



Autoridad Independiente
de Responsabilidad Fiscal

Opinion on Fiscal Transparency in the Spanish General Government

15 April 2021

What is a fiscal transparency evaluation?

- The IMF has a Transparency Code (2014) which identifies best practices in fiscal transparency
- On the basis of this code, country evaluations are performed to measure levels of transparency in different areas of public finances
- In order to perform these evaluations, the IMF uses the Fiscal Transparency Handbook, which sets out a series of 36 indicators and identifies for each one of them the practices by level (not met, basic, good and advanced)
- The final result is presented in the form of a heat map, with colours assigned to each level in order to have an overall picture of the situation



Why are we interested as an institution?

- **Strategic Plan 2020-2026**
 - ❖ **Aim 1: In-depth oversight of all tiers of government.**
 - **Objective 1:** Monitoring the budgetary situation.
 - **The bulk of the work performed by AIReF is based on budgetary and fiscal information**
 - ❖ **Aim 2: Ensuring the long-term sustainability of public finances**
 - **Objective 1:** In-depth analysis of long-term sustainability The quality and transparency of public finances is of fundamental importance → Correlation between institutional quality and compliance with fiscal rules
- **Supervision of the principle of transparency** with a broader criterion than the literal one laid down in the Organic Law on Budgetary Stability and Financial Stability
- Over these years, we have identified deficiencies and weaknesses in this information → **Recommendations issued**
- **Allows a comparative view** with peer countries (United Kingdom, Portugal, Austria, Ireland and Malta)

List of IMF indicators

- ❑ **PILLAR I Fiscal reporting*** → Should provide a comprehensive, relevant, timely and reliable overview of the state of public finances
- ❑ **PILLAR II Fiscal forecasting and budgeting** → Budgets and their underlying fiscal forecasts should provide a clear statement of budgetary objectives and policy intentions, and comprehensive, timely and credible projections of the evolution of public finances
- ❑ **PILLAR III Fiscal risk analysis and management** → Governments should disclose, analyse and manage risks to public finances and ensure effective coordination of fiscal decision-making across the public sector

Each pillar has 12 indicators grouped into several dimensions

List of IMF indicators

✓ **PILLAR I Fiscal reporting (12 indicators)**

- Coverage (4): of institutions, of stocks, of flows and of tax expenditures
- Frequency and timeliness (2): in-year and annual
- Quality (3): standardised classifications, in accordance with international standards, internal consistency, historical revisions of the series
- Integrity (3): statistics, external audit and comparability of data

✓ **PILLAR II Fiscal forecasting and budgeting (12 indicators)**

- Comprehensiveness (4): budget unity, macroeconomic forecasts, MTBF, investment projects
- Orderliness (2): quality of the legal framework and timeliness of GSB
- Policy orientation (3): fiscal rules, performance budgeting and public participation
- Credibility (3): independent evaluation, supplementary budget and forecast reconciliation

✓ **PILLAR III Fiscal Risk Management and Analysis (12 indicators)**

- Risk disclosure and analysis (3): macroeconomic risks, specific fiscal risks, long-term fiscal sustainability analysis
- Risk management (7): coverage of budgetary contingencies, assets and liabilities, guarantees, PPPs, financial sector exposure, natural resources, environmental risks
- Coordination (2): with sub-national governments, with public corporations

List of indicators: GG (Pillar I) and Central Government (Pillars II and III)

PILLAR I (GG)

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. Annual frequency of reports
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

PILLARS II & III (CG)

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. Territorial administrations
2.4.3 Forecast reconciliation	3.3.2. Public entities outside scope of the ESA

PILLAR I. Fiscal reporting

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. Annual frequency of reports
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



Analysis performed for the GG

- ✓ Best practices, in line with peer countries
- ✓ The reports generally provide a comprehensive, relevant, timely, and reliable overview of the state of public finances
- ✓ It is basic in:
 - ✓ **Historical revisions:** Revisions to fiscal statistics are published and only partially explained.
 - ✓ **Timeliness of the financial statements:** this is scored according to the months it takes to publish the accounts, putting us within 1 month of good practice.

