

# AIReF External Review

Building on Strengths for the Future of Fiscal Monitoring

**Technical Support Instrument**

*Supporting reforms in 27 Member States*



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## Acronyms

<b>AEAT</b>	Spanish Tax Administration Agency
<b>AIReF</b>	Independent Authority for Fiscal Responsibility
<b>APIE</b>	Economic Information Journalists Association
<b>BVARX</b>	Bayesian Vector Autoregressive Model with Exogenous Variables
<b>CBO</b>	Congressional Budget Office
<b>CEMFI</b>	Centro de Estudios Monetarios y Financieros (Center for Monetary and Financial Studies)
<b>CFP</b>	Portuguese Public Finance Council
<b>CPB</b>	Netherlands Bureau for Economic Policy Analysis
<b>DG REFORM</b>	Directorate-General for Structural Reform Support
<b>DSGE</b>	Dynamic Stochastic General Equilibrium
<b>ECB</b>	European Central Bank
<b>ESA</b>	European System of Accounts
<b>EU</b>	European Union
<b>FDC</b>	Fiscal Discipline Council
<b>FONPRODE</b>	Fund for the Promotion of Development
<b>GDP</b>	Gross Domestic Product
<b>HFC</b>	Hellenic Fiscal Council
<b>HICP</b>	Harmonised Index of Consumer Prices
<b>IAMs</b>	Integrated Assessment Models
<b>IEPP</b>	Instituto para la Evaluación de Políticas Públicas (Institute for the Evaluation of Public Policies)
<b>IFIs</b>	Independent Fiscal Institutions
<b>IGAE</b>	General Comptroller of the State Administration
<b>IMF</b>	International Monetary Fund
<b>INSS</b>	National Institute of Social Security
<b>JPal</b>	Abdul Latif Jameel Poverty Action Lab
<b>JRC</b>	Joint Research Centre
<b>LIAM2</b>	Life-cycle Income Analysis Model 2
<b>METCAP</b>	Monitoring and Evaluation of the Technical Capacity
<b>MICSIM</b>	Microsimulation Model
<b>MINECO</b>	Ministry of Economy, Trade and Enterprise
<b>MINHAFP</b>	Ministry of Finance
<b>MIPred</b>	Monitoring and Immediate Prediction
<b>NAOF</b>	National Audit Office of Finland
<b>NGEU</b>	NextGenerationEU

<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>Pas</b>	Public Administrations
<b>PBO</b>	Parliamentary Budget Office
<b>R&amp;D+I</b>	Research, Development, and Innovation
<b>RCTs</b>	Randomized Controlled Trials
<b>RRF</b>	Recovery and Resilience Facility
<b>RTRP</b>	Recovery, Transformation, and Resilience Plan
<b>RTVE</b>	Radio Televisión Española
<b>TCFD</b>	Task Force on Climate-related Financial Disclosures
<b>TSI</b>	Technical Support Instrument
<b>UNICEF</b>	United Nations International Children’s Emergency Fund
<b>VAR</b>	Vector Autoregressive



## Executive Summary

This report presents the results of a comprehensive external evaluation of the Independent Authority for Fiscal Responsibility (AIReF) under the term of President Cristina Herrero. The assessment, the second in AIReF's 10-year history, was initiated at the request of the President to measure AIReF's advancements since the previous external review undertaken by the OECD in 2017 and the institution's alignment with the Strategic Plan President Herrero presented to Parliament for her term from 2020 to 2026.

The review is framed in terms of Strategic Plan 2020-2026 and each recommendation is linked to the strategic aims, objectives, and actions therein (Annex G). In the summary below, an indicative timeline has been provided for whether a recommendation is fully implementable by the end of President Herrero's term or if it is a longer-term reform for which she should begin laying the groundwork. The review team hopes its findings and recommendations can support AIReF in advancing the aims of Strategic Plan 2020-2026 and the institution's important work of monitoring and advocating for Spain's fiscal health.

The evaluation was carried out under Pillar 3 of the project "REFORM/2023/OP/0010: Strengthening the capacity of Independent Fiscal Institutions (IFIs)", the goal of which was to provide IFIs with strategic, institutional, operational support to address the reforms of the European fiscal rules, the acceleration of negative impacts from climate change, and to be better prepared to face intense economic shocks, such as Covid-19 or the war in Ukraine. The review was funded by the European Union, via the Technical Support Instrument (TSI), and in cooperation with the Directorate-General for Structural Reform Support (DG REFORM) of the European Commission.

## Key Findings and Recommendations:

### Context

AIReF's resources, analytical capabilities and communication strategies have expanded since the previous evaluation. These improvements have allowed it to successfully meet the demands of its new public expenditure evaluation mandate, solidifying its role in Spain's fiscal framework. However, it has yet to secure memorandums of understanding with key government departments on information sharing, staff continue to struggle with data access, and it does not yet have multi-annual funding commitments under which it can plan with certainty.

AIReF operates within a complex national context of significant decentralization and regional fiscal disparities, requiring continuous adaptation to policies and economic conditions. Global risks such as climate change, geopolitical instability, and technological disruptions will have highly uncertain—but almost certainly significant—consequences for Spain's public finances. Meeting the fiscal challenges will require a monitoring and management framework that accounts for this uncertainty.

Countries are now preparing for the reinstatement of EU fiscal rules in 2024 under a reformed framework, following a review that began in February 2020 and concluded with adoption by the Council on 29 April 2024. At the time of writing, it is not yet known how the economic governance framework will be transposed to Spain's domestic fiscal framework, including the distribution of rules among the General Governments sub-sectors, and the specific role AIReF will play in scrutinising and endorsing the forecasts and assumptions underpinning Spain's national

medium-term fiscal structural plan submission during the European Semester and the net expenditure path upon which it is based (the new single operational indicator for assessing Member States' compliance with fiscal rules).

- **Recommendation 1.1** Objective 1(II) of Strategic Plan 2020-2026 is to support compliance with the national and European fiscal framework. **Spain's Organic Law 6/2013 transposing the EU fiscal rules domestically should be amended to require AIReF to issue an opinion on national medium-term fiscal structural plans in line with Regulation (EU) 2024/1263 of the EU's reformed Economic Governance Framework, including an opinion on the macroeconomic forecast and the macroeconomic assumptions underpinning the net expenditure path.** The opinion should be attached to the national medium-term fiscal structural plan when it is submitted to the Commission. [Near term: within two years. Requires government action for which AIReF should advocate.]
- **Recommendation 1.2** Objective 1(II) of Strategic Plan 2020-2026 is to support compliance with the national and European fiscal framework. **Organic Law 6/2013 should be amended to give AIReF the responsibility of publishing an *ex post* assessment of budgetary outturn data with the net expenditure path as set by the Council, including an analysis of the factors underlying any deviation from the path.** [Near term: within two years. Requires government action for which AIReF should advocate.]
- **Recommendation 1.3** During the preparation phase of the national medium-term fiscal structural plans, the government should engage in a formal consultation with AIReF to exchange technical analysis and commit to explaining how AIReF's views have been considered in the final plan. The terms of the formal consultation engagement should be established in a memorandum of understanding. [Near term: before the submission of the national medium-term fiscal structural plans in 2025. Requires government action for which AIReF should advocate.]

## Evaluation of the Fiscal Monitoring Function

AIReF has made considerable advances in developing robust forecasting and analysis models under actions 1(I)(a) and 1(I)(b) of Strategic Plan 2020-2026. For example, it has expanded its debt-sustainability modelling capabilities to take on the scenario analysis and stochastic framework of the EU's reformed economic governance framework. However, there is an outstanding need for a comprehensive national microsimulation model to provide detailed distributional analysis of tax and benefit policies. AIReF can play a role bringing different agencies together to develop one. Further, recent advances in agent-based models, stock-flow consistent models and DSGE models could prove useful in augmenting AIReF's capacity for risk assessments. The use of AI tools must be carefully considered to ensure they add value without compromising transparency and reliability.

AIReF's ongoing difficulties in securing the government's cooperation to agree on a memorandum of understanding on data and information exchange with the Ministry of Finance and the Ministry of Economy hinder its monitoring capabilities. A memorandum of understanding could support the exchange of information by detailing aspects such as methods of request, communication protocols, responsible public servants, timelines, dispute resolution mechanisms, confidentiality provisions, and procedures for information use and publication.



Under the EU's reformed economic governance framework, the European Fiscal Board is tasked with providing an opinion on the appropriateness of Spain's fiscal stance. This offers both risks and opportunities. There is risk that the Board's views on Spain's economic and fiscal challenges could contradict AIReF's and muddy the public debate. However, if the Board determines its views through the research and exchange of ideas with AIReF there is an opportunity for AIReF to raise its influence, as well as its accountability, in line with action 4(1)(d) of Strategic Plan 2020-2026 to strengthen accountability by collaborating with European institutions, internal bodies and other IFIs.

- **Recommendation 2.1** The first Strategic Aim under Strategic Plan 2020-2026 is to support the in-depth supervision of all levels of government through a variety of actions to monitor the economic and fiscal impacts of measures. As a cross-cutting initiative to support these measures, **AIReF should establish a working group of external stakeholders to develop a national public microsimulation model for Spain and serve as the secretariat, coordinating data and expertise from entities like the National Statistics Office, Spanish Tax Agency, and Social Security Administration.** The project could be jointly funded by these departments and expedited using open-source tools like LIAM2 from the Belgium Federal Planning Bureau. This initiative would also support the delivery of action 4(II)(c) of the Strategic Plan which is to collaborate with universities (scholarship programme), experts and agencies. [Medium-term: two to five years]
- **Recommendation 2.2** Action 1(III) of Strategic Plan 2020-2026 is to provide early warning of risks by analysing a broader array of risks such as environmental risks and their budgetary implications. **AIReF should strengthen its analytical capabilities on climate change, particularly regarding long-term fiscal sustainability.** Participation in the DG REFORM Technical Support Instrument is a key step in this process. The goal is to develop tools that account for the physical and transitional risks of climate change on public finances and the potential costs of complying with the European Green Deal. AIReF, alongside Cambridge Econometrics, is working on refining relevant model channels, including capital stock, potential output, and tax bases. AIReF should also enhance its sector-specific modelling and risk assessments, addressing financial sector vulnerabilities, supply chain risks, energy security, and national defence by exploring agent-based models and stock-flow consistent models. [Medium-term: two to five years]
- **Recommendation 2.3** Action 1(II) of Strategic Plan 2020-2026 is to support compliance with the European fiscal framework by analysis the application of its rules. **AIReF should undertake a budget tagging and mapping exercise to create a summary indicator of strategic growth-supporting measures and investments that demonstrate the level and change of spending in medium-term fiscal structural plans that aligns with EU priorities.** This indicator would support decisions of whether Spain should qualify for an extended adjustment period in the economic governance framework from 4 to 7 years. [Near term: within two years. May require government cooperation or greater access to data.]
- **Recommendation 2.4** Action 4(III)(d) of Strategic Plan 2020-2026 is to raise accountability by collaborating with European institutions, international bodies and other Independent Fiscal Institutions to share and exchange views, analyses and working practices. **AIReF should establish a formal consultation process with the European Fiscal Board during the European Semester to exchange views before the EFB**

**provides an opinion on Spain's national fiscal stance** (a new responsibility provided for the EFB under the reformed economic governance framework of the EU). [Near term: within two years]

- **Recommendation 2.5** Action 4(II)(d) of Strategic Plan 2020-2026 is to collaborate with experts and agencies in matters under AIReF's remit. As fiscal frameworks increasingly incorporate broader risk assessments, **AIReF should foster relationships with specialised councils and advisory groups, for example the Environmental Advisory Council of the Ministry for the Environment and the Advisory Council for the Sustainable Development of Catalonia**. This strategy would allow AIReF to maintain focus on its fiscal expertise while avoiding scope creep and integrating essential sustainability considerations through partnerships. [Near term: within two years]

### Assessment of the Public Expenditure Evaluation Function

In line with Strategic Aim 3 of Strategic Plan 2020-2026 to make public policy evaluation a core activity at AIReF, President Herrero has established a new division specifically for public expenditure evaluation and has brought more of the evaluation work in-house that was previously outsourced to subject matter experts.

The Public Expenditure Evaluation division has successfully undertaken Spending Reviews across various public policy areas, including healthcare, education, labour market policies, infrastructure, tax benefits, and subsidies. Notably, the division completed 13 evaluations during the first review cycle (2017-2020) and has expanded its scope in the ongoing second cycle (2022-2026), which is a key component of Spain's Recovery Transformation and Resilience Plan. Additionally, the division has completed 10 evaluations commissioned by regional governments, covering critical areas such as healthcare and employment policies. The division has improved its methodological approaches by incorporating big data, microsimulations, and cutting-edge causal inference techniques in its analyses.

The team faces several challenges, including the need for timely data, the complexity of evaluations, and maintaining methodological rigor. There is also a concern about the potential for evaluations to become less relevant over time as easier, high-impact areas are exhausted. Further, AIReF's public expenditure evaluation workload and scheduling are not predictable, as governments do not systematically plan all evaluation requests for the upcoming year.

- **Recommendation 3.1** Objective 3(I) of Strategic Plan 2020-2026 is to make public policy evaluation a core activity of AIReF by promoting the necessary policy changes to enable evaluation to be a permanent function of AIReF. **The evaluation function should be codified in the Organic Law 6/2013. The Law should clarify the division of AIReF's role from the Public Evaluation Division and the *Instituto para la Evaluación de Políticas Públicas (IEPP)***. The Law should give AIReF the authority to decide the timeline of its responses to government and to decline an analysis if the available evidence or conditions do not lend themselves to a study of sufficient standard. The Law should also require government to consult AIReF in deciding the agenda for government reviews so together they can prioritise policies that are suited to objective analysis. [Medium-term: two to five years. Requires government action for which AIReF should advocate.]
- **Recommendation 3.2** Action 3(1)(a) of Strategic Plain 2020-2026 is to restructure resources to be able to undertake evaluations at AIReF's own initiative. To do so will require transparently prioritising resources in a consistent framework. **AIReF should publish a prioritization framework explaining how it will triage its expenditure**

**evaluation requests and its self-initiated evaluations.** This framework should consider factors such as the fiscal impact (including potentially a minimum threshold of fiscal magnitude), the stage of legislative debate, and public interest. [Near term: within two years]

- **Recommendation 3.3** In implementing Action 3(1)(a) of Strategic Plan 2020-2026 to enable the conditions to undertake evaluations at its own initiative, AIReF should take on the views of key stakeholders in determining topics. **AIReF should accept suggestions for topics from parliament and from public votes.** AIReF could undertake these studies as self-initiated opinions provided for in Article 5 and Article 23 of Organic Law 6/2013. [Near term: within two years]
- **Recommendation 3.4** Action 3(III)(a) of Strategic Plan 2020-2026 is to provide the information used in evaluations to encourage public policy decisions based on data and academic research and Action 4(IV)(d) is to share knowledge with the academic field. When possible, **AIReF's expenditure evaluation reports should include all quantitative analysis results, both significant and insignificant and AIReF should negotiate the right to preserve and anonymize databases generated during Spending Reviews, with the option to share this data with external researchers.** Claims of causality must meet academic standards and be verifiable and replicable. If underlying data cannot be publicly shared, AIReF should attempt to negotiate to provide access through a secure on-premises data lab or by accepting code from researchers to apply to the data. [Near term: within two years]
- **Recommendation 3.5** Action 4(IV)(d) is to cooperate and share knowledge with the academic field. To ensure high standards in policy evaluations, **the Public Expenditure Evaluation division should maintain strong ties with the academic community and seek external expert guidance.** AIReF can strengthen these relationships by increasing the weight of the academic track record of its staff members (such as publishing in academic journals) among the merits considered for promotion or performance-related pay. A peer review process should be integrated into the annual Spending Review program, with external academic peers reviewing study designs and results in exchange for a fee or formal recognition. Staff should stay updated on evaluation techniques through in-house training and external course work, and AIReF should create visiting positions for academics, offering access to Spending Review data and research opportunities leading to publications. [Near term: within two years]
- **Recommendation 3.6** Action 3(II)(b) of Strategic Plan 2020-2026 is to make available information available for data-based decision making and Action 3(III)(b) is to promoting mechanisms to drive implementation of proposals. **Any policy recommendation should be accompanied by a discussion of its potential budgetary implications, the strength of its evidence base and its viability.** If a measure cannot be directly implemented, AIReF should clearly identify the constraints that have to be removed before the recommendation becomes effective. [Near term: within two years]

## Evaluation of AIReF's Guiding Principles

The fourth Strategic Aim of Strategic Plan 2020-2026 is to consolidate its guiding principles of independence, transparency and accountability.

