

PRESS RELEASE  
10/02/2022

## **AIReF PUBLISHES THE FOLLOW-UP OF THE 2022 FOURTH QUARTER RECOMMENDATIONS**

- **The Independent Authority for Fiscal Responsibility made 11 recommendations aimed at strengthening the role of the General State Budget in the design of economic policy, reinforcing budgetary stability and giving the public accounts a medium-term orientation**
- **AIReF's recommendations are governed by the comply-or-explain principle, the institution's main tool for fulfilling its mandate**
- **MINHAFP and MINECO departed from complying with the recommendations made, while the vast majority of the Autonomous Regions complied or showed their commitment to comply**

**The Independent Authority for Fiscal Responsibility (AIReF) published today on its website the follow-up of the recommendations for the fourth quarter of 2022. In this period AIReF made 11 recommendations aimed at strengthening the role of the General State Budget in the design of economic policy, reinforcing budgetary stability and giving the public accounts a medium-term orientation.**

AIReF issues recommendations in the reports it prepares throughout the year. These recommendations are governed by the comply or explain principle, the main tool the institution has to satisfy its mandate. This principle establishes that administrations have the obligation to follow AIReF's recommendations or explain the reasons for deviating from them. Through the application of this principle, the recommendations made by AIReF give rise to a constructive and transparent dialogue between AIReF and the competent authorities.

In the fourth quarter AIReF issued the endorsement on the macroeconomic forecasts of the draft General State Budget (GSB) for 2023, followed by the report on the draft GSB. It then issued the report on the draft and basic lines of the budgets of the general government as a whole and at the territorial, regional and local level, which was subsequently completed with the issuance of the individual reports for the Autonomous Regions. In addition, it reported the macroeconomic forecasts of the draft budgets for 2023 of twelve Autonomous Communities (Andalusia, Aragon, Principality of Asturias, Castile and Leon, Canary Islands, Catalonia, Balearic Islands, Community of Madrid, Galicia, Region of Murcia, Valencia and the Basque Country).

In these reports AIReF made 11 recommendations, 5 new ones, 1 reiterated and 5 live recommendations. From the point of view of the administration to which the recommendations were addressed, bearing in mind that the same recommendation can be addressed to more than one administration, AIReF issued 25 recommendations: 11 to the Ministry of Finance and the Civil Service (MINHAFP), 4 to the Ministry of Economic Affairs and Digital Transformation (MINECO) and 10 to the Autonomous Regions.

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The recommendations issued in the fourth quarter were aimed at strengthening the role of the GSBs in the design of economic policy, reinforcing budgetary stability and giving the public accounts a medium-term orientation. All the administrations replied to AIReF's request to state their intention to comply or explain. The MINHAFP and the MINECO departed from compliance, while the vast majority of the Autonomous Regions complied or showed their commitment to comply.

### **Strengthening the role of the SGP and budgetary stability**

AIReF made the recommendation that the next draft of the Budget should recover its central role as an instrument of fiscal and economic policy and as an element of design, planning, execution, control and supervision of public sector activity. MINHAFP pointed out that the Budget has been an instrument of economic, budgetary and tax policy to support households and businesses. AIReF agrees on the importance of the GSBs but, for that very reason, it insists on the need to address the shortcomings detected in its analysis.

AIReF also recommended that MINECO should consult AIReF on the Spanish Economic Situation Report. The Ministry departed from this recommendation on the grounds that AIReF cannot issue this report because it is not provided in its law. However, AIReF believes that this argument is not satisfactory given that the law provides for the option of issuing an Opinion.

AIReF also recommended that the MINHAFP should set benchmark rates for each administration that were demanding but feasible. MINHAFP explained that, in the current situation of suspension of fiscal rules, it had opted for reference rates for the sub-sector as a whole and a flexible deficit reduction path. However, AIReF believes that lax reference rates do not encourage the necessary reduction in the structural deficit at both general government and general government level. Moreover, it is unrealistic to have the same reference rate for all the regional governments, as it is excessively demanding for some and lax for others.

### **Medium-term orientation**

AIReF recommended to the MINHAFP that, in the case of a extension of the measures, it should include and publish an assessment of their effectiveness and efficiency and specify the conditions that trigger their extension or withdrawal in order to integrate them into a realistic and credible medium-term national fiscal strategy. MINHAFP replied that the design and extension had been accompanied by Regulatory Impact Analysis Memoranda (MAINs), and that their effectiveness, efficiency and timeliness had been taken into account. It also pointed out its commitment to fiscal responsibility. In AIReF's opinion, the MAIN includes very relevant information but it does not explicitly establish the quantified objectives pursued by the measures or the procedure for their assessment, nor does it define the circumstances and assumptions for their possible extension or withdrawal.

AIReF also recommended that ten Autonomous Regions (Andalusia, Aragon, Principality of Asturias, Balearic Islands, Canary Islands, Castile and Leon, Community of Madrid, Basque Country, Region of Murcia and Valencia) should specify the assumptions about the macroeconomic impact associated with the Recovery, Transformations and Resilience Plan (RTRP) that is assigned over the forecasting horizon. All the Autonomous Regions comply or show their commitment to comply, except Castile and Leon which considers it unreliable to put forward the possible influence of the RTRP on the future forecast of the evolution of the economy. AIReF believes that, given the importance and volume of the RTRP funds, it is essential for the region to assess its impact in some way, albeit by means of a forecast.

### **Repeated and live recommendations**

AIReF also reiterated the need to have adequate information on the budgetary and fiscal measures included in the macroeconomic scenario in order to increase the rigour of the endorsement process for the draft GSB for 2023. In their reply, both MINHAFP and MINECO stated that they always provided all the information available and added that the non-financial expenditure ceiling is the determining factor that the draft GSP must comply with, as well as the instrumentalisation of the deficit targets or reference rates and public debt. However, AIReF insists that the information is insufficient and points out that the non-financial expenditure ceiling does not provide information on the type of measures included in the budget scenario or the link with the deficit reference rates.

Finally, the live recommendations made concerned the need to strengthen transparency and information exchange: to publish information in national accounts on the adjustments to the draft GSP and on those entities without a public nature that are included for SEC2010 purposes, as well as to prepare budgets in national accounts; to regulate the exchange of information; and to extend the content of the Draft Budgetary Plan to include all the measures envisaged by the Government and the impact of the REACT-EU and RTRP funds on general government revenue and expenditure, as well as the breakdown by sub-sector of resources and expenditures in national accounts.

In its reply, the MINHAFP maintains that these recommendations are not necessary, that they are not required by the regulation and that implementing them is too complex. AIReF does not agree with this and states that the national account adjustments published do not make it possible to reconcile the approved budgets with the stability target. AIReF also believes that it is essential that the information on the entities that are part of the SEC2010 be included in the GSBs and that progress be made in drawing up budgets in national accounts. Likewise, AIReF misses that the RTRP measures have not been incorporated into the fiscal and budgetary projections of the Draft Budgetary Plan and calls for information disaggregated by sub-sectors.