Proposals PILLAR I. Fiscal reporting

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. Annual frequency of reports
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I.3.1. Classification
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I.3.3. Historical revisions
I.4.1. Statistical integrity
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Proposals:

- ✓ The INE and the IGAE must persevere in their **efforts to make the historical revisions more transparent and easier to understand** for the 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.

PILLAR II. Fiscal forecasting and budgeting



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

- ✓ Mostly good or advanced practices in CG and ARs
- ✓ Significant limitations in medium-term budgeting, compliance with the timetable for preparing and submitting budgets and in forecast reconciliation.
- ✓ **Fragmented budgetary process:**
 - ✓ It does not ensure consistency between its main elements: Stability Programme, the budgets of each administration and the budgetary plan
- ✓ **AR analysis in line with CG**, coinciding with 2 of the 3 practices not met:
 - Medium-term budget framework: information exists but not public
 - Forecast reconciliation

Proposals Pillar II. Fiscal forecasting and budgeting



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

Proposals:

- ✓ **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 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.
- ✓ 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.

Proposals Pillar II. Fiscal forecasting and budgeting



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

Proposals:

- ✓ Complying with the obligation to **submit the draft budgets according to the timeline 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 indicators system that makes the continuous evaluation of public policies feasible, as proposed in Project 1 of the 2018 Spending Review conducted by AIReF on Evaluation of Subsidy Strategy and Procedure.

PILLAR III. Fiscal risks



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. Territorial administrations
3.3.2. Public entities outside scope of the ESA

- ✓ Pillar with the most weaknesses and considerable room for improvement.
- ✓ There is a need for a more exhaustive analysis of the risks that might affect public finances and the design of risk management strategies.
- ✓ Improvement in CG in risks associated with exposure to the financial sector and to the TAs.
- ✓ The implications of the risks associated with the macroeconomic scenario and contingent liabilities, such as guarantees and public-private partnerships, are scarcely analysed.
- ✓ Only aggregated information based on the requirements of Directive 85/11 is published.
- ✓ **At the level of the ARs**, this is also where the most weaknesses lie, including the absence of a long-term sustainability analysis.

Proposals Pillar III. Fiscal risks



III. Fiscal risk analysis and management
3.1.1. Macroeconomic Risks
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Proposals:

- ✓ Preparing 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.**

Proposals Pillar III. Fiscal risks



III. Fiscal risk analysis and management
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Proposals:

- ✓ 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.