Action 4(I)(a) of Strategic Plan 2020-2026 intends to strengthen independence by ensuring a financing and budgeting system for AIReF's activity which is appropriate and necessary for functional autonomy. AIReF continues to have an uncertain and unguaranteed medium-term budget, in contrast to the OECD Principles. AIReF does not have control over its staff appointments, it is subject to a pre-determined List of Posts that must be approved by the Ministry of Public Finances. It also does not decide its staff costs and salaries and does not have multi-annual funding security.

On transparency, AIReF's practices generally align well to international practices and it has made progress in implementing the actions under Objective 4(II) of Strategic Plan 2020-2026. However, some improvements could be made toward publishing model code (for example, the UK OBR publishes the code for its macroeconomic model), the data inputs to its analysis (for example by setting up a secure data lab), and its full fiscal rule compliance calculations for replicability.

On accountability, action 4(III)(a) is to appear before the Parliament to report on AIReF's activity and to present reports of interest. AIReF appears before the parliament but only speaks to its analytical reports, rather than its annual report on activities and its performance and operations. This is a common occurrence among peers unless they specifically devote a session in the parliamentary calendar to institutional oversight, which is a crucial form of accountability for independent bodies.

- **Recommendation 4.1** Action 4(I)(a) of Strategic Plan 2020-2026 intends to strengthen independence by ensuring a financing and budgeting system for AIReF's activity which is appropriate and necessary for functional autonomy. **The Organic Law 6/2013 should be amended to secure AIReF's budget over the medium term by preventing any real-term reductions, except under extraordinary circumstances such as changes following a mandate review or for specific one-off projects.** [Medium-term: two to five years. Requires government action for which AIReF should advocate.]
- **Recommendation 4.2** Action 4(I)(a) of Strategic Plan 2020-2026 intends to strengthen independence by ensuring a financing and budgeting system for AIReF's activity which is appropriate and necessary for functional autonomy. **The Organic Law should be amended to bring AIReF's budget under an independent section of the General State Budgets to be approved by the Cortes Generales, as is the case of the Court of Auditors.** This would align with OECD Principle 4 (appropriations for IFIs should be published and treated in the same manner as other independence bodies such as audit offices). The Ministry of Finance should publish a three-year financial plan for AIReF, transitioning eventual control over these plans to parliament. This would align with the OECD principles and enhance transparency and stability in AIReF's financial planning, providing a clearer long-term fiscal outlook. The Organic Law also should be modified to provide AIReF with the flexibility to determine its own List of Posts within its budget. [Medium-term: two to five years. Requires government action for which AIReF should advocate.]
- **Recommendation 4.3** Objective 4(III) of Strategic Plan 2020-2026 is to strengthen the principle of accountability through a range of actions that include evaluation by an independent third party. **The Organic Law should be amended to require AIReF to**

**undergo an external review every 5 years.** [Medium-term: two to five years. Requires government action for which AIReF should advocate.]

- **Recommendation 4.4** Action 4(III)(a) of Strategic Plan 2020-2026 is to appear before Parliament to report on AIReF's activity. **AIReF should be called in front of the Congress of Deputies once a year for the purpose of discussing its performance and operational issues, its annual report, and to seek the legislature's assistance where its analysis is being met with obstacles such as information requests not being fulfilled.** [Near term: within two years. Requires Congress of Deputies action for which AIReF should advocate.]

## AIReF's Impact

Although Strategic Plan 2020-2026 touches only lightly on communications strategy, it contains several actions across its aims and objectives to elevate AIReF's impact by providing impartial analyses for public administrations, contributing to fiscal debates, supporting Parliament, and engaging with society. It has made significant advances in doing so through its insights, recommendations and public communications.

AIReF's external communications service has helped the institution establish a strong reputation as a technical authority, perceived as reliable, independent, and useful by its stakeholders. However, the reliance on an external agency for communications is out of step with its peer IFIs, particularly among institutions of its size and maturity. Peers report an in-house communications team can better provide consistency and control over messaging, has deeper knowledge of the institution and its work, can respond timelier to developments, and is more cost-effective over time.

The interactive tools and observatories on recommendations developed under President Herrero are effective in promoting fiscal transparency and aiding decision-making, in line with action 3(1)(b) to devise tools for sharing information. There is still work to be done in communicating to subnational authorities and the public and to increase the responsiveness of the central government to recommendations.

AIReF's influence in the legislature has grown through more frequent appearances at committees, in line with action 4(III)(a) to appear before parliament to discuss its activities and reports of interest. However, AIReF could do more to support Parliamentarians in their oversight role of government. For example, Parliamentarians currently have little input over the subjects AIReF pursues in its research. Further, government officials receive AIReF's reports ahead of publication and can brief their respective political office holders and prepare media strategies in advance. Legislatures and the media must react in real time to digest the report and are therefore not on an equal footing to question the official response.

- **Recommendation 5.1** To support Strategic Aims 1-4 of Strategic Plan 2020-2026, AIReF should create an in-house communications department and allocate resources to maintain it. The department should include a civil affairs specialist (a professional responsible for managing and improving an organisation's relationship with the general public and community stakeholders). [Medium-term: two to five years]
- **Recommendation 5.2** To support Objective 4(III) of Strategic Plan 2020-2026 on strengthening the principle of accountability, **AIReF should ensure its analysis and recommendations influence—and are influenced by—the legislative process by fostering closer one-on-one relationships with individual legislators' offices, for**



**example with an “our door is always open” policy that encourages legislatures to approach the institution with questions and concerns.** This will complement the occasional fixed open sessions AIReF currently offers. This proactive approach, used by institutions like the CBO in the U.S. and the Canadian PBO, has proven effective in creating “champions” of their analysis in the legislature. This would also give legislators an opportunity to suggest analytical topics for AIReF to study, including areas to undertake Expenditure Reviews (per Recommendation 3.3). [Near term: within two years]

- **Recommendation 5.3** Action 3(II)(b) of Strategic Plan 2020-2026 is to make available the information used in evaluations with the aim of encouraging public policy decision-making based on data and academic research. When accepting a regional or local commission, **AIReF should require the subnational body to have a communications plan to disseminate the evaluation findings. AIReF and the involved institutions should launch and share the report in public spaces relevant to the findings, helping citizens understand the impact of fiscal policy.** In line with Action 4(III)(a) on appearing before Parliament, AIReF should attend more hearings before subnational legislatures to demonstrate accountability. Additionally, AIReF should explore providing technical assistance and capacity-building support to subnational governments that want to implement recommendations but lack the necessary resources and expertise. [Near term: within two years]
- **Recommendation 5.4** To determine whether Action 4(III)(a) of Strategic Plan 2020-2026 on appearing before Parliament is achieving results, **AIReF should begin tracking its mentions in parliamentary debate transcripts.** This will allow AIReF to assess trends in its impact on the political debate and adjust its strategy accordingly. [Near term: within two years]
- **Recommendation 5.5** To support Action 1(I)(f) on formulating recommendations subject to the comply or explain principle, **AIReF's recommendations should be clear, precise, and actionable. Reports should be brief and avoid generic statements and provide detailed guidance on implementation.** The lack of specificity in recommendations can lead to nominal compliance rather than effective policy changes. **AIReF could introduce a ranking system to indicate the level of priority in recommendations, such as “necessary”, “suggested”, and “good practice”.** [Near term: within two years]
- **Recommendation 5.6** To support Action 1(I)(f) on formulating recommendations subject to the comply or explain principle, **AIReF should strengthen the “comply or explain” framework by setting clearer guidelines on what constitutes an adequate explanation for non-compliance.** AIReF can provide examples of acceptable explanations and outline the consequences of inadequate responses. Additionally, a scoring or rating system for compliance and the quality of explanations of refusal could be introduced, making it easier to track and compare the performance of different government bodies over time. [Near term: within two years]
- **Recommendation 5.7** Action 4(II)(d) is to present AIReF's work to the non-specialised public. **AIReF should strive to improve the readability scores of its reports with plain, simple language and to reduce their page length.** [Near term: within two years]



- **Recommendation 5.8** To support Objective 4(III) on strengthening the principle of accountability, **AIReF should host embargoed distribution lists or lockups of its upcoming reports for legislatures and the media to ensure they can react on an equal footing with governments, which receive reports in advance of publication.** [Near term: within two years]

## Introduction and Methodology of External Evaluation

The Independent Authority for Fiscal Responsibility (AIReF) was established in Organic Law 6/2013 as part of Spain's reforms to foster a sustainable public finance system and to fulfil the obligations of the European Union's enhanced fiscal governance framework (Box 1).

To serve as impartial referees, independent fiscal institutions (IFIs) must be free from governmental influence. In exchange for this autonomy, they commit to alternative accountability mechanisms, such as regular external peer reviews. External reviews are recommended by OECD IFI guidelines and have been committed in legislation in countries such as Australia, Greece, and the United Kingdom. While Spanish law does not require AIReF to undergo external reviews, its leaders have voluntarily sought them.

This review was initiated at the request of President Cristina Herrero, who took office in February 2020 with the unanimous support of parliamentary groups. The President committed to undergoing this external evaluation in her appearance before Congress when explaining her vision for AIReF. The intention of the external evaluation is to serve as a mid-term evaluation to gauge AIReF's progress against the Strategic Plan 2020-2026 and to obtain feasible and forward-looking recommendations that can be implemented or initiated during the current President's mandate.

The Plan set out 4 strategic goals: in-depth fiscal surveillance of all governments; ensuring the sustainability of public finances with a long-term view; making public policy evaluation a core activity of AIReF; and strengthening AIReF's guiding principles (independence, transparency, and accountability). It identifies concrete lines of action for each strategic goal. Annual action plans detail the actions to be implemented over each year. There is an annual monitoring in AIReF's annual activity report. The Plan is open to revision should it be deemed necessary.

According to President Cristina Herrero's commitment, this external evaluation was foreseen to take place at the midpoint of the mandate (2020-2026). However, given the nature of the overarching TSI project, including the steps for the procurement phase, the start of the review was delayed; nevertheless, its recommendations are aimed at actionable steps that can be implemented during the remaining years of President Herrero's term. In response to these recommendations, AIReF committed in the TSI to adopting the "comply or explain" principle, meaning it will either follow the recommendations or publicly explain why it will not. Additionally, AIReF also committed to revising its strategic plan to align with the findings of this review should the review team suggest and AIReF agree, reinforcing its commitment to accountability and continuous improvement. Where recommendations are directed at areas under the government's control, AIReF is expected to advocate for the changes if it agrees they are appropriate.

As AIReF marks the tenth anniversary of its inception, the review comes at a crucial time. AIReF has matured as an IFI alongside Spain's national fiscal framework and the EU economic governance framework. It has fulfilled its role admirably in the face of a challenging political and economic context and its successes have attracted an expansion of its responsibilities. Most significantly, it has been asked to undertake spending reviews across different levels of Spanish government, a role traditionally confined to the recesses of finance ministries.

As in other IFIs across the EU and OECD, AIReF faces challenges. Among others,

- A new EU fiscal framework
- The return of inflation
- Risks of climate change
- Energy insecurity

- Geopolitical instability.

AIReF's significant progress in enhancing its economic and fiscal analysis tools, along with its success in adapting to its new expenditure evaluation function, positions it strongly to navigate the risks of a new EU framework and a shifting global macro-fiscal landscape. The recommendations from this review aim to bolster AIReF's resilience, ensuring that it not only adapts to these changes but also secures its legacy among Spain's key institutions.

### About the review:

- **Funding.** The review is being conducted by an independent evaluation team, as part of the project "REFORM/2023/OP/0010: Strengthening the capacity of Independent Fiscal Institutions (IFIs)", funded by the European Union, via the Technical Support Instrument (TSI), and in cooperation with the Directorate-General for Structural Reform Support (DG REFORM) of the European Commission.
- **Team.** The team was chosen by AARC, the consultancy firm awarded TSI tender. The team consisted of experts with previous experience from peer institutions, including the CPB Netherlands Bureau for Economic Policy Analysis, and the former fiscal manager for the Canadian Parliamentary Budget Officer, along with an associate professor of economics from the Universidad Autónoma de Madrid, a communications expert, and a research economist. A full list of the team and biographies is provided in Annex A. #

### Methodology

The review team undertook a comprehensive review of AIReF's operational and strategic framework under the terms laid out in REFORM/2023/OP/0010 on Strengthening the Capacity of Independent Fiscal Institutions (European Commission, 2023). Specifically, the team was required to:

- Review AIReF's progress in implementing the recommendations of the 2017 OECD review and the implications to AIReF of developments in the national, EU and global context (Chapter 1)
- Provide a detailed assessment of the fiscal monitoring function (Chapter 2)
- Provide a detailed assessment of the public expenditure evaluation function (Chapter 3)
- Evaluate AIReF's guiding principles, strategic plan, and conformity to international standards (Chapter 4)
- Assess AIReF's impact on the government, media, and the public debate (Chapter 5).

The scope of the review was initially set by the Tender Specifications, followed by the Technical Proposal. During the Inception Phase, a methodological note was agreed upon, which defined the structure and chapter headings of this report, which was then formalised in the approved Inception Report of the project. Given the goal to provide recommendations that could support AIReF in advancing the aims of Strategic Plan 2020-2026 and the institution's important work of monitoring and advocating for Spain's fiscal health, topics related to internal governance or institutional setting were not covered in this external evaluation, even if discussed in the interactions with stakeholders. As such, it would be positive if future external evaluations included an assessment of these topics.

Interviews were conducted with key stakeholders, including AIReF officials, representatives from various levels of Spanish government, and experts from financial and academic institutions. These interactions provided valuable perspectives on AIReF's operational effectiveness, challenges, and its perceived role within Spain's fiscal governance framework. A full list of consultations is given in Annex B.

AIReF's operations were benchmarked against international best practices and standards set by organisations such as the OECD, the EU, and the EU Independent Fiscal Institutions Network.

The review also used comparative analyses with similar fiscal institutions in other EU countries and across the OECD. The following institutions selected using the peer groupings identified in (OECD, 2024) based on analogous mandates, resources, and communications practices, to which the Portuguese Public Finance Council was added as a regional peer and the Federal Planning Bureau was added as a peer similarly serving devolved subnational governments:

- Federal Planning Bureau of Belgium
- CPB Netherlands Bureau for Economic Policy Analysis
- Parliamentary Budget Office of Canada
- Irish Fiscal Advisory Council
- Parliamentary Budget Office of Italy
- Portuguese Public Finance Council (Conselho das Finanças Públicas, or CFP)
- Office for Budget Responsibility of the United Kingdom
- U.S. Congressional Budget Office

Finally, the review team applied its own judgment and knowledge based on the experience of members in IFIs, Spain's academic and policy world, and as former collaborators with AIReF.

### **Box 1: Independent fiscal institutions and the EU**

Independent Fiscal Institutions are statutory bodies established to assess, monitor, and advise on government plans and forecasts. Their main role is to influence fiscal discipline and transparency in public finances, and to promote a more informed public debate.

In the European Union (EU), Member States in the euro area were required to have national IFIs as part of the EU's economic governance reforms following the 2008 financial crisis (specifically, the adoption of the Fiscal Compact and the "Two-Pack" regulations). The new EU economic governance framework adopted by the Council on 29 April 2024 amended Directive 2011/85/EU to extend the requirement to all Member States, requiring them to have IFIs that (1) produce, assess, or endorse macroeconomic assumptions (Article 8a(5)(a)), (2) monitor compliance with country-specific fiscal rules (Article 8a(5)(b)), (3) assess the consistency, coherence and effectiveness of national budgetary frameworks (Article 8a(5)(d)), and (4) undertake regular ex post evaluations of macroeconomic and budgetary forecasts (Article 4(5)). The framework also instructs IFIs to appear before the national Parliament when invited.

The reformed economic governance framework of the Union also amends the preventative arm and corrective arm to give a role for IFIs in the European Semester.<sup>1</sup> The preventive arm (Articles 11, 15(3) and 23 of Regulation (EU) 2024/1263) requires Member States to have IFIs after 2032 to provide an opinion on the macroeconomic forecast and the macroeconomic assumptions underpinning the net expenditure path in their submitted or revised "national medium-term fiscal-structural plan" (if they have sufficient capacity to do so) and suggests (but does not require) Members to have an IFI assess budgetary outturn data for progress with the net expenditure path and assess factors underlying its deviation. The corrective arm (Article 3(5) of Council Regulation (EC) No 1467/97) suggests but does not require Member States to ask their IFI to produce a non-binding report on the sufficiency of the fiscal consolidation measures taken.

