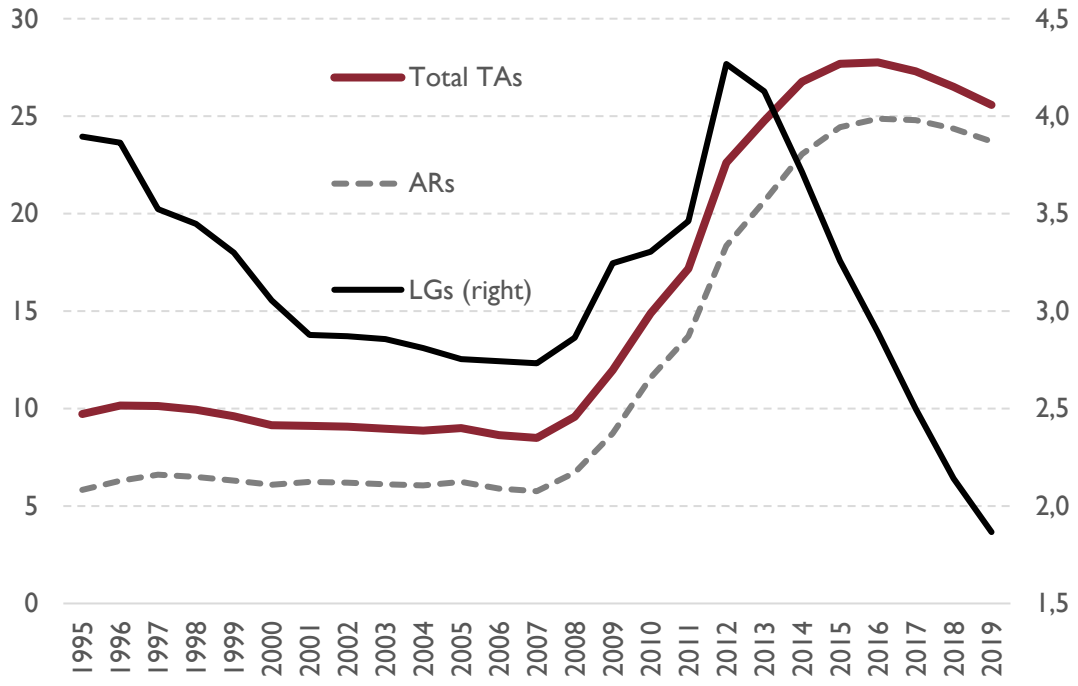


Source: OECD

In recent years, almost 60% of the debt of the AR sub-sector has had to be financed by the CG. Over the past decade, the level of debt of the Territorial Administrations was relatively low, standing at around 9% of GDP. However, the fall in economic activity and tax revenue caused by the Great Recession implied an increase in the debt ratio of Territorial Administrations, which reached close to 28 points of GDP in 2015. At a LG level, the spending and borrowing ceilings introduced in 2011 managed to reverse the situation, and from that year until 2019, there was a gradual, but systemic, fall in the sector's debt ratio. The situation at an AR level, however, has been different. Although there are also constraints on the growth of spending and borrowing, the existing instruments do not seem to have been sufficient to halt the growth of the debt ratio. Although the situation is very uneven, most of the ARs already had debt levels above 20% of regional GDP in 2019 (above the limit established by the Organic Law on Budgetary Stability and Financial Stability).[41] The inability of many regional governments to finance themselves in the market forced the CG to create an issuance centralisation programme. This has led to an additional increase of almost 16% of GDP in the CG's debt.

[41] The Organic Law on Budgetary Stability and Financial Stability establishes a reference limit for the debt ratio of each Autonomous Region of 13% of GDP.

GRAPH 17. DATE OF THE TERRITORIAL ADMINISTRATIONS (% GDP)



Source: Bank of Spain and National Statistics Institute (INE).

The information available at a sub-national level is very detailed, with Spain being the only country to publish national accounting statistics on a monthly basis in the EU. The IGAE produces detailed statistics on budget implementation (breakdown revenue, expenditure and net lending or borrowing) in national accounting terms for the Territorial Administrations. The information relating to the ARs and at the level of the Territorial Administrations (the latter from a representative group of Local Governments) is available on a monthly basis approximately 60 days after the end of the observed month. Spain is the only EU country where this occurs and this represents good practice.[42] At an LG level, IGAE also publishes a quarterly statistic approximately 90 days after the end of the observed quarter. In addition, the Ministry of Finance publishes budget

[42] As of 2012, the implementation of the principle of transparency included in the Organic Law on Budgetary Stability and Financial Stability led to the establishment of a series of legal obligations relating to the provision of information (Order HAP/2105/2012, of October 1st). Requirements include, *inter alia*, regular forwarding of medium-term budgetary framework updates and information on staff. It also establishes requirements on the provision of non-periodic information to be aware of the inventory of public sector entities. In the case of the ARs, an update of the treasury plan and a breakdown of debt operations, maturity profiles and outstanding stock must be provided monthly.

implementation information in cash terms on a monthly basis for each of the ARs.

In addition, the Bank of Spain publishes quarterly debt statistics for the Territorial Administrations. The Bank of Spain is responsible for compiling the government debt statistics according to the Excessive Deficit Procedure. It publishes quarterly information and a monthly progress report on the gross debt of the General Government and its sub-sectors, consolidation adjustments and quarterly debt-deficit reconciliation. Information is published by instrument, by type of institution (CSA, autonomous bodies, universities and companies and by Autonomous Region) in million euros and as percentages of GDP. Quarterly statistics are published between 75 and 90 days after the end of the observed period, while monthly statistics are published 45 days after the end.

3.3.2 Public entities outside ESA scope

BASIC

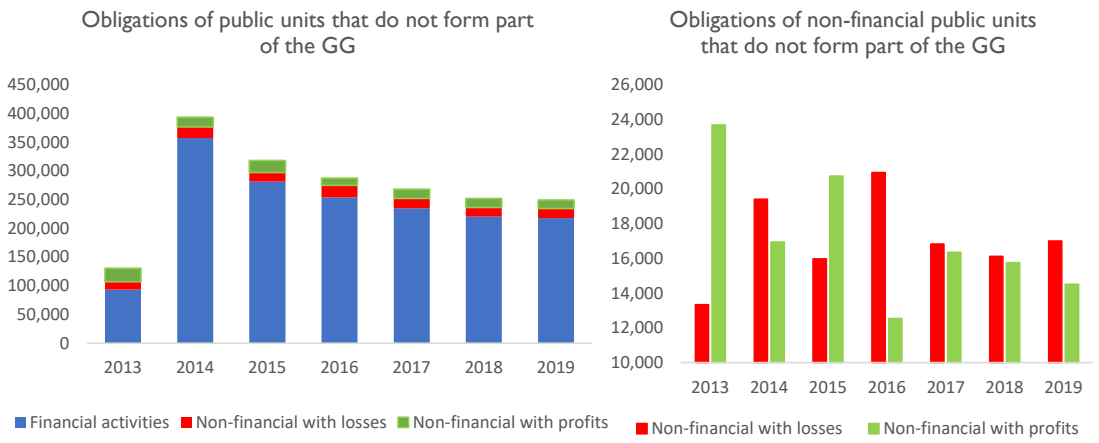
The financial position of public corporations may pose an explicit or implicit risk to the General Government. Explicit risks are of a diverse nature. There may be guarantees given to the debts of its corporations or certain companies in a situation of recurring losses that may require additional capital contributions. In addition, there is an implicit risk in the event of the bankruptcy of public corporations that provide services of general interest and that governments will be pressured to bail out even when there is no legal obligation to do so.

As regards the Central Government, transactions between the Government and public corporations are reported at least once a year in the presentation of the General State Budget. Each year, the GSB includes information on all transfers made in favour of public corporations, as well as capital contributions and loans granted to them. In addition, the public corporate sector is audited annually and its accounts are presented and published on the website of the Ministry of Finance. The annual accounts include detailed information on revenue, expenses, results, assets and liabilities, but no consolidated information is presented for the corporations as a whole.

However, there is no aggregate report on the situation of the whole public corporation sector. There is also no defined strategy for the policy to be applied to the sector. The information sent to Eurostat in compliance with Directive 85/2011 on budgetary frameworks includes information on the liabilities of units classified outside the GG sector, differentiating between financial and non-financial units, and the public participation in the capital of units not included in the GG sector, which amounted to 6.6% of GDP in 2019.

According to Eurostat's own analysis[43], data on the liabilities of public corporations are limited as they are not consolidated. This statistic has some limitations, such as the lack of consolidation, which means that a part of the liabilities of these corporations could be towards corporations of the same group. In addition, the data collected only relate to liabilities, without weighting them against assets, which is important for financial institutions.

GRAPH 18. LIABILITIES OF PUBLIC UNITS CLASSIFIED OUTSIDE THE GENERAL GOVERNMENT SECTOR. (CASH AND DEPOSITS, DEBT SECURITIES AND LOANS)

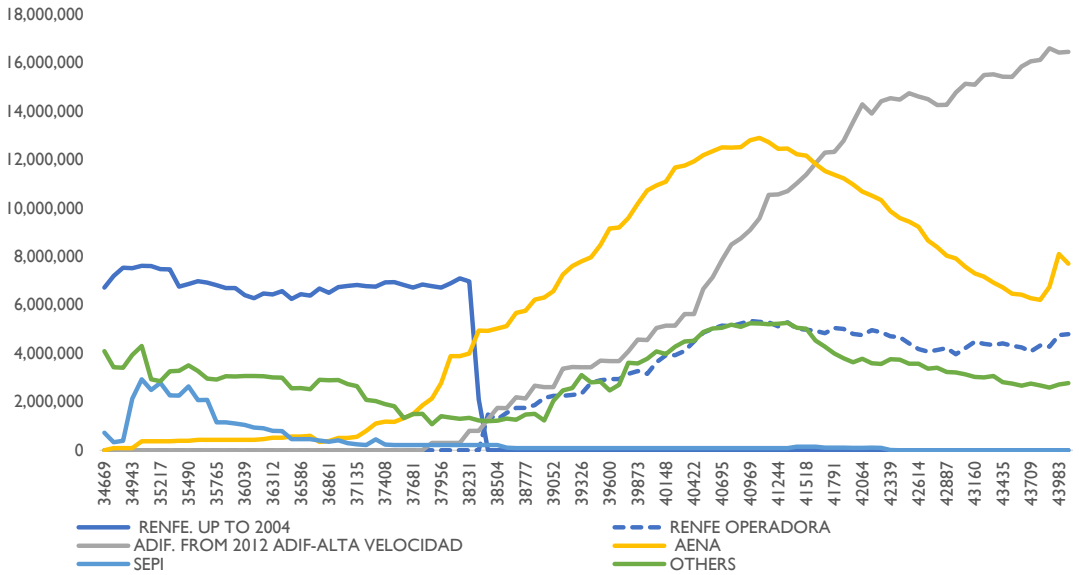


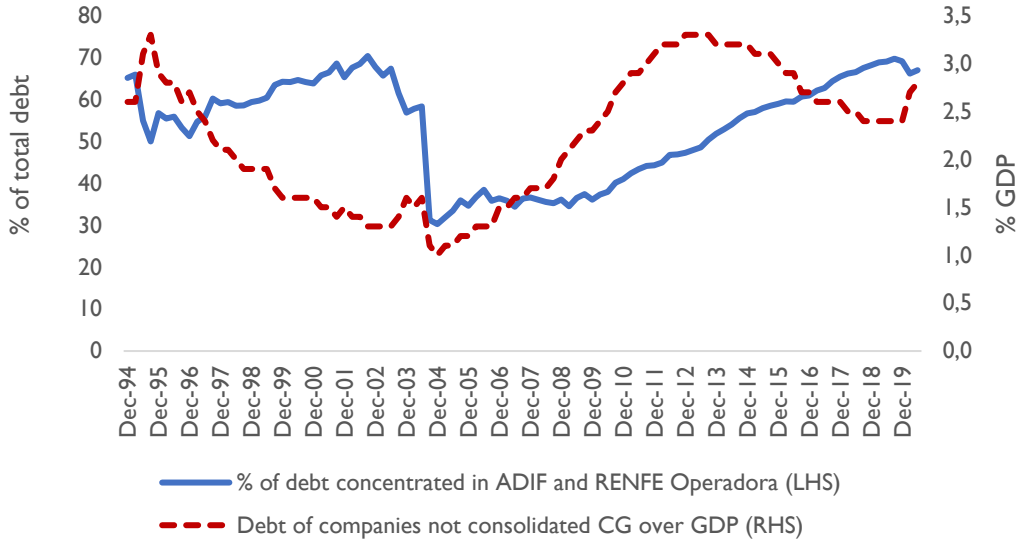
Source: Eurostat

Outside of financial activities, the main volume of debt is concentrated in railway infrastructure companies. According to the annual information provided in the Bank of Spain's statistics on the borrowing of public corporations not classified as a CG public authority, the debt is mainly accumulated in ADIF Alta Velocidad and RENFE-Operadora. The total volume of debt of these companies amounts to 2.8% of GDP.

[43] Report from the European Commission on implicit liabilities with a potential impact on public budgets

GRAPH 19. DEBT OF PUBLIC COMPANIES NOT CLASSIFIED AS CENTRAL GOVERNMENT (€M)





The GSB includes a section with the forecasts of each entity in the corporate public sector and a brief summary of the aggregate figures is included in the Economic and Financial Report. Each entity's information includes the Operating Budget, Capital Budget, Income Statement, Cash Flow Statement and Balance Sheet. These documents are not presented aggregated for the public corporate sector as a whole. The aggregate information included in the Economic and Financial Report accompanying the GSB includes the expected investments of the largest corporations, the budgetary contributions to the companies, the debt expected for the end of the year and the operating budget of the main corporations.

However, those which form part of the public sector for national accounting purposes are not identified or aggregated. The budgetary information does not differentiate between those corporations that are part of the public sector for national accounting purposes and those that are not. Therefore, the impact on the net lending or borrowing of the GSB forecasts cannot be analysed. The implementation is presented by corporation, on an annual basis, in their reporting. The detailed implementation information in national accounting terms is published with a lag of over three years[44].

3.4. Conclusions of PILLAR III

Pillar III on fiscal risk analysis and management is the part where there is most room for improvement. The failure to identify risks and the dispersion of information is the main weakness found in this pillar, since it makes it impossible to carry out a general assessment of the risks assumed by the General Government and, therefore, their management. In addition to concentrating most of the indicators for which the minimum standard set by the IMF is not met, there are five indicators with basic practices. Some of these are very important, such as long-term sustainability or guarantees, while others have a lesser impact on sustainability, such as the management of natural resources or transparency in the economic and financial position of public corporations.

The only document on aggregate fiscal risks is the information that is published annually in compliance with Directive 2011/85. The information that is published is highly aggregated and does not contain sufficient detail to assess the risks. The size of the operations that might lead to risks amount to 6.8% of GDP, according to the latest indicators submitted relating to December 2019. Although there is detailed information on guarantees, court cases and contingent liabilities, it is scattered in the annual accounts of the CSA and the other entities in the public corporate and foundation sector. The 2019 CSA General Account includes a list of contingent liabilities of close to €15bn.

There is no active management of the risks associated with the valuation of assets and liabilities, the granting of guarantees or public-private partnership contracts. The legal framework is comprehensive and adequate, but there are no financial risk management strategies. Debt issues are authorised by

[44] Information on Public Corporations (NA-IGAE)

law, but the risks associated with the debt portfolio are not analysed or published and there is no discussion of the risks associated with General Government's financial assets. With regard to guarantees, there is detailed information on beneficiaries, maturities and outstanding amounts, but in a scattered form and without estimating the probability of enforcement. In public-private partnerships, the total volume of risks assumed by the General Government is unknown and their possible fiscal impact is not publicly analysed.

3 AUTONOMOUS REGIONS

The transparency analysis has also been carried out at a regional level. In the same way that the IMF methodology has been used to evaluate fiscal transparency in the CG, this same exercise has been performed for the Autonomous Regions. They have participated actively, providing a major part of the information assessed and, in some cases, verifying the results obtained.

The financial autonomy of the ARs has posed a major challenge in terms of assessing the indicators. The homogeneous application of the indicators is complex at a regional level due to the heterogeneity of the structure and content of the information published. It is important to remember that the ARs enjoy financial autonomy, as indicated in Article 156 of the Spanish Constitution. Among other aspects, this implies the ability to regulate their own budgetary system.

Most of the indicators in Pillars II and III have been analysed at a regional level. As indicated in the introduction to this Opinion, Pillar I has only been assessed for the General Government sector as a whole. All Pillar II and III indicators have been analysed except those that do not apply to the ARs. Thus, the fiscal policy objectives indicator under Pillar II and fiscal coordination with sub-national governments under Pillar III do not apply. These are two indicators managed by the Central Government. This analysis has been performed individually for each of the ARs and has subsequently been aggregated in order to obtain a total for the sub-sector.

The evaluation generally yields similar results to those obtained with the Central Government. The practices generally obtain a better score in the indicators corresponding to Pillar II than those corresponding to Pillar III. In the

latter, as in the CG, there are more practices considered to be not met and, therefore, more aspects to improve are identified.

In addition, the evaluation of the indicators has allowed the ARs to be grouped according to the level of fiscal transparency. An analysis of the transparency of each of the ARs has been performed and a score has been applied on a scale of zero to three (with zero corresponding to those not met and three to advanced practices) for each of the Pillar II and III indicators that are applicable to all of them. As a result of this assessment, the higher the score obtained, the higher the fiscal transparency. This has allowed the ARs to be grouped from highest to lowest transparency:

TABLE 12. GROUPING OF ARS FROM HIGHEST TO LOWEST FISCAL TRANSPARENCY

1,58	Andalucía, Galicia
1,53	C.F. Navarra
1,47	Canarias
1,42	Comunitat Valenciana, C. de Madrid
1,37	Cataluña, R. Murcia, País Vasco
1,32	Illes Balears, Extremadura, La Rioja
1,26	Aragón, Cantabria, Castilla y León
1,21	P. de Asturias, Castilla – La Mancha

A. PILLAR II. FISCAL FORECASTING AND BUDGETING

This pillar assesses the transparency of the budgets and the forecasts underpinning them. Of the 12 indicators included, ordered into the areas of comprehensiveness, orderliness, fiscal policy orientation and credibility, 11 apply at a regional level. As mentioned above, the indicator relating to fiscal policy objectives does not apply.

The assessment of this pillar is similar between the Autonomous Regions and the Central Government, generally meeting good and advanced practices. The assessment is positive in procedures and legislation where practices are considered good and advanced. However, there are two indicators - those relating to the medium-term budgetary forecasts and forecast reconciliation - that are considered to be not met.