List of indicators: Autonomous Regions

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
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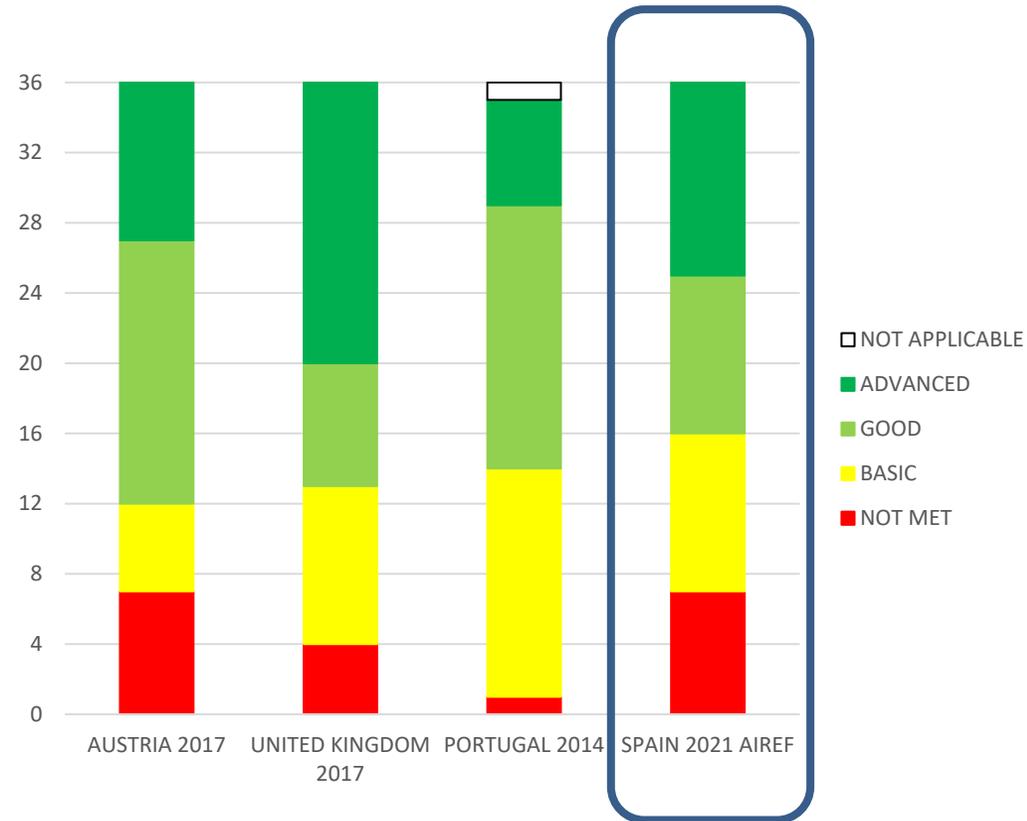
- ✓ In the case of the ARs, the analysis:
 - ✓ Does not apply to 2 indicators (white);
 - ✓ Has been carried out individually by region;
 - ✓ Average of the scores to obtain an approximation of the regional sub-sector.
- ✓ In Pillar II, practices are generally good and advanced.
- ✓ Pillar III concentrates the practices not met.

List of indicators: ranking between ARs.