<sup>1</sup>The 2024 reforms replaced preventive arm Council Regulation (EC) No 1466/97 with Regulation (EU) 2024/1263 and amended the excessive deficit procedure Council Regulation (EC) No 1467/97

## Chapter 1. Context

### 1.1 AIReF's progress since the previous evaluation

Four years following its creation, AIReF's first president sought an external evaluation that was undertaken by the OECD's Public Management and Budgeting Division. The OECD suggested several changes to improve AIReF's resources, access to information, analysis, and influence (Table 1).

AIReF has met nearly all the recommendations under its control. However, some recommendations, mainly those needing government action, remain only partially achieved or unfulfilled.

**Table 1: Status of OECD recommendations**

<b>Resources</b>	
1. Reassess AIReF's resources considering its expanded spending review mandate.	Achieved
2. Do not take on additional tasks without corresponding resource adjustments.	Achieved
3. Consider a multi-annual funding commitment.	Not achieved
4. Review the budget process for AIReF to enhance its independence further by ensuring funding commitments are published and treated the same as other independent bodies.	In progress
<b>Access to information</b>	
5. Develop a memorandum of understanding between AIReF and the Ministry of Finance and other relevant administration.	Partial achievement
6. Grant advanced access to data or documents on a confidential basis.	Partial achievement
<b>Analysis</b>	
7. Include medium-term projections in its analysis to balance its current focus on near-term estimates.	Achieved
8. Incorporate more data tables, graphics, and detailed breakdowns of economic and budgetary estimates.	Achieved
9. Publish self-evaluations of economic forecasts and budget projection accuracy to reinforce AIReF's analytical credibility.	Achieved
10. Develop AIReF's work on benchmarking regions and municipalities, focusing particularly on fiscally stressed municipalities.	Achieved
11. Deepen the analysis of regional economic models and fiscal sustainability.	Achieved
<b>Influence</b>	
12. Expend communication efforts at the subnational level.	Partial achievement
13. Use the comply-or-explain principle more selectively to focus on the most important messages and potentially test different approaches to improve compliance rates.	Partial achievement
14. Develop more accessible materials for non-technical stakeholders and expand outreach through a broader range of media	Partial achievement



15. Set clear and measurable targets for social media communications to help refine its engagement strategy.	In progress
16. Expand its activity with academia and universities.	Achieved
17. Undertake periodic surveys to gauge stakeholder satisfaction, particularly among parliamentarians and academics, to ensure its work remains relevant and impactful.	In progress

For example, on **resources**, AIReF's budget was increased to support its expenditure evaluation mandate. In 2018, it received an additional €2.3 million (a 50% increase). Between 2020 and 2024, this was raised another €3.6 million (a 25% increase). This brought its budget from €4.7 million to €10.6 million, excluding reserves (Table 2). The Ministry of Finance accompanied the budget expansion with an agreement to modify AIReF's "List of Posts" to allow additional numbers and types of staff posts, with the remaining budget going toward external specialists as consultants.

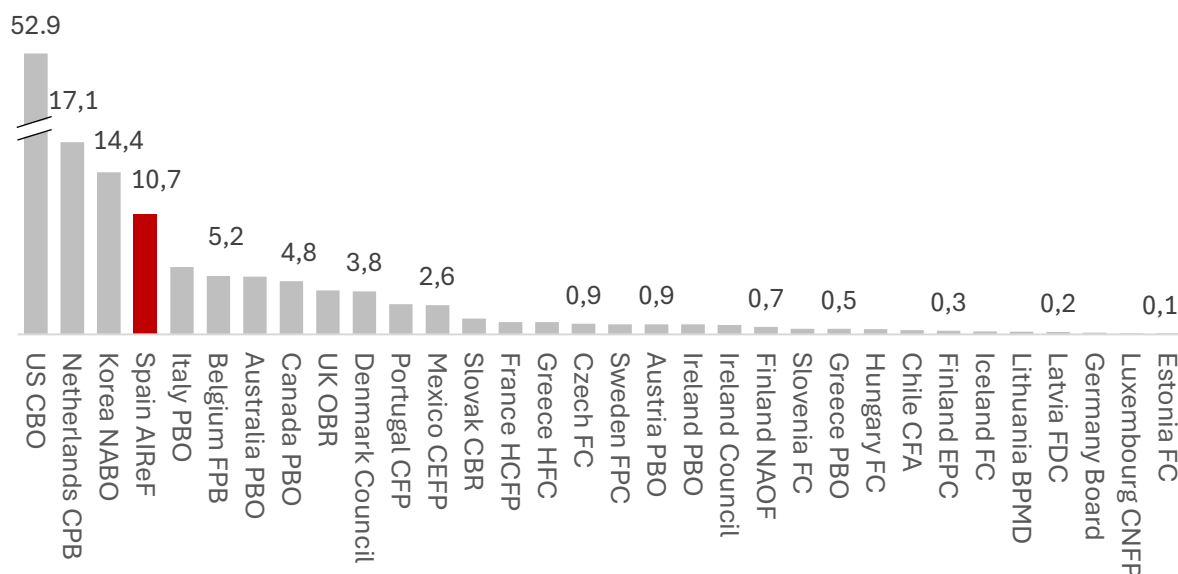
**Table 2: AIReF's financial history (€ millions)**

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Amount in General State Budget Act	4.5	4.5	4.5	4.7	7.0	7.0	7.0	9.7	10.4	10.6	10.6
Total available after addition of reserves	4.2	5.3	4.7	5.1	7.0	8.5	8.9	9.7	10.7	11.2	N.A.

Source: AIReF's annual reports and financial statements.

International guidelines provide only general advice that an IFI's resources should be commensurate with its mandate. The diversity in the institutional design, mandates, and tasks of national IFIs across EU countries makes cross-country comparisons difficult. AIReF is among the largest and best-resourced EU IFIs, surpassed only by the Netherlands CPB (Figure 1). This is largely owing to AIReF's unique subnational responsibilities that exceed the demand of most other IFIs (the CPB is required to cost all policy platforms and provide a wide range of services typically offered by both finance ministries and think tanks). The medium-term to long-term sufficiency of AIReF's resources will depend on the ultimate breadth and depth of its expenditure evaluation function.

Figure 1: Financial resources of OECD IFIs (millions of euros)



Source: OECD Independent Fiscal Institutions Database (2021) Version 2.0, author's adjustments for current exchange rates during August 2024 and updates for IFIs undergoing significant changes in resources that would change rankings. Note: The U.S. Congressional Budget Office has a budget equal to the equivalent of 52.9 million euro and its column has been truncated as its size renders the budgets of others illegible.

AIReF's resource expansion in the last five years is encouraging; however, it still lacks a medium-term financial commitment by the government, as recommended by the OECD Principles for Independent Fiscal Institutions (see Subsection 1.3). This commitment would give AIReF the certainty to plan its staffing more strategically over the medium term. It would also raise its operational independence, ensuring it is not dependent on the current government for favour.

For example, the Irish Fiscal Council is guaranteed a baseline funding level in the *Fiscal Responsibility Act 2012* that grows each year by the Harmonised Index of Consumer Prices published by the Central Statistics Office. The budget for the Office for Budget Responsibility in the UK is laid out four years in advance from a separate line in the Treasury's Estimates approved by parliament, with an option for the OBR to submit an additional Memorandum to Parliament to request additional resources if it feels its resources are insufficient to fulfil its responsibilities or have been unduly restricted (HM Treasury, 2019). The statutes of the Portuguese Public Finance Council approved by Law No. 54/2011 set a ratcheting mechanism on its budget saying appropriations "only be reduced in duly justified exceptional circumstances" (Article 27).

**Access to information** remains a problem. AIReF has secured several memoranda of understanding, for example with the Spanish Tax Administration Agency (Agencia Tributaria). However, agreements between AIReF and the Ministry of Finance and with the Ministry of Economy for advanced access to data and documents on a confidential basis have been elusive. The issue causes significant difficulties for AIReF's monitoring function, for example in reconciling cash and accruals when transitioning between national accounting concepts and financial statements, particularly at subnational levels of government, among others.

On **analysis**, AIReF has successfully adopted most of the OECD's recommendations to enhance its analytical capabilities and credibility. It has expanded its analysis by publishing economic and fiscal medium-term projections, valuably filling a gap as the government's General State Budget does not include a strategic medium-term plan with detailed revenue and expenditure projections. For example, AIReF issues medium-term macroeconomic and fiscal forecasts twice a year, with the latest report extending forecasts until 2028, including projections for different

subsectors and Autonomous Communities. AIReF began publishing detailed demographic, labour market, and macroeconomic forecasts in October 2018 and introduced an integrated long-term analysis and forecasting framework for pension spending in January 2019, extending its projections to 2050. These forecasts are part of AIReF's reports on the Stability Program Update Project. Additionally, AIReF published comprehensive macroeconomic and fiscal scenarios to 2070 in its March 2023 report on the long-term sustainability of public administrations. AIReF has also expanded its debt-sustainability analysis to adapt it to the reformed economic governance framework, namely, by including the deterministic stress scenarios and the stochastic analysis according to the European Commission's methodology.

Starting in 2018, AIReF's reports have used more graphs and tables, and have reduced text and placed details in annexes. AIReF provides spreadsheet files with all graphs and tables underlying its reports on its website. The scope and volume of AIReF's recommendations remain overwhelming; however, the observatories it has developed allow interested parties to easily track them.

AIReF has published two self-evaluations of its economic forecasts and budget projections, which showed that its forecasts are generally more accurate and less biased compared to those of the Government, and they are at least as accurate as those from the Bank of Spain, the European Commission, and the Funcas (AIReF, 2023) and (AIReF, 2022).

AIReF has deepened its regional economic and fiscal models for more nuanced insight into subnational economic dynamics and fiscal sustainability. It has also developed its work on subnational benchmarking, with a specific focus on fiscally stressed municipalities, which helps in identifying and addressing regional fiscal disparities.

On **communications and impact**, AIReF has greatly improved its communication efforts to expand its reach and accessibility. It produced 59 videos simplifying its conclusions, opinions, and processes, and created content optimised for its website and social media formats. It has expanded its use of infographics. It has produced tutorial videos for its tools and promotional material for the president's participation in events. AIReF's website was redesigned to comply fully with the Council of Transparency and Good Governance requirements.

However, AIReF's reports remain lengthy compared to peers and calculation of readability indexes suggest that they would benefit from applying plain language practices. Although communications efforts with subnational governments have increased, subnational legislatures continue to view AIReF as a distant institution.

AIReF has increased its social media presence, especially on LinkedIn, with a new presidential LinkedIn account, diversifying from Twitter (now X) due to its uncertain future, and maintaining a presence on Facebook. However, AIReF has room to improve on tracking and monitoring its social media engagement and communication metrics.

In traditional media, the President hosts open press conferences. Journalists directly quote AIReF's spokespersons, raising their profile on national TV, radio, and newspapers. AIReF recently gave an interview to Canal Parlamento, a TV outlet produced by the Spanish Congress of Deputies for RTVE, the Spanish public TV outlet. AIReF still lacks connections with regional TV and radio outlets.

Despite these efforts, AIReF's reach remains mostly to specialised audiences. This is natural and common to all IFIs, as fiscal sustainability is a niche—though important—topic. Investing additional resources to reach the public is likely to have a limited return. That said, AIReF has requested an assessment of the current state of play of its communication activities and capacity as part of its DG REFORM technical support (REFORM/2023/OP/0010). This assessment will help track the performance of its communications strategies and suggest ways to better target current resources (see Chapter 1).

## Other Institutional Changes and Developments with AIReF following the 2017 Review

The period following the OECD review saw significant changes, with the completion of the Spending Review 2018-2021 and the approval by the Council of Ministers of Spending Review 2022-2026, focused on assessing the quality of public spending in delivering the Recovery, Transformation and Resilience Plan. The transition to the leadership of President Herrero marked both continuity and a new direction, with her Strategic Plan 2020-2026.

**Mandate expansion.** The 2017 OECD review only briefly touched on AIReF's upcoming expenditure evaluation function, as it remained in its infancy. Since then, AIReF has fully developed its Public Expenditure Evaluation Division, restructuring its teams to improve expertise and workflow efficiency. Its initial exploratory role in 2018 was viewed by stakeholders as a success, leading to an explicit—although unlegislated—mandate in 2021. Their spending review responsibilities are to both central and subnational governments, including autonomous and local communities.

**Strategic plan 2020-2026.** Upon her appointment, President Herrero launched her strategic plan that outlined high-level objectives for AIReF. The plan received unanimous acceptance by Parliament. Strategic Plan 2020-2026 contained 35 tasks under 12 objectives related to (1) supervision of government, (2) ensuring the sustainability of public finances, (3) making public policy evaluation a core activity, and (4) strengthening the principles of independence, transparency, and accountability.

The plan outlined a vision to consolidate AIReF as “a useful institution for society as a whole,” specifically:

- For public administrations, by acting as an impartial meeting point, by making their analyses available to them and by establishing constructive dialogue, among other aspects.
- For the fiscal debate, through positive analyses and a critical spirit with fiscal policy objectives as the central aim.
- For parliament, making themselves available to contribute to the economic and fiscal debate with their objective and independent analyses
- For society, bringing the fiscal debate closer to the public.

It also promulgated AIReF's core values as

- **Independence.** Acting with full organic and functional independence, with objective analysis based on evidence and technical precision.
- **Transparency.** Committed to providing the public with all the relevant information on its analyses as well as the basis for such analyses in an open, clear, and timely manner.
- **Accountability.** Willing to appear before Parliament as often as required, as well as seeking an external evaluation of the institution on its own initiative and furthering its accountability to the General Comptroller of the State Administration (IGAE) and the Court of Auditors.

AIReF has made substantial progress in implementing its strategic plan, particularly in enhancing accountability. The new president now regularly appears in Parliament to discuss AIReF's reports. The institution has also deepened the expertise on the Advisory Board to bolster its accountability and effectiveness. It also subjects itself to the financial control of the General State Comptroller and the Spanish Court of Auditors.

## 1.2 National and Global Context

### National Developments

No two Independent Fiscal Institutions (IFIs) are alike. Best-practice guidelines from the OECD, EU, and the EU IFI Network emphasise tailoring these bodies to fit their local context. This ensures IFIs integrate well within existing frameworks and gain stakeholder trust, avoiding perceptions of them as imposed by external lenders or as EU membership conditions.

AIReF has been mandated with unique domestic responsibilities within Spain's national context (Table 3) Chief among these is serving as the official monitoring body for the domestic implementation of EU fiscal rules. Few Member States have attempted to implement the EU framework at the subnational level as Spain has. The EU rules were recently changed and adopted by the Council on 29 April 2024. Meanwhile, global concerns like national security, growing political polarisation, and accelerating technological developments pose new challenges for AIReF. Before reviewing AIReF's specific functions, the review team will therefore first examine the evolving national, EU, and global context.

**Table 3: Key legislative responsibilities with Spain's national context**

<p><b>Scrutinise the macro forecast:</b> Determine if macroeconomic forecasts are compliant with Council Directive 2011/85/EU of 8 November 2011 on the requirements applicable to the budgetary frameworks of Member States.</p>
<p><b>Monitor compliance with budgetary stability principles:</b> Ensure effective compliance by the Public Administrations with the budgetary stability principle as set forth in article 135 of the Spanish Constitution through continuous monitoring of the budgetary cycle and public indebtedness and the analysis of economic forecasts, including their compliance with budgetary stability, public debt, and the debt-ceiling rule.</p>
<p><b>Issue reports:</b> Issue reports on macroeconomic forecasts, methodology to calculate income and expenditure trends, and the growth reference rate. This includes assessing the stability programme and budget implementation.</p>
<p><b>Economic-Financial Plans:</b> Issue a report on economic-financial and re-balancing plans for the Central Administration and the Autonomous Regions before their approval.</p>
<p><b>Corrective Measures:</b> Report on the application of preventive, corrective, and coercive measures as foreseen in Organic Law 2/2012 on Budgetary Stability and Financial Sustainability.</p>
<p><b>Exceptional Circumstances:</b> Publish assessments of activation of the correction mechanism or temporary deviation from budgetary objectives or adjustment paths and the occurrence of any exceptional circumstances as outlined in article 11.3 of Organic Law 2/2012.</p>
<p><b>Expenditure Evaluation:</b> Evaluate the effectiveness of public spending on topics requested by the Council of Ministers and subnational governments.</p>

The responsibility for monitoring Spain's fiscal policies is challenging due to the complex and layered structure of the country's government. Spain operates under a quasi-federal system characterised by significant devolution of powers to its seventeen autonomous communities, each with its own government and extensive control over local fiscal matters, including taxation and spending. All levels of Spain's government must comply with a comprehensive rules-based fiscal framework grounded in the EU conditions, including abiding by (1) structural budget balance, (2) public debt limit, and (3) expenditure path as laid out in Organic Law 2/2012 of 27 April 2012 on Fiscal Stability and Financial sustainability.

