

AIReF estimates a two-tenth increase in the Autonomous Regions' deficit up to 0.6% in 2022, after closing 2021 with a deficit of 0.4% in 2021

- **This forecast for 2022 is similar to that included in the Budgetary Plan and slightly more positive than that expected by the Autonomous Regions as a whole**
- **The Report reflects that regional revenue would fall by around 2%, losing 1.6 points of GDP due to the expected improvement this year**
- **The institution's forecasts also estimate a slight fall in expenditure on the level of the previous year, with the reduction directly linked to COVID largely being offset by more pronounced growth in other expenditure**
- **In 2021, only two ARs would exceed the reference rate of -1.1% initially set for the sub-sector**
- **Regarding 2022, AIReF estimates that Castile-La Mancha, Catalonia, Murcia and Valencia might close with a deficit higher than the 0.6% expected for the AR sub-sector as a whole**
- **AIReF recommends that the ARs adopt the necessary measures to prevent the fiscal space left by the withdrawal of the measures to combat COVID and the positive evolution of revenue being used to carry out structural expenditure that does not have a permanent source of funding**

The Independent Authority for Fiscal Responsibility (AIReF) presented the Report on the 2022 Main Budgetary Lines and Draft Budget of the General Government (GG) last Monday, in which the AR sub-sector is estimated to record a deficit of 0.6% of GDP, up from the 0.4% that it is likely to record in 2021. This increase in the deficit is explained by a fall in revenue in 2022, excluding the effects of the Recovery, Transformation and Resilience Plan (RTRP) funds, which is not fully offset by the progressive removal of pandemic-related measures. The general analysis of the sub-sector is completed with the publication today of the individual reports on the main budgetary lines for 2022 of each autonomous region.

AIReF's outlook for 2021 improves slightly compared with the previous report published in July, with a deficit forecast for the sub-sector of 0.4% of GDP. This is more optimistic than the 0.6% forecast included in the Budgetary Plan and estimated by the regions.

For 2022, AIReF forecasts that the AR sub-sector will reach a deficit of 0.6% of GDP, similar to the set reference rate and slightly lower than that forecast by the ARs as a whole for that year. The balance of the sub-sector would worsen

by about 0.2 points compared with that expected by the institution in 2021 as a fall in revenue is expected that is moderate, but higher than the expected fall in expenditure. The aggregate regional forecasts would result in a deficit of 0.7% in 2022, with estimates of revenue and, to a greater extent, expenditure higher than those considered in AIReF's scenario.

The Report reflects that regional revenue would fall by around 2%, losing 1.6 points of GDP due to the expected improvement in 2021. In addition, AIReF expects tax revenue to evolve positively, although at a slower rate of growth than in the previous year, and a higher volume of revenue from REACT-EU funds, while the regional forecasts estimate higher growth in revenue, concentrated in transfers from the State and European funds other than the RTRP and REACT-EU.

The institution's forecasts also show a slight fall in expenditure on the level of the previous year, as the reduction directly linked to COVID-19 is largely offset by sharper growth in other expenditure. Specifically, expenditure directly associated with the healthcare crisis is forecast to fall by 0.7 points of GDP. The aggregated regional forecasts predict higher expenditure increases than those estimated by AIReF, which seem to be concentrated in capital expenditure. The institution estimates that the computable expenditure for the purposes of the expenditure rule will decrease in 2022 by around 3%.

Differences between ARs

The individual analyses reveal significant differences between regions, both in AIReF's forecasts and in the regional forecasts in 2021 and 2022

Compared with 2021, at an individual level, the year-end forecasts improve for nine ARs and worsen in four others. A major part of the individual variations stem from the distribution of the extraordinary deficit fund, which finally took place under population criteria and not according to GDP, as initially estimated by AIReF and most of the ARs. Most of the ARs have also improved their estimates for 2021.

The forecasts for Andalusia, Asturias, the Balearic Islands, Castile and Leon, Castile-La Mancha, Extremadura, Navarre, Murcia and Valencia improve, although the latter two are still expected to have a deficit of over 1.1%. In contrast, the outlook for 2021 in Aragon, Cantabria, Catalonia and Rioja worsens, although they remain below -1.1%.