TABLE 13. FISCAL TRANSPARENCY HEATMAP OF AR. PILLAR II

II. Fiscal forecasting and budgeting
2.1.1. Budget unity
2.1.2. Macroeconomic Forecasts
2.1.3. MT Budget Framework
2.1.4. Investment Projects
2.2.1. Fiscal Legislation
2.2.2. Timeliness of budgets
2.3.1. Fiscal policy objectives
2.3.2. Performance information
2.3.3. Public Participation
2.4.1. Independent evaluation
2.4.2. Supplementary budget
2.4.3 Forecast reconciliation

TABLE 14. FISCAL TRANSPARENCY HEATMAP BY AR. OF PILLAR II

	2.1.1. Budget unity	2.1.2. Macroeconomic Forecasts	2.1.3. MT Budget Framework	2.1.4. Investment Projects	2.2.1. Fiscal Legislation	2.2.2. Timeliness of budgets	2.3.2. Performance information	2.3.3. Public Participation	2.4.1. Independent evaluation	2.4.2. Supplementary budget	2.4.3 Forecast reconciliation
Andalusia	ADVANCED	GOOD	GOOD	GOOD	ADVANCED	GOOD	GOOD	GOOD	ADVANCED	ADVANCED	NOT MET
Aragon	ADVANCED	GOOD	NOT MET	GOOD	ADVANCED	NOT MET	BASIC	GOOD	ADVANCED	ADVANCED	NOT MET
Asturias	ADVANCED	GOOD	NOT MET	BASIC	ADVANCED	BASIC	BASIC	NOT MET	ADVANCED	ADVANCED	NOT MET
Balearic Islands	ADVANCED	GOOD	NOT MET	BASIC	ADVANCED	GOOD	BASIC	BASIC	ADVANCED	ADVANCED	NOT MET
Canary Islands	ADVANCED	GOOD	ADVANCED	GOOD	ADVANCED	GOOD	BASIC	BASIC	ADVANCED	ADVANCED	NOT MET
Cantabria	ADVANCED	GOOD	NOT MET	GOOD	ADVANCED	BASIC	GOOD	NOT MET	ADVANCED	ADVANCED	NOT MET
Castile and Leon	ADVANCED	GOOD	NOT MET	GOOD	ADVANCED	GOOD	GOOD	BASIC	ADVANCED	ADVANCED	NOT MET
Castile-La Mancha	ADVANCED	GOOD	NOT MET	BASIC	ADVANCED	NOT MET	BASIC	GOOD	ADVANCED	ADVANCED	NOT MET
Catalonia	ADVANCED	GOOD	GOOD	GOOD	ADVANCED	NOT MET	GOOD	BASIC	ADVANCED	ADVANCED	NOT MET
Extremadura	ADVANCED	GOOD	NOT MET	GOOD	ADVANCED	BASIC	GOOD	BASIC	ADVANCED	ADVANCED	NOT MET
Galicia	ADVANCED	ADVANCED	NOT MET	GOOD	ADVANCED	GOOD	ADVANCED	BASIC	ADVANCED	ADVANCED	NOT MET
Madrid	ADVANCED	GOOD	NOT MET	BASIC	ADVANCED	GOOD	GOOD	GOOD	ADVANCED	ADVANCED	NOT MET
MURCIA	ADVANCED	GOOD	NOT MET	GOOD	ADVANCED	GOOD	BASIC	GOOD	ADVANCED	ADVANCED	NOT MET
Navarre	ADVANCED	GOOD	BASIC	GOOD	ADVANCED	GOOD	GOOD	GOOD	ADVANCED	ADVANCED	NOT MET
Basque Country	ADVANCED	GOOD	NOT MET	BASIC	ADVANCED	GOOD	GOOD	GOOD	ADVANCED	ADVANCED	NOT MET
Rioja	ADVANCED	GOOD	NOT MET	BASIC	ADVANCED	BASIC	GOOD	GOOD	ADVANCED	ADVANCED	NOT MET
Valencia	ADVANCED	ADVANCED	NOT MET	BASIC	ADVANCED	GOOD	GOOD	NOT MET	ADVANCED	ADVANCED	NOT MET
Average	ADVANCED	GOOD	NOT MET	GOOD	ADVANCED	GOOD	GOOD	BASIC	ADVANCED	ADVANCED	NOT MET

2.1 Comprehensiveness

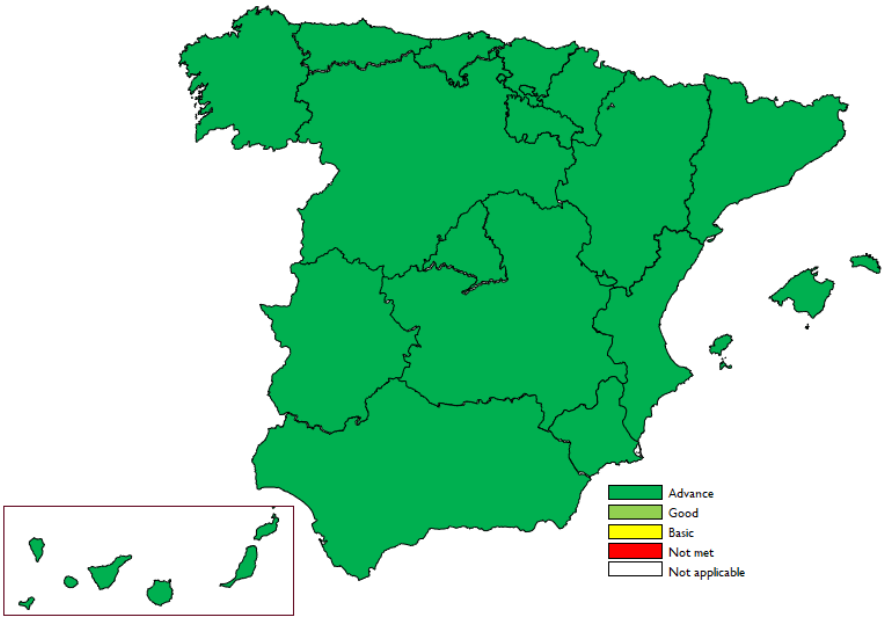
2.1.1 Budget unity

ADVANCED

The budgetary documentation of the ARs incorporates all revenue and expenditure corresponding to the scope of the European System of Accounts (ESA). The general budgets of all the ARs are made up of the budgets of their own General Administrations, autonomous bodies and other entities indicated by their Public Finance Laws.

These budgets present gross revenue and expenditure and generally provide consolidated information. Regional legislation itself indicates that all accrued revenue and recognised obligations will be applied to the budget at their gross amount. In addition, the budgets usually present a summary of the consolidated revenue and expenditure of all the entities that form part of the General Government sector in national accounting terms, differentiating between non-financial operations and financial operations.

GRAPH 20. ASSESSMENT OF THE BUDGET UNITY INDICATOR BY AR



2.1.2 Macroeconomic Forecasts

GOOD

At a regional level, most of the ARs forecast the key macroeconomic variables themselves. Most of the draft regional budgets presented usually contain their own macroeconomic forecasts. In general, the ARs that produce their own projection use the most up-to-date information, make a comparison with the forecast of other analysts and explain the underlying exogenous assumptions and the methodology used in the estimates.

TABLE 15. ITEMS INCLUDED IN THE BUDGET DOCUMENTATION

	Differentiated macroeconomic forecast	Updated information	Forecast comparison	Methodology, assumptions and parameters
Andalusia	YES	YES	YES	YES
Aragon	YES	YES	YES	YES
Asturias	YES	YES	YES	YES
Balearic Islands	YES	YES	YES	YES
Canary Islands	YES	YES	YES	YES
Cantabria	No (Spain GSB)	Not applicable		Not applicable
Castile and Leon	YES	YES	YES	YES
Castile-La Mancha	YES	YES	YES	YES
Catalonia				
Valencia	YES	YES	YES	YES
Extremadura	YES	YES	YES	YES
Galicia	YES	YES	YES	YES
Madrid				
Murcia	YES	YES	YES	YES
Navarre	YES	YES	YES	YES
Basque Country	YES	YES	YES	YES
Rioja				

Source: AIReF

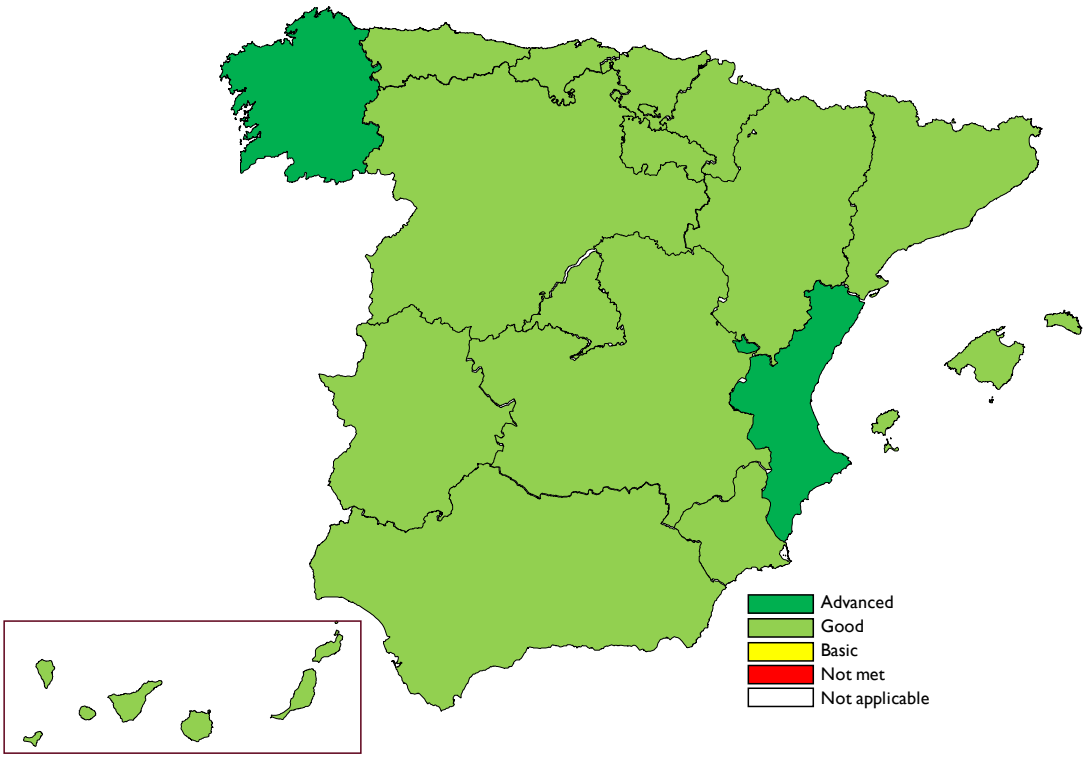
Although there is some heterogeneity among ARs, the detail on macroeconomic projections is lower than in the Central Government. Most of the ARs that make their own macroeconomic forecast include the expected evolution for the GDP growth rate (in volume and prices), employment and other variables, such as the unemployment rate. However, only in a small number of cases do they follow the practice of presenting a projection by component from the point of view of supply (Balearic Islands, Valencia and Basque Country) or demand (Castile and Leon, Catalonia, Galicia and Basque Country).

TABLE 16. CONTENT OF THE MACROECONOMIC FORECASTS OF THE ARS

	Real GDP	Nominal GDP (deflator)	Employment	Supply components	Demand components	Others (unemployment rates, CPI, etc.)
Andalusia	X		X			
Aragon	X	X	X			X
Asturias	X		X			
Balearic Islands	X	X	X	X		
Canary Islands	X	X	X	X	X	X
Cantabria						
Castile and Leon	X		X	X		X
Castile-La Mancha	X	X	X			
Catalonia						
Valencia	X		X			X
Extremadura	X		X			
Galicia	X	X	X		X	X
Madrid						
Murcia	X	X	X			X
Navarre	X	X	X			X
Basque Country	X	X	X		X	X
Rioja						

Source: AIReF ***

GRAPH 21. ASSESSMENT OF THE MACROECONOMIC FORECASTS INDICATOR BY AR



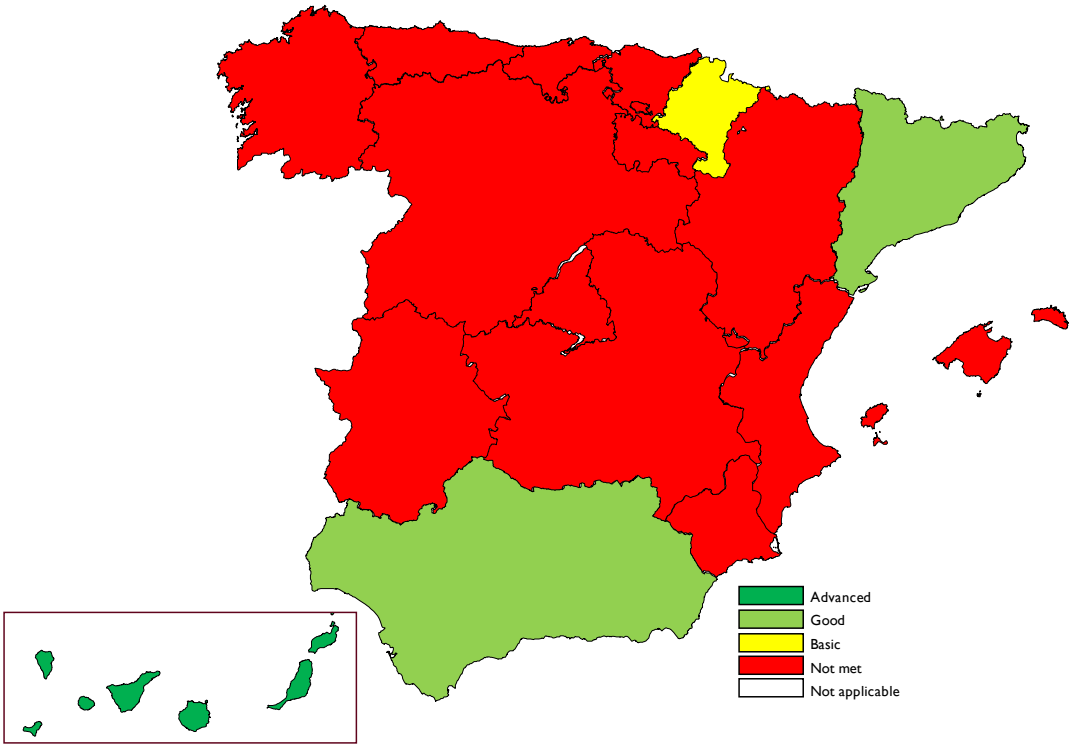
2.1.3 Medium-term budget framework: NOT MET

Most ARs do not publish projections of financial and non-financial revenue and expenditure over the medium term, and this practice is therefore considered not to have been met. In general terms, the budgetary documentation published by the ARs does not include information relating to revenue and expenditure projections for a period of between three and five years. The regions of Andalusia, the Canary Islands, Catalonia and Navarre publish medium-term revenue and expenditure projections, although some with a lower and others with a higher degree of disaggregation. This makes it possible to graduate the assessment of the practices of these ARs. The practice is considered basic for Navarre because it publishes these projections in aggregate terms; good for Andalusia and Catalonia because they detail the projections based on the economic classification, and advanced in the case of the Canary Islands since, in addition to addressing the economic category, it descends to the functional classification, providing detail by spending policy over the medium term.

However, the ARs submit medium-term budgetary plans to the Ministry of Finance for the updating of the Stability Programme. In compliance with Article 6 of Order HAP/2015/2012, of October 1st, implementing the reporting obligations provided for in the Law on Budgetary Stability and Financial Sustainability, the regions prepare medium-term budgetary plans that they submit to the Ministry of Finance for the annual update of the Stability Programme. These regional budgetary plans are not public, even though the Stability Programme is, given that the information it contains is at an aggregate level.

However, the robustness and quality of medium-term fiscal frameworks may be conditioned by the lack of some key elements when they are prepared. In March, which is when the regions must submit their medium-term plans according to the aforementioned Order HAP/2015/2012, the Ministry of Finance has not yet reported on some of the key elements for preparing the plans: on the one hand, the estimate of the revenue of the financing system of Autonomous Regions under the ordinary regime, which accounts for 70% of their revenue and, on the other hand, the stability, debt and expenditure targets for the entire period.

GRAPH 22. ASSESSMENT OF THE MEDIUM-TERM BUDGET FRAMEWORK INDICATOR BY AR



2.1.4 Investment projects

GOOD

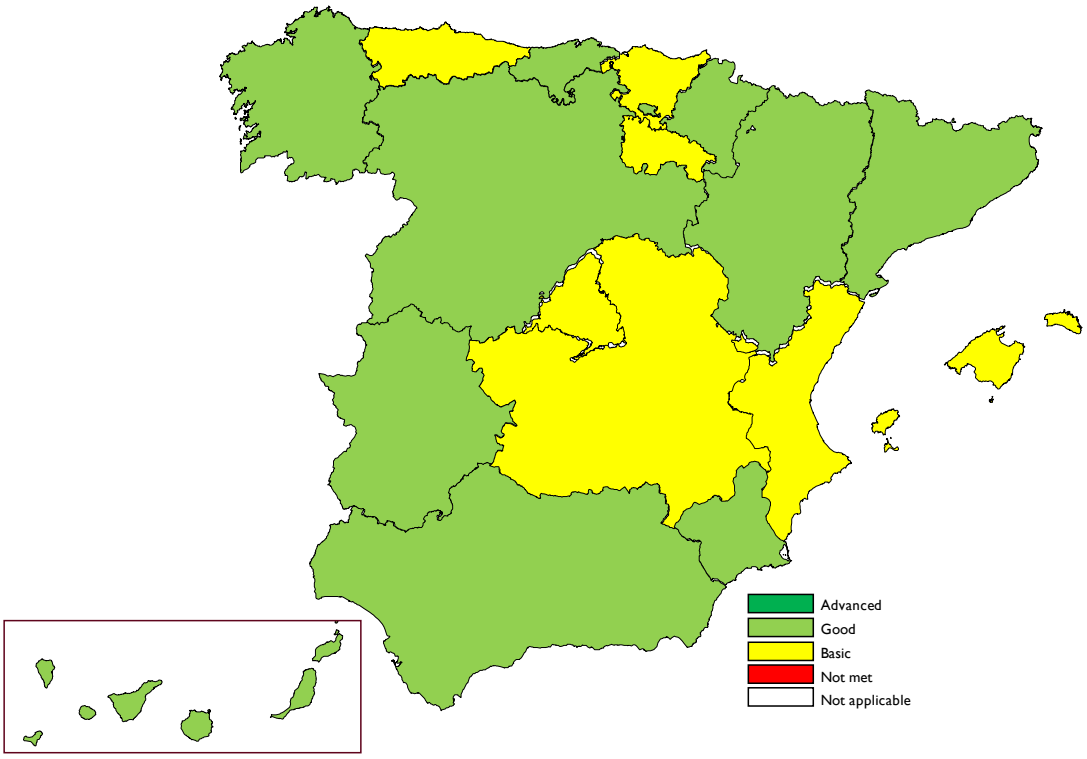
The main investment projects of the ARs are awarded by public and competitive tender. The ARs comply with applicable public sector procurement legislation[45] in order to ensure the effectiveness of the principles of freedom of access to tenders, publicity and transparency in procedures. The scope of application of said Law establishes that it applies to contracts entered into by the ARs or bodies linked or dependent on them, as well as contracts subsidised by any of these entities. In this regard, the main contracts comply with the legal requirement to be awarded through public and competitive tendering procedures.