Decentralisation poses unique fiscal coordination challenges, given the economic heterogeneity across the autonomous communities. This complexity has evolved since the 2017 evaluation and continues to require nuanced consideration by AIReF. The autonomous communities have

different economic capabilities and fiscal health, which can lead to disparities in fiscal discipline across the country and policy considerations such as potential debt forgiveness for Catalonia. This environment not only demands robust fiscal surveillance but also requires continual adaptation to the interactions between different levels of governmental, all while attempting to maintain stability and compliance in the aggregate.

Spain's public finances are under pressure due to high structural deficits. Further, with average pension expenditure at 15% of GDP, a small change of 0.1% in the projected spending between now and 2050 could trigger the need to adjust pension provisions. .

Spain's economy has been growing well compared to European peers, albeit at a moderated pace. Like its European neighbours, Spain has faced headwinds due to the lingering effects of the war in Ukraine, resulting in an energy crisis that spurred inflation and prompted a cycle of interest rate hikes by the European Central Bank. Inflation remains a concern, although a moderation is expected. Although outperforming eurozone counterparts partly due to lower energy costs and NextGenerationEU funds, it faces internal challenges including high unemployment, an aging population, and slow policy responses amid political uncertainty.

Spain faces significant demographic challenges common to many EU and OECD countries, including an aging population, low birth rates, and increasing life expectancy. These trends strain the pension system and healthcare services, necessitating reforms to ensure their fiscal sustainability. Immigration is a crucial factor in mitigating these challenges, as it helps offset the declining workforce and supports economic growth. However, immigration poses stresses on housing affordability and availability.

In its latest report on 19 June 2024, prepared under Article 126(3) of the Treaty on the Functioning of the European Union, the European Commission decided that an excessive deficit procedure would not be appropriate for Spain (European Commission, 2024). The reasons cited were:

- The budgetary deficit exceeding the reference value is temporary. According to the Commission's 2024 Spring Forecast, the deficit is projected to fall below the reference value in 2024 and 2025 without additional measures.
- Part of the budget deficit is owing to an increase in government investment in defence. Eurostat's COFOG data shows total general government expenditure in defence was 1.1% of GDP in 2022. Of this, government investment in defence represented 0.4% of GDP in 2022, which was 0.2 percentage points higher than in 2021.
- Structural reforms and investments under the NextGenerationEU (NGEU)/Recovery and Resilience Facility (RRF) could positively impact GDP growth in the coming years.

## A New EU Framework

The COVID-19 pandemic and subsequent energy crisis led to the suspension of the EU's fiscal rules from 2020 to 2023, allowing Member States to respond with fiscal supports. Countries are now preparing for the reinstatement of these fiscal rules in 2024 under a reformed framework, following a review that began in February 2020 and concluded with adoption of a package of regulations and directives of by the Council on 29 April 2024 (Box 2).

The objective of the new framework is to “strengthen debt sustainability and promote sustainable and inclusive growth in all Member States through growth-enhancing reforms and priority investments” (European Commission, 2024). The objective reflects “lessons learned from the EU policy response to the financial crisis where a lack of investment hampered a swift economic recovery the weakness exposed during its first decade” and “[takes] into account the need to reduce increased public debt levels, including as a result of the COVID-19 pandemic, in



a realistic, gradual and sustained manner (European Commission, 2024).” Member States are required to submit their first national plans by 20 September 2024.

The reformed framework has several important implications for AIReF’s work:

- The framework introduces a risk-based approach to monitoring the long-term fiscal sustainability of EU member states. It employs a debt sustainability analysis (DSA) that requires a country’s projected general government debt ratio to be put or remain on a plausibly downward path or stay at prudent levels below 60% of GDP over the medium term and that the projected general government deficit be brought and held below 3% of GDP over the same period, based on the methodology described in the Commission’s Debt Sustainability Monitor. AIReF will need to adjust its DSA tools to be able to provide opinions on these areas.
- The new framework allows Member States that are within the Maastricht criteria (that is, their debt is below 60% of GDP and deficit is below 3% of GDP) to “spend more than under the old framework if they so wish, so long as they comply with the criteria set out in Article 13 of Regulation (EU) 2024/1263 (European Commission, 2024).” Those not within the criteria that require fiscal adjustments can do so more gradually if they commit to investing in EU priorities, extending adjustment paths from four to seven years. The priorities are contained in country-specific recommendations that allow spending beyond the expenditure ceiling, provided it is offset by new revenue measures under the single operational indicator of “government expenditure net of new revenue measures.” The priority areas include the green transition and digitalisation. AIReF will need to build capacity to assess whether spending is in line with EU priorities.
- The reformed economic governance framework also amends the preventative arm and corrective arm to encourage Member States to give IFIs a role in the European Semester.<sup>1</sup> The preventive arm (Articles 11, 15(3) and 23 of Regulation (EU) 2024/1263) requires Member States to have IFIs after 2032 to provide an opinion on the macroeconomic forecast and the macroeconomic assumptions underpinning the net expenditure path in their submitted or revised “national medium-term fiscal-structural plan” provided an IFI has sufficient capacity to do so. It also suggests (but does not require) IFIs should assess budgetary outturn data for progress against the net expenditure path and assess factors underlying any deviation. The corrective arm (Article 3(5) of Council Regulation (EC) No 1467/97) suggests but does not require Member States to ask their IFI to produce a non-binding report on the sufficiency of the fiscal consolidation measures taken. AIReF has sufficient capacity but will need to be supported by having their role clearly defined when transposing the new framework into domestic legislation.

### Box 2: The new EU governance framework

The economic governance framework reform was implemented in three legislative acts (Council Regulation (EU) 2024/1263, Council Regulation (EU) 2024/1264 and Council Directive (EU) 2024/1265). The framework prioritises medium- and long-term fiscal sustainability targets and is more accommodative of spending that is focused on strategic investments and reforms. Instead of relying solely on numerical rules to meet the Maastricht Treaty Criteria of 3 per cent of GDP and 60 per cent of public debt, the new approach is based on country-specific debt sustainability analysis (DSA) using risk-based "stochastic" simulations.

The former "medium-term objectives" of the overall structural balance are replaced by a single indicator as the annual policy target. This indicator will be country specific and set out in line with criteria included in Regulation (EU) 2024/1263. The indicator is operationalised as the net expenditure path over a four-to-seven year adjustment period, where net expenditure is defined as "government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures" (Article 2(2) of Regulation (EU) 2024/1263). Countries must submit a medium-term fiscal structural plan (MTFSP) based on a net expenditure path that shows that by the end of the adjustment period the projected general government debt ratio is on a plausibly downward path or remains below 60 per cent of GDP, as measured by a risk-based stochastic debt sustainability analysis. The net expenditure path must also bring and maintains the government deficit below 3 per cent of GDP over the medium term. Adjustment paths can be extended from four years to as many as seven, if the spending mix in the MTFSP is sufficiently aligned to common investment priorities (and other criteria set out in Article 14 of Regulation (EU) 2024/1263).

The framework also includes more stringent safeguard conditions to ensure a minimum pace of debt and deficit reduction. For example, fiscal adjustments cannot be backloaded by increasing them over the adjustment period (for Member States with public debt above 60 per cent of GDP and/or a deficit above 3 per cent of GDP). For Member States with public debt above 60 per cent of GDP, public debt must decline by at least 1 percentage point of GDP each year if it exceeds 90 per cent of GDP, or by half a percentage point if it is between 60 per cent and 90 per cent of GDP. Additionally, for Member States with public debt above 60 per cent of GDP and/or a deficit above 3 per cent of GDP, the structural primary deficit must be reduced by at least 0.4 per cent of GDP (over a four-year adjustment) and by 0.25 per cent (if the adjustment period is seven years) in order to reach a common resilience margin in structural terms of 1.5 per cent of GDP relative to the deficit reference value of 3 per cent of GDP.

The excessive deficit procedure is largely unchanged, requiring structural primary balance adjustments of 0.5 per cent of GDP per year as a benchmark over 2025 to 2027 and the same adjustment of overall structural balances from 2028.

In practice over the European Semester, countries not meeting the Maastricht requirements will receive a reference trajectory for net expenditure for four years extendable to seven years from the Commission. Member states must then present their MTFSP to explain the reforms and public investment commitments by April. These are then assessed by the Commission and the Council. Once endorsed by the Council, the MTFSP will be subject to annual monitoring of compliance.

## Global Risks

The IMF's outlook for the global economy anticipates moderated growth, with projections for 2024 and 2025 at 3.2 percent. This was an upward revision reflecting the resilience of major economies despite challenges like inflation, high central bank policy rates, fiscal retrenchment due to high debt, and subdued productivity growth (International Monetary Fund, 2024).

Lingering impacts from the pandemic like disruptions in supply chains and market volatility have largely abated; however, the effects of the pandemic on long-term public health and the public finances continue to play a structural risk.

Geopolitical tensions in Ukraine and the Middle East threaten global stability and economic conditions, influencing energy prices, trade flows, and investment climates. Spain faces additional risks to its public finances due to its defence and reconstruction commitments and potential fiscal mobilisation in response to these security threats. This could strain fiscal policies and necessitate careful financial management to maintain economic stability while addressing national and international obligations (see, for example Ministry of Foreign Affairs, European Union and Cooperation (2024)).

Supply chain disruptions during the pandemic and ongoing security concerns have led countries to reassess their domestic capacities, resulting in a greater role for governments in strategically managing the economy, including investing in reshoring. This risk-mitigation approach suggests that public investments, which might not be justified by traditional cost-benefit analysis, could be strategically valuable. IFIs need to develop new frameworks to evaluate and support these state-managed investments, balancing traditional economic assessments with considerations for resilience and stability.

Climate change and other environmental challenges such as frequency of extreme weather events have also increased economic vulnerabilities. Over two-thirds of OECD countries have adopted “Green budgeting”, and the number is quickly rising (OECD, 2024). IFIs are increasingly playing a role in it by providing comprehensive support across several key areas (OECD, 2022):

- **Monitoring compliance with green budgeting** by ensuring that green reporting and disclosure requirements are met, budget plans align with climate and ecological targets, leakage of carbon-intensive production to other countries is assessed, and financial outcomes are consistent with green investment targets.
- **Supporting climate-sensitive economic and fiscal forecasting and scenario analysis** by scrutinising and providing opinions on policy and emissions baselines, macroeconomic and fiscal planning assumptions, and risks posed by climate change and ecosystem losses, while offering alternative forecasts and long-term fiscal sustainability analysis that incorporate green considerations.
- **Undertaking programme evaluation and cost estimates with a green perspective** by assessing the financial, macroeconomic and distributional impacts of green initiatives, assessing the environmental externalities of all policies, and monitoring carbon pricing programs to assess their effects on energy markets.

Governments are increasingly incorporating broader socioeconomic criteria in budgeting, such as gender implications, inclusion of marginalised communities, and policy impacts on accessibility and diversity. This approach emphasises equity and social justice, ensuring budgetary decisions reflect all citizens' needs. IFIs are increasingly being asked to broaden their tools to be able to assess these priorities within the context of the public finances.

Additionally, with the potential for technological disruptions such as machine learning to displace workers as the labour market reorganises along its new path, government transfers will take on a heightened importance. IFIs will need to expand their breadth and depth of distributional analysis to inform policymakers in implementing more equitable economic strategies and developing targeted interventions to vulnerable populations.

## 1.3 Overview of International Standards

The OECD Principles for Independent Fiscal Institutions were a cornerstone of AIReF's foundational design and are reflected in the Organic Law establishing it. The principles were approved by the OECD Council of member government in 2014, and as such form part of OECD soft law, which is not legally binding but carries significant political weight. The principles promote the same tenants of AIReF's guiding principles, that is: independence, transparency, and accountability (OECD, 2014). Recently, the status of these principles has been elevated through the promotion of the OECD Network for Parliamentary Budget Officials and IFIs to a working party, reconfirming their importance.

Specific requirements for an IFI's autonomy and resources have also been cemented in the reform of the EU's economic governance framework through the addition of Chapter V article 8a in Council Directive 2011/85/EU, which says IFIs<sup>1</sup>:

- a) Shall not take instructions from the budgetary authorities of the Member State concerned or from any other public or private body
- b) Shall have the capacity to communicate publicly about their assessments and opinions in a timely manner
- c) Shall have adequate and stable resources to carry out their tasks in an effective manner, including any type of analysis within their tasks
- d) Shall have adequate and timely access to the information needed to fulfil their tasks.
- e) Shall be subject to regular external evaluations by independent evaluators.

The review team has synthesised these two sources of international guidance, along with the European Commission's 2012 guidance on independent monitoring institutions, into 10 criteria by which to evaluate IFIs in the EU (see Annex C).

### Synthesis of international standards

- 1. Local fit.** Local fit is the overarching principle of all international guidance on IFIs. It describes the degree to which an IFI has been tailored to its national context to ensure stakeholder buy-in. Many IFIs, including in Spain, were viewed with suspicion in early years, as they were imposed by requirements of EU membership or as conditions of external lenders such as the IMF. Public buy-in is the ultimate arbiter of whether an IFI's analysis and recommendations will be influential or ignored.
- 2. Mandate.** International guidelines do not make explicit reference to which responsibilities an IFI should have, but rather on the certainty and powers they need to fulfil a mandate, whatever it may be. For example, mandates should be clearly defined in legislation to avoid disputes where the government can argue it is exceeding its mandate. Its mandatory reports and appearances before the legislature should be clear in law. As independent institutions, they should always have the autonomy and the resources to produce reports and analysis at their own initiative and autonomy to determine their work programme, provided the work is within the scope of their mandate. As fiscal institutions, they should have explicit roles in the budget process to ensure that their advice is at least heard by those making official decisions and those overseeing them.
- 3. Leadership.** International guidelines emphasise that the leadership of Independent Fiscal Institutions (IFIs) should be selected based on merit and technical expertise. Leaders should be appointed through transparent and rigorous processes that ensure

<sup>1</sup> Amended by Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States

that they are credible and impartial. Additionally, to safeguard against political influence, guidelines recommend that fixed terms for leaders are offset from the political cycle to ensure that an administration cannot appoint its own friendly leader for the duration of the term.

- 4. Operational independence.** As a public body in a democracy, there can never be total independence. To borrow language from central banking, public bodies—even arm’s length ones—are not endowed with goal dependence, but only operational independence. The goal (the mandate of the institution and the activities it undertakes) must always be the responsibility of an elected official who can be held politically accountable. However, like central banks, IFIs should be free from the government’s influence while deciding how to operationally carry out that goal.
- 5. Communications.** International guidelines emphasise the importance of effective communication strategies for IFIs to fulfil their mandates and influence fiscal policy. Guidelines recommend that they make publications accessible, clear, and timely to ensure that the information disseminated is useful and impactful. Furthermore, IFIs should be able to proactively engage with the media in their own voice, with their own website and social media platforms free from bureaucratic or political constraints.
- 6. Transparency.** International principles for IFIs place a strong emphasis on transparency, highlighting that transparency in operations and methodologies are essential for building credibility and trust in their work. Further, the best way to encourage governments to be transparent is to lead by example.
- 7. Staff resources.** Independent Fiscal Institutions (IFIs) must have adequate staff resources to fulfil their mandates effectively. This includes ensuring enough staff with the necessary expertise in economics, public finance, and other relevant fields along with the administrative staff to support them. Guidelines recommend that IFIs maintain independence in staffing decisions, allowing leaders to recruit and manage personnel based on merit and the specific needs of the institution. Ensuring flexibility in hiring practices is also important to adapt to evolving demands and new responsibilities.
- 8. Financial resources.** International guidelines emphasise that Independent Fiscal Institutions (IFIs) should have adequate and stable financial resources to effectively carry out their mandates. Their budget allocation should be as free from the potential for political interference as possible under their government’s public financial management framework, with the same treatment as other arm’s length bodies. This should include a form of medium-term funding commitment.
- 9. Access to information.** IFIs should have access to accurate and timely information that is necessary to perform their duties effectively. This includes access to all relevant economic and financial data from public administrations and other relevant sources. Guidelines recommend that these guarantees are legislated to prevent any potential political obstructions. Laws should list the specific data to which the office is entitled. The legislation should also clarify any areas where the IFI should not have access, such as areas that are sensitive for national security. Clear and detailed memorandums of understanding and exchange protocols should be established to ensure smooth information flows, automated where possible, and cooperation between IFIs and governmental bodies.
- 10. Accountability mechanisms.** International guidelines recommend that IFIs establish robust accountability mechanisms to ensure their operations and analyses are subject to regular scrutiny. This includes publishing comprehensive governance and performance reports, engaging in open dialogue with legislative bodies, and participating

in public hearings. Accountability is further enhanced by external evaluations and audits, which assess the IFI's performance and adherence to its mandate. These should be enshrined in legislation.

