

## **AIReF PUBLISHES THE FOLLOW-UP OF THE RECOMMENDATIONS MADE IN THIRD QUARTER**

- **AIReF made 7 recommendations, 6 of them new and one considered a live recommendation**

**The Independent Authority for Fiscal Responsibility (AIReF) published on its website today the monitoring of the recommendations made in the third quarter of the year. Specifically, AIReF made 7 recommendations, 6 of which are new and one considered a live recommendation. The new recommendations are geared to providing the public accounts with a medium-term orientation and to strengthening financial sustainability.**

These recommendations were included in the reports issued in the third quarter of the year. Between July and September, AIReF issued the Report on budget execution, public debt and the expenditure rule of the General Government (GG) for 2022, supplemented with the issue of the individual reports for the Autonomous Regions (ARs) and the Report on the Local Governments (LGs). It also issued the Report on the occurrence of exceptional circumstances of the Organic Law on Budgetary Stability and Financial Sustainability and reported on the macroeconomic forecasts of the draft budgets for 2023 of Navarre, Extremadura and Castile-La Mancha.

From the perspective of the recipient authority, taking into account that a single recommendation may be addressed to more than one public authority, 62 recommendations were issued: 6 to the Ministry of Finance and Civil Service and 56 to the ARs. All the public authorities responded to AIReF's request to declare their intention to 'comply or explain'. The Ministry of Finance and Civil Service complies with the recommendation on regional debt but deviates from complying with those relating to the medium term, alleging that it is already complying with them and, in the case of the medium-term strategy, also alleging that it is inappropriate. For their part, the vast majority of the ARs indicate that they are already complying with the recommendations or maintaining their commitment to comply with them.

### **Medium-term orientation**

AIReF recommended that both the Ministry of Finance and Civil Service and the 17 ARs frame the drafting of their budgets for 2023 within a medium-term fiscal strategy. This ministerial department considers it complies with this recommendation in the 2022-2025 Stability Programme Update (SPU), but AIReF considers that the content of this document is insufficient to show its coherence with the General State Budget (GSB), given that it does not offer a breakdown of the headings of expenditure and revenue by tier of government. Furthermore, unlike the GSB, the SPU does not wholly include the impact of the Recovery, Transformation and Resilience Plan (RTRP) and the REACT-EU funds. In addition, the draft GSB does not include any information in national accounting terms for 2023, nor did it contain the multiyear budgetary scenarios referred to in Articles 28 and 29 of the General Budgetary Act.

For their part, most ARs responded that they were complying with the recommendation or expressed their predisposition to comply with it, except for four ARs: Extremadura, Aragon, the Basque Country and Valencia. Although Andalusia undertook to comply with the recommendation, AIReF observed that it has not yet done so, hoping that the Region will do so next year. In contrast, Catalonia, Galicia and the Canary Islands published their medium-term fiscal frameworks and also highlighted them by separating them from the regional budget.

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In the third quarter, AIReF also recommended that the Ministry of Finance and Civil Service and the ARs avoid increasing expenditure or reducing revenue structurally when their permanent financing is not guaranteed. The ministerial department considers that this recommendation is perfectly complied with because in the 2022-2025 SPU it placed the deficit target below the European reference value for the last year and provided for a prudent fiscal path. For AIReF however, this does not necessarily mean that a reduction takes place in the structural deficit or guarantees that the reduction in revenue and increase in spending of a structural nature will include permanent financing. In addition, other extraordinary revenue flows may exist aside from the RRM/REACT funds and the execution of the RTRP may have a more lasting impact, which highlights the importance of integrating it in the revenue and expenditure of the SPU.

The response from the ARs was favourable, except for Valencia, which did not declare its intention to follow the recommendation. Furthermore, although it will collaborate with the ministerial department in the recovery of the fiscal path, it warned of the consolidation of extraordinary expenditure on health and education and of the need to adopt additional anti-crisis measures in 2023.

Lastly, in the macroeconomic endorsement of the budgets for 2023 of the ARs of Extremadura, Navarre and Castile-La Mancha, AIReF recommended specifying the assumptions on the macroeconomic impact associated with the RTRP over the projected horizon. They all undertook to comply with the recommendation, although Navarre did not risk setting a calendar as it did not have all the information on the funds that it was going to receive, when it was going to receive them or what they would be allocated to.

### **Sustainability**

AIReF recommended that the Ministry of Finance and Civil Service take into account the excess financing generated at the close of 2021 in the debt authorisations of the ARs. In addition, that it should take into account, when setting references for the ARs, the possibility that excess debt is generated, and that it should undertake periodic and extensive monitoring of year-end forecasts for each Region. In its response, the Ministry of Finance and Civil Service indicated that it already considers the excess financing from the previous year in the debt authorisations to finance the deficit reference of the ARs and that, since 2019, it has requested information from the ARs on the EDP debt at year-end and strictly monitors this information.

In addition, AIReF recommended that the ARs of the Canary Islands, Cantabria, the Basque Country and Castile and Leon apply the excess financing at the close of 2021, along with the surplus generated that year pending application. They all indicated their compliance therewith except the Basque Country, which gave no express indication. Lastly, AIReF recommended that all ARs, except Valencia and Murcia, should take into account the updated forecasts for year-end and the coming years to adjust debt increases to real financing needs. They all expressed their conformity and indicated how they were undertaking this.

### **Live recommendation**

The live recommendation made refers to the need to rely on a medium-term strategy to serve as fiscal orientation and to realistically and credibly guarantee the financial sustainability of the ARs. The Ministry of Finance and Civil Service does not consider this necessary due to its firm commitment to budgetary stability manifested in the Stability Programme Update and in the Agreement that sets the limit on non-financial State expenditure for 2023. In addition, it stresses that the circumstances are not optimum for designing the planning due to the high degree of

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uncertainty. In AIReF's opinion, the SPU cannot be considered a medium-term strategy and planning is more necessary than ever against the current backdrop of uncertainty.