Most ARs publish the updated total value of multi-annual investment projects once a year. Either in the documentation accompanying the annual budgets of the ARs or in the General Account, the Regions of Andalusia,

[45] Law 9/2017, of November 8th, on Public Sector Procurement, transposing to Spanish law Directives 2014/23/EU and 2014/24/EU of the European Parliament and of the Council of 26 February 2014, and implementing legislation.

Aragon, Canary Islands, Cantabria, Castile and Leon, Catalonia, Extremadura, Galicia, Murcia and Navarre publish the duration of the project and the annual figures for the multi-annual investment projects. However, no cost-benefit analysis for the major projects is published prior to approval. Therefore, advanced practice is not met in any region. Furthermore, it should be noted that the investments included in the 2021 budgets approved by the regions rise significantly for the period 2021-2023 as a result of the investment projects and reforms to be financed using "Next Generation EU" European Recovery Funds.

GRAPH 23. ASSESSMENT OF THE INVESTMENT PROJECTS INDICATOR BY AR



2.2 Orderliness

2.2.1 Fiscal legislation: ADVANCED

The budgetary legislations of the ARs clearly define the schedule, content, preparation and structure of the budget, as well as the role of the legislative power in the amendment process. The legislation of each region (laws on public finances, annual orders for the preparation of their budgets,

regulations of the regional parliaments, among other regulations) indicates the time limit available to the competent bodies for preparing, drawing up and approving the budget. It also indicates the composition and structure of the general budgets and lists the documentation to be contained in the draft Budget Law, which differs depending on the region. Finally, the powers of the legislature to make amendments to the budget are regulated. Consequently, this practice is considered to be advanced in all ARs.

GRAPH 24. ASSESSMENT OF THE FISCAL LEGISLATION INDICATOR BY AR

2.2.2 Timeliness of budget documents

GOOD

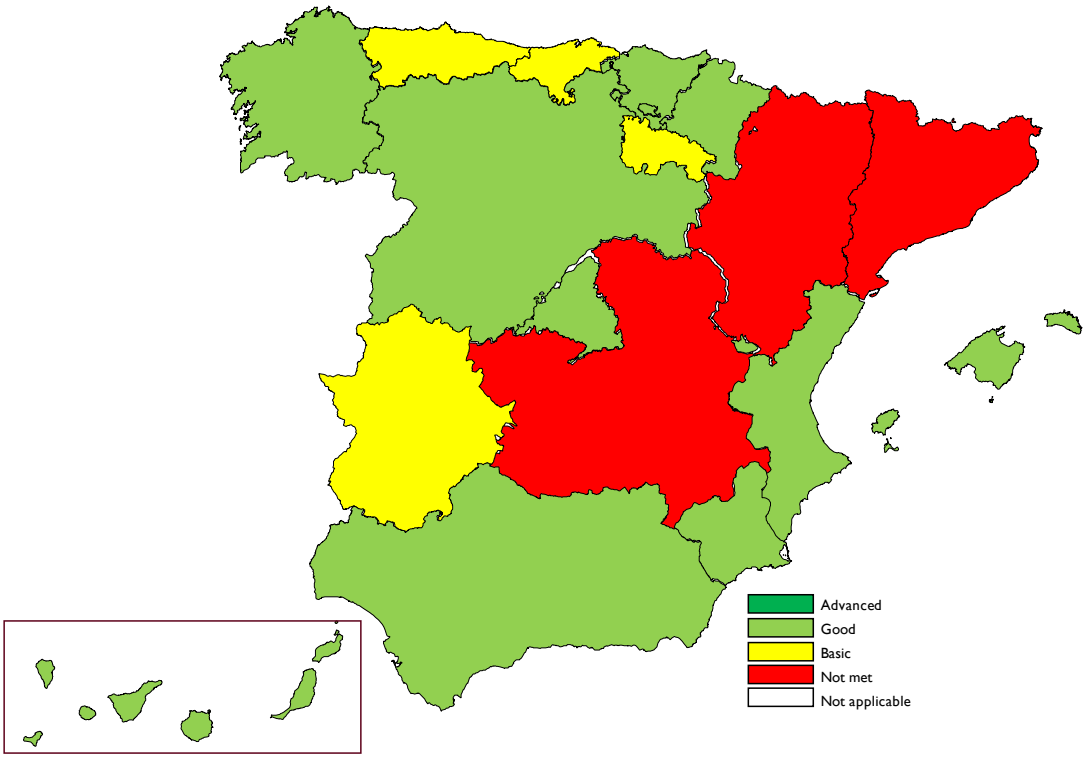
Generally speaking, regional regulations require the draft budget to be submitted between two and three months before the end of the year. The deadline for submitting the draft budget to the regional legislature is two to three months prior to the start of the following fiscal year, so that it may be approved and published before the start of the fiscal year. Compliance with this deadline would allow the practice to be assessed as good (two months in advance) or advanced (three months in advance):

- Two months: Andalusia, Balearic Islands, Canary Islands, Cantabria, Castile and Leon, Catalonia, Extremadura, Galicia, Madrid, Murcia, Navarre, Basque Country and Valencia.
- Three months: Aragon, Asturias, Castile-La Mancha and Rioja.

However, the reality over the last five years is that the presentation and/or approval of the budgets has not always taken place in compliance with these deadlines. The main reason for the delay has been the holding of State and/or regional elections and/or delays in the formation of the respective governments. Given that this indicator has been assessed based on how these deadlines have been met in practice, the scores have been mixed between regions:

- Not met (budgets carried over from recent years): Aragon, Castile-La Mancha and Catalonia;
- Basic (most budgets of recent years have been approved in January): Asturias, Cantabria, Extremadura and Rioja
- Good (most budgets in recent years have been approved in the last month of the year): Andalusia, Balearic Islands, Canary Islands, Castile and Leon, Galicia, Madrid, Murcia, Navarre, Basque Country and Valencia.

GRAPH 25. ASSESSMENT OF THE TIMELINESS OF THE BUDGET DOCUMENTS INDICATOR BY AR



2.3 Policy orientation

2.3.2 Performance information

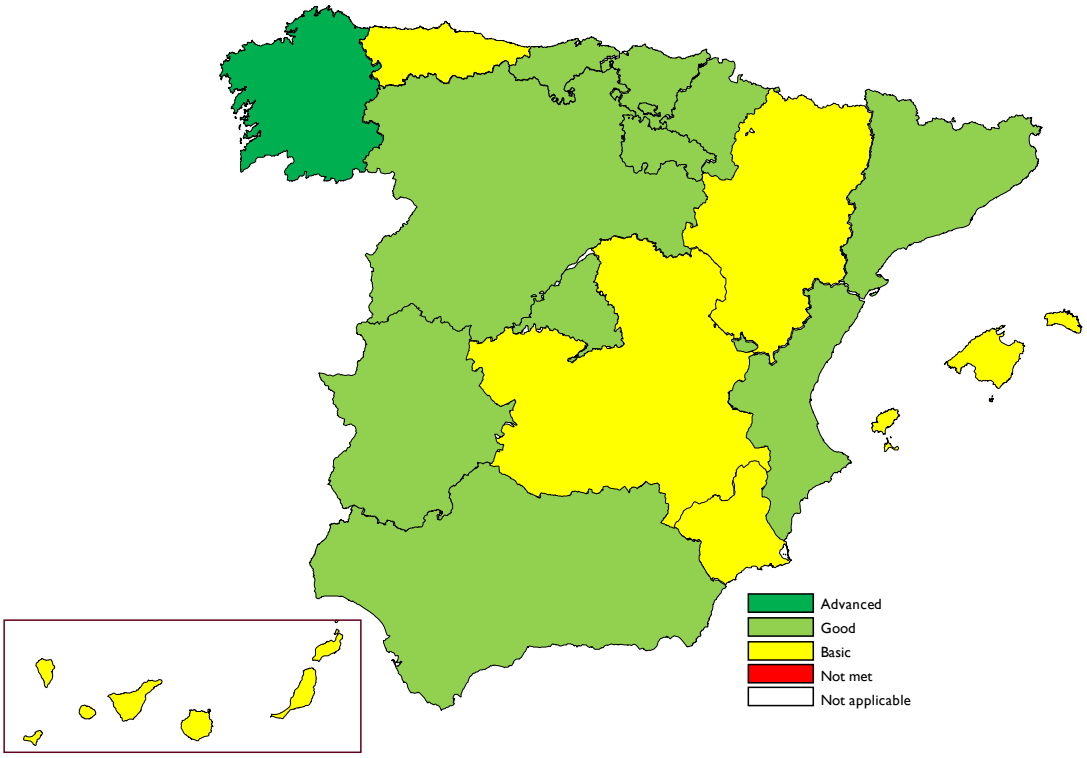
GOOD

The expenditure budgets of all ARs follow a functional programme structure. The classification of functional and programme expenditure provides information on expenditure on the main public policies.

11 of the 17 ARs assign targets and indicators to each programme and publish the level of achievement of those targets. In the "programme or objective reports" accompanying the annual budgets, the ARs generally define the targets and activities, as well as the indicators that allow verification of the achievement of the targets. However, verification of the achievement of these targets is normally published with the reporting of the General Account.

However, with the exception of Galicia, the ARs do not present the results pursued by the objectives of each programme and the progress achieved. Assessing the final impact of the expenditure programmes and using this information for budgetary decision-making is the ultimate objective of performance budgeting. However, the expenditure programmes of the ARs, with the exception of Galicia, do not consider the results that are intended to be achieved with the objectives set and it is not possible to know the progress achieved on goals that are not explicit. This prevents this practice, in general terms, from being considered advanced.

GRAPH 26. ASSESSMENT OF THE PERFORMANCE INFORMATION INDICATOR BY AR



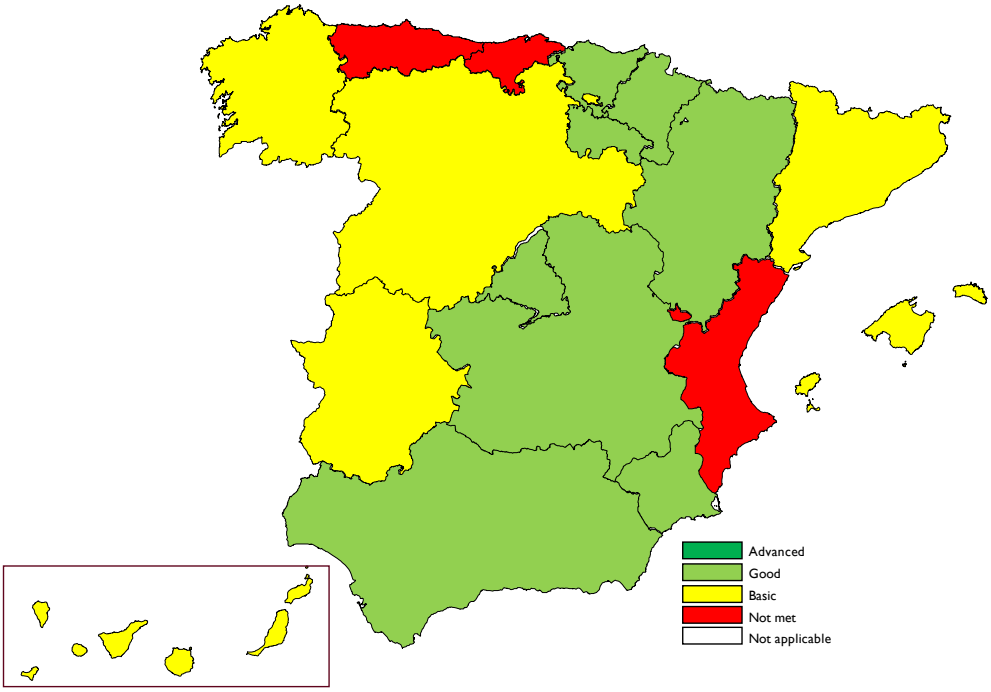
2.3.3 Public participation

BASIC

Most ARs publish an accessible description of the content of their general budgets. All but three of the regions explain the content of the budgets in simple and accessible language, describing both revenue and expenditure in terms of different classifications and referring to the macroeconomic context. This explanation is normally given with the presentation of the annual budgets, which is published on the websites of the ARs.

In addition, in eight ARs, any citizen can calculate the approximate distribution of the money they contribute with their taxes. On the websites of eight ARs, any user can consult and/or roughly calculate how the money they contribute with their taxes is distributed. Therefore, the practice is considered good for these ARs. However, no region provides citizens with the opportunity to express themselves formally during budget deliberations or to report on the impact of the budget on different demographic groups. This practice cannot therefore be regarded as advanced.

GRAPH 27. ASSESSMENT OF THE PUBLIC PARTICIPATION INDICATOR BY AR



2.4 Credibility

2.4.1 Independent evaluation

ADVANCED

The Independent Authority for Fiscal Responsibility ensures compliance with fiscal rules at all levels of General Government. As mentioned in this indicator for the Central Government, AIReF ensures effective compliance by the General Government with the principle of budgetary stability. For this purpose, it draws up individual reports for each of the Autonomous Regions.

Specifically, the macroeconomic forecasts of the Autonomous Regents require the endorsement of AIReF and AIReF's previous economic and financial plans. The Independent Authority assesses the macroeconomic forecasts on which the budget is based in order to decide whether to endorse it. Any plans that the regions must submit as a result of a failure to comply with any of the fiscal rules will be reported by AIReF prior to approval.

It also reports on the credibility of fiscal forecasts and assesses *ex ante* compliance with fiscal rules. AIReF prepares other reports aimed at determining whether the main lines of the regional budgets, the budgets eventually approved and the mid-year forecasts make it possible to achieve

the stability and debt targets set in each year and to comply with the expenditure rule.

As a result of these reports, AIReF can make recommendations. Once it has prepared the reports, AIReF may recommend, whenever it deems it appropriate to improve the applicable fiscal framework and to ensure compliance with fiscal rules at year-end. Each regional government has a duty to comply with or explain the monitoring of recommendations.

In addition, it is important to highlight the fulfilment of the duty of collaboration of the Autonomous Regions. According to the Organic Law on the Establishment of AIReF, the regions, as subjects included in the scope of application of this Law, will be obliged to provide the economic and financial information required by AIReF, which is necessary for the performance of its functions, by the deadline that AIReF indicates for this purpose In this regard, the ARs fulfil this duty of cooperation.

GRAPH 28. ASSESSMENT OF THE INDEPENDENT EVALUATION INDICATOR BY AR

2.4.2 Budgetary modifications

ADVANCED

Significant changes to the initially approved budget in its total amount and/or internal composition require authorisation by the regional legislature. This indicator is met at an advanced level by all the ARs, since there is authorisation from the regional legislature before significant amendments

are made to appropriations, whether increases or substantial alterations in their composition.

The finance laws of each region regulate the procedures, deadlines for submission and restrictions affecting budgetary modifications. The finance laws of each region establish the process for granting and authorising extraordinary appropriations or the appropriation supplements, as well as the specification of the actual revenue that must finance them and the restrictions to which they are subject. Some ARs detail a different procedure in the case of funding from application of the Contingency Fund. In addition, regional legislation also determines the deadline for the submission to the regional parliament of the records on approved budgetary modifications. These will be accompanied by the documentation that makes it possible to know, with the highest level of organic, functional and economic disaggregation, the additional and removed appropriations, as well as a detailed justification of the reasons why they are adopted and the impact on the affected targets and indicators.

GRAPH 29. ASSESSMENT OF THE BUDGETARY AMENDMENT INDICATOR BY AR

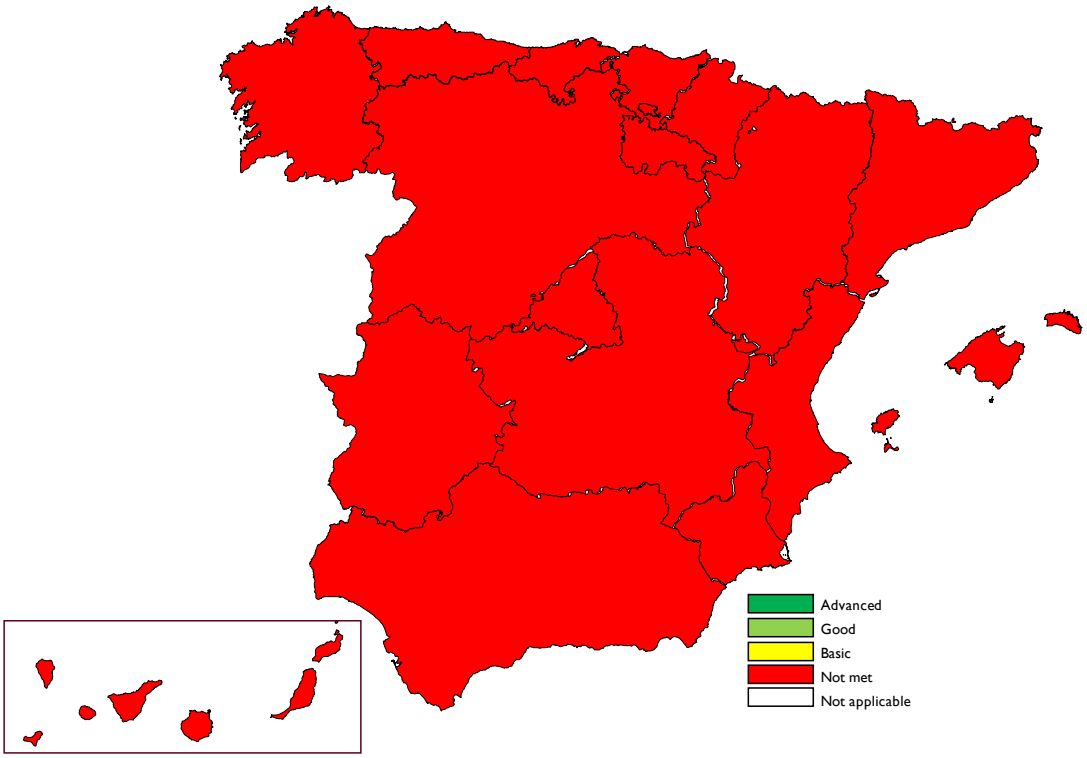
2.4.3 Forecast reconciliation

NOT MET

In general, the ARs do not regularly publish a reconciliation between the successive fiscal projections. The information relating to the budget planning

process presented at a regional level does not allow for the identification or quantification of those factors that explain the changes in the revenue and expenditure projections with respect to the last edition. In particular, no region distinguishes between changes in projections due to policy measures and those related to changes in economic activity. However, in some specific cases (such as statistical changes), a more detailed explanation is sometimes included, in particular in the event that an Economic and Financial Plan is presented.