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	

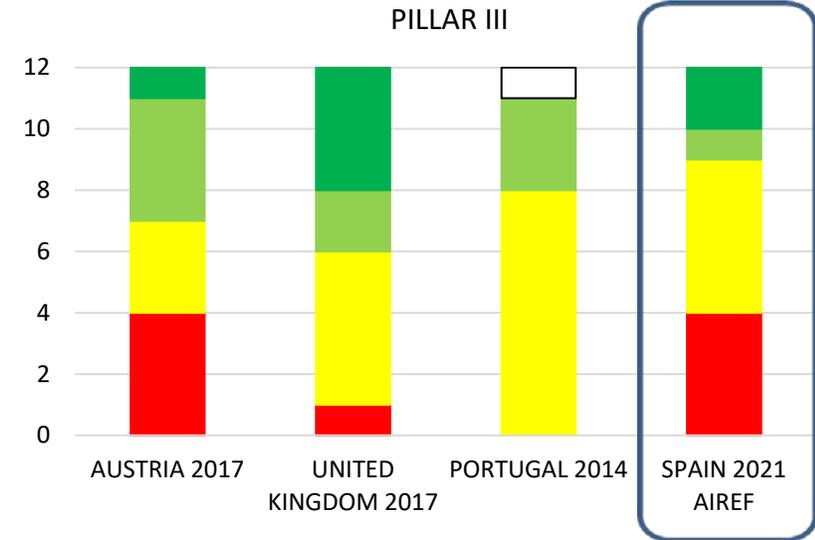
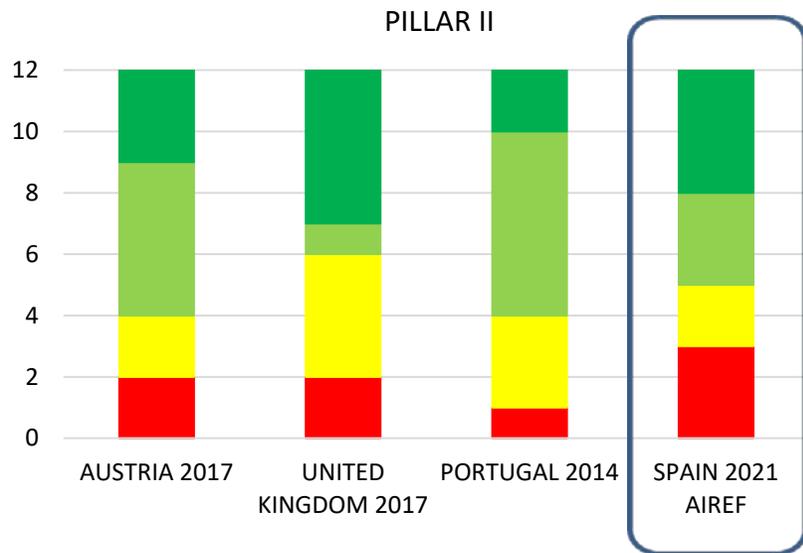
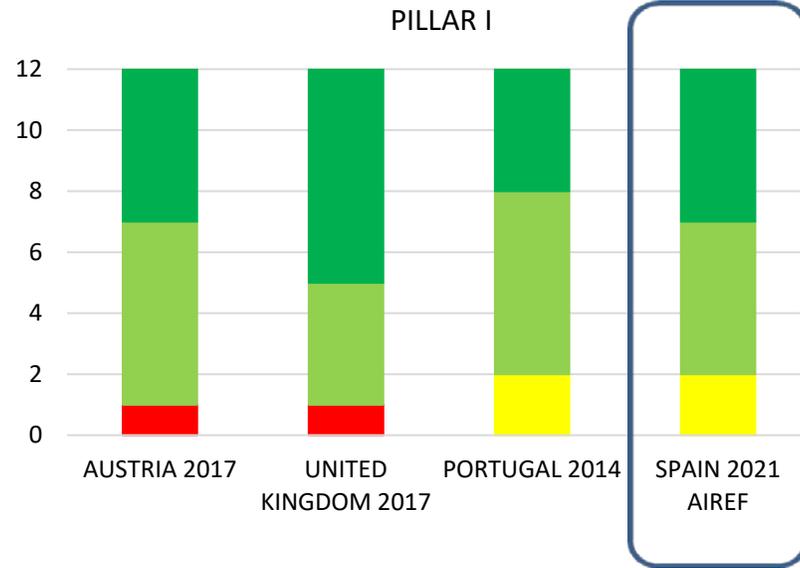
Methodology: the sum of the scores obtained is calculated for each region and divided by the common indicators that are applicable.

Comparative position of Spain with other countries



- ❖ Spain's relative position is similar to, although slightly worse than its peer countries.
- ❖ Good and advanced practices are concentrated in PILLAR I and to a lesser degree in PILLAR II, with the worst results achieved in identifying and managing fiscal risks.

Comparative position of Spain with other countries by pillar



Conclusions

- The analysis of **fiscal transparency** puts Spain in a **similar position to that of its peer countries**
- Relevant **areas for improvement** in medium-term orientation and fiscal risk management are identified:
 - In practice, the budgetary process is fragmented, and it is not possible to ensure consistency between its main elements (SPU, GSB and Budgetary Plan)
 - There is considerable room for improvement in the identification and management of risks to public finances
- AIReF's main **proposals**:
 - **Comprehensive medium-term budget framework** for the GG and for each administration
 - Ensuring **the consistency and reconciliation of the main budget planning documents** (SPU, GSB and DBP)
 - Drawing up a **report on specific fiscal risks and designing** management and mitigation **strategies**



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List of indicators. PILLAR I. FISCAL REPORTING

COVERAGE

1.1.1 Coverage of institutions. Fiscal reports cover all entities engaged in public activity according to international standards.