A full description of each criterion, its measurements, and the questions the review team sought to answer when determining AIReF's alignment to them is provided in Annex C. An evaluation of AIReF against these standards is provided in Subsection 4.3.

## 1.4 Conclusions and Implications for the External Evaluation

### Conclusions

AIReF has made significant progress since its last ECD evaluation, notably in enhancing its operational efficiency and impact. This progress includes improvements in methodologies, the breadth of analysis, and the integration of more sophisticated tools, particularly in the realm of economic forecasting and fiscal policy evaluation. AIReF has become more influential in guiding public policy through rigorous, independent assessments, which has strengthened its role in Spain's fiscal oversight framework.

However, AIReF must now prepare to adapt to the evolving European Union (EU) framework. The new EU regulations, particularly those related to fiscal governance, will require AIReF to update its methodologies and possibly expand its analytical scope. This may involve incorporating new metrics, aligning with broader EU fiscal targets, and ensuring that its evaluations remain relevant within the context of the EU's increasingly complex fiscal landscape.

Moreover, AIReF will need to adapt to significant developments in the national and global context. Domestically, changes in fiscal policy, economic conditions, and political priorities will necessitate a flexible and responsive approach. On the global stage, AIReF must account for uncertainties and risks, such as economic shocks, climate change, and geopolitical tensions, which could impact Spain's fiscal stability. This will require AIReF to continuously refine its models and maintain a high level of agility in its assessments to provide timely and accurate fiscal policy guidance.

To ensure its research and role in Spain's fiscal management framework is credible, legitimate, and aligned to best practices, AIReF's resources and operations should be assessed according to the international standards that have been developed for IFIs, particularly the OECD Principles for Independent Fiscal Institutions and as described in the EU's economic governance framework. These standards emphasize the importance of independence, transparency, and adequate resources, ensuring AIReF's autonomy from government influence and its ability to effectively fulfil its mandate.

### Implications for the External Evaluation

The review team must keep these factors in mind for the review framework that will guide AIReF in addressing these challenges effectively and strategically. The aim is to ensure that AIReF not only continues to fulfil its current mandate but can adapt to the evolving fiscal and economic landscape.

Specifically,

- Given the weight of Strategic Plan 2020-2026 in President Herrero's vision, the review will be couched in terms of it.

- The evaluation should assess AIReF's model suite in its capacity to confront the new focus of the EU economic governance framework on stochastic debt sustainability and priority investments such as the green transition and digital transition, among others. A particular challenge will be reconciling the new framework with Spain's heavily devolved subnational administrations.
- The review should consider AIReF's preparedness for crisis, including technological disruptions, national security threats, new pandemics, increased natural disasters, and other unforeseen risks.

## Recommendations

To ensure Spain continues to benefit from AIReF's role in monitoring its domestic fiscal framework, the review team directs the first two recommendations to the Spanish government, which is responsible for translating the new EU requirements into national legislation.

**Recommendation 1.1** Spain's Organic Law 6/2013 transposing the EU fiscal rules domestically should be amended to require AIReF to issue an opinion on national medium-term fiscal structural plans in line with Regulation (EU) 2024/1263 of the EU's reformed Economic Governance Framework, including an opinion on the macroeconomic forecast and the macroeconomic assumptions underpinning the net expenditure path. The opinion should be attached to the national medium-term fiscal structural plan when it is submitted to the Commission.

**Recommendation 1.2** Organic Law 6/2013 should be amended to give AIReF the responsibility of publishing an ex post assessment of budgetary outturn data with the net expenditure path as set by the Council, including an analysis of the factors underlying any deviation from the path.

**Recommendation 1.3** During the preparation phase of the national medium-term fiscal structural plans, the government should engage in a formal consultation with AIReF to exchange technical analysis and commit to explaining how AIReF's views have been considered in the final plan. The terms of the formal consultation engagement should be established in a memorandum of understanding.



## Chapter 2. Evaluation of the Fiscal Monitoring Function

### 2.1 General Evaluation of the Fiscal Monitoring Function

Organic Law 6/2013 charges AIReF with monitoring compliance across all levels of government with Spain’s principles of fiscal stability through “continuous evaluation of the budget cycle, public indebtedness, and economic forecasts.” To do so it is given the tasks of (1) assessing the and endorsing the macroeconomic forecasts underlying draft budgets and scenarios in the medium run (draft budgets of all General Government sub-sectors must include a report from AIReF indicating whether they have been endorsed), (2) analysing the implementation and execution of fiscal policies in order to ensure early detection of any deviations from the objectives pursued, and (3) providing opinions on subjects foreseen by the Organic law or on any other issues as provided for by law.

The institution has two divisions to deliver these responsibilities —the Economic Analysis Division and the Budget Analysis Division, which are the focus of this chapter.

#### Approach to Monitoring

To fulfil their role in assessing and endorsing budget assumptions, IFIs can either (1) audit a government’s assumptions and comment using their expert judgment, (2) compare the government’s projections to the forecasts of other institutions like the IMF, central banks and think tanks, or (3) replicate the government’s analysis using in-house models (that is, models the IFI’s staff have developed themselves) to assess the reasonableness of the assumptions. AIReF has chosen the latter, in line with most other IFIs, as they do not have direct access to the government’s models (Figure 2).<sup>2</sup>

**Figure 2: Most OECD IFIs use in-house models to assess the reasonableness of government assumptions**

Comparing government forecasts against in-house models	Comparing government forecasts against third-party forecasts	Auditing the government’s assumptions and applying expert judgment
Austria PBO Austria FISK Canada PBO Denmark Council Greece HFC Greece PBO Ireland Council Italy PBO Korea NABO Lithuania BPMD Mexico CEFP Portugal CFP Slovak CBR Spain AIReF UK OBR US CBO	Chile CFA Estonia FC Finland EPC Finland NAOF Ireland PBO Latvia FDC Luxembourg CNFP Portugal PBO Sweden FPC	Belgium HCF Czech FC France HCFF Germany Board Hungary FC Iceland FC Slovenia FC

Source: OECD Independent Fiscal Institutions Database (2021) Version 2.0.

Two of the IFIs in AIReF’s peer group, the Belgium Federal Planning Bureau and CPB Netherlands Bureau for Economic Policy Analysis (CPB Netherlands), directly contribute the economic

<sup>2</sup> In contrast, IFIs such as the Belgium High Council of Finance can fulfil this role largely through auditing the government’s assumptions and applying expert opinion because its secretariat consists of “insiders” of the Ministry of Finance granting council members direct access to government models to undertake their scrutiny work.

assumptions by which the government’s budget projections are bound. This requires a very close working arrangement, sharing models and policy scenarios, and results in a much closer relationship with government than a true arm’s length organisation would maintain. In practice, this arrangement requires teams in the Finance Ministry to duplicate the IFI’s macroeconomic forecasting tools so they can assess the economic and fiscal impact of confidential budget measures. These relationships are rooted in long histories dating back to 1945 for the CPB Netherlands and 1959 for the Belgium Federal Planning Bureau, predating the typical budget forecasting processes of modern finance ministries. Because of this close arrangement, countries that follow this approach are required under Council Directive (EU) 2024/1265 to have a separate, different, IFI perform *ex post* assessments of the IFI that produces the macroeconomic forecasts directly. In the Netherlands this role is filled by the Council of State and in Belgium this role is filled by the High Council of Finance. For these reasons, the review team does not recommend that AIReF undertake the official macroeconomic forecasts underlying budgets at this time.

AIReF’s current role within the fiscal framework is appropriate and aligns with the most common arrangements for Independent Fiscal Institutions (IFIs) in terms of its involvement in the national budget process, albeit with a much deeper subnational devolved and autonomous budget endorsement function.

## Modelling Capacity

Strategic Plan 2020-2026 committed to “developing short- and medium-term forecasting and projection models of macroeconomic and budgetary variables.” The institution reviewed and updated its modelling suite accordingly, undertaking considerable work to re-estimate models following the COVID-19 shock, incorporating lessons learned from its assessment of forecasting errors, and enhancing its econometric tools to better integrate macroeconomic and fiscal projections at a high level of detail.

These resulting tools of the Economic Analysis Department and Budget Analysis Department are now appropriate for fulfilling most of the forecasting, policy evaluation, and scenario analysis functions for AIReF to effectively meet its mandated responsibilities.

### Economic Analysis Department

To produce its economic forecasts, the Economic Analysis Department uses a suite of products for the short, medium and long term:

- **Monitoring and short-term models.** AIReF’s forecasts of the immediate quarter and q+1 quarter are produced with its MIPred dynamic factor model and METCAP quarterly monitoring and flash Estimate regional GDP monitoring model. These are complemented with sense-tests from a Bayesian vector autoregressive model with exogenous variables (BVARX).
- **Medium-term forecasting models:** Error correction equations (MTA) and a synthetic filtered production function approach to the output gap, pinning the medium-term down with semi-structural theory.
- **Sector-specific and structural models:** AIReF’s suite includes specialised models such as the Satellite Structural Macro Models and the Satellite Structural Fiscal Models, which handle detailed component forecasts of GDP and ensure fiscal elements like taxes and social benefits are incorporated cohesively in the macroeconomic outlook. These models also leverage world input-output tables to analyse the effects of supply-side bottlenecks, trade fragmentation, and other global supply disruptions. This allows AIReF to assess the ripple effects of international trade dynamics on Spain’s economy, such as the impact of disrupted supply chains on domestic production, changes in global trade patterns, and the potential economic fallout from geopolitical tensions.

- **Debt sustainability analysis:** AIReF has improved their debt-sustainability tools to incorporate the EU's reformed economic governance framework and its focus on specific shocks and stochastic probability analysis.
- **Risk assessments and demographic forecasts:** For assessing fiscal risks and demographic changes, the Economic Analysis Division F employs models like the Probabilistic Scenario Analysis for debt projections and the Demographic Projections model to forecast demographic impacts on fiscal sustainability and simulate alternative scenarios.

### Budget Analysis Department

The Budget Analysis Department's approach uses a suite of error-correction models for forecasting and ad-hoc spreadsheet and statistical models, among others:

- **Revenue forecasting.** Error correction models of the main tax bases with a macroeconomic anchor, accrual and cash accounting adjustments, ESA adjustments are also incorporated into the system for the transfer of the cash amount to national accounts.
- **Expenditure forecasting.** The approach varies based on the time horizon and available information, with key distinctions between:
  - Expenditures driven by inherent dynamics (e.g., pensions, interest payments, unemployment benefits, public employee compensation, health, education, long-term care): These forecasts are based on underlying fundamentals such as the macroeconomic scenario, demographic trends, and historical patterns.
  - Expenditures influenced by government discretionary decisions (e.g., subsidies, gross fixed capital formation, capital transfers): These forecasts rely on information from budgetary sources and historical trends.
- **Macro-fiscal integration and sensitivity analysis:** The Simplified National Accounts Integrated Model and the Macro-fiscal Sensibility Simulator assist AIReF in creating a coherent macroeconomic and fiscal forecast (that is, macroeconomic and fiscal developments reflexively influence each other and are consistent within national accounting identities) and allow AIReF to assess the sensitivity of fiscal and macroeconomic variables to external shocks.

### Modelling developments since the 2017 review

Since the OECD review, the modelling teams have made significant advancements in building capacity for short, medium and long-term modelling under the president's Strategic Plan 2020-2026.

AIReF has developed econometric models that handle both high-frequency and mixed-frequency data to refine short-term GDP estimates. The teams are automating the entry of financial and fiscal information from Autonomous Regions (ARs) and other entities, which facilitates more streamlined analysis.

There is ongoing maintenance and enhancement of models that predict revenue sources for subnational governments, particularly focusing on the subnational financing system and revenues of the Provincial Councils. Progress has also been made in refining short-term forecasting models for social contributions and unemployment benefits. New models are being developed for quarterly and monthly social contribution calculations in national accounting and cash terms, respectively.

Furthermore, the department has built a model to forecast the GDP ratio of expenditure on contributory pensions, both related to social security and the pensions of civil servants, in Spain up to 2070 (AIReF, 2019). The department has also developed long term models for health care, education, and long-term care (AIReF, 2023). This involved creating a long-term demographic and potential GDP model to enable accurate projections of pension expenditures using a cohort model.

AIReF's modelling tools are theoretically sound, employ robust methodologies, and are in line with international standards as practiced by other independent fiscal institutions. They strike a balance between complexity (avoiding black boxes), which allows for effective communication and transparency in conveying results.

These approaches are comparable to those used by benchmark institutions. For example,

- To produce its macroeconomic forecast, the Italian PBO uses a reduced form semi-structural New-Keynesian macro model.
- The Portuguese Public Finance Council uses a semi-structural macroeconometric with long-run equilibrium with short-run estimated Keynesian dynamics, captured through an error-correction (ECM) framework estimated on ESA 2010 quarterly national accounts data with 137 equations, 40 of which are estimated behavioural equation. The model is complemented by a suite of vector autoregressive (VAR) models of quarterly real gross domestic product (GDP) and inflation, and a collection of bridge and mixed-data sampling (MIDAS) models which provide short-term forecasts of GDP and its components (Goncalves & Moreira, 2018). The Portuguese CFP primarily relies on error correction models of its main tax bases with a macroeconomic anchor.
- Canadian PBO uses semi-structural macroeconometric models for forecasting the medium-term, uses HP filters and a simple production function for long-term potential GDP. It built a dynamic factor model for short-term monitoring but did not maintain the expert staff to maintain it.

That said, there are several modelling areas used by other IFIs and other arm's length economic and fiscal organisations that should be considered to ensure comprehensive capacity for future risks.

### Modelling Gaps

AIReF's budgetary division uses some ad hoc microsimulation models to evaluate income measures and to model the impact of pension reforms (for example, in AIReF (2019)). However, compared to IFIs, think tanks and central banks in most other countries, a significant tool is missing from its modelling suite—a standard national microsimulation model. The gap applies not just to AIReF but Spain generally. It is common across the OECD to have a national microsimulation model developed through collaborative partnership between government departments (tax, social security and national statistics agencies) and IFIs or research entities, for example Belgium's BelMod and EXPEDITION, Canada's SPSP/M, Finland's SISU, and the Netherlands' MICSIM (Box 3). This cannot be said of Spain, although AIReF's activities have touched on distributional analysis like its VAT distributional tool poverty indicators for providing its opinion on the Minimum Living Income and Minimum Income schemes, and there have been some fragmented initiatives at the Bank of Spain, think tanks like Fedea, and among academics (for example, [DYPES](#) and [ESPASIM](#)).

Microsimulation models analyse unit-level data from representative population samples to project the effects of legislative changes on different individuals, households, and overall government tax revenues. They are used to produce detailed distributional analysis by income levels, household types, and consumption preferences, as well as to simulate income effects and labour supply effects (which can in turn augment macroeconomic forecasts). Although microsimulation models do not inherently forecast (although many have a "growth" assumption that can be applied to project to future years), the analysis produced is useful for refining and improving fiscal forecasts.

AIReF can offer to serve as the coordinator and secretariat for a national initiative to build a public-use microsimulation model, in line with Strategic Plan 2020-2026's vision to act as an

“impartial meeting point” for public administrations. To expedite development, AIReF could benefit from adopting open-source platforms like LIAM2, developed by the Belgium Federal Planning Bureau, which provides a framework for countries to adapt to their own data.

EURMOD, a standardised and widely used microsimulation currently maintained by the Joint Research Centre (JRC) of the European Commission could be a short-run solution. However, it would not fully capture the complexities of Spain's regional tax and benefit systems, and its reliance on EU-SILC data limits its precision and timeliness. Additionally, significant customisation would be needed to adapt EURMOD to the current policy environment and for the level of detail to assess new measures under consideration.

### **Box 3: MICSIM 2.0 the Netherlands’ behavioural microsimulation model**

MICSIM 2.0 is a behavioural microsimulation model designed for analysing tax-benefit reforms in the Netherlands. The CPB Netherlands Bureau for Economic Policy Analysis uses it to assess how taxes and social security contributions and benefits affect gross wages and hours worked for different groups of workers. The model also offers insight into the budgetary effects of policy measures and the distribution of income across individuals and households.