GRAPH 30. ASSESSMENT OF THE FORECAST RECONCILIATION INDICATOR BY AR



2.4 Conclusions of PILLAR II

In general, practices relating to budgets and macroeconomic forecasts are good at a regional level. The conclusions obtained in the analysis of Pillar II indicators for the ARs are similar to those for the CG, meeting good and advanced practices in most indicators. At a regional level, practices relating to fiscal legislation, budget unity, independent evaluation and regulation of budgetary changes stand out in a positive way. In contrast, there is room for improvement in the area of public participation information.

However, weaknesses were identified in two indicators that do not meet the minimum level. The failure to publish a medium-term budget framework, with

a minimum level of quality derived from all the essential elements relating to the forecast period is one of the main weaknesses of the regional budget system, as is the case in the CG. In addition to the above, there is a lack of forecast reconciliation.

B. PILLAR III. FISCAL RISK ANALYSIS AND MANAGEMENT

This pillar assesses fiscal risk assessment and management. It consists of 12 indicators arranged into three categories in which the disclosure of risk analysis, the specific risk management carried out and the coordination between tiers of government and with the public corporate sector are analysed. At a regional level, 11 indicators are analysed, excluding the indicator relating to fiscal coordination with sub-national governments, which corresponds to the CG, which has been assessed for this aspect in this report.

As with the Central Government, this is the pillar in which the ARs record the worst results. Although there is heterogeneity in the transparency of some of these indicators by AR, in general terms, the rating is similar between them, with practices identified which are mostly not met or basic.

TABLE 17. FISCAL TRANSPARENCY HEATMAP AR.: PILLAR III

III. Fiscal risk analysis and management
3.1.1. Macroeconomic Risks
3.1.2. Specific Fiscal Risks
3.1.3. LT sustainability analysis
3.2.1. Budgetary Contingencies
3.2.2. Asset and liability risk management
3.2.3. Guarantees
3.2.4. Public-private partnership
3.2.5. Financial Sector Exposure
3.2.6. Natural Resources
3.2.7. Environmental risks
3.3.1. Sub-national governments
3.3.2. Public corporations outside ESA scope

TABLE 18. FISCAL TRANSPARENCY HEATMAP BY AR. PILLAR III

	3.1.1.Macro risks	3.1.2.Specific risks	3.1.3.Long-Term Fiscal Sustainability	3.2.1.Budgetary contingencies	3.2.2. Asset and liability management	3.2.3. Guarantees	3.2.4. PPPs	3.2.5 Financial Sector Exposure	3.2.6 Natural Resources	3.2.7 Environmental risks	3.3.2. Public corporations outside scope of the ESA
Andalusia	NOT MET	NOT MET	NOT MET	ADVANCED	BASIC	GOOD	BASIC	GOOD	NOT MET	NOT MET	BASIC
Aragon	NOT MET	NOT MET	NOT MET	ADVANCED	NOT MET	GOOD	NOT MET	GOOD	NOT MET	NOT MET	BASIC
Asturias	NOT MET	NOT MET	NOT MET	ADVANCED	BASIC	GOOD	NOT MET	GOOD	NOT MET	NOT MET	BASIC
Balearic Islands	NOT MET	NOT MET	NOT MET	ADVANCED	BASIC	GOOD	NOT MET	GOOD	NOT MET	NOT MET	BASIC
Canary Islands	NOT MET	NOT MET	NOT MET	GOOD	NOT MET	NOT MET	NOT APPLICABLE	GOOD	NOT MET	BASIC	BASIC
Cantabria	NOT MET	NOT MET	NOT MET	ADVANCED	NOT MET	NOT MET	NOT MET	GOOD	NOT MET	NOT MET	BASIC
Castile and Leon	NOT MET	NOT MET	NOT MET	NOT MET	BASIC	GOOD	NOT MET	GOOD	NOT MET	NOT MET	BASIC
Castile-La Mancha	NOT MET	NOT MET	NOT MET	GOOD	BASIC	GOOD	NOT MET	GOOD	NOT MET	NOT MET	BASIC
Catalonia	NOT MET	NOT MET	NOT MET	GOOD	BASIC	GOOD	GOOD	GOOD	NOT MET	NOT MET	GOOD
Extremadura	NOT MET	NOT MET	NOT MET	ADVANCED	NOT MET	NOT APPLICABLE	NOT APPLICABLE	GOOD	NOT MET	NOT MET	BASIC
Galicia	NOT MET	NOT MET	NOT MET	ADVANCED	NOT MET	GOOD	GOOD	GOOD	NOT MET	GOOD	BASIC
Madrid	NOT MET	NOT MET	NOT MET	ADVANCED	BASIC	NOT MET	NOT MET	GOOD	NOT MET	NOT MET	BASIC
MURCIA	NOT MET	NOT MET	NOT MET	ADVANCED	NOT MET	GOOD	NOT MET	GOOD	NOT MET	NOT MET	BASIC
Navarre	NOT MET	NOT MET	NOT MET	ADVANCED	BASIC	GOOD	GOOD	GOOD	NOT MET	NOT MET	BASIC
Basque Country	NOT MET	NOT MET	NOT MET	GOOD	BASIC	GOOD	NOT MET	GOOD	NOT MET	NOT MET	BASIC
Rioja	NOT MET	NOT MET	NOT MET	ADVANCED	NOT MET	NOT MET	NOT APPLICABLE	GOOD	NOT MET	NOT MET	NOT APPLICABLE
Valencia	NOT MET	NOT MET	NOT MET	ADVANCED	GOOD	GOOD	NOT MET	GOOD	NOT MET	NOT MET	NOT MET
Average	NOT MET	NOT MET	NOT MET	GOOD	BASIC	GOOD	NOT MET	GOOD	NOT MET	NOT MET	BASIC

3.1 Risk disclosure and analysis

3.1.1 Macroeconomic risks

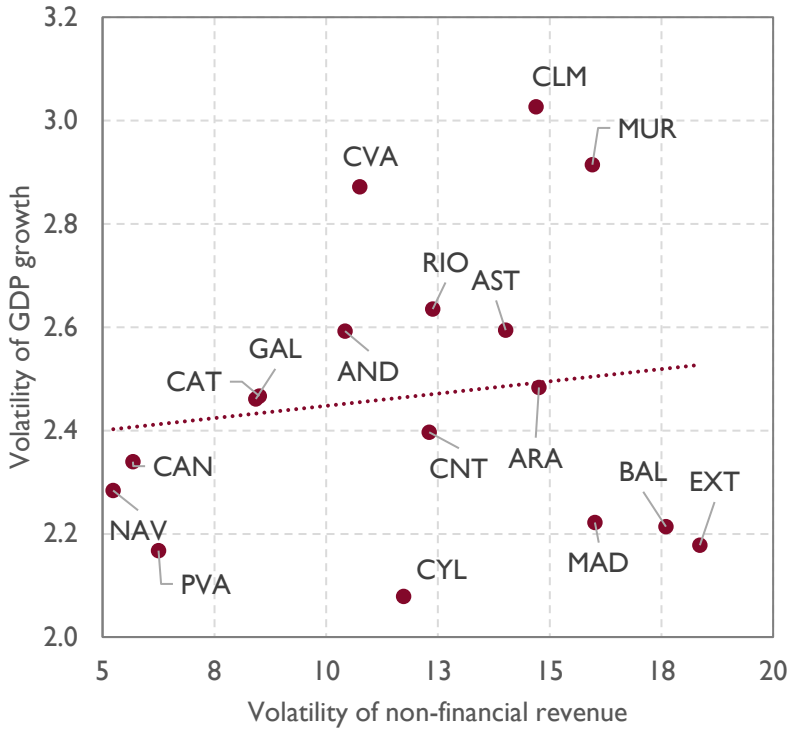
NOT MET

At a regional level, there is no regular reporting on the fiscal implications of macroeconomic risks. The documentation that is regularly used for budgeting at a regional level includes a fiscal projection formulated on the basis of a given macroeconomic scenario. However, information on the sensitivity of revenue and expenditure to alternative scenarios or changes in basic macroeconomic assumptions is not included. In all cases, the fiscal projections that are published are specific, without resorting to the use of probabilistic or alternative scenarios. Only in the case of non-compliance with fiscal objectives is an analysis of the sensitivity of revenue (but not of expenditure) to changes in GDP growth published[46].

However, at a regional level, macroeconomic volatility does not appear to be a major source of fiscal risks. Although the GDP growth of the Autonomous Regions is highly correlated with each other and synchronised with the national growth, there is a great deal of dispersion in the volatility of tax revenues. This decoupling is partly due to the design of the current Regional Financing System, which transfers much of the macroeconomic risk to the CG. In addition, a large part of the expenses of the ARs are of a structural nature, and are not influenced by the cyclical position of the economy.

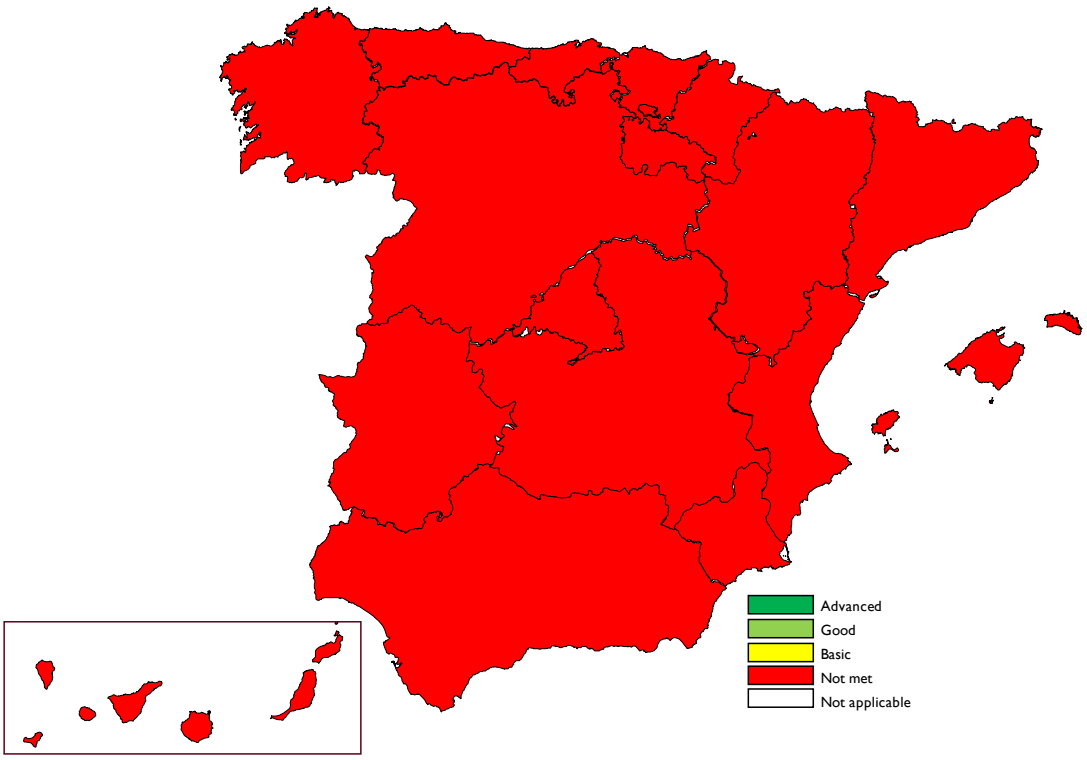
[46] In the Economic-Financial Plan

GRAPH 31. MACROECONOMIC AND FISCAL VOLATILITY AT AN AR LEVEL (2001-2019)



Source: Prepared by AIReF with data from INE and IGAE.

GRAPH 32. ASSESSMENT OF THE MACROECONOMIC RISKS INDICATOR BY AR

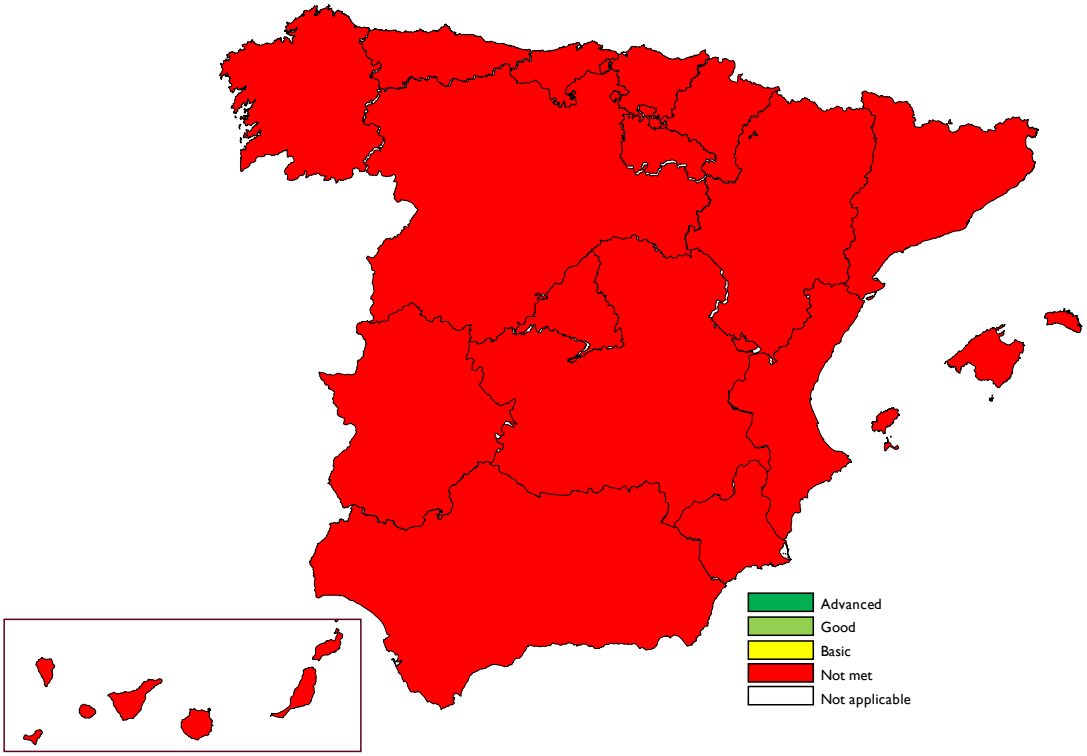


3.1.2 Specific fiscal risks: NOT MET

The ARs do not present a regular summary report on the main risks for the fiscal forecasts. These risks, which may have an impact on regional public accounts, are of a diverse nature and arise from the realisation of contingent liabilities or other uncertain events, such as judgments, natural disasters or the bailout of public corporations. The ability of a regional government to react to these risks depends on the quality of the information on their likelihood and impact should they materialise.

Proper management of these risks requires a joint strategy to be defined for all of the risks. This would make it possible to identify, quantify and manage the impact that they may cause, on the basis of a single aggregate document. However, fiscal risks are not monitored at present or the monitoring is not public. In order to consider this practice as at least basic, it would be necessary to analyse the main specific risks in qualitative terms and to disclose them in a summary report. Furthermore, if estimates of their size were disclosed, this practice could be evaluated as good, and if their likelihood were analysed, where possible, the evaluation would be advanced.

GRAPH 33. ASSESSMENT OF THE SPECIFIC FISCAL RISKS INDICATOR BY AR



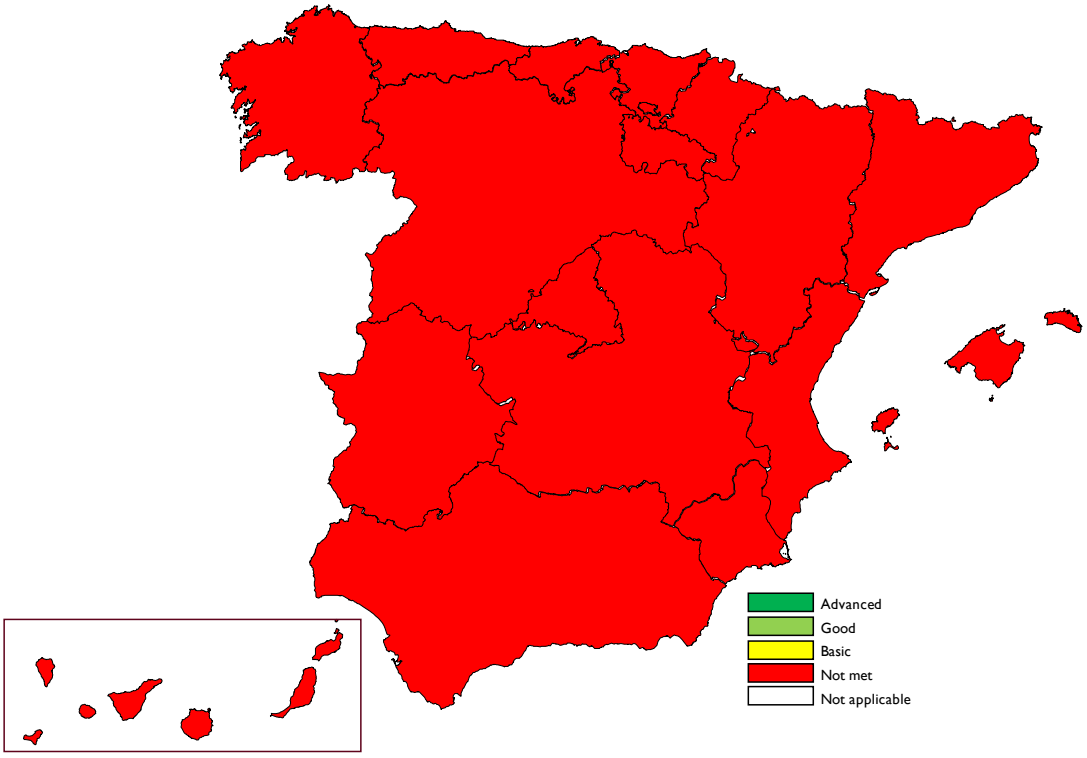
3.1.3 Long-term sustainability

NOT MET

No region regularly publishes projections of the evolution of the public finances over the long term. In Spain, the ageing of the population is a major risk to public finances. In relation to expenditure at a regional level, this implies an increase in the areas of health and dependency. On the revenue side, a relatively smaller labour force will contribute less to economic growth and hence to tax collection.