1.1.2 Coverage of stocks. Fiscal reports include a balance sheet of public assets, liabilities and net worth.

1.1.3 Coverage of flows. Fiscal reports cover all public revenue, expenditure and financing.

1.1.4 Coverage of tax expenditures. The government regularly discloses and manages revenue loss from tax expenditure.

FREQUENCY AND TIMELINESS

1.2.1. Frequency of in-year reporting. In-year fiscal reports are published on a frequent and regular basis.

1.2.2. Timeliness of annual financial statements. Audited or final annual financial statements are published in a timely manner.

List of indicators. PILLAR I. FISCAL REPORTING

QUALITY

1.3.1. Classification. Fiscal reports classify information in ways that make clear the use of public resources and facilitate international comparisons.

1.3.2. Internal consistency. Fiscal reports are internally consistent and include reconciliations between alternative measures of summary fiscal aggregates.

1.3.3. Historical revisions. Major revisions to historical fiscal statistics are disclosed and explained.

INTEGRITY

1.4.1. Statistical integrity. Fiscal statistics are compiled and disseminated in accordance with international standards.

1.4.2. External audit. Annual financial statements are subject to a published audit by an independent supreme audit institution which validates their reliability.

1.4.3. Comparability of fiscal data. Fiscal forecasts, budgets and fiscal reports are presented on a comparable basis, with any deviations explained.

3. Indicator. PILLAR II FISCAL FORECASTING AND BUDGETING

COMPREHENSIVENESS

2.1.1. Budget unity. Revenue, expenditure and financing of all central government entities are presented on a gross basis in budget documentation and authorised by Parliament.

2.1.2. Macroeconomic forecasts. The budget projections are based on comprehensive macroeconomic forecasts, which are disclosed and explained.

2.1.3. Medium-term budget framework: Budget documentation includes outturns and projections of revenue, expenditure and financing over the medium term on the same basis as the annual budget.

2.1.4. Investment projects The government regularly discloses its financial obligations under multi-annual investment projects and subjects all major projects to a cost-benefit analysis and open and competitive tender.

ORDERLINESS

2.2.1. Fiscal legislation: The legal framework clearly defines the timetable for budget preparation and approval, key contents of the budget documentation, and the powers and responsibilities of the Government and Parliament in the budget process.

2.2.2. Timeliness of budget documents: Parliament and the public are consistently given adequate time to scrutinise and approve the annual budget.

3. Indicator. PILLAR II FISCAL FORECASTING AND BUDGETING

FISCAL POLICY ORIENTATION

2.3.1. Fiscal policy objectives: The Government states and reports on clear and measurable objectives for the public finances.

2.3.2. Performance information: Budget documentation provides information regarding the objectives and results achieved under each major government policy area.

2.3.3. Public participation: The government provides citizens with an accessible summary of the implications of budget policies and an opportunity to participate in budget deliberations.

CREDIBILITY

2.4.1. Independent evaluation: The Government's economic and fiscal forecasts and performance are subject to independent evaluation.

2.4.2. Supplementary budget: Any material changes to the approved budget are authorised by Parliament

2.4.3. 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.

3. Indicator. PILLAR III FISCAL RISK ANALYSIS AND MANAGEMENT

RISK DISCLOSURE AND ANALYSIS

3.1.1. Macroeconomic risks: The government reports on how fiscal outcomes might differ from baseline forecasts as a result of different macroeconomic assumptions.

3.1.2. Specific fiscal risks: The government provides a regular summary report on the main specific risks to its fiscal forecasts.

3.1.3. Long-term fiscal sustainability analysis: The government regularly publishes projections of the evolution of the public finances over the long term.

RISK MANAGEMENT

3.2.1. Budgetary contingencies: The budget has adequate and transparent allocations for contingencies that arise during budget execution.

