PRESS RELEASE
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AIReF STATES THAT THE EXCEPTIONAL CIRCUMSTANCES FOR ACTIVATING THE ESCAPE CLAUSE STILL EXIST IN 2022

- **AIReF's estimates suggest an exit from the crisis with a more vulnerable fiscal position in terms of structural deficit and debt.**

- **In its report, AIReF recommends that the medium-term fiscal strategy should act as fiscal guidance and realistically and credibly ensure the financial sustainability of the General Government.**

- **This fiscal strategy requires:**

    - **The support of all tiers of government, considering their fiscal realities in terms of revenues and powers, in order to ensure appropriate coordination and co-responsibility.**
    - **Specifying the fiscal targets and milestone schedules.**
    - **Including a sufficiently extensive time horizon to place debt on a path that will reduce its level of vulnerability.**
    - **Integrating the macroeconomic and fiscal implications of the investments and reforms set out in the RTRP.**
    - **Basing the strategy on realistic macroeconomic and fiscal forecasts.**
    - **Including measures for contingency scenarios.**

- **AIReF also recommends that the Government should promote the relevant legislative initiatives in order to regulate the implications resulting from the activation of the escape clause provided for in the Organic Law on Budgetary Stability and Financial Stability for the finances of the General Government.**

At the request of the Ministry of the Treasury and Civil Service, the Independent Authority for Fiscal Responsibility (AIReF) has issued and published today on its website the Report on the Existence of the Exceptional Circumstances to maintain active the escape clause referred to in Article 11.3 of Organic Law 2/2012, of 27th April, on Budgetary Stability and Financial Sustainability (Spanish acronym: LOEPSF). In this report, AIReF recommends that the Government should prepare a national medium-term fiscal strategy that will act as fiscal guidance and will realistically and credibly ensure the financial sustainability of the General Government (GG) as set out in the LOEPSF.

In March 2020, with the severe economic recession caused by the outbreak of the pandemic, the European Commission (EC) and the Council approved the activation of the general escape clause of the Stability and Growth Pact (SGP) for 2020 and in the autumn of the same year it was agreed to extend its activation to 2021 as a result of

the severity of the economic recession. Furthermore, the EC announced last March, and confirmed in June, that the requirements for **maintaining the general escape clause in force for 2022** have been met, with its deactivation put back to 2023. However, the European fiscal supervisory framework that will prevail at that time, and whose reform has been put on hold during the crisis, has yet to be defined.

At the national level, on 6th October 2020, the Government initiated the procedure for the activation of the escape clause provided for in the LOEPSF. At that time, the Council of Ministers ordered the suspension of the stability and debt targets for 2020 and for the period 2021-2023, approved by Parliament in March 2020, which had been rendered completely out-of-date by the impact of the pandemic.

Prior to its approval by Parliament, on 13th October 2020, AIReF issued the Report on the existence of the exceptional circumstances referred to in Article 11.3 of the LOEPSF, as required by Article 22 of the Organic Law on the establishment of AIReF, in order to maintain the escape clause. In this report, AIReF took the view that the serious crisis caused by the pandemic could be considered an extraordinary situation beyond the control of the General Government, within the exceptional circumstances referred to in the LOEPSF. Finally, on 20th October 2020, Parliament approved by an absolute majority the activation of the escape clause.

AIReF's assessment

AIReF considers that the exceptional circumstances referred to in Article 11.3 of the LOEPSF as a result of the COVID-19 pandemic still exist in 2022. Despite progress in the vaccination rollout, successive waves of the pandemic cast uncertainty over the degree of normalisation that can be achieved in health, economic and social terms in the remainder of 2021 and 2022. Added to this is the uncertainty about when the RTRP will begin to deploy its effects and the size of its impact. In this regard, AIReF has announced its intention to revise its macroeconomic scenario in its next report with more extensive information on these aspects.

However, even before the recent worsening of the health indicators, AIReF's projections indicated that, without the boost associated with the Recovery, Transformation and Resilience Plan (RTRP), the economy would not recover pre-pandemic levels of activity until 2023. The impact of the Plan would bring that date forward to 2022.

In the fiscal area, in its central scenario, AIReF estimates a General Government deficit of 7.9% of GDP in 2021, below the 8.4% of GDP forecast by the Government. This represents a reduction of just over 3 points of GDP compared with 2020. In the Report issued in May, it estimated for its central scenario a reduction in the General Government deficit to 3.5% of GDP in 2024, 0.3 points higher than that included in the SPU. In this context, AIReF's estimates suggest an exit from the crisis with a more vulnerable fiscal position in terms of structural deficit and debt.

AIReF's assessment of the macro-budgetary conditions suggest that the escape clause should be maintained and is in line with the decisions taken in the European fiscal supervision framework. Given this situation, it considers that fiscal policy continues to

be a necessary tool for consolidating a quick exit from the crisis and avoiding, as far as possible, permanent effects on the production structure.

As AIReF has pointed out on numerous occasions, the suspension of fiscal rules, far from implying a relaxation of fiscal responsibility, means that the actions of the General Government should continue to be geared towards ensuring the sustainability of the public accounts in the medium and long term, which, as stated in Article 11.3 of the LOEPSF, cannot be endangered by temporary deviations in the deficit. Once the most acute phase of the health and economic crisis has passed, there is a risk that, in a context of suspended fiscal rules, the General Government will take on increases in structural expenditure without providing for sources of funding that are also structural. This risk is amplified by the absence of a medium-term fiscal strategy that would give greater predictability to the actions of each of the tiers of government.

That is why AIReF reiterates that the activation of the escape clause in Spanish law is associated with the approval of a rebalancing plan. This plan must provide for the correction of the structural deficit taking into consideration the exceptional circumstance that caused the non-compliance, which would have allowed the deficit path to be adjusted to the duration of the exceptional circumstances, and serve as the foundation for the new budgetary cycle. To date, the aforementioned plan has still not been presented despite the activation of the clause in October 2020.

Recommendations

Since the beginning of the pandemic, AIReF has recommended that the Government should establish a medium-term fiscal strategy to provide realistic and credible guidance and ensure the financial sustainability of the General Government. AIReF considers that preparing a fiscal strategy involves planning in the medium term, i.e. setting future objectives and targets and planning actions to achieve them, which does not mean consolidation at the present time. Furthermore, the plan should be flexible with the ability to revise it depending on the circumstances that arise. The very existence of planning, which sets targets and allows for informed decision-making, is what provides certainty to economic agents and allows for greater control of budgetary activity.

Consequently, AIReF recommends that the Government should establish a national medium-term fiscal strategy that will act as fiscal guidance and will realistically and credibly ensure the financial sustainability of the General Government This requires:

- The support of all tiers of government, considering their fiscal realities in terms of revenues and powers, in order to ensure appropriate coordination and co-responsibility.
- Specifying the fiscal targets and milestone schedules.
- Including a sufficiently extensive time horizon to place the debt on a path that will reduce its level of vulnerability.
- Integrating the macroeconomic and fiscal implications of the investments and reforms set out in the RTRP.
- Basing the strategy on realistic macroeconomic and fiscal forecasts.
- Including measures for contingency scenarios.

Furthermore, in order to make the national fiscal framework more transparent and facilitate informed decision-making by the various public authorities, AIReF also recommends that the Government should promote the relevant legislative initiatives in order to regulate the implications resulting from the activation of the escape clause provided for in the LOEPSF for the finances of the General Government.