Although the debt of the regional sector amounts to 27% of GDP, no region publishes projections on the evolution of the main fiscal aggregates (i.e. revenue, expenditure and debt) for the coming decades. In some cases, regional governments merely publish information relating to the maturities of securities and loans of the current stock of debt. There are also no revenue and expenditure scenarios that allow long-term budgetary planning. Instead, these are usually restricted to the time horizon of the budgets.

GRAPH 34. ASSESSMENT OF THE LONG-TERM SUSTAINABILITY INDICATOR BY AR



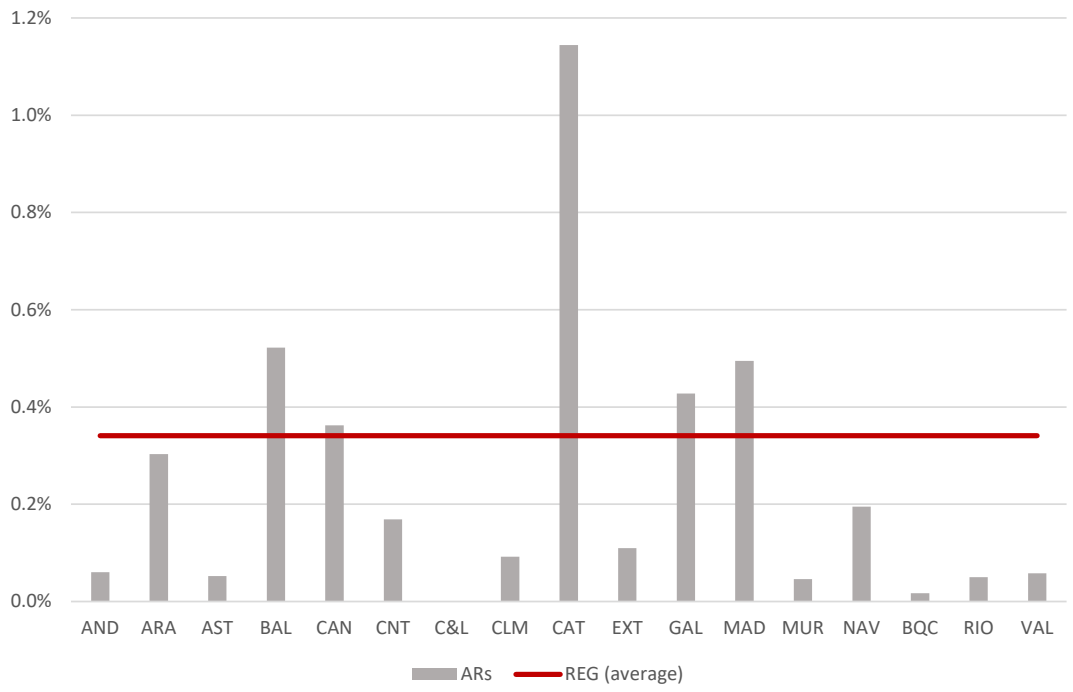
3.2 Risk Management

3.2.1 Budgetary contingencies

GOOD

All the ARs, with the exception of Castile and Leon, include in their budget an allocation for unforeseen spending not included in the regional budgets. This fund, which is usually called the Contingency Fund, is included in a specific budget chapter, usually Chapter V of the economic classification of expenditure. Most of the ARs provide the fund with between 0.1% - 0.2% of the total approved non-financial operations expenses for the year. However, some regions such as the Balearic Islands, Catalonia, Galicia and Madrid provide the fund with a greater allocation. The opposite is the case of Castile and Leon, which does not include the differentiated allocation for this Contingency Fund in its budget, as required by Article 31 of the Organic Law on Budgetary Stability and Financial Stability. Given the exceptional circumstances caused by the pandemic, the regions have increased the endowment of the fund for 2021, including, in some cases, the COVID fund.

GRAPH 35. AVERAGE WEIGHT OF THE CONTINGENCY FUND OVER NON-FINANCIAL EXPENDITURE (INITIAL APPROPRIATIONS BUDGET 2016-2020)



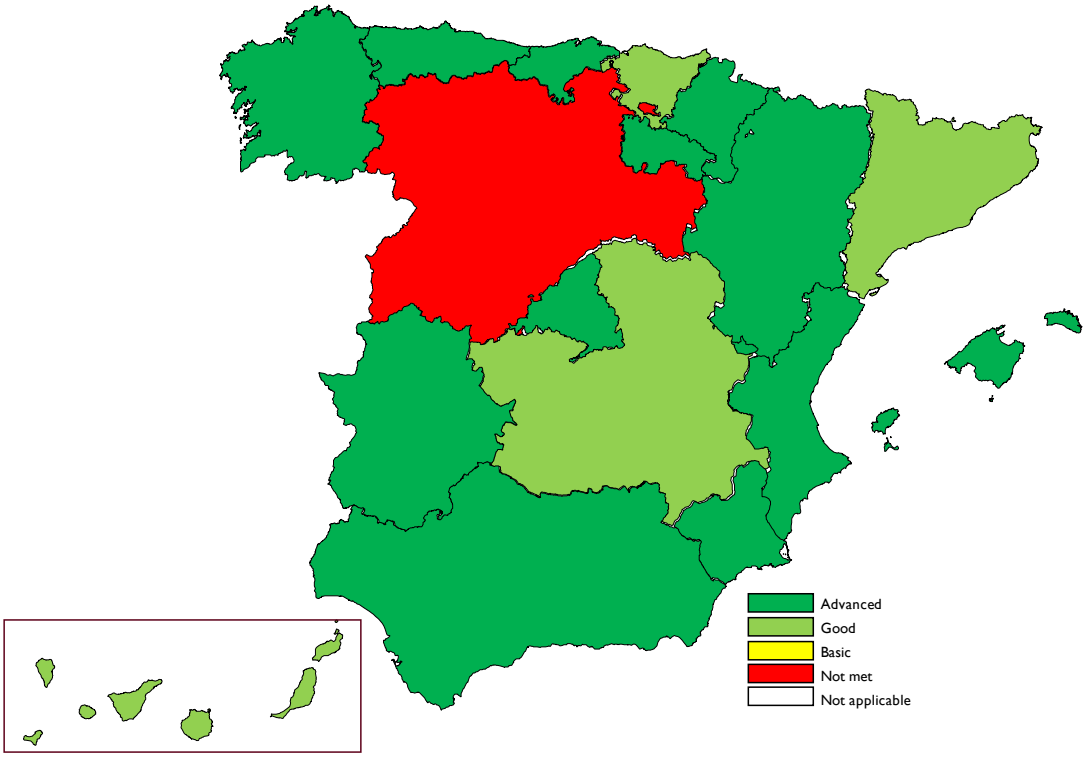
NB: 2021 is not taken into account for the calculation of the average due to the exceptional endowment in that year in some Regions due to COVID-19, as they substantially increase their endowment to cover health contingencies.

Source: Ministry of Finance data

The criteria for using the Contingency Fund are defined in the regional budgetary regulations. In accordance with the regulations, the statement of expenditure includes this differentiated appropriation to meet urgent non-discretionary needs not provided for in the budget. In practice, the Contingency Fund appropriation is used in most regions to finance, as the case may be, extraordinary appropriation and appropriation supplements. In this regard, it should be mentioned that the ARs point out that the aforementioned appropriation is not intended to finance changes aimed at covering expenditure or actions resulting from discretionary decisions by the Government that lack budgetary coverage.

12 of the 16 regions that have a Contingency Fund report to the regional parliament on their use. The parliaments of 12 ARs receive information on the application of the fund on a general quarterly basis, accompanied by documentation detailing the reasons why it is applied. This makes it possible to classify the practice as advanced in these ARs.

GRAPH 36. ASSESSMENT OF THE BUDGETARY CONTINGENCIES INDICATOR BY AR



3.2.2 Asset-Liability Management

BASIC

All borrowing at a regional level is authorised by law. The legal framework that regulates the borrowing operations of the ARs is adequate, identifying

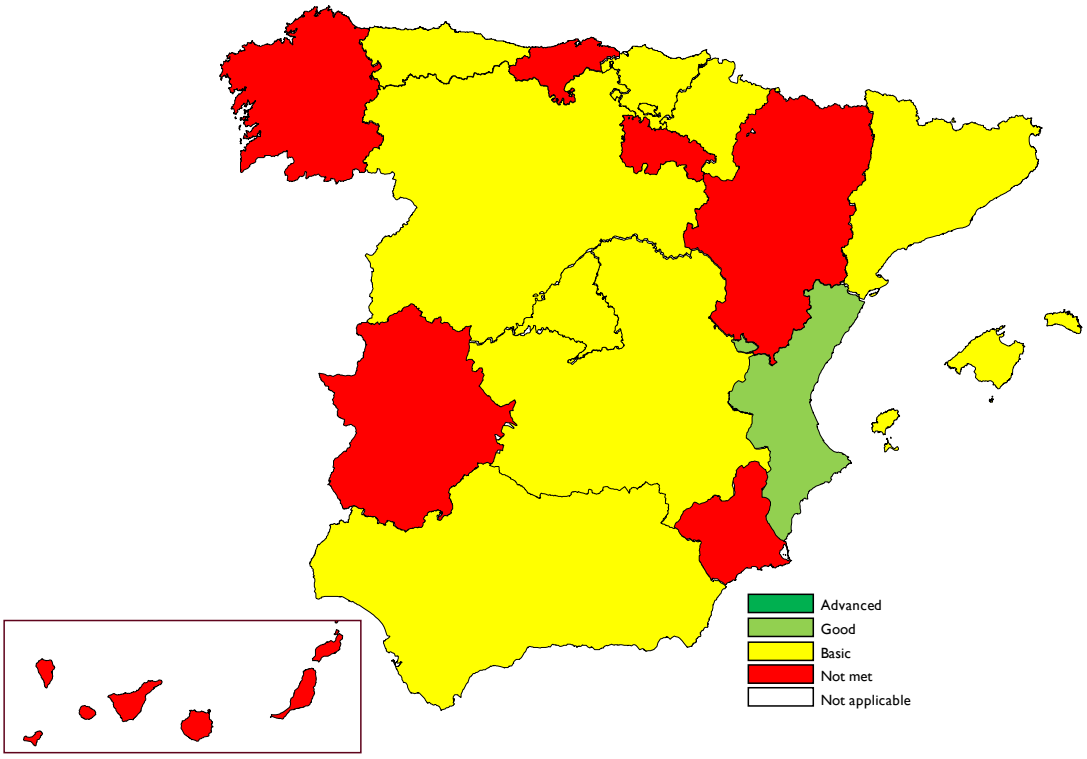
the persons responsible for the ability to borrow, the authorisations and the annually permitted ceilings. These operations are typically approved with the Regional Budgetary Law. Depending on the type of operation (e.g. term, instrument, etc.), legislation sets out a number of requirements (e.g. financial prudence) to be met[47]. In addition, in the event of non-compliance with fiscal rules, prior authorisation from the State is required and, in any case, when it comes to foreign credit transactions or debt issues.

Although many ARs regularly report and analyse part of the risks related to liabilities, there is no comprehensive asset and liability management strategy. In over half of the cases, the ARs regularly publish and analyse information on the structure of regional debt (e.g. by type of instrument, currency, interest rate, etc.) and its maturity profile[48]. In addition, all regional governments report to the State on a monthly basis (without making it public) the breakdown of the composition of their debt portfolio on an instrument-by-instrument basis. For its part, the Bank of Spain publishes quarterly statistics on the total debt stock of each Autonomous Region and, at a sub-sector level, also publishes a breakdown by instrument and institutional grouping. Information is also provided on the total debt of public corporations outside the scope of the General Government. However, with the exception of the information published in the General Account of each Autonomous Region, the risk analysis on the financial assets side is much scarcer. With regard to risk management, in no case is a comprehensive strategy identified that defines objectives, identifies and quantifies risks and defines the tools to be used should they materialise. This practice has predominantly been assessed as basic and, in some cases, is not met. The exception is Valencia, which is considered good as it manages the risks associated with liabilities adequately, after having been discussed at some technical seminars and workshops.

[47] Most of these requirements and principles are found in the Organic Law on Financing of the Autonomous Regions

[48] The ARs that do not do so are Aragon, Cantabria, Extremadura, Galicia, Murcia and Rioja.

GRAPH 37. ASSESSMENT OF THE ASSET AND LIABILITY MANAGEMENT INDICATOR BY AR



3.2.3 Guarantees

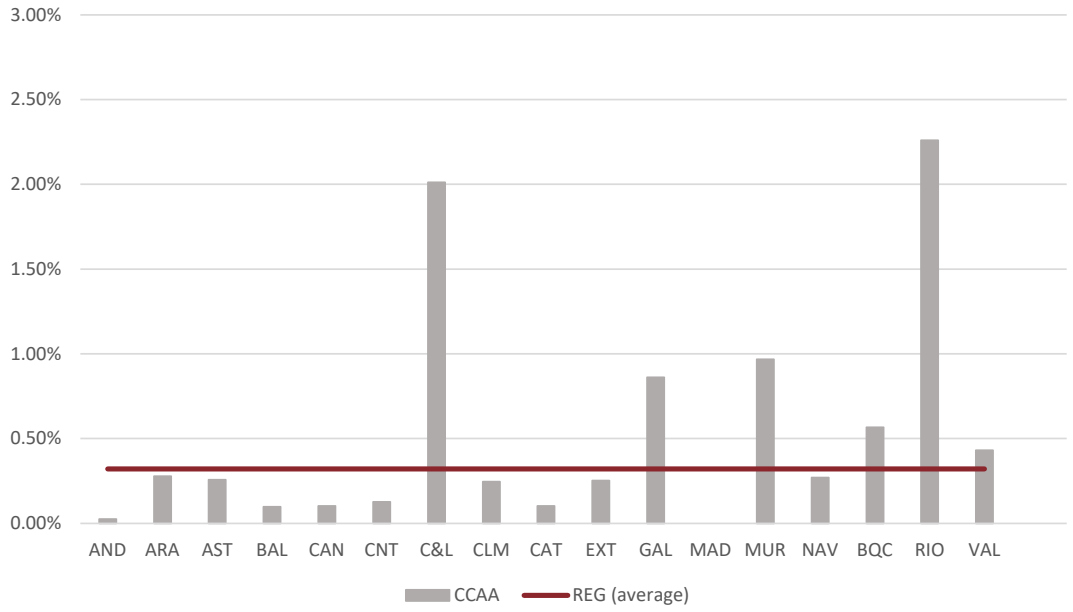
GOOD

12 ARs publish government guarantees, their beneficiaries and the gross exposure they generate. Furthermore, the maximum value of new guarantees is approved by law. All the ARs regulate in their annual budgetary laws the maximum amount of guarantees that can be granted to LGs and institutions that are of particular interest to the Autonomous Region in question. Moreover, normally through the General Account, 12 ARs disclose the guarantee account, which contains the total value of the guarantees granted, indicating the beneficiaries and the year-on-year variation. This allows the practice of these ARs to be raised to good. At any event, in order for this practice to be classified as advanced, it would be necessary to publish, at least once a year, the likelihood that the guarantees will be called, as well as the strategy for managing this risk, which is not published by any region. Lastly, this indicator does not apply to Extremadura since it indicates that it does not issue guarantees.

In addition, in 2020 the Autonomous Regions have put in place financial support measures to combat the effects of the evolution of the coronavirus. Due to the crisis caused by COVID-19, the regional governments have

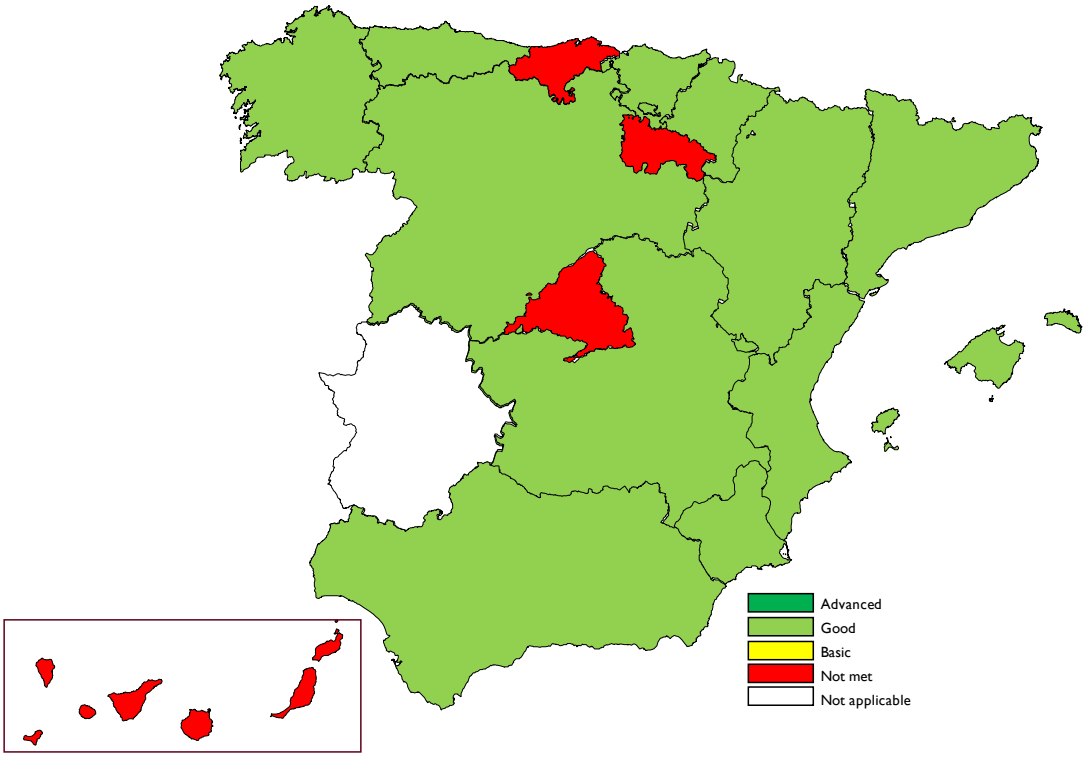
launched lines of guarantees for loans and credits to be granted by financial institutions in favour of small and medium-sized enterprises and self-employed workers, to mitigate the economic consequences of the business shutdown following the health crisis caused by COVID-19.

