

Recommendations fourth quarter 2021

**THE GOVERNMENT DEVIATES FROM THE
RECOMMENDATIONS AIMED AT IMPROVING THE
CONSISTENCY AND PROPER ORGANISATION OF THE
BUDGETS AND BUDGETARY PLAN**

- The Independent Authority for Fiscal Responsibility made five recommendations in the fourth quarter aimed at providing fiscal policy with a medium-term orientation and strengthening the transparency of public accounts
- The Government and all the Autonomous Regions (ARs), except Catalonia and Valencia, undertake to adopt measures to prevent the withdrawal of measures against COVID-19 and the improvement in revenue from being used to raise structural expenditure without permanent financing
- The Ministry of Finance deviates from the recommendation that the Budgetary Plan should include all the measures planned by the Government and the fiscal impact of the REACT-EU and RTRP funds, as well as the breakdown by sub-sector of revenue and expenditure in national accounting terms.
- It also deviates from the recommendations on the content of the GSB by not including the national accounting adjustments necessary to reconcile the approved budgets with the reference deficit rate

The Independent Authority for Fiscal Responsibility (AIReF) today published on its website the follow-up to the recommendations made in the fourth quarter of 2021. According to the 'comply or explain' principle, the Ministry of Finance and Civil Service deviates from AIReF's new recommendation on the need for the Budgetary Plan to incorporate all the measures planned by the Government and the impact of the REACT-EU and the Recovery, Transformation and Resilience Plan (RTRP) funds.

In the fourth quarter of 2021, AIReF issued a report on the main budgetary lines and draft budget of the General Government (GG) for 2022. This report was supplemented at a territorial level with the issuance of individual reports for the Autonomous Regions (ARs) and the individual evaluation report on some Local Government (LGs). In addition, the macroeconomic forecasts of the draft budgets for 2022 of 13 Autonomous Regions (Asturias, Murcia, Castile and Leon, Canary Islands, Catalonia, Balearic Islands,

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Andalusia, Madrid, Galicia, Valencia, Basque Country, Extremadura and Aragon) have been reported, for which no recommendations have been made.

In total, the Institution made five recommendations, of which two were new, one was repeated and two were live. From the point of view of the public authority to which the recommendation is addressed, and bearing in mind that one single recommendation may be addressed to more than one public authority, 22 recommendations were issued: five to the Ministry of Finance and Civil Service, one to the Ministry of Economic Affairs and Digital Transformation and 17 to the Autonomous Regions.

Regarding their content, the recommendations made in the fourth quarter may be grouped into those aimed at providing fiscal policy with a medium-term orientation to ensure the sustainability of public accounts and those aimed at strengthening the transparency of public accounts.

Medium-term orientation

In the fourth quarter, AIReF recommended that the General Government (GG) 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.

In its response, the Ministry of Finance and Civil Service undertakes to comply with the recommendation, arguing that the Government is firmly committed to the stability set out in the fiscal consolidation path contained in the 2021-2024 Stability Programme Update (SPU). In addition, it states that it is working on incorporating into this path the structural improvement in the public balance that will result from some of the RTRP measures, such as the revision of the tax system and the institutionalisation of the Spending Reviews in AIReF.

At a regional level, all the ARs, except Catalonia and Valencia, undertook to comply with the recommendation, indicating the measures taken to that end. Catalonia explains that fiscal space will not be generated as a result of the withdrawal of measures as long as the pandemic continues, but AIReF believes that the reduction in spending and the improvement in revenue may indeed generate said fiscal space. Valencia, for its part, recognises that a percentage of the measures will be consolidated as structural expenditure and that extraordinary funding will be available from the RTRP. However, it states that its financial situation is dependent on the financing model and its reform. AIReF considers that this region does not undertake to comply with the recommendation issued.

In the fourth quarter, AIReF also made the recommendation to the Government to establish a medium-term fiscal strategy that would act as fiscal guidance and realistically and credibly ensure the financial sustainability of the General Government. In its response, the Ministry of Finance and Civil Service considers that the 2021-2024 SPU, the 2022 GSB, the 2022 Budgetary Plan and the RTRP have complied with this recommendation.

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However, AIReF insists that the SPU constitutes an incomplete approximation of the fiscal strategy, both due to its insufficient time horizon from the point of view of sustainability and due to its failure to include the fiscal path with the revenue and expenditure resulting directly from the RTRP. The Institution deems it necessary to establish medium-term objectives and goals and, at the same time, to provide for actions and fiscal margins to achieve them. This planning does not necessarily mean taking measures at the present time, but rather providing the means for a gradual consolidation as the economic recovery takes hold. In addition, AIReF points out that the RTRP is a medium-term plan of investments and strategic reforms of the GG as a whole, but it is not considered a medium-term fiscal plan since it does not include the forecasts of the main fiscal aggregates in order to serve as a budgetary policy instrument.

Transparency

With regard to transparency, AIReF made a new recommendation and two live recommendations aimed at improving the consistency and proper organisation of budgets and the Budgetary Plan. In particular, the new recommendation suggests that the Budgetary Plan should incorporate all the measures planned by the Government and the impact of the REACT-EU and RTRP funds on the GG's revenue and expenditure, as well as the breakdown by sub-sector in national accounting terms.

The Ministry of Finance and Civil Service deviates from the recommendation, arguing that the Budgetary Plan already incorporates some of that information and that other information is not necessary, either because it has no impact on the public deficit or because it is not required by the Code of Conduct that determines the content of the Budgetary Plan. AIReF does not agree with these arguments. In particular, it highlights the lack of RTRP measures that have not been incorporated into the fiscal and budgetary projections of the Budgetary Plan despite their quantitative importance and their impact on the structural balance. At the same time, it calls for disaggregated information by sub-sector consistent with the aggregated information for the GG as a whole, which is particularly important given the degree of decentralisation in Spain.

The two live recommendations refer to the content of the draft GSB. Firstly, the inclusion of national accounting adjustments and information on those entities which, although not of a public nature, are included for the purposes of ESA 2010 and, secondly, the preparation of budgets in the national accounts. The Ministry of Finance and Civil Service also deviates from these recommendations and argues that information on national accounting adjustments is already published in the six-monthly EDP notifications and that information on these entities is not required by the regulations. It also explains that the complexity of the task of budgeting in the national accounts means that it needs to be addressed at the right time.

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For AIReF, it is not sufficient for national accounting adjustments to be published in EDP notifications, as these reflect adjustments in the execution of revenue and expenditure and, therefore, do not allow reconciliation between the approved budgets and the stability target. In fact, this information was included in the draft GSB prior to 2017. AIReF also deems it essential that the information on the entities that form part of the ESA 2010 be included in the GSB because of their impact on compliance with the stability target, as is the case, for example, of SAREB. In short, this information is necessary in all cases to ensure consistency between the main elements of the budgetary process and to improve the medium-term orientation of fiscal policy.