MICSIM is based on detailed microdata from the Dutch statistics agency (Centraal Bureau voor de Statistiek and the idea that households optimize over the trade-off between hours worked and leisure. Hours worked yields income to consume and buy necessary goods and services, but households inherently value leisure too. The MICSIM allows this trade-off to differ with various individual and household characteristics such as age, gender, the number of children, level of education, etc. Practically, this means that MICSIM can differentiate between 15 groups. For these groups, initial observations are calibrated so that they are consistent with observed preference for labour-leisure as well as macro data on labour supply. This is baseline is then used as a point of departure for assessing the effects of policy.

MICSIM has some limitations. It is generally suited to assess the structural effects of financial incentives on the labour-leisure decision. As such, the model does not investigate search-and-matching by individuals or the time people need to adjust to labour market conditions, and the model also cannot be used to assess policies aimed at people that have been unemployed for a long time or the effects of societal norms on female labour supply. MICSIM’s main mechanism runs through hours worked, and not through e.g. the decision to obtain more schooling. Moreover, the effects of pensions on labour decision are excluded from MICSIM. MICSIM is not used to assess demand-side policies and cannot be used for self-employed workers.

There are several other areas of rapidly advancing modelling approaches that AIReF could explore to enhance its modelling suite:

- **DSGE models.** AIReF is currently developing a DSGE model in collaboration with Davide Debortoli and the University Pompeu Fabra in support of its surveillance activities under the new EU rules framework. DSGE models are common among central banks for monetary policy analysis and among climate researchers, as they permit theory-based analysis in an idealised economy rather than trying to empirically establish causal mechanisms in the complex real economy. DSGE models were heavily criticised

following the global financial crisis for their representative agent assumptions that some observers felt led central banks away from the optimal policy response (US House of Representatives, 20 July 2010). Since then, researchers have added more complexity and heterogeneity. For example, the HANK class of models introduces multiple types of representative individuals and households with different income brackets and consumer behaviours; however, there continues to be a disconnect between the map and the territory, particularly a failure to capture emergent behaviour of economies in aggregate. If adopted, AIReF must exercise caution in caveating results and implications.

- **Stock-flow consistent models.** The stock-flow consistent (SFC) model approach offers a framework that integrates the real and financial aspects of the economy through national balance sheets. This approach underscores that the behaviour of the real economy cannot be fully understood without considering the financial side, including money, debt, and asset markets. This interconnectedness became especially apparent during the Global Financial Crisis and subsequent slow recovery. There are several out-of-the-box python packages that can be quickly adapted to Spain's national accounts, for example, Romanchuk (2017). Stock-flow consistent models with agent-based integration have potential to be a viable alternative to DSGE models in areas of climate change analysis. For example, the EIRIN Stock-Flow Consistent model has been used extensively by researchers at the European Central Bank to assess the physical and transition risks of climate change (see, for example, (Gourdel, Monasterolo, Mazzocchetti, & Parisi, 2023)).
- **Agent-based models.** Agent-based models (ABMs) simulate the interactions of agents like households, firms, and governments, based on specific behavioural rules, to see how these interactions affect macroeconomic outcomes like GDP, unemployment, and inflation. Recent advancements, primarily within central banks, ensure that these models align with national accounts, enhancing their credibility for fiscal policy analysis (see for example Bank of Canada (2022) and Poledna, Miess, Hommes, & Rabitsch (2023)). Researchers in the United States have a longer history applying ABMs on subjects such as tax compliance, informing analysis by the Congressional Budget Office and Internal Revenue Service (see for example Korobow, Johnson, & Axtell, 2007 (2007)).

A development in economic and fiscal modelling that is attracting headlines is Artificial Intelligence. While a potentially productivity-enhancing tool to help AIReF produce more with its current staff contingent, the potential of AI to revolution IFI work is probably limited (Box 4).



#### Box 4: Potential for AI to support fiscal monitoring

Recent headlines have been dominated by the potential of Artificial Intelligence (AI), including machine learning and large language models, to revolutionise work like economic and fiscal forecasting. These tools are increasingly featured in consultancy slide decks and promoted by organisations such as the OECD.

However, the value of AI for IFIs like AIReF may be limited. Potential applications include:

**Auto-forecasting.** Tools such as Facebook’s Prophet model are praised for their efficiency in managing large datasets, which might benefit AIReF’s subnational assessments. However, their opaque nature challenges IFIs’ need for transparency and narrative clarity. Moreover, the intensive work required to refine outputs from these tools can negate their initial ease of use, making traditional manual techniques just as effective without compromising clarity.

**Parameterising large-Scale modelling.** AI can help in parameterising complex economic models, such as agent-based models, which would have previously been too labour-intensive for many uses. This approach still requires meticulous oversight to ensure accuracy.

**Code completion and report outlines** AI is useful for code completion and drafting analysis outlines, helping overcome the challenge of starting from a blank page. However, AI-generated drafts typically require substantial revisions.

**Translation.** AI’s strong capabilities in translating complex fiscal reports across languages can save significant financial and time resources.

**Audit of financial statements.** AI tools have had some success in auditing financial statements and spotting anomalies for further investigation. (Udyavar, 2017).

Despite these applications, IFIs must exercise caution in their reliance on AI. A deep understanding of government finances is the core tool an IFI uses to assess the public finances. This involves engaging directly with raw, often complex data. The insights necessary for effective fiscal monitoring come from hands-on analysis, which AI tools cannot replicate.

While AI can enhance certain aspects of IFIs’ work, it cannot replace the detailed, meticulous analysis required for financial oversight. IFIs should maintain a balance, using AI to enhance efficiency where suitable, but always based on a fundamental understanding of the data and underlying economic and fiscal principles.

## Communicating Results

### Expressing Uncertainty

AIReF presents its forecasts of revenues, expenditures, and the deficit with graphics that illustrate a range of uncertainty, following a consistent methodology. Some reports also present results with confidence intervals and other quantitative measures of uncertainty, and on occasion include Monte Carlo VAR projections, for example in the fertility parameters of the working paper *Introducing Uncertainty on Fertility and Survival in the Spanish Population Projections: A Monte Carlo Approach* (AIReF, 2018).



There is no definitive model for presenting uncertainty, but consistency is crucial to ensure stakeholders do not perceive the reporting of uncertainty as opportunistic. Other institutions have found it useful to establish simply, standardised tables to report the uncertainty underlying its analysis. This will become particularly important as the evaluation function matures.

AIReF could adopt strategies similar to those employed by other IFIs:

1. **Parliamentary Budget Office of Ireland:** The Irish PBO uses a color-coded stoplight scorecard to signify low, medium, and high uncertainty, which visually aids stakeholders in understanding the level of risk associated with different estimates (Irish Parliamentary Budget Office, 2024).
2. **Congressional Budget Office (U.S.):** The CBO explains why it uses a point estimate and avoids reporting confidence intervals in forecasts because in their experience doing so allow politicians to cherry-pick data that support their agendas (Congressional Budget Office, 2007).
3. **Parliamentary Budget Officer of Canada:** The Canadian PBO includes a qualitative statement in its cost estimates that assesses five metrics: modelling approach, data quality, volatility, sensitivity to the economy, and behavioural response (Parliamentary Budget Officer of Canada, 2018).
4. **Parliamentary Budget Office (Australia):** The Australian PBO publishes a qualitative reliability statement describing factors that could cause an estimate to range from most uncertain to most reliable (Parliamentary Budget Office of Australia, 2017).

## 2.2 Evaluation of Mandatory Reports and Opinions

### Mandatory Reports

AIReF has 41 mandatory reports which can be grouped into 8 categories (Table 4). The review team sampled recent versions of each, determining that they meet the requirements of *Royal Decree 215/2014, of 28 March, approving the Organic Statute of the Independent Authority for Fiscal Responsibility*.

**Table 4: Summary of assessment of economic and fiscal monitoring reports**

Analysis of Budgetary Execution, Debt and the Expenditure Rule	Meets requirements
Stability Programme Update	Meets requirements
Draft Budgets and Main Budgetary lines	Meets requirements
Macroeconomic Forecasts of the Stability Programme Update	Meets requirements
Macroeconomic Forecasts of the Budgetary Plan	Meets requirements
Initial budgets	Meets requirements
Transparency	Meets requirements
Medium-term orientation	Meets requirements

### Expansions of Mandatory Reports Since Previous Review

AIReF began publishing its *Opinion on the long-term sustainability of Public Administrations* in 2023, assessing the demographic impacts on public accounts with scenarios extending to 2050 and 2070 (AIReF, 2023). It has expanded its analysis to adapt it to the reformed economic governance framework, namely, by including the deterministic shock scenarios and the stochastic analysis according to the European Commission’s methodology.

AIReF’s general approach to long-term fiscal sustainability analysis is like that used by most IFIs such as the UK OBR and the Canadian PBO and is in line with methodologies in the EU’s Debt Sustainability Monitor. However, AIReF takes a different view of the intention of debt sustainability assessments resulting in a different baseline assumption than is standard. AIReF assumes a long-term elasticity of revenues with respect to GDP greater than one, based on empirical assessments of historical trends. This is akin to a “current law” baseline that assumes impartial indexation of tax parameters to inflation resulting in government capturing an ever-greater share of GDP as revenues. This is contrary to the typical long-run DSA practice, which is to approach sustainability assessments as a “current policy” thought exercise, typically freezing non-age-related revenues as a constant share of GDP. In contrast to a “current law” baseline, this assumption assumes government has chosen a particular tax burden and will adjust policy parameters to maintain a constant tax burden over the long run (that is, any fiscal drag would eventually need to be alleviated).

For example,

- The European Commission’s Debt Sustainability Monitor applies a unit elasticity to non-age-related revenues and public expenditures, citing “a no-fiscal-policy change assumption applies, with primary expenditure being only modified by changes in the cost of ageing [...], and with revenue remaining broadly stable as a share of GDP.” (European Commission, 2023).
- The OBR turns off fiscal drag after the five-year medium-term outlook, citing it “would not be realistic to assume that fiscal drag would be allowed to continue indefinitely” (Office for Budget Responsibility, 2017).

While AIReF presents the current policy unit elasticity assumption as an alternative scenario, it should consider reversing these—that is, making the “current policy” assumption the headline base scenario.

Additionally, while AIReF has the projections necessary to calculate and publish a fiscal gap summary statistic—indicating the immediate and permanent changes in revenue or expenditure as a share of GDP needed to maintain the same debt level at the start of the projection as at the end— it currently does not typically present this metric over concerns that it is overly complicated and will confuse the debate. Institutions like the Canadian PBO have found fiscal gap analyses tremendously helpful in driving the public debate, especially for illustrating fiscal structures at regional levels, and have developed dashboards and infographics that appear often in the popular press (see (Parliamentary Budget Office of Canada, 2024)).

The number of mandatory reports AIReF produces has also increased with the addition of the Public Expenditure Evaluation function, the reports of which have been reviewed in Chapter 3.

### Evaluation Against Strategic Plan 2020-2026

President Herrero’s Strategic Plan 2020-2026 calls for two actions with respect to reports:

- (1) Prepare reports, studies and opinions, as well as working papers on macroeconomic and fiscal matters
- (2) Include public policy evaluations in AIReF’s fiscal supervision reports, increasing the synergy between the two.

AIReF has accomplished the first, which is largely the fulfilment of its statutory obligations. Of note, AIReF should be commended on its efforts to increase the number of working papers. It has also been more transparent with its pre-existing models, publishing several working papers a year on its methodologies, for example, AIReF model for forecasting pension expenditure in Spain (AIReF, 2023) and the Income and unemployment modelling methodology, (AIReF, 2023). Its technical document on the variability of tax revenues (AIReF, 2023) is a particularly impressive work, showing breakdown of a 2022 surprise in revenue and decomposing the causes (real, prices, tax rates, regulatory measures, different tax categories (PIT, VAT, CIT)). Its discussion on revenue elasticities will be particularly valuable to other IFIs; it is rare to be as open about the modelling assumptions and challenges. This is a gold standard exercise in monitoring that would be great to see other Institutions emulate.

On the second action, while public policy evaluations have been referenced in the supervision reports, more could be done to integrate them structurally in the analysis, such as by providing scenarios where varying levels of AIReF's recommendations are adopted. Such a synergy will become important when preparing reports for the European Semester under the new governance framework to show how adjustments to the use of extraordinary funding from the Recovery, Transformation and Resilience Plan (RTRP) could affect growth and priority spending and should receive consideration in negotiations between the government and the Council concerning medium-term fiscal structural plans.

## Opinions

AIReF has published fewer than ten new opinions since the last OECD Review (Table 5). These opinions are initiated by AIReF but also include those mandated by legislation, such as the annual opinions on the Minimum Living Income. The scope and depth of these opinions vary widely, ranging from 30 to nearly 200 pages, covering topics from high-level transparency and accountability issues to detailed analyses like the fairness and effectiveness of contribution rate calculations for self-employed workers.

Their opinion on budgetary procedure was particularly notable, embodying the core mandate of an IFI. It criticised the government's lack of multi-year budgetary planning and the omission of information necessary for adjusting the budget balance to national accounting concepts—the basis of many of short-term rules and long-term sustainability calculations. The adjustment factors have contributed to increasing deviations from the stability target, particularly evident in the execution of the RTRP (AIReF, 2023).

While the frequency of opinions increased in 2023, AIReF produced only one opinion annually in prior years. Despite expressing a desire to publish more opinions and now having increased resources, the frequency has remained low, with three in 2023 and two in 2024, as of August.

To enhance the output of opinions, AIReF could streamline the process by adopting a method used by many fiscal councils in the EU, like the Austrian Fiscal Advisory Council. These councils conclude their headline spring and fall reports with a succinct list of observations and opinions presented in simple point form. Similarly, AIReF could publish a collection of opinions semi-annually, timed with the spring and autumn updates of the Stability Programme.

This format is also employed by the Parliamentary Budget Office (PBO) in Canada, which dedicates a section in its spring and fall reports to "Issues for Parliamentarians." By adopting this approach, AIReF could efficiently address current issues without the need for a comprehensive report accompanying each opinion. For matters that are more complex or significant, AIReF could issue supplementary documents as necessary. This would not only save resources but also ensure timely and impactful communication of AIReF's insights and analyses.

**Table 5: Opinion reports**

Opinion on the Minimum Income Scheme	July 17, 2024
Opinion on the Budgetary Procedure	November 3, 2023
Second Opinion on Minimum Income Scheme	June 16, 2023
Opinion on the long-term sustainability of public administrations: The impact of demographics	March 24, 2023
Opinion on Minimum Income Scheme	July 19, 2022
Opinion on fiscal transparency in Spain's General Government	April 16, 2021
Opinion for a strategy of access to Administrative Data	October 7, 2020
Opinion on the sustainability of the Social Security System	January 9, 2019
Opinion on the formula application for calculating the self-employed workers cessation of activity contribution rate in 2017	November 22, 2017

## Gaps

**Opinion on fiscal risks.** The manifestation of fiscal risks—factors that cause fiscal outcomes to deviate from expected outcomes—can significantly impact public finances and their long-term sustainability. In *Opinion 1/21 on Fiscal Transparency in the General Government in Spain*, AIReF identified deficiencies in the analysis and management of fiscal risks within Spain.

AIReF's plans to address the gap in both the government's analysis and its own with a new *Opinion on Fiscal Risks*. This report will analyse the historical materialisation of at least two types of fiscal risks: macroeconomic risks and environmental risks. This retrospective analysis will serve as a foundation for identifying such risks in the future and quantifying their potential impacts.

## 2.3 Evaluation of Products on Own Initiative

AIReF proactively produces a range of self-initiated evaluations, analyses and tools. In addition to the working papers and opinions discussed above, AIReF provides a range of interactive tools aimed at fostering transparency and enhancing the understanding of fiscal and economic dynamics within Spain. These cover a number of purposes, such as tracking the implementation of recommendations, simulating pension scenarios to analysing VAT changes and municipal waste management. The review team's evaluation is provided in Table 6.

**Table 6: Interactive tools**

Pension simulator and other variables	<b>Appropriate.</b> Allows users to project future pension expenses and other public spending such as healthcare, education, and care services using alternative assumptions. Is well-suited for examining long-term consequences of current policy. However, inaccessible (website down) for much of the review period.
Demographics and interactive population pyramid	<b>Appropriate.</b> A nice front-end to helps visualise the underlying population projections, which are provided in spreadsheet downloads. Can toggle scenarios. A time-series presentation with a slider for the immigration assumption (which often drives these in the long-run) would be useful).