GRAPH 38. WEIGHT IN % OF GDP OF THE MAXIMUM AMOUNT OF GUARANTEES THAT CAN BE GRANTED BY LAW (AVERAGE OF THE LIMIT FOR 2016-2021)



Source: General budgets of the Autonomous Regions

GRAPH 39. ASSESSMENT OF THE GUARANTEES INDICATOR BY AR

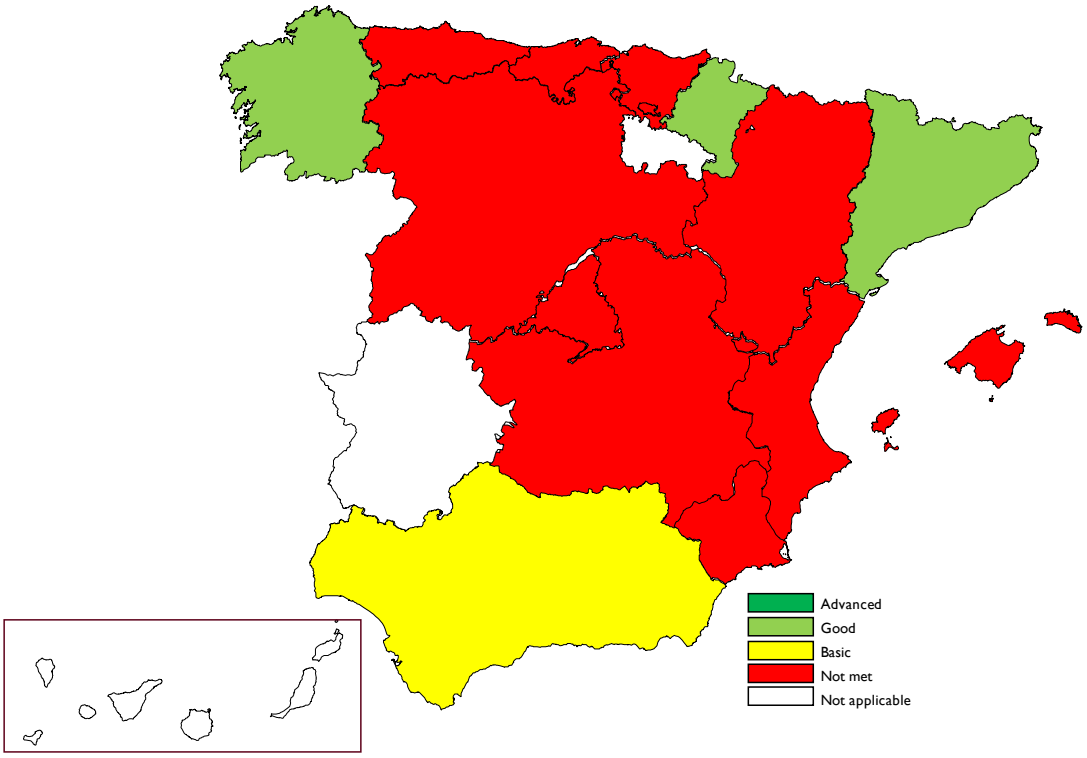


3.2.4 Public-private partnerships

NOT MET

The ARs generally do not publish information on public-private partnership (PPP) contracts. For the majority, this practice is therefore not met. The proliferation of PPPs in different areas of expenditure, particularly in relation to infrastructure and transport, makes it necessary to control the fiscal risk associated with them. However, the ARs generally do not publish the possible physical impact resulting from the PPPs, and therefore this practice is not met, although there are some exceptions. Andalusia publishes the rights, obligations and risks for the year resulting from these PPPs, which, at least, allows this practice to be considered basic. For the regions of Galicia, Navarre and Catalonia, which publish the payment commitments envisaged throughout the term of the contracts, the practices are considered good. They may only be assessed as advanced if, in addition, a limit were established by law for the cumulative obligations arising from these contracts. Finally, it should be pointed out that this indicator does not apply to Rioja, Extremadura and the Canary Islands, because they do not have any PPPs.

GRAPH 40. ASSESSMENT OF THE PUBLIC-PRIVATE PARTNERSHIPS INDICATOR - BY AR



3.2.5 Financial Sector Exposure

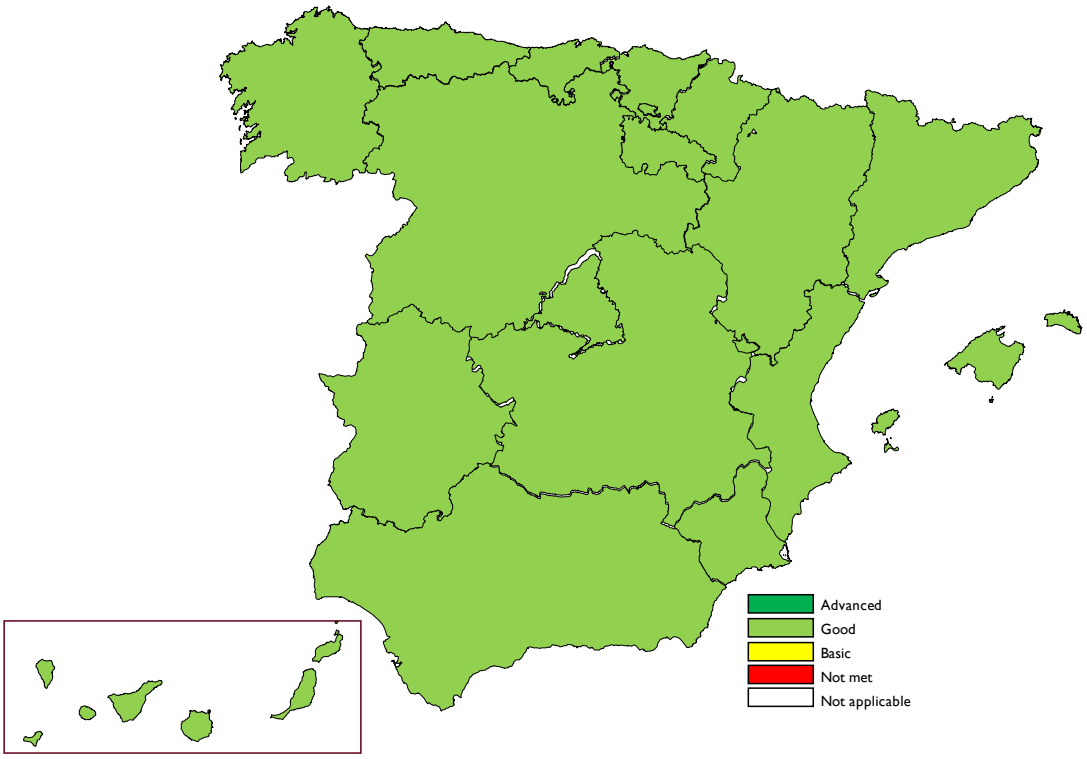
GOOD

Although the cost of financial crises can be very high, in Spain the exposure of the General Government to the banking system is currently concentrated at a Central Government level. During the recent Great Recession, financial aid was given to many Spanish credit institutions, particularly to regional savings banks. However, almost the entire fiscal cost of these bailouts was borne by the State. Financial support was mainly channelled through the Fund for Orderly Banking Restructuring (FROB) and the Asset Management Company for Assets Arising from Bank Restructuring (SAREB). In addition, although guarantees were initially also granted, most were also at a State level. There was a significant reduction in the number of savings banks and their conversion to banks (changing from non-profit entities to public limited companies, with substantial private participation). In turn, these changes implied a future limitation of the exposure to the financial system that may exist at a regional level.

The ARs periodically publish a quantification of direct exposure to the financial sector. Once a year, each region publishes information relating to its participation in financial companies in the General Account. However, in

the case of guarantees, the information is usually not as detailed and is limited to totals. It is impossible therefore to isolate the part corresponding to credit institutions. In addition, the Public Finance regulations of each region usually require public sector entities to report financial assets and liabilities, contingent liabilities and the granting of guarantees or extra-budgetary measures. Although such information is available internally, it is usually not published (except in exceptional cases). In addition, the stability of most of the financial institutions in which the regional governments have a significant shareholding is regularly analysed by the Bank of Spain[49].

GRAPH 41. ASSESSMENT OF THE FINANCIAL SECTOR EXPOSURE INDICATOR BY AR



3.2.6 Natural Resources

NOT MET

The ARs do not publish an inventory of regional interests in natural assets or the corresponding economic valuation, with some exceptions. Castile and Leon has performed this assessment in a timely manner, adapting a similar

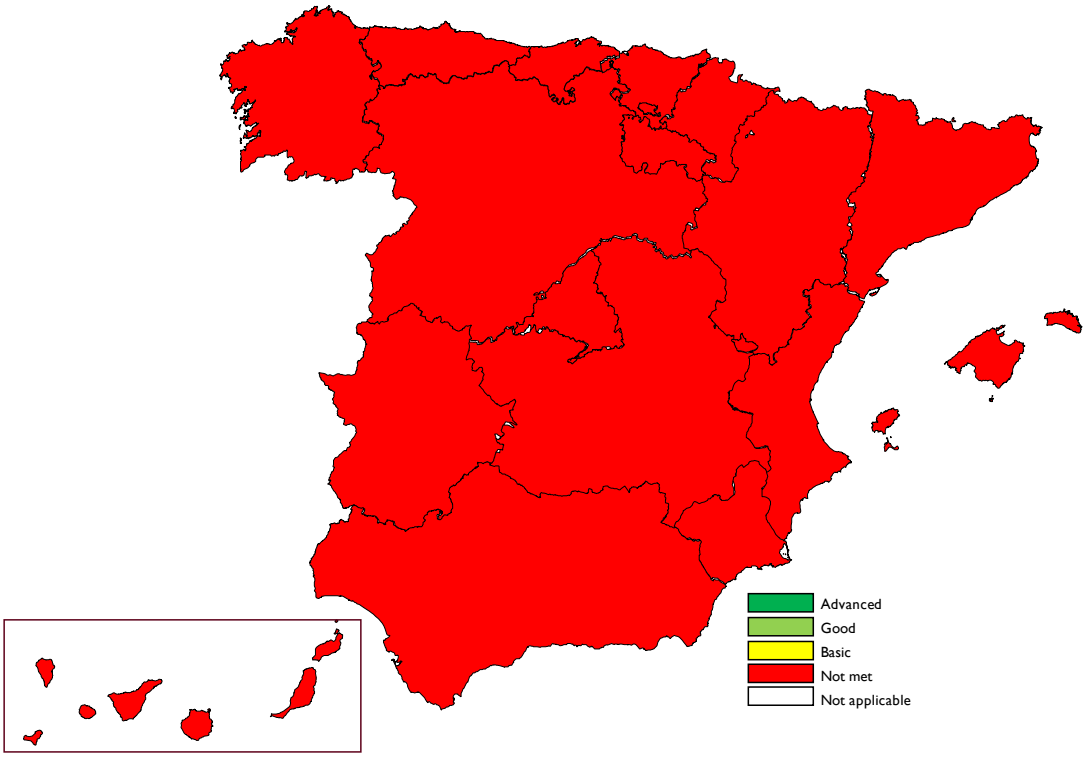
[49] They are usually catalogued as Less Significant Institutions. Significant Entities are supervised by the European Single Supervisory Mechanism.

national exercise, carried out several years ago, for the whole of Spain (Natural Asset Valuation Study), to the regional characteristics. However, it is not publicly available.

It is not therefore possible to estimate any change in said economic value or in the income from their exploitation. This practice is therefore considered to be not met. The information gap on the valuation of natural resources prevents the ARs from establishing a management strategy for these assets. However, the importance of this gap is nuanced in view of the low amount of public revenue obtained from these resources compared with other sources of financing.

It would, however, be desirable to broaden the scope of definition of natural resources to probably reflect regional resources. An improvement in this practice might therefore be of more interest. This Opinion follows the criteria of the IMF Fiscal Transparency Handbook and so the scope of analysis of natural resources is narrow. If it were decided to develop a strategy of fiscal risks by including them in a document, including those relating to the exploitation of natural resources, and to estimate the value of natural resources, the scope of definition of natural resources should be extended beyond the exploitation of traditional resources, so as to reflect all regional resources properly. In the case of Spain, the study of the exploitation of fishery resources, coasts and beaches or protected areas would add interest to the exercise.

GRAPH 42. ASSESSMENT OF THE NATURAL RESOURCES INDICATOR BY AR



3.2.7 Environmental risks

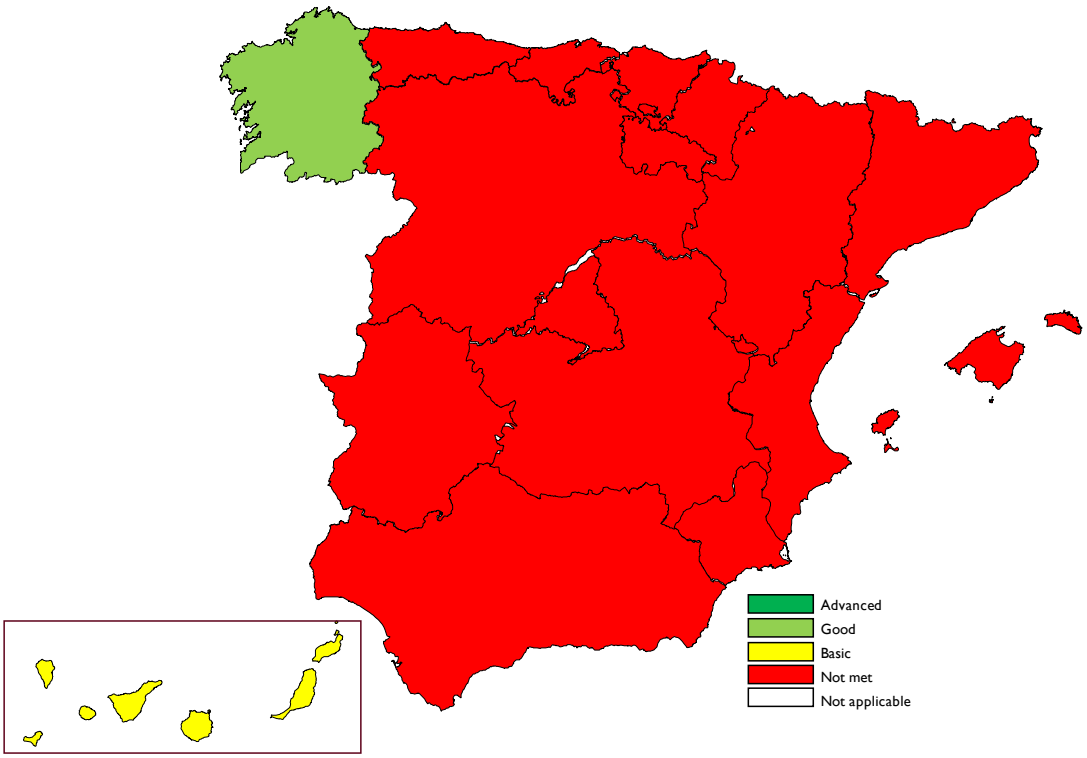
NOT MET

The ARs do not publish a catalogue of possible natural and environmental disasters or an analysis of the resulting fiscal risks. As an exception to this general rule, the Canary Islands has published a catalogue of possible natural and environmental disasters. Although this list does not constitute a basis for the management of fiscal risks but rather for civil protection and the subsequent evaluation of the damages caused by the materialisation of the contingency, it constitutes a step forward to the extent that it considers the environmental risks faced by the islands. This has made it possible to consider the practice of the Canary Islands as basic, unlike for the other ARs, for which it is considered not met. Galicia also presents an inventory of natural resource assets, together with an analysis of the fiscal risks associated with possible natural disasters and a qualitative assessment of their impact. This practice is therefore considered to be good.

This gap prevents the ARs from managing these risks in accordance with a public strategy. An inventory of these risks together with a qualitative and quantitative analysis of their possible fiscal impact would allow the ARs to make their budgetary planning more sophisticated and to have a tool to

manage the risks arising from climate change. These risks are increasingly frequent and have a greater impact on public accounts.

GRAPH 43. ASSESSMENT OF THE ENVIRONMENTAL RISKS INDICATOR BY AR



3.3 Fiscal coordination

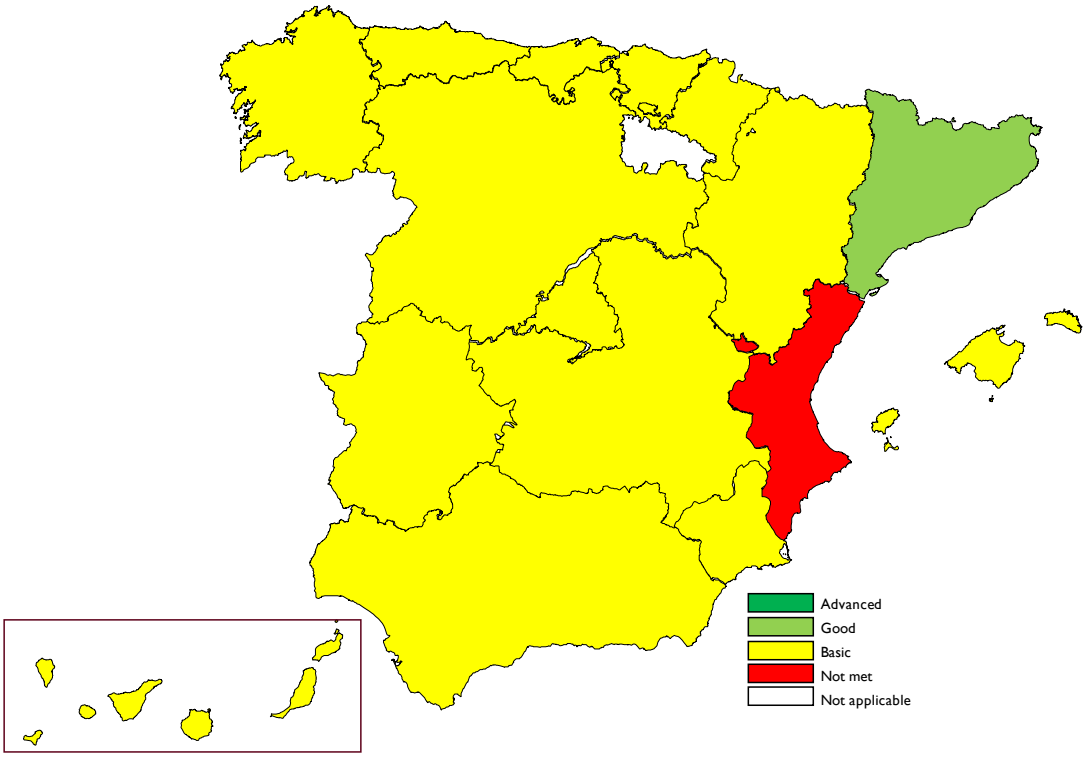
BASIC

3.3.2 Public corporations outside the scope of the ESA

The ARs publish information, at least annually, on transfers made between the regional government and public corporations outside the scope of the national accounts. For the regional sub-sector, as for the rest of the General Government, the financial situation of public corporations may pose an explicit or implicit risk. The annual budgets and, at any event, the general account of each Autonomous Region, include the financing of the region to these corporations, both those that fall within the scope of national accounting and those that fall outside it. This has allowed this practice to be generally considered as basic, with the exception of Valencia, which does not publish this information and Rioja, to which this indicator does not apply because it does not have any corporation outside the scope of national accounting (ESA scope).