For 2022, AIReF estimates that nine ARs could close the year with a deficit of under 0.6%, four with a similar deficit and another four with a higher deficit. The Autonomous Regions of Asturias, the Balearic Islands, the Canary Islands, Castile and Leon, Galicia, Madrid, Navarre, the Basque Country and Rioja would achieve a balance more favourable than the reference set for the sub-sector, of 0.6%. On the other hand, Andalusia, Aragon, Cantabria and Extremadura would close with a balance similar to that rate of 0.6%. Finally, Castile-La Mancha, Catalonia, Murcia and Valencia would exceed that deficit.

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	2021	2022	2021	2022
ANDALUCÍA	-0,3%	-0,6%	-0,5%	-0,6%
ARAGÓN	-0,8%	-0,6%	-1,1%	
ASTURIAS	-0,2%	-0,4%	-0,5%	-0,7%
BALEARES	0,0%	-0,2%	-0,2%	-0,6%
CANARIAS	0,2%	0,4%	-0,1%	-0,1%
CANTABRIA	-0,5%	-0,6%	-0,8%	-0,6%
CASTILLA Y LEÓN	-0,4%	-0,5%	-0,7%	-0,6%
CASTILLA - LA MANCHA	-0,8%	-0,7%	-1,2%	-1,1%
CATALUÑA	-0,6%	-0,8%	-1,1%	-0,6%
EXTREMADURA	-0,4%	-0,6%	-0,4%	-1,7%
GALICIA	-0,5%	-0,4%	-0,9%	-0,6%
COMUNIDAD DE MADRID	-0,1%	-0,3%	-0,1%	-0,6%
REGIÓN DE MURCIA	-1,2%	-1,7%	-1,2%	-1,1%
CF DE NAVARRA	-0,2%	-0,2%	-0,2%	-0,9%
PAÍS VASCO	-0,1%	0,0%	-0,5%	-0,9%
LA RIOJA	-0,6%	0,0%	-0,7%	-0,6%
COMUNITAT VALENCIANA	-1,2%	-1,7%	-0,9%	-0,6%
TOTAL COMUNIDADES AUTÓNOMAS	-0,4%	-0,6%	-0,6%	-0,7%

As shown in the previous year, some of the draft budgets and budgetary lines forecast growth in expenditure higher than that estimated by AIReF. These increases might be structural in nature and should they materialise, they would raise the sub-sector's deficit by 0.2 points.

The debt of the Autonomous Regions could reach 24.4% of GDP by the end of 2022. The debt-to-GDP ratio would fall in both 2021 and 2022, mainly as a result of the denominator effect, to stand at almost three points below the value recorded in 2020. However, the forecast level for the end of 2022 would be around half a point above that reached in 2019, thus moving even further away from the reference figure of 13%.

In subsequent years, while total debt would continue to rise as a result of persistent deficits in the sub-sector, the ratio could continue to decline depending on the evolution of GDP.

Recommendations

As AIReF pointed out in its [general report 48/21](#), the improvement seen so far in the health and economic situation has led to a progressive withdrawal in 2021 of the measures that were adopted to mitigate the effects of the COVID-19 crisis, as well as a recovery in tax revenue to pre-pandemic levels. This generates fiscal spaces that would allow the deficit to be progressively reduced without the need to undertake specific fiscal consolidation processes. This trend might become more pronounced in 2022, as the economic recovery takes hold and healthcare problems subside.

In the absence of fiscal rules and a medium-term strategy, there is a risk that the various GG sub-sectors will have incentives to replace temporary measures with structural increases in expenditure without a permanent source of funding.

Therefore, transferring to the individual level the recommendation already made at the general level, AReF recommends that the regions adopt the necessary measures to prevent the fiscal space left by the withdrawal of the measures to combat COVID-19 and the positive evolution of revenue being used to carry out structural expenditure that does not have a permanent source of funding.