Observatories of recommendations, findings, proposals, economic outturns and forecasts, financial data, and other fiscal monitoring information <sup>1</sup>	<b>Appropriate.</b> AIReF has created several online observatories to track its recommendations, findings, proposals, forecasts, and other financial and fiscal monitoring tools. These are a significant undertaking but are necessary to streamline the overwhelming array of advice and monitoring data compiled and published by AIReF. The tools are comprehensive and make recommendations accessible to policymakers and the public. For example, the Recommendations Observatory impressively links directly to the locations in reports where recommendations were made.
Focalisation of VAT Changes simulator	<b>Appropriate.</b> Uses microdata to assess the impact of VAT changes on different income groups, providing insights into the distributive effects of VAT relief. A good foray into microsimulation that should be taken further. Can form the consumption module of a national microsimulation model.
Municipal waste management	<b>Appropriate.</b> Compiles best practices and experiences in waste management. Valuable resource for improving services.
Heat map	<b>Appropriate.</b> AIReF produces an Economic Situation Monitor expressed as a heat map that compares the growth of individual sectors of the economy relative to their trends. Heat maps offer a visual representation of data that can effectively highlight trends, cycles, and deviations between the actual output of an economy and its theoretical trend over time without relying on the unobservable concept of “potential” GDP, which has been a point of contention among economists. AIReF’s heat map is in line with peers such as the Irish Fiscal Advisory Council, Finnish National Audit Office, and Estonian Fiscal Council.

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<sup>1</sup>These include, the **Recommendations Observatory**, which shows AIReF’s recommendations and the responses of each Administration, the **Observatory of Findings and proposals**, which tracks all the findings and proposals of evaluations, the **Autonomous Regions Observatory**, which shows the evolution of variables such as deficit, debt, GDP, income, or expenditure of one or several Autonomous Regions and forecasts by AIReF for comparison, the **Local Authorities Observatory**, which contains more than 20 million economic and financial data series for 8,200 local corporations, and the **Recovery, Transformation and Resilience Plan Observatory**, which captures the spending that reaches the real economy by using databases of tenders and subsidies of public administrations.

## 2.4 Strategic Analysis to Enhance AIReF’s Contribution to the Sustainability of Public Finances

In its Strategic Plan 2020-2026, AIReF identified several strategic priorities to strengthen its contribution to fiscal sustainability. These include a greater focus on medium- and long-term fiscal planning, improved methodological approaches, and enhanced stakeholder engagement.

Through its ongoing reforms to the reports and models, AIReF has made progress on these priorities. The review team identified some areas where AIReF could elevate its contributions to the sustainability of public finances even further.

## Capacity to Assess New EU Framework

The cornerstone of the reformed EU governance framework is a new document: medium-term fiscal-structural plans. These are grounded in the country-specific fiscal trajectories based on the single indicator ‘net expenditure’ with a fiscal adjustment period from 4 to 7 years determined by Member States' structural reform and investment commitments to common EU priorities. The investments are named in the *Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024* and include but are not limited to spending related to:

- The European Green Deal and the transition to climate neutrality by 2050 in accordance with Regulation (EU) 2021/1119 and through the implementation of the national energy and climate plans submitted pursuant to Regulation (EU) 2018/1999 of the European Parliament and of the Council<sup>14</sup>
- The digital transition, including the Digital Decade Policy Programme 2030 established by Decision (EU) 2022/2481 of the European Parliament and of the Council<sup>15</sup>
- Social and economic resilience and the implementation of the European Pillar of Social Rights, including the related targets on employment, skills and poverty reduction by 2030
- Energy security
- The build-up of defence capabilities where applicable including the Strategic Compass for Security and Defence, or subsequent Union acts relevant for those priorities
- Spending related to the European Regional Development Fund (ERDF) Cohesion Fund established by Regulation (EU) 2021/1058
- Spending related to the European Social Fund Plus (ESF+) established by Regulation (EU) 2021/1057
- Spending related to the Just Transition Fund (JTF) established by Regulation (EU) 2021/1056
- Spending related to the European Union Recovery Instrument established by Council Regulation (EU) 2020/2094

To support deliberations between Spain and the Council on setting the medium-term fiscal-structural plans, AIReF will need to develop a system of priority spending “tagging” that maps government spending to EU priority areas. From this mapping exercise, AIReF could develop an indicator that tracks and scores priority investment over time and interactive dashboards that highlight the different priority areas and exactly where the investment is going, filtering and specific expenditures or projects. This could be complemented by the expenditure evaluations, particularly those devoted to the Recovery, Transformation and Resilience Plan (RTRP).

## Capacity to Assess Risks

**Climate change.** The Economic Analysis Division is participating in the Technical Support Instrument for Climate Change, focusing on the fiscal impacts of natural disasters and adapting fiscal policies to long-term climate challenges. Alongside this work, AIReF could consider several technical approaches and models that assess both the direct and indirect fiscal impacts of climate-related risks.

1. **Integrate climate risk in macroeconomic models:** AIReF could use Integrated Assessment Models (IAMs) to estimate the 'climate value at risk' (climate VaR) for different sectors of the economy. This involves quantifying the potential loss in economic value under various climate change scenarios to understand how it will impact future public finances.



2. **Modified debt sustainability analysis (DSA):** The IMF has begun integrating climate risks into its DSA framework, which AIReF could emulate. This involves adjusting the traditional DSA models to include potential costs associated with climate change mitigation and adaptation strategies.
3. **GreenREFORM project from the Danish Research Institution for Economic Analysis and Modelling.** GreenREFORM is an environmental and climate computable-general equilibrium model being produced by a collaboration of different universities and government to provide an integrated tool that will be made freely available.
4. **Sector-Specific climate fiscal stress testing:** AIReF should conduct fiscal stress tests with ad-hoc models that incorporate climate risks for specific sectors such as agriculture, water resources, and infrastructure. These tests should assess the resilience of these sectors to climate impacts, estimating potential fiscal costs due to reduced productivity or increased recovery and adaptation expenses after extreme weather events.
5. **Use of climate-related financial disclosures:** Adopting and applying the standards from the Task Force on Climate-related Financial Disclosures (TCFD) to government financial statements could help AIReF enhance the transparency and understanding of climate-related risks to fiscal sustainability. This would involve detailed reporting and analysis of how climate change could affect public finances, including potential impacts on government revenue and expenditures related to climate policies.
6. **Dynamic Stochastic General Equilibrium (DSGE) Models with Climate Integration:** DSGE models can be adapted to include climate risk variables. This would allow AIReF to simulate the economic impacts of climate policies and physical climate impacts under different climate outcomes and emissions-reduction scenarios.

**Energy Risks.** Countries were caught by surprise by the energy crisis in 2022 and the impact on prices. Some IFIs have tools to support analysis of these risks. For example, the Belgium Federal Planning Bureau uses Artelys Crystal Super Grid, a general tool for optimising the energy systems across up to thirty-three European countries based on market data and scenario assumptions provided by the user. The model lets them undertake detailed scenario analyses to understand impacts of energy policies on electricity costs, operational constraints, and CO<sub>2</sub> emissions. It supports the bureau's role in ensuring energy security, sustainability, and affordability, by enabling precise evaluation and forecasting of energy interactions and their effects on both national and European electricity sectors.

### Building Relationships with other Councils.

While building new tools to assess risks and products to present them, AIReF should be mindful to avoid scope creep by fostering relationships with specialised councils and advisory groups. This strategy would allow AIReF to maintain focus on its fiscal expertise while integrating essential scientific expertise, and in return share its expertise with others. For example, AIReF could work with the Environmental Advisory Council of the Ministry for the Environment and the Advisory Council for the Sustainable Development of Catalonia on risks related to climate change.



**Box 5: Climate change in fiscal analysis: the case of the CPB Netherlands**

The CPB Netherlands has been incorporating climate change and other environmental considerations into its analysis of fiscal policy and long-term fiscal sustainability for some time. Climate policies are assessed within the regular framework for assessing fiscal sustainability—that is, the CPB’s workhorse EMU model for assessments of public expenditures, deficits, and debt. This is complemented by separate models exist for macro-economic impacts (SAFFIER), trade (WorldScan), and labour market and social security effects (MIMOSA, etc.).

As with many assessments by CPB, the point of departure is a reference trajectory for expenditures, deficits and debt. Existing policies form the reference trajectory. Policy interventions are assessed against this reference trajectory. In the case of climate policies, the standard toolbox is augmented with input from the Netherlands Environmental Assessment Agency (PBL). In the case of climate policy assessments, CPB and PBL often work together closely.

## 2.5 Conclusions and Recommendations

### Conclusions

AIReF is making significant progress toward the goals outlined in its Strategic Plan 2020-2026, particularly by enhancing its medium-term analytical focus. It has successfully transitioned to producing t+4 economic and fiscal forecasts, raising standards in Spain and pressuring the government to adopt similar medium-term planning—a change AIReF has also actively encouraged through its opinion reports. AIReF’s interactive tools, especially the observatory facilities, make its extensive analyses more accessible and manageable for the general public.

The review team has identified several areas for strategic development:

- The EU economic governance framework allows for adjustment periods up to seven years if a Member State invests in strategic areas. AIReF will need to further extend its modelling capabilities.
- New risk-focused sustainability assessments need new tools, particularly in light of recent challenges like the energy crisis and its impact on inflation.
- Medium-term fiscal structural plans require systems to identify, tag, and categorise spending in line with EU strategic priorities, aiding negotiations with the European Council.
- A significant gap remains in microsimulation and distributional analysis, both at AIReF and more broadly within Spain.

### Recommendations

**Recommendation 2.1** AIReF should establish a working group of external stakeholders to develop a national public microsimulation model for Spain and serve as the secretariat, coordinating data and expertise from entities like the National Statistics Office, Spanish Tax Agency, and Social Security Administration. The project could be funded jointly by these

departments and expedited using open-source tools like LIAM2 from the Belgium Federal Planning Bureau.

**Recommendation 2.2** AIReF should strengthen its analytical capabilities on climate change, particularly regarding long-term fiscal sustainability. Participation in the DG REFORM Technical Support Instrument is a key step in this process. The goal is to develop tools that account for the physical and transitional risks of climate change on public finances and the potential costs of complying with the European Green Deal. AIReF, alongside Cambridge Econometrics, is working on refining relevant model channels, including capital stock, potential output, and tax bases. AIReF should also enhance its sector-specific modelling and risk assessments, addressing financial sector vulnerabilities, supply chain risks, energy security, and national defence by exploring advanced modelling techniques.

**Recommendation 2.3** AIReF should undertake a budget tagging and mapping exercise to create a summary indicator of strategic growth-supporting measures and investments that demonstrate the level and change of spending in medium-term fiscal structural plans that aligns with EU priorities. This indicator would support decisions of whether Spain should qualify for an extended adjustment period in the economic governance framework from 4 to 7 years.

**Recommendation 2.4** AIReF should establish a formal consultation process with the European Fiscal Board during the European Semester to exchange views before the EFB provides an opinion on Spain's national fiscal stance (a new responsibility provided for the EFB under the reformed economic governance framework of the EU).

**Recommendation 2.5** As fiscal frameworks increasingly incorporate broader risk assessments, AIReF should foster relationships with specialised councils and advisory groups, for example the Environmental Advisory Council of the Ministry for the Environment and the Advisory Council for the Sustainable Development of Catalonia. This strategy would allow AIReF to maintain focus on its fiscal expertise while avoiding scope creep and integrating essential sustainability considerations through partnerships.

## Chapter 3. Assessment of the Public Expenditure Evaluation Function

### 3.1 The Evaluation Function in the Mandate of AIReF

The Budgetary Plan update sent to the European Commission on December 9, 2016, committed to a comprehensive spending review of public administrations to enhance efficiency. AIReF was given the mandate to carry out this analysis, relying, where necessary, on the collaboration of external resources. The 2017-2020 Stability Programme Update submitted the following April clarified that the review would unfold in cycles (subdivided into phases) to ensure that it was exhaustive.

The first cycle, Spending Review 2017-2020, covered 13 evaluations in areas such as healthcare, education, labour market policies, infrastructure, tax benefits, and subsidies (Table 7). The second cycle (2022-2026) was a key commitment in Spain's Recovery, Transformation, and Resilience Plan to enhance spending quality by expanding AIReF's review exercises, boosting its capabilities, and better integrating its recommendations. The European Union has increasingly emphasised the importance of sound fiscal management and the need for member states to conduct thorough evaluations of public spending. Although the EU has not mandated the creation of spending review functions within IFIs, it has encouraged member states to enhance their fiscal frameworks through rigorous evaluations. Spain's decision to embed this function within AIReF aligns with EU recommendations for improving fiscal governance and accountability.

This Spending Review 2022-2026 cycle was supported by *Royal Decree 793/2021* which restructured AIReF to include a new fourth division dedicated to "Public Expenditure Evaluation," split into two areas, one for Institutional Analysis and one for Technical Analysis.<sup>3</sup> Additionally, the plan adopted the "comply or explain" principle for spending review recommendations and established a technical unit within the Ministry of Finance to enhance monitoring, budget integration, and coordination with other bodies. The Ministry of Finance must also deliver an annual report by March 31 each year to the Council of Ministers, detailing progress on these recommendations.

In addition to the evaluations completed under the Spending Review, the Public Expenditure Evaluation division has completed 10 reviews commissioned by the regional governments in key areas such as healthcare, education, and employment policies. The division also annually evaluates the progress of the minimum scheme to comply with Article 31.3 of Law 19/2021 and has reviewed the FONPRODE financial cooperation program at the request of the central government outside the Spending Review framework.

AIReF is not the only institution in Spain devoted to policy evaluation, but it was given a unique role in *ex post* evaluation of public expenditure at all levels of government—national, regional, and municipal—in *Law 27/2022 on the institutionalisation of the evaluation of public policies in the Central Government (Administración General del Estado)*. Specifically, Article 3.3 states "The *ex post* public spending review assessments deemed necessary will be carried out by the

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<sup>3</sup> AIReF uses the terms "Public Expenditure Evaluation" and "Public Spending Evaluation" interchangeably in English translations of the original translation "Evaluación del gasto público." This report uses Public Expenditure Evaluation when referring to the workstream and division, and Spending Review to refer to the two phases of the government's commitments in its 2016 Budgetary Plan and Recovery, Transformation, and Resilience Plan.

Independent Authority for Fiscal Responsibility, AIReF, under the terms established in its regulatory framework.” The same law also foresees the creation of a National Agency for the Evaluation of Public Policies. The main task of this agency will be the *ex ante* evaluation of the effects of policy and coordinating evaluations of Central Government spending.

**Table 7: Evaluations published by AIReF**

Evaluation	Evaluation reports
Spending Reviews	13
<i>Phase 1</i>	
Evaluation of subsidy strategy and procedure	
Medication dispensed through prescription	
Active labour market policies programme	
University education scholarships	
Programme for the promotion of talent and its employability in R&D+I	
Strengthening firms' competitiveness	
Evaluation of Sociedad Estatal Correos y Telégrafos, and provision of the universal postal service	
<i>Phase 2</i>	
Tax benefits	
Hospital spending	
Hiring incentives	
Transport infrastructure	
<i>Phase 3</i>	
Public sector financial instruments to support productive sectors of the Spanish economy	
Waste management	
Autonomous regions	10
Study of the Andalusian public university system	
Evaluation of public pharmaceutical expenditure in the autonomous community of Aragon: out-of-hospital, hospital, and socio-healthcare pharmacy	
Study of the budgetary and personnel policy in non-university education of the Government of Aragon	
Study on the financing model of the University of Zaragoza: current situation	
Study on active employment policies in Castilla y León	
Study of 'The institutionalization of the evaluation of public policies in Castilla y León: current situation and proposals'	
Study on the management of institutional advertising in the Regional Government of Castilla y León (2014-2019)	
Study of the public university system of Castilla y León	
Labour force policies in Extremadura	
Evaluation of public spending on pharmaceuticals and high-tech equipment in Extremadura	
Other evaluations	5
First opinion minimum income scheme	
Second opinion minimum income scheme	
Third opinion minimum income scheme	
Fonprode financial cooperation study	
Study of minimum income programs in Spain	
Total	28

Source: AIReF.

## 3.2 General Analysis of the Studies Carried Out

Before each wave of the Spending Review, AIReF publishes an action plan defining the review's scope, the evaluation dimensions, and the techniques to be used. Each report generally encompasses three types of evaluations:

1. **Strategy and Procedural Evaluations.** These focus on the adequacy of existing regulations and the institutional setup of the policy being assessed. The analysis is inherently qualitative.
2. **Efficiency.** This involves estimating the policy's cost, both in total and per beneficiary.
3. **Effectiveness.** This determines whether the program achieves its intended impact. It uses advanced quantitative methods, often quasi-experimental, to identify a policy's causal impact through counterfactual scenarios. The field of causal inference is growing rapidly, and AIReF incorporates a range of state-of-the-art techniques, including difference-in-differences, regression discontinuity designs, and new methods for handling policies' staggered implementation.