The regions generally do not publish an aggregate report on the situation of the whole public corporation sector. There is also no defined strategy for the policy to be applied to the sector. The ARs, with the exception of Catalonia, do not publish the main financial aggregates (revenue, expenses, net profits, assets and obligations) of these corporations, so only the practice of that community has been considered good. In addition, if a report were published on the relationship between the regional government and these corporations (explicit and implicit guarantees, dividend policy, etc.), it would be advanced.

GRAPH 44. ASSESSMENT OF THE INDICATOR OF PUBLIC CORPORATIONS OUTSIDE THE SCOPE OF THE ESA BY AR



3.4 Conclusions of PILLAR III

As in the case of the Central Government, Pillar III is where the most weaknesses have been found. This is the pillar where there are more indicators that do not meet the minimum standard set by the IMF. The failure to identify fiscal risks and the lack of long-term sustainability forecasts are the main weaknesses of the ARs. In addition, the indicators of macroeconomic risks and risks associated with PPPs are not considered to have been met. Finally, the indicators of the risks of natural resources and environmental risks,

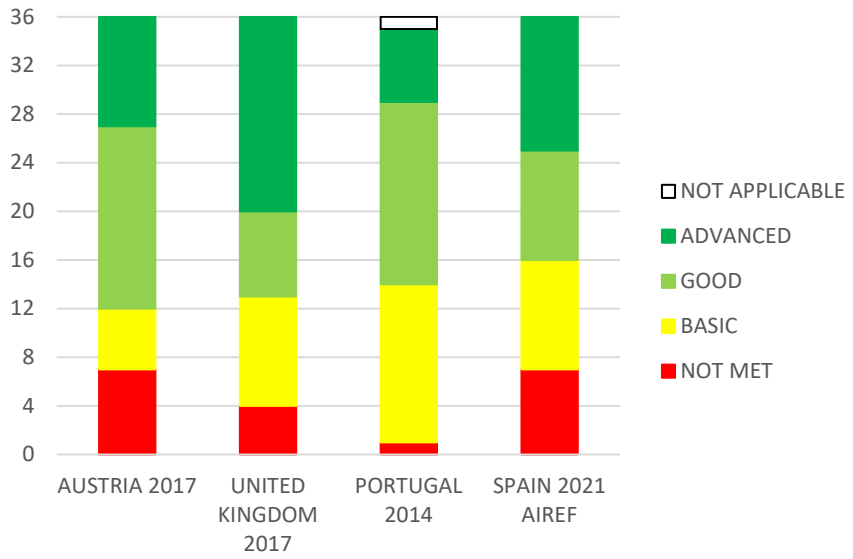
which it seems will become more important over time given the growing concern for climate change, are not met.

That is why it is in this pillar that there is greater scope and possibilities for improvement. There are many actions that the ARs can take to improve fiscal risk analysis and management. In this regard, there is no active management of the risks associated with the valuation of assets and liabilities, the granting of guarantees or public-private partnership contracts. The legal framework is comprehensive and adequate, but there are no financial risk management strategies. Debt issues are authorised by law, but the risks associated with the debt portfolio are not analysed or published and there is no discussion of the risks associated with the GG's financial assets. With regard to guarantees, there is detailed information on beneficiaries, maturities and outstanding amounts, but in a scattered form and without estimating the probability of guarantees being enforced. In public-private partnerships, the total volume of risks assumed by General Government and their possible fiscal impact is unknown.

4 INTERNATIONAL COMPARISON

The analysis of transparency in the reporting and management of budgetary and public debt policy offers results that are in line with peer countries. The IMF methodology allows an international comparison of the results with peer countries that have undergone the IMF fiscal transparency evaluation exercise.[50] The results of the evaluations carried out in Austria, the United Kingdom and Portugal have been taken for this comparison exercise. In comparative terms, Spain shows a similar situation, although slightly worse than peer countries, as can be seen in the following graph, with 50% of the indicators at a good or advanced level.

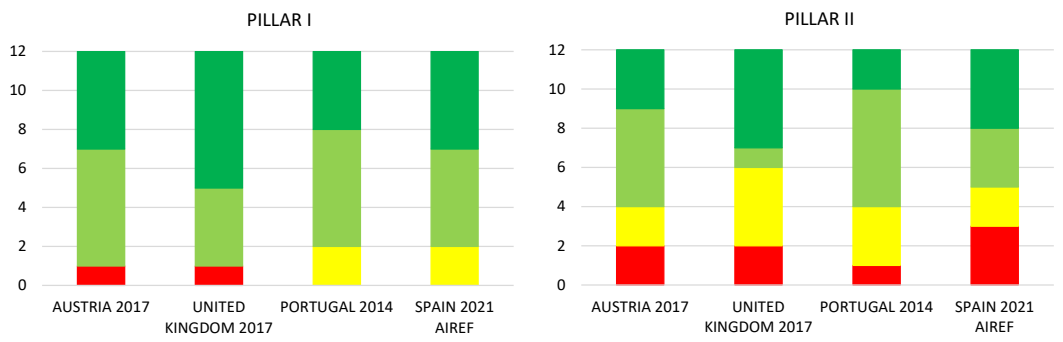
GRAPH 45. SELF-ASSESSMENT OF TRANSPARENCY IN THE REPORTING AND MANAGEMENT OF BUDGETARY AND PUBLIC DEBT POLICY FOR THE CG



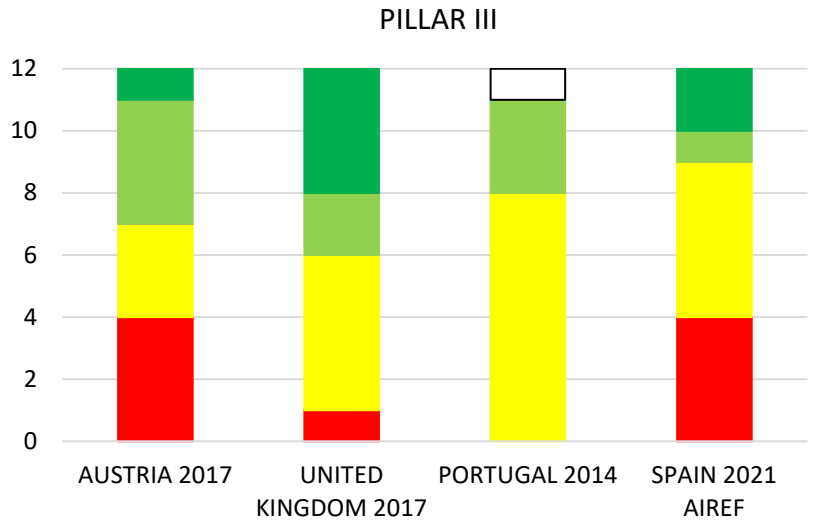
[50] Lithuania in 2019, Malta in 2018, Austria in 2018, United Kingdom in 2016, Finland in 2015, Romania in 2015, Portugal in 2014 and Russia in 2014.

The best practices in comparative terms focus on transparency of reporting of budgetary and fiscal interest and the worst on risk analysis and management. In Pillars I and II on fiscal reporting and fiscal forecasting and budgeting, respectively, the results obtained are in line with peer countries. It is in Pillar III on fiscal risks where we diverge most from the results of the other countries.

GRAPH 46. INTERNATIONAL COMPARISON OF FISCAL REPORTING AND MACRO-FISCAL FORECASTING



GRAPH 47. INTERNATIONAL COMPARISON OF RISK ANALYSIS AND MANAGEMENT



5 CONCLUSIONS

The analysis of fiscal transparency performed both for the General Government as a whole and for the Central Government and the Autonomous Regions offers results in line with peer countries and identifies relevant areas for improvement. In general terms, compliance with transparency indicators is uneven depending on the pillar in question. The best results are concentrated in Pillar I - fiscal reporting - and slightly less so in Pillar II - physical forecasting and budgeting - with the worst results achieved in Pillar III - fiscal risk analysis and management

PILAR I. Fiscal Reporting

The best practices are observed in the information provided by fiscal reporting, in line with the results obtained by peer countries. The reports generally provide a comprehensive, relevant, timely, and reliable overview of the state of public finances and meet the standards set by the EU. Comparable countries also present more advanced practices in this pillar. This is probably a consequence of the fact that the Eurostat reporting requirements are in line with those of the IMF.

The most notable weaknesses relating to the transparency of fiscal reporting relate to the explanations on historical revisions. The practices are uneven among the different agents responsible for issuing statistics, with the Bank of Spain being the one that best explains and reconciles the material changes in the series it publishes. For their part, the IGAE and the INE must persevere in their efforts to make the historical revisions easier to understand for the end users of the statistics. In the same vein, the Technical Committee on National Accounts does not publish its decisions, although these are transmitted to AIReF and its operating regulation has not yet been approved.

PILLAR II Fiscal forecasting and budgeting

The budgetary process has a majority of good or advanced practices. This pillar addresses the clarity and credibility with which both budgetary objectives and public policies are presented in the budgets and the forecasts underpinning them. The conclusions obtained in the analysis of Pillar II indicators are similar for the CG and ARs, with both presenting practices that are good and advanced in most of the indicators. Specifically, the indicators with the best performance are those related to the preparation of the budget and its amendments and the quality of the applicable national legal framework.

However, the absence of a medium-term budgetary framework is one of the main weaknesses of the Spanish budgetary system. This lack of a medium-term forecast affects both the CG and the regional governments and occurs even though both domestic and EU legislation provide for this projection exercise. On the one hand, the multi-annual budget scenarios in which the GSB must be framed are not published. In addition, at a Central Government level, the medium-term forecasts made are performed at an aggregate level for the General Government as a whole and in national accounting terms, without developing their link with the annual budgets of the different General Government sub-sectors. At a regional level, the robustness and quality of medium-term fiscal frameworks may be conditioned by the lack of some key elements when they are prepared.

In practice, the budgetary and fiscal planning process is fragmented, and it is not possible to ensure consistency between its main elements: the Stability Programme Update, the budgets of each administration and the Budgetary Plan. The Stability Programme Update (SPU), like the Budgetary Plan, does not provide a breakdown by sub-sector and is expressed in national accounting terms, while the GSB does not contain estimates in national accounting terms or even information on adjustments between the budget balance and the national accounts. In this regard, in order to provide a medium-term orientation, there should at least be a detailed reconciliation between the national accounts headings and the budgetary forecasts of each sub-sector.

PILLAR III Fiscal risks

Identifying and managing the risks assumed by public finances is the area where the most aspects to be improved are identified, both for the Central Government and for the regions. There are no aggregate reports published on fiscal risks, nor are there strategies to manage them. There is detailed information on the risks in scattered reports, such as in the annual accounts, where information on the beneficiaries of the guarantees can be found, but the likelihood of their being called is not estimated. The total volume of risks assumed by the General Government in public-private partnership contracts and their possible fiscal impact is not known beyond the publication of PPPs that are not part of the balance sheet of the General Government.

After the Great Recession, the management of the risk of exposure to the financial sector and to the Territorial Administrations is advanced. In recent years, there has been a substantial improvement in the supervision of risks associated with the financial sector and in the monitoring of the economic and financial situation of the Territorial Administrations following the crisis of 2008-12 and the need to support both the banking sector and the ARs.

The current pandemic once again underlines the need to properly monitor fiscal risks. The significant increase in guarantees to address the serious economic crisis resulting from COVID-19 highlights the need to continue moving towards the proper management of the fiscal risks referred to in this pillar. This crisis has also highlighted the fact that events of very low probability and high fiscal, economic and social impact may materialise.

6 PROPOSALS

5.1 PILLAR I. Proposals in the area of reporting

In the area of fiscal reporting, the practice is generally good and advanced. However, the proposals focus on the need for further progress in providing information on the historical revisions of the statistical series, an issue that has already been taken up by AIReF in the recommendations of the report on the 2020 Budgetary Plan. Specifically:

- The INE and the IGAE must persevere in their efforts to improve transparency and the understanding of the reasons and the scope for the historical revisions by the end users of the information. For the IGAE, it is recommended that it should generally accompany any material changes made, whether as a result of a statistical revision or the introduction of new data, with an explanatory note on the main modifications made.
- Approving the internal regulation of the Technical Committee on National Accounts, giving its operation greater transparency by at least publishing its decisions.

5.2 PILLAR II. Proposals in the budgetary field

This is the pillar where the most advanced practices are concentrated, but there are important indicators with aspects that are not met, such as the absence of a medium-term budgetary scenario. Some of the proposals in this pillar could be implemented through a revision of the Organic Law on Budgetary Stability and Fiscal Sustainability.

- Developing a comprehensive medium-term budget framework for the General Government as a whole and for each administration, which implies:

- Broadening the content and detail of the Stability Programme Update so that it contains all the elements of a medium-term fiscal strategy.
- Preparing and publishing medium-term budgetary scenarios with at least the content and detail provided for by the General Budgetary Law.
- Communicating to the ARs the fundamental elements for drawing up their medium-term frameworks, before they are submitted to the Ministry of Finance, such as the stability, debt and expenditure rule targets for the entire period, as well as guidelines for estimating the revenue from the financing system.

❖ Ensuring the consistency and reconciliation of the main budget planning documents: the Stability Programme Update, the General State Budget and the Budgetary Plan. This would require:

- Disaggregating the fiscal forecasts from the Stability Programme Update and the Budgetary Plan, providing further detail by sub-sector.
- Incorporating in the budget documentation
  - Forecasts in national accounting terms.
  - A comparison between the forecast for the outturn of expenditure for the current period with the budgetary forecast, as is done for the revenue collection forecast. This would make it possible to compare the budget approved with both the initial appropriations of the previous year and the estimates for its outturn.

❖ Complying with the obligation to submit the draft GSB according to the timetable provided for in legislation. Irrespective of the possibility of reaching the necessary agreements for approval in the Congress of Deputies and in the Senate or other criteria of political expediency, the Government should submit the draft GSB annually in compliance with the provisions of the Constitution.

❖ Promoting a new strategic and budgetary planning framework linked to public policies, creating an integrated information and indicator system that makes the continuous evaluation of public policies feasible, as proposed in Project 1 of the 2018 Spending Review conducted by AIReF on the Evaluation of Subsidy Strategy and Procedure. These are aimed at implementing a structure that will allow the strategic planning of public policies as a whole and at establishing a system for their monitoring and evaluation. In practice, it involves designing a new strategic and budgetary planning framework linked to public policies, the creation of an integrated

information and indicator system, the active promotion of a culture of public policy evaluation and increased transparency conducive to accountability.

5.3 PILLAR III. Proposals in the field of fiscal risks

This is the pillar with the greatest weaknesses in both the CG and the ARs, as well as in peer countries. The only aggregate fiscal risk exercise performed is the information sent to the European Commission in compliance with Directive 85/2011 on national budgetary frameworks. In this regard, the following are considered necessary:

- Preparation of a report on specific fiscal risks, setting out the possible risks that may affect the fiscal projections. It should include information on the risks arising from the financial sector, the level of debt of public companies, natural disasters (including public health disasters), public-private partnerships, guarantee programmes, loans and judgments, asset and liability management and environmental risks.
- Once the fiscal risks have been identified and analysed, it is important to assign probabilities to their materialisation and to quantify their impact.
- The risk mitigation strategy should be made explicit, either for the risks as a whole or for individual risks.
- The Central Government and the ARs should each develop strategies to manage the fiscal risks generated by possible natural, health and environmental disasters that may have a budgetary impact. These strategies should be public and reviewed at regular intervals. This measure would make the budgetary planning process more sophisticated, preparing it for natural and environmental contingencies, such as the impact of climate change. The strategies should consider the particular risks (pandemics, floods, droughts, fires or other catastrophes) to which each administration is subject. They should then quantify, on the basis of historical experience and taking into account projections of future contingencies, their potential budgetary impact, in order to take these risks into account in the budgetary planning of each General Government sub-sector.
- Preparing long-term debt projections, including a probabilistic analysis of their evolution in the medium term. These projections should detail expenditure factors related to health, education and ageing, and include comparisons with previous projections.

La presidenta de la AIReF

Cristina Herrero Sánchez

ANNEX I. SCHEMATIC DESCRIPTION OF THE PRACTICE LEVELS

No.	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
I	**FISCAL REPORTING**	**Fiscal reports should provide a comprehensive, relevant, timely and reliable overview of the government's financial position and performance.**			
11	***Coverage***	***Fiscal reports should provide a comprehensive overview of the fiscal activities of the public sector and its subsectors, according to international standards.***			
111	Coverage of Institutions	Fiscal reports cover all entities engaged in public activity according to international standards.	Fiscal reports consolidate all Central Government entities according to international standards.	Fiscal reports consolidate all General Government entities and report on each sub-sector according to international standards.	Fiscal reports consolidate all public sector entities and report on each subsector according to international standards.
112	Coverage of Stocks	Fiscal reports include a balance sheet of public assets, liabilities, and net worth.	Fiscal reports cover cash and deposits, and all debt.	Fiscal reports cover all financial assets and liabilities.	Fiscal reports cover all financial and non-financial assets and liabilities, and net worth.
113	Coverage of Flows	Fiscal reports cover all public revenues, expenditure and financing.	Fiscal reports cover cash revenues, expenditure and financing.	Fiscal reports cover cash flows, and accrued revenues, expenditure and financing.	Fiscal reports cover cash flows, accrued revenues, expenditure and financing, and other economic flows.

114	Coverage of Tax Expenditure	The Government regularly discloses and manages revenue loss from tax expenditure.	The estimated revenue loss from tax expenditure is published at least annually.	The revenue loss from tax expenditure is estimated by sector or policy area, and is published at least annually.	The revenue loss from tax expenditure is estimated by sector or policy area, and is published at least annually. There is control on, or budgetary objectives for, the size of tax
12	***Frequency and Timeliness***	***Fiscal reports should be published in a frequent, regular, and timely manner.***			
121	Frequency of In-year Reporting	In-year fiscal reports are published on a frequent and regular basis.	In-year fiscal reports are published on a quarterly basis, within a quarter.	In-year fiscal reports are published on a quarterly basis, within a month.	In-year fiscal reports are published on a monthly basis, within a month.
122	Timeliness of Annual Financial Statements	Audited or final annual financial statements are published in a timely manner.	Audited or final annual financial statements are published within 12 months of the end of the financial year.	Audited or final annual financial statements are published within 9 months of the end of the financial year.	Audited or final annual financial statements are published within 6 months of the end of the financial year.
No.	**DIMENSION**	**PRINCIPLE**	**PRACTICES**		
			BASIC	**GOOD**	**ADVANCED**
I	**FISCAL REPORTING**	**Fiscal reports should provide a comprehensive, relevant, timely and reliable overview of the government's financial position and performance.**			
13	***Quality***	***Information in fiscal reports should be relevant, internationally comparable, and internally and historically consistent.***			
131	Classification	Fiscal reports classify information in ways that make clear the use of public resources and facilitate international comparisons.	Fiscal reports include administrative and economic classifications consistent with international standards, where applicable.	Fiscal reports include administrative, economic and functional classifications consistent with international standards, where applicable.	Fiscal reports include administrative, economic, functional and programme classifications consistent with international standards, where applicable.

132	Internal Consistency	Fiscal reports are internally consistent and include reconciliations between alternative measures of summary fiscal aggregates.	Fiscal reports include at least one of the following reconciliations: (i) fiscal balance and financing, (ii) debt issued and debt holdings, or (iii) financing and the change in the debt stock.	Fiscal reports include at least two of the following reconciliations: (i) fiscal balance and financing; (ii) debt issued and debt holdings; or (iii) financing and the change in the debt stock.	Fiscal reports include all three of the following reconciliations: (i) fiscal balance and financing; (ii) debt issued and debt holdings; and (iii) financing and the change in the debt stock.
133	Historical Revisions	Major revisions to historical fiscal statistics are disclosed and explained.	Major revisions to historical fiscal statistics are reported.	Major revisions to historical fiscal statistics are reported with an explanation for each major revision.	Major revisions to historical fiscal statistics are reported with an explanation for each major revision and a bridging table between the old and new time series.
14	***Integrity***	***Fiscal statistics and financial statements should be reliable, subject to external scrutiny, and facilitate accountability.***			
141	Statistical Integrity	Fiscal statistics are compiled and disseminated in accordance with international standards.	Fiscal statistics are disseminated in accordance with international standards.	Fiscal statistics are compiled by a specific government agency and disseminated in accordance with international standards.	Fiscal statistics are compiled by a professionally independent body and disseminated in accordance with international standards.

142	External Audit	Annual financial statements are subject to a published audit by an independent supreme audit institution which validates their reliability.	An independent supreme audit institution publishes an audit report on the reliability of the government's annual financial statements.	An independent supreme audit institution publishes an audit report stating whether the Government's annual financial statements present a true and fair view of its financial position and without a disclaimer or adverse audit opinion.	An independent supreme audit institution publishes an audit report consistent with international standards which states whether the Government's annual financial statements present a true and fair view of its financial position and without major qualifications.
143	Comparability of Fiscal Data	Fiscal forecasts, budgets, and fiscal reports are presented on a comparable basis, with any deviations explained.	At least one fiscal report is prepared on the same basis as the fiscal forecast/budget.	Fiscal forecast/budget and outturn are comparable plus the outturn is reconciled with either the fiscal statistics or final accounts.	Fiscal forecast/budget and outturn are comparable plus the outturn is reconciled with both fiscal statistics and final accounts.
No.	**DIMENSION**	**PRINCIPLE**	**PRACTICES**		
			BASIC	**GOOD**	**ADVANCED**
2	**Fiscal forecasting and budgeting**	**Budgets and their underlying fiscal forecasts should provide a clear statement of the Government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances.**			
21	***Comprehensiveness***	***Fiscal forecasts and budgets should provide a comprehensive overview of fiscal prospects.***			

211	Budget Unity	Revenues, expenditure, and financing of all Central Government entities are presented on a gross basis in budget documentation and authorised by the legislature.	Budget documentation incorporates all gross domestic tax revenues, expenditure, and financing by Central Government ministerial departments and agencies.	Budget documentation incorporates all gross domestic tax and non-tax revenues, expenditure, and financing by Central Government ministerial departments, agencies, and extra-budgetary funds.	Budget documentation incorporates all gross domestic and external revenues, expenditure, and financing by Central Government ministerial departments, agencies, extra-budgetary funds, and social security funds.
212	Macroeconomic Forecasts	The budget projections are based on comprehensive macroeconomic forecasts, which are disclosed and	The budget documentation includes forecasts of key macroeconomic variables.	The budget documentation includes forecasts of key macroeconomic variables and their	The budget documentation includes forecasts and explanations of key macroeconomic variables and their
213	Medium-term Budget Framework	Budget documentation includes outturns and projections of revenues, expenditure, and financing over the medium term on the same basis as the annual budget.	Budget documentation includes the outturns of the two preceding years and medium-term projections of aggregate revenues, expenditure, and financing.	Budget documentation includes the outturns of the two preceding years and medium-term projections of revenues, expenditure, and financing by economic category.	Budget documentation includes the outturns of the two preceding years and medium-term projections of revenues, expenditure, and financing by economic category and by ministerial department or programme.

214	Investment Projects	The Government regularly discloses its financial obligations under multi-annual investment projects, and subjects all major projects to cost-benefit analysis and open and competitive tender.	One of the following applies: (i) the Government regularly discloses the value of its total obligations under multi-annual investment projects; (ii) subjects all	Two of the following apply: (i) the Government regularly discloses the value of its total obligations under multi-annual investment projects; (ii) subjects all major projects to a published cost-benefit analysis	All of the following apply: (i) the Government regularly discloses the value of its total obligations under multi-annual investment projects; (ii) subjects all major projects to a published cost-benefit analysis before approval; and (iii) requires all major
No.	**DIMENSION**	**PRINCIPLE**	**PRACTICES**		
			BASIC	**GOOD**	**ADVANCED**
2	**Fiscal forecasting and budgeting**	**Budgets and their underlying fiscal forecasts should provide a clear statement of the Government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances.**			
22	***Orderliness***	***The powers and responsibilities of the executive and legislative branches of Government in the budget process should be defined in law, and the budget should be presented, debated, and approved in a timely manner.***			
221	Fiscal Legislation	The legal framework clearly defines the time-table for budget preparation and approval, key contents of the budget documentation, and the powers and responsibilities of the executive and legislative in the budget process.	The legal framework defines one of the following: (i) the timetable for budget preparation and approval; (ii) the key content requirements for the executive's budget proposal; or (iii) the legislative's powers to amend the executive's budget	The legal framework defines two of the following: (i) the timetable for budget preparation and approval; (ii) the key content requirements for the executive's budget proposal; or (iii) the legislative's powers to amend the executive's budget proposal.	The legal framework defines all of (i) the timetable for budget preparation and approval; (ii) the key content requirements for the executive's budget proposal; and (iii) the legislative's powers to amend the executive's budget proposal.

222	Timeliness of Budget Documents	The legislative and the public are consistently given adequate time to scrutinise and approve the annual budget.	The budget is submitted to the legislative and made available to the public at least one month before the start of the financial year and is approved and published up to one month after the beginning of the financial	The budget is submitted to the legislative and made available to the public at least two months before the start of the financial year and is approved and published by the start of the financial year.	The budget is submitted to the legislative and made available to the public at least three months before the start of the financial year and is approved and published at least one month before the start of the financial year.
23	***Policy Orientation***	***Fiscal forecasts and budgets should be presented in a way that facilitates policy analysis and accountability.***			
231	Fiscal Policy Objectives	The Government states and reports on clear and measurable objectives for the public finances.	The Government states and regularly reports on a numerical objective for the main fiscal aggregates which is either precise or time-	The Government states and regularly reports on a numerical objective for the main fiscal aggregates which is both precise and time-bound.	The Government states and regularly reports on a numerical objective for the main fiscal aggregates which is both precise and time-bound and has been in place for three or more years.
232	Performance Information	Budget documentation provides information regarding the objectives and results achieved under each major government policy area.	Budget documentation includes information on the inputs acquired under each major government policy area.	Budget documentation reports targets for, and performance against, the outputs to be delivered under each major government	Budget documentation reports targets for, and performance against, the outcomes to be achieved under each major government policy area.

233	Public Participation	Government provides citizens with an accessible summary of the implications of budget policies and an opportunity to participate in budget deliberations.	Government publishes an accessible description of recent economic and fiscal performance and prospects, as well as a summary of the implications of the budget for a typical citizen.	Government publishes an accessible description of recent economic and fiscal performance and prospects and a detailed account of the implications of the budget for a typical citizen, and provides citizens with a formal voice in budget	Government publishes an accessible description of recent economic and fiscal performance and prospects, and a detailed account of the implications of the budget for different demographic groups, and provides citizens with a formal voice in budget deliberations.
No.	**DIMENSION**	**PRINCIPLE**	**PRACTICES**		
			BASIC	**GOOD**	**ADVANCED**
2	**Fiscal forecasting and budgeting**	**Budgets and their underlying fiscal forecasts should provide a clear statement of the Government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances.**			
24	***Credibility***	***Economic and fiscal forecasts and budgets should be credible.***			
241	Independent Evaluation	The Government's economic and fiscal forecasts and performance are subject to independent evaluation.	Budget documentation includes comparisons between the Government's economic and fiscal projections and those of independent forecasters.	An independent entity evaluates the credibility of the Government's economic and fiscal forecasts.	An independent entity evaluates the credibility of the Government's economic and fiscal forecasts, and its performance against its fiscal policy objectives.
242	Supplementary Budget	Any material changes to the approved budget are authorised by the legislature.	A budgetary modification regularises expenditure exceeding the approved budget.	A budgetary modification is required prior to material changes to total budgeted expenditure.	A budgetary modification is required prior to material changes to total budgeted expenditure or substantially altering its composition.

243	Forecast Reconciliation	Budget documentation and any subsequent updates explain any material changes to the Government's previous fiscal forecasts, distinguishing the fiscal impact of new policy measures from the baseline.	Differences between successive vintages of the Government's revenue, expenditure, and financing forecasts are shown at an aggregate level, with a qualitative discussion of the impact of new policies on the forecasts.	Differences between successive vintages of the Government's revenue, expenditure, and financing forecasts are broken down into the overall effect of new policies and macroeconomic determinants.	Differences between successive vintages of the Government's revenue, expenditure, and financing forecasts are broken down into the effects of individual policy changes, macroeconomic determinants, and other factors, such as technical or accounting adjustments.
3	**Fiscal risk analysis and management**	**Governments should disclose, analyse and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector.**			
31	***Risk Disclosure and Analysis***	***Governments should publish regular summary reports on risks to their fiscal prospects.***			
311	Macroeconomic Risks	The Government reports on how fiscal outcomes might differ from baseline forecasts as a result of different macroeconomic assumptions.	Budget documentation includes discussion of the sensitivity of fiscal forecasts to major macroeconomic	Budget documentation includes sensitivity analysis and alternative macroeconomic and fiscal forecast scenarios.	Budget documentation includes sensitivity analysis, alternative scenarios, and probabilistic forecasts of fiscal outcomes.
312	Specific Fiscal Risks	The Government provides a regular summary report on the main specific risks to its fiscal forecasts.	The main specific risks to the fiscal forecast are disclosed in a summary report and discussed in qualitative	The main specific risks to the fiscal forecast are disclosed in a summary report, along with estimates of their magnitude.	The main specific risks to the fiscal forecast are disclosed in a summary report, along with estimates of their magnitude and, where practicable, their likelihood.

313	Long-Term Fiscal Sustainability Analysis	The Government regularly publishes projections of the evolution of the public finances over the long-term.	The Government regularly publishes projections of the sustainability of the main fiscal aggregates and	The Government regularly publishes multiple scenarios for the sustainability of the main fiscal aggregates and any health and Social Security	The Government regularly publishes multiple scenarios for the sustainability of the main fiscal aggregates and any health and Social Security funds over at least the next 30 years
No.	**DIMENSION**	**PRINCIPLE**	**PRACTICES**		
			BASIC	**GOOD**	**ADVANCED**
3	**Fiscal risk analysis and management**	**Governments should disclose, analyse and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector.**			
32	***Risk Management***	***Specific risks to the public finances should be regularly monitored, disclosed and managed.***			
321	Budgetary Contingencies	The budget has adequate and transparent allocations for	The budget includes an allocation for contingencies.	The budget includes an allocation for contingencies	The budget includes an allocation for contingencies with transparent access
322	Asset and Liability Management	Risks relating to major assets and liabilities are disclosed and managed.	All borrowing is authorised by law and the risks surrounding the Government's debt holdings are analysed and disclosed.	All borrowing is authorised by law and the risks surrounding the Government's financial assets and liabilities are analysed and disclosed.	All liabilities and significant asset acquisitions or disposals are authorised by law, and the risks surrounding the balance sheet are disclosed and managed according to a published strategy.
323	Guarantees	The Government's guarantee exposure is regularly disclosed and authorised by law.	All Government guarantees, their beneficiaries, and the gross exposure created by them are published at least annually.	All Government guarantees, their beneficiaries, and the gross exposure created by them are published at least annually. The maximum value of new guarantees or their stock is authorised by law.	All Government guarantees, their beneficiaries, the gross exposure created by them, and their probability of being called are published at least annually. The maximum value of new guarantees or their stock is

324	Public-Private Partnerships	Obligations under public-private partnerships are regularly disclosed and actively managed.	The Government at least annually publishes its total rights, obligations and other exposures under public-private partnership contracts.	The Government at least annually publishes its total rights, obligations, and other exposures under public-private partnership contracts and the expected annual receipts and payments over	The Government at least annually publishes its total rights, obligations, and other exposures under public-private partnership contracts and the expected annual receipts and payments over the life of the contracts. A legal limit is also
325	Financial Sector Exposure	The Government's potential fiscal exposure to the financial sector is analysed, disclosed and managed.	The authorities quantify and disclose their explicit support to the financial sector at least annually.	The authorities quantify and disclose their explicit support to the financial sector at least annually, and regularly undertake an assessment of financial sector stability.	The authorities quantify and disclose their explicit support to the financial sector at least annually, and regularly undertake an assessment of financial sector stability, based on a plausible range of macroeconomic and financial market
326	Natural Resources	The Government's interest in exhaustible natural resource assets and their exploitation is valued, disclosed and managed.	The Government publishes annual estimates of the volume and value of major natural resource assets, as well as the volume and value of the previous year's sales and fiscal	The Government publishes annual estimates of the volume and value of major natural resources assets under different price scenarios, as well as the volume and value of the previous year's sales and fiscal revenue.	The Government publishes annual estimates of the volume and value of major natural resource assets under different price and extraction scenarios, as well as the volume and value of the previous year's sales and fiscal revenue.

327	Environmental Risks	The potential fiscal exposure to natural disasters and other major environmental risks are analysed, disclosed, and managed.	The Government identifies and discusses the main fiscal risks from natural disasters in qualitative terms.	The Government identifies and discusses the main fiscal risks from natural disasters, quantifying them on the basis of historical experiences.	The Government identifies and discusses the main fiscal risks from natural disasters, quantifying them on the basis of historical experiences, and managing them according to a published strategy.
No.	**DIMENSION**	**PRINCIPLE**	**PRACTICES**		
			BASIC	**GOOD**	**ADVANCED**
3	**Fiscal risk analysis and management**	**Governments should disclose, analyse and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector.**			
33	***Fiscal Coordination***	***Fiscal relations and performance across the public sector should be analysed, disclosed and coordinated.***			
331	Sub-National Governments	Comprehensive information on the financial condition and performance of sub-national governments, individually and as a consolidated sector, are collected and published.	The financial condition and performance of sub-national governments is published annually.	The financial condition and performance of sub-national governments is published annually, and there is a limit on their liabilities or borrowing.	The financial condition and performance of sub-national governments is published quarterly, and there is a limit on their liabilities or borrowing.
332	Public Corporations	The Government regularly publishes comprehensive information on the financial performance of public corporations, including any quasi-fiscal activity undertaken by them.	All transfers between the Government and public corporations are disclosed on at least an annual basis.	All transfers between the Government and public corporations are disclosed, and based on a published ownership policy, a report on the overall financial	All direct and indirect support between the Government and public corporations are disclosed, and based on a published ownership policy. A report on the overall financial performance of the public corporations sector,

ANNEX FISCAL TRANSPARENCY RECOMMENDATIONS MADE BY THE IMF TO SPAIN IN 2005

- The publication of timely information on the fiscal accounts of the sub-national tiers of government is urgently needed to improve fiscal transparency in a highly devolved system. The provisional quarterly information on fiscal outturns on a national accounting basis, already compiled by the General Controller and Accounting Directorate (IGAE), should be regularly published.

- The criteria utilised to delineate the boundaries between General Government and public enterprises, the nature of the transfers between them, and the quasi-fiscal activities (QFAs) carried out by some non-financial public enterprises should be more transparently explained in individual cases.

- Medium- to long-term fiscal costs and risks associated with various forms of private-public partnerships in all tiers of government should be systematically quantified, transparently disclosed in budgetary documentation and considered in fiscal scenarios and long-term projections.

- A detailed reconciliation of data on General Government operations on a budget basis with those on a national accounting basis should be regularly published.

- Methodologies and assumptions underlying budget projections should be explained in detail in the budget documents, and their independent scrutiny should be encouraged.

- As called for by the recent General Budget Law, a detailed medium-term budget framework (MTBF) should be developed, along with improved indicators of results of budgetary programmes, needed for the progressive introduction of performance budgeting in Spain; this would also facilitate a progressive increase in the focus of internal controls on the cost-effectiveness of government spending.

- Efforts should be made to accelerate external audits by the Court of Accounts, with a view to enhancing their effectiveness.