3.2.2. Asset and liability management: Risks relating to major assets and liabilities are disclosed and managed.

3.2.3. Guarantees: The Government's guarantee exposure is regularly disclosed and authorised by law.

3.2.4. Public-private partnerships: Obligations under public-private partnerships are regularly disclosed and actively managed.

3.2.5. Financial sector exposure: The Government's potential fiscal exposure to the financial sector is analysed, disclosed and managed.

3.2.6. Natural resource stocks and flows: The government's interest in exhaustible natural resource assets and their exploitation is valued, disclosed, and managed.

3.2.7. Environmental risks: The potential fiscal exposure to natural disasters and other major environmental risks is analysed, disclosed and managed.

3. Indicator. PILLAR III FISCAL RISK ANALYSIS AND MANAGEMENT

FISCAL COORDINATION

3.3.1. Sub-national governments: Comprehensive information on the financial condition and performance of sub-national governments, individually and as a consolidated sector, is collected and published.

3.3.2. Public corporations: The Government regularly publishes comprehensive information on the financial performance of public corporations, including any quasi-fiscal activity undertaken by them.

2. List of indicators: Portugal

Summary of the results of the evaluation for Portugal in 2014		
I. Fiscal Reporting	II. Fiscal forecasting & budgeting	III. Fiscal risk analysis and management
1.1. Institutional coverage	1.1. Budget unity	1.1. Macroeconomic Risks
1.2. Coverage of Stocks	1.2. Macroeconomic Forecasts	1.2. Specific Fiscal Risks
1.3. Coverage of flows	1.3. MT Budget Framework	1.3. LT sustainability analysis
1.4. Coverage of Tax Expenditures	1.4. Investment Projects	2.1. Budgetary Contingencies
2.1. Annual frequency of reports	2.1. Fiscal Legislation	2.2. Asset and liability risk management
2.2. Timeliness of financial statements	2.2. Timeliness of budgets	2.3. Guarantees
3.1. Classification	3.1. Fiscal policy objectives	2.4. Public-private partnership
3.2. Internal consistency	3.2. Performance information	2.5. Financial Sector Exposure
3.3. Historical revisions	3.3. Public Participation	2.6. Natural Resources
4.1. Statistical integrity	4.1. Independent evaluation	2.7. Environmental risks
4.2. External audit	4.2. Supplementary budget	3.1. Territorial administrations
4.3. Comparability of data	4.3 Forecast reconciliation	3.2. Public entities outside scope of the ESA

2. List of indicators: Austria

Summary of the results of the evaluation for Austria in 2017		
I. Fiscal Reporting	II. Fiscal forecasting & budgeting	III. Fiscal risk analysis and management
1.1. Institutional coverage	1.1. Budget unity	1.1. Macroeconomic Risks
1.2. Coverage of Stocks	1.2. Macroeconomic Forecasts	1.2. Specific Fiscal Risks
1.3. Coverage of flows	1.3. MT Budget Framework	1.3. LT sustainability analysis
1.4. Coverage of Tax Expenditures	1.4. Investment Projects	2.1. Budgetary Contingencies
2.1. Annual frequency of reports	2.1. Fiscal Legislation	2.2. Asset and liability risk management
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3.1. Classification	3.1. Fiscal policy objectives	2.4. Public-private partnership
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4.2. External audit	4.2. Supplementary budget	3.1. Territorial administrations
4.3. Comparability of data	4.3 Forecast reconciliation	3.2. Public entities outside scope of the ESA

2. List of indicators: United Kingdom

Summary of the results of the evaluation for United Kingdom in 2017		
I. Fiscal Reporting	II. Fiscal forecasting & budgeting	III. Fiscal risk analysis and management
1.1. Institutional coverage	1.1. Budget unity	1.1. Macroeconomic Risks
1.2. Coverage of Stocks	1.2. Macroeconomic Forecasts	1.2. Specific Fiscal Risks
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