Early evaluations of the Public Expenditure Evaluation division, such as those on Incentives for Hiring and Self-Employment, Tax Benefits, and Transport Infrastructure, laid the groundwork for a data-driven approach. Since then, AIReF has striven to improve the compilation, use and publication of microdata to support its studies and recommendations.

For example, AIReF's first health-related reports used aggregate data sets and qualitative analysis. More recently, the evaluations in Extremadura, Navarra, and the spending review on administrative mutual health care have used big data on health care provision, human resources, infrastructure, and pharmaceutical consumption to inform the analysis. Similar efforts have been undertaken in areas such as the evaluations of financial instruments, which merged firm-level microdata from public sources like recipient information, central balance sheet data, and tax agency reports. Additionally, the three opinions on Minimum Income Schemes have gathered individual records from the Tax Agency and Social Security Ministry, allowing AIReF to run microsimulations and assess the benefit's impact on poverty.

AIReF has also progressed on causal inference methods. For instance, the study on Active Labour Market Policies in Extremadura used matching and difference-in-differences techniques, and the studies on financial instruments applied new difference-in-differences estimators for staggered interventions.

These techniques have also been applied in more challenging contexts with scarce and dispersed data. For example, the report on municipal waste management included results from a survey conducted by AIReF on waste policies and infrastructure for over 500 municipalities stratified by region and size, updating best practices in waste management, and constructing an evidence synthesis tool that compiled successful experiences and instruments used by public administrations worldwide.

There remains room for improvement. The review team and key stakeholders have assessed that some expenditure reviews fall short of fully complying with scientific standards. The review team provided details of these areas to AIReF. It will continue to be a challenge for AIReF to meet scientific standards as data may not be available, the evaluations must be undertaken within a period of twelve months, and AIReF has limited flexibility to hire experts in policy evaluation on the job market.

There is also room for the government to improve its support of the Public Expenditure Evaluation Division. Specifically, the government could cooperate with AIReF to implement an *ex ante* assessment of the potential for rigorous impact evaluation of measures to ensure that the

Spending Reviews focus on policies and programs that are well-suited for this type of analysis and free from data limitations.

### 3.3 Analysis of Strategic Issues of the Evaluation Function

#### Setting the Spending Review Agenda

AIReF's agenda of the Spending Reviews is largely set by the Government (aside from its additional reviews on request of regional governments in exchange of a fee). The wide range of topics covered by the Spending Reviews have delivered novel evidence on important fields of public policy in Spain. However, the annual changes in the program of the Spending Reviews also pose a challenge. Building up the necessary in-house expertise on the issues at stake is time-consuming, as is data collection. Together these tasks take up a significant proportion of the time allocated to each evaluation (typically twelve months). To deal with these challenges, AIReF uses the services of consultancy firms and external consultants. In the first wave of the Spending Review, the entire evaluations were carried out by third parties under the supervision of the staff of AIReF with the help of external experts. Now, however, a substantial part of the analysis is performed in-house, in close collaboration with external experts.

By now the spending reviews have covered many of the most important categories of public expenditure. As a result, there is a risk that they lose relevance over time as the remaining policies are either less significant from a welfare viewpoint or as percentage of total public expenditure, or harder to evaluate. Furthermore, due to political considerations, governments may be less inclined to mandate Spending Reviews on policies or programs that could give rise to a recommendation of increased public expenditure or recommendations to cut expenditure on ineffective policies, fearing a loss of electoral support. To avoid these risks, it would be desirable to formalise the agenda-setting process in a manner most aligned with the public interest.

AIReF has shied away from proposals that would allow it to perform spending reviews on its own initiative, arguing that it would be inserting itself too closely in the politics of public policy. There may nonetheless be other channels than government to steer the future agenda of spending reviews. An attractive option would be to allow requests from the national parliament or its committees. Another would be to allow spending review requests by popular initiative, like the *iniciativa legislativa popular*--that is, AIReF could perform an evaluation of existing programs or policy proposals on request of a sufficiently large group of citizens. These channels could be explored either by amending article 5 paragraph 3 of Organic Law 6/2013 to explicitly fulfil requests from parliament or for a public petition that has received sufficient signatures, or AIReF could simply accept suggestions from parliament and the public and undertake the work under Article 23 which allow it to publish opinions of its own initiative provided they relate to the public finances or any other issues AIReF has been empowered by law to assess.

It would also be worth exploring a lower limit for either the absolute value of a programme or its share of public spending to be included in future waves of the spending review.

Finally, an *ex ante* analysis of policies that lend themselves to careful impact evaluation would be useful. New programmes could be required to include in their design an appraisal of potential mechanisms to assist future evaluation in spending reviews. Those that do not have appropriate mechanisms or do not lend themselves to evaluation could be deprioritised.

### Clarifying AIReF's Role relative to Other Evaluation Units

As mentioned above, the mission of the IEPP is limited to policies of the central government and this agency is assigned a key role in the coordination of the evaluations of public policies and the promotion of *ex ante* evaluations. AIReF in its part has a mandate to perform *ex post* evaluations of public policies at all levels of the administration. Several stakeholders considered this separation to be somewhat artificial. Given its mission, it might be more natural to restrict the policy evaluations of AIReF to policies with a strong fiscal impact or relevance for fiscal sustainability.

Furthermore, the explicit mandate for *ex post* evaluations need not prevent AIReF from carrying out *ex ante* evaluations including RCTs. Experiments of this kind would allow the government to obtain evidence on the expected impacts of policies that it may want to introduce in the future.

### Formulation of Policy Proposals

Inevitably, the formulation of policy proposals has a subjective component. With an eye to safeguarding neutrality and objectivity, AIReF should make sure that the policy proposals included in the Spending Review have a solid evidence-base and they should be clear, precise, unambiguous and feasible.

A first aspect that we would like to stress is the need to avoid the proliferation of proposals and proposals as in the report on Municipal Waste Management. A large amount of the proposals included in the report are based on generic statements on procedural or qualitative evaluations that do not provide clear indications to policy makers. “Ensuring a sufficient degree of competition on the waste management market” can be key to lower prices or profit margins and seem to allow recycling of a larger share of waste, but the task of the authors should be to indicate how this can be achieved in the Spanish context and/or define the appropriate level of competition. In the same line, the proposal to “Improve the technical quality of tendering specifications for waste collection services” provides little or no guidance to policy makers on the key aspects that should be improved or how. In total the report contains 38 proposals with no clear indication of their priority, feasibility or estimated impact. Besides this apparent lack of concreteness, the proliferation of proposals generates the risk of cherry-picking on part of the authorities. Specifically, authorities may focus their efforts on proposals that are easy to comply with, rather than on measures that would bring about the most significant improvement in the quality of municipal waste management. Moreover, the broad formulation of proposals creates room for a nominal compliance rather than effective compliance.

One way to avoid the above problems is to introduce a mandatory discussion of the potential budgetary impact, the evidence base, and the viability of each policy proposal included in future reports. Discussions of the budgetary impact could provide upper and lower bounds for different options, leaving it to policymakers to decide how to implement the proposal. For example, AIReF provided a scoreboard of easy-to-interpret summary tables for each policy proposal in the report on hospital spending that includes an indication of the fiscal impact. This approach could be generalized to others, standardised across the same three elements of feasibility, the strength of the evidence base and fiscal impact. An area that would particularly benefit from this could be recent reforms and measures implemented as part of NextGenerationEU, focused on how these measures affect the growth rate and the fiscal outlook for Spain.

For several years, AIReF has provided information on the degree of compliance with its proposals. This information is highly informative. A further step would be to report the degree of compliance, distinguishing between partial and full compliance. Although the Ministry of Finance has been formally assigned the responsibility to verify compliance, AIReF could do so of its own initiative for topics that continue to have a high level of importance in the public debate.



Also, to gain further credibility, AIReF could evaluate the actual impact of some of its recommended policy changes. For example, in the case of hiring incentives it would be relatively straightforward to assess whether the suppression of hiring incentives produced any undesirable effects on the exit rate out of unemployment. AIReF has already been charged with this responsibility under Act 12/2022 for the regulation to promote occupational pension plans. This requirement could be legislated more often where appropriate, or AIReF could undertake such follow-up under its own powers for self-initiated opinions.

### **Destruction of Matched Records**

The mandatory destruction of the matched records generated by AIReF over the years is hard to justify. These data have enormous social value and could generate further research on related questions that are not included in the Spending Reviews. Furthermore, the use of alternative research designs on the same datasets could shed a useful light on the robustness of the findings included in the Spending Reviews. AIReF should urge the government to relax these conditions. The possibility to perform further research with the same data, either by AIReF or by interested researchers, could offer valuable insights and rival evaluations by external researchers is a way to verify the robustness of the findings of AIReF. AIReF could facilitate the secure and responsible preservation and hosting of such data through a data lab that facilitates research while maintaining the necessary data protections.

### **Building the Capacity for Spending Reviews of Regional Governments**

Currently, AIReF is carrying out impact evaluations on request of regional governments. AIReF sponsored a course on Empirical Methods for Public Policy Evaluation offered at CEMFI. This course was designed as an alternative to a scheduled one-week course for practitioners offered by JPal, the world's leading experts in RCTs and public policy evaluation, that could not take place due to the pandemic. AIReF should consider retaking initiatives in the same direction, placing emphasis on projects that could improve the capacity of regional governments to implement Spending Reviews on their own.

## **3.4 Conclusions and Recommendations**

### **Conclusions**

Spending reviews, while not a common or natural role for most EU IFIs, have nonetheless found a permanent home in AIReF that is suited for Spain's local context. The Public Expenditure Evaluation division's reports have provided fresh insight into key policy areas, enhancing Spain's reputation of fiscal management among stakeholders within the EU's economic governance framework.

The need to consolidate the methodological rigour of evaluations undertaken by the Public Expenditure Evaluation Division calls for a more rigorous selection process for programmes that lend themselves to spending reviews. The loosely structured government-initiated request process and lack of *ex ante* consideration of whether an evaluation would yield practical and impactful results places limits on the ultimate scientific standard of the work AIReF can deliver.

Reports should be more precise in their recommendations to prevent weakening their impact and they should provide concise, clear, actionable guidance. Structured discussions on the financial implications, evidence, and viability of each suggestion would greatly improve the reviews' utility. With these adjustments, AIReF can continue to enhance Spain's fiscal management and policy effectiveness.

## Recommendations

**Recommendation 3.1** The evaluation function should be codified in the Organic Law 6/2013. The Law should clarify the division of AIReF's role from the Public Evaluation Division and the Instituto para la Evaluación de Políticas Públicas (IEPP). AIReF should be able to decide the timeline of its response to government and have the power to decline an analysis if the available evidence or conditions do not lend themselves to a study of sufficient standard. The government should consult AIReF in deciding the agenda for government reviews so it can prioritise policies that are suited to objective analysis.

**Recommendation 3.2** To enhance transparency and effectiveness, AIReF should publish a prioritization framework to guide its evaluation of expenditure requests. This framework should consider factors such as the fiscal impact (including potentially a minimum threshold of fiscal magnitude), the stage of legislative debate, and public interest. For inspiration, see Box 6.

**Recommendation 3.3** AIReF should accept suggestions for topics from parliament and from public votes. AIReF could undertake these studies as self-initiated opinions provided for in Article 5 and Article 23 of Organic Law 6/2013.

**Recommendation 3.4** When possible, AIReF's expenditure evaluation reports should include all quantitative analysis results, both significant and insignificant. AIReF should negotiate the right to preserve and anonymize databases generated during Spending Reviews, with the option to share this data with external researchers. Claims of causality must meet academic standards and be verifiable and replicable. If underlying data cannot be publicly shared, AIReF should seek to provide access through a secure on-premises data lab or by accepting code from researchers to apply to the data.

**Recommendation 3.5** To ensure high standards in policy evaluations, the Public Expenditure Evaluation Division should maintain strong ties with the academic community and seek external expert guidance. AIReF can strengthen these relationships by increasing the weight of the academic track record of its staff members (such as publishing in academic journals) among the merits considered for promotion or performance-related pay. A peer review process should be integrated into the annual Spending Review program, with external academic peers reviewing study designs and results in exchange for a fee or formal recognition. Staff should stay updated on evaluation techniques through in-house training and external course work, and AIReF should create visiting positions for academics, offering access to Spending Review data and research opportunities leading to publications.

**Recommendation 3.6** Any policy recommendation should be accompanied by a discussion of its potential budgetary implications, the strength of its evidence base and its viability. If a measure cannot be directly implemented, the report should clearly identify the constraints that have to be removed before the recommendation becomes effective.

### **Box 6: Prioritisation framework at the Canadian PBO**

The Parliamentary Budget Officer of Canada publishes a framework for prioritising requests in its annual Work Plan (Parliamentary Budget Officer of Canada, 2024). The PBO prioritises incoming requests for analysis and cost estimates based on:

- The degree of interest to parliamentary committees
- Its economical or fiscal materiality
- Whether the government has published its own impact assessment, or whether the PBO judges its own analysis will be materially different.
- Where the request was initiated (House committees, government, senate or private members).
- The stage of the legislative process (for example, senate bills that have passed second reading, and bills and motions that are placed on the order of precedence in the House of Commons (Parliamentary Budget Officer of Canada, 2024))

## Chapter 4. Evaluation of AIReF's Guiding Principles

In Strategic Plan 2020-2026, President Herrero committed to strengthening the three guiding principles at the heart of AIReF's strategic aims, namely (1) independence, (2) transparency, and (3) accountability, along with a set of actions to do so. The review team was asked to measure her progress against the Strategic Plan taking into account international standards and peers and to provide recommendations on how to further enhance these areas for the remainder of her term.

### 4.1 Analysis of Independence

There are three key components to an IFI's independence: its operational independence, its financial independence, and its ability to staff the office as it chooses.

**Operational independence.** AIReF's independence is enshrined in law, providing analytical and operational autonomy from both the national government and external entities such as the European Commission (EC). Legal safeguards are in place to protect AIReF from political interference and to ensure it operates without bias in its analysis and reporting. These statutory provisions guarantee a high degree of functional autonomy and prohibit AIReF from taking instructions from any external authority. Additionally, AIReF has the authority to report in its own name, emphasising its role as an unbiased evaluator free from external pressures. There have been no instances where external pressures have influenced AIReF's analysis or reporting, which further strengthens these protections and maintains the integrity of its work. The ability to determine its own work plan is limited in that the government has control over requests, topics, and timelines for expenditure evaluations.

**Financial independence.** AIReF receives its funding through a specific levy on the public administration and fees for its study request. However, it must still negotiate its budget allocation each year with the Ministry of Finance. Despite some reductions in real terms in the General State Budget Act in early years and a reliance on reserves, AIReF's funding has improved following the first OECD review. AIReF still does not have medium-term plans and protections for its resources. Although recent budgets have been largely accepted following negotiations with the Ministry of Finance, it is recommended that the Organic Law be amended to prevent reductions in real terms and that the Ministry of Finance publishes a three-year forecast of AIReF's funding envelope to enhance financial predictability. The safeguard could be modelled after the Portuguese CFP, the budget of which is guaranteed through appropriations, which can "only be reduced in duly justified exceptional circumstances" "only be reduced in duly justified exceptional circumstances" (Article 27 of Law No. 54/2011). Further, AIReF's budget remains under the Ministry of Finance's control, rather than Parliament, and is therefore not the same as other independent institutions like the Court of Auditors and Bank of Spain.

**Staff independence.** AIReF is bound by its List of Posts set by the Ministry of Finance and cannot decide its own staff positions without approval from government. This includes the mix of local government experts and types and expertise of public servants, even barring hiring directly from the private sector for most posts. Further, AIReF cannot autonomously decide on all aspects of its personnel expenses. For some items related to remuneration and for making amendments to its budget allocations concerning staff costs, the institution must seek approval from the Ministry of Finance.

## 4.2 Analysis of Transparency

AIReF maintains high transparency through methodology appendices and white papers, appearances before the legislature to discuss its analysis, and public engagement in conferences and social media. Detailed online publications and tools ensures a degree of replicability of its analysis. AIReF also includes spreadsheets of the underlying data in most of its reports, such as (AIReF, 2023).

AIReF has made its reporting schedule and calendar known to stakeholders to the best of its ability, although the Public Expenditure Evaluation Division faces unpredictability due to government requests and timetables.

AIReF makes its annual