



PRESS RELEASE
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CRISTINA HERRERO, “THE NATIONAL REFORM OF THE FISCAL RULES COULD GO BEYOND WHAT IS AGREED IN EUROPE”

- **The President of the Independent Authority for Fiscal Responsibility (AIReF) declares her backing for the proposed reform of the Stability and Growth Pact (SGP) presented by the European Commission in April**
- **She expresses her support for establishing adjustment paths differentiated by country and a priority focus on public spending rather than the fiscal imbalance and structural deficit**
- **She advocates the contributions that Independent Fiscal Institutions (IFIs) can make, given their greater knowledge of the reality of each country, converting them into a nexus of union between the European and national fiscal framework**
- **She trusts that ECOFIN, made up of the Ministers for Economy and Finance of all the Member States, does not lose the ambition of the initial proposal by implementing safeguards that limit differentiation in the adjustment rates or reduce the Commission’s commitment to strengthening the role of institutions like AIReF**
- **She argues that work can now be undertaken on the reform of the national fiscal framework, a reform that may end up being more ambitious than what is finally approved at an EU level**
- **She indicates that Spain can now also establish, regardless of the European reform, the mechanisms needed to ensure compliance with the recommendation from Brussels for 2024**
- **Furthermore, work can now begin to draw up the medium-term fiscal strategy that is consistent with the demands from Brussels, with the consensus and participation of all General Government sub-sectors**

The President of the Independent Authority for Fiscal Responsibility (AIReF), Cristina Herrero, took part today in the 2nd Workshop on Macroeconomic Information, organised by the Association of Economic Information Journalists (Spanish acronym: APIE), where she indicated that the reform of the national fiscal rules may go beyond what is finally approved by Brussels and become more ambitious, with the aim of exploiting AIReF’s capacity for analysis, which is useful for medium-term fiscal planning and for its annual monitoring.

The President, who gave a talk on the redesign of the fiscal rules, began by highlighting the suitability of the debate, given the little remaining time to culminate the reform and now that the negotiations seem to be significantly modifying the Commission’s proposal,

PRESS RELEASE
02/11/2023

reducing its initial ambition, making us fear that it will be less effective than expected. However, she stressed that this does not take anything away from the reform that must take place in the national fiscal framework going beyond what was agreed in Europe, while still respecting it.

Cristina Herrero recalled that AIReF positively views the proposal made by the European Commission in April and highlighted two key aspects that should be maintained in her opinion: the Commission's commitment to convey to Member States the initiative to define medium-term fiscal paths that are adapted to their singular features and are differentiated, albeit always with a focus on sustainability, and the change of focus of fiscal supervision, with a primary role and focus on public spending, rather than the fiscal imbalance and structural deficit.

As regards the first point, the President of AIReF recalled that past experience has clearly shown that common rules, however strict they may be, are not effective unless they are realistic and not taken on board by those that must comply with them. It has also been clearly seen that a good rule-based system and European fiscal supervision is necessary but insufficient, given that the same rules have not led to the same results in all countries, showing that the national dimension is equally or more important than the European dimension. In her opinion, the commitment to sustainability must lie in the way countries undertake budgetary policy and hail from each country individually.

As regards the second point, Cristina Herrero recalled that an expenditure rule exists at both a European and a national level, however, that this would be relegated if the public deficit or structural balance targets were obtained, regardless of how this was achieved. Accordingly, the change that seeks for Member States to commit in a stable manner to a compatible spending path to reduce debt has numerous advantages, given that it seeks to overcome short-termism and to commence a multiyear political commitment; it seeks for fiscal policy to be counter-cyclical and make fiscal supervision and the design of fiscal policy transparent, something particularly pertinent in such a decentralised system as Spain's.

However, the President regretted that the Economic and Financial Affairs Council (ECOFIN), made up of Ministers for Economy and Finance from all the Member States, seems to be less ambitious than the initial proposal, neutralising the real possibility to differentiate between countries by introducing safeguards in the adjustment rates. This may lead to a very strict framework and pose problems from a point of view of political economics, given that the fact that some members of the Council seek to strengthen these safeguards has led to the other part of the Council reintroducing elements in the negotiations that appeared to have been overcome, such as different versions of a golden rule: on green investment or social spending, for example.

Furthermore, the chance to consolidate the IFIs and exploit their full potential would be lost, since there is a certain reticence to grant these institutions a role that goes beyond fiscal supervision. However, the IFIs, according to Cristina Herrero, could make important contributions to the new framework at both a technical and an institutional level, given their greater knowledge of the reality of each country and their capacity to contribute to prevent the determination of the paths ending up becoming a bilateral negotiation procedure with little transparency between the European Commission and the Member State. At a national level, furthermore, they can contribute to the national appropriation of the paths and of fiscal discipline, particularly in such decentralised countries as Spain, given that they can act as a nexus of union between the European and national fiscal framework.



PRESS RELEASE
02/11/2023

AIReF, in fact, is already working in this direction. In its latest report, published last week, the adjustment needed and the expenditure path that would be compatible at an aggregate level with the new European fiscal framework were updated. The institution has also presented medium-term scenarios for each Autonomous Region. According to the President, this information is useful for all General Government sub-sectors and for the process to define a fiscal strategy that will need to be presented to the European institutions.

National reform

The President of AIReF gave over the second part of her speech to explain how, in her opinion, Spain should address the reactivation of the fiscal rules. According to Cristina, Spain can already establish the necessary mechanisms to ensure compliance with the recommendation from Brussels for 2024, whereby primary expenditure net of discretionary measures may not exceed 2.6%. According to AIReF's calculations, this recommendation can be met, however, at its limit and provided that the measures to mitigate the effects of the successive crises are not extended, among other factors, and that the Autonomous Regions and Local Governments control their spending without exhausting the whole margin given to them under the Budgetary Plan.

Furthermore, work can now begin to draw up a medium-term fiscal strategy that is consistent with the demands of Brussels, with the consensus and participation of all the General Government sub-sectors. This, she said, requires an exercise in coordination and political co-responsibility that has been deficient until now and, although the possibility of forging consensus and coordination may seem distant at this time, the technical parties are under a responsibility to demand them.

Furthermore, work may now begin on the reform of the national fiscal framework, an inevitable reform to adapt to the changes that may be imposed by Europe and also because the current law is clearly outdated and presents limitations that it would be appropriate to address with or without the European reform. This reform may also be more ambitious than what is finally approved at an EU level. In particular, Cristina Herrero considered it opportune to exploit the capacity for analysis and preparation of inputs by AIReF that are useful for medium-term fiscal planning and for its annual monitoring. In her opinion, now that the IFIs have been set up, and more so in the case of a powerful IFI like AIReF, it makes no sense to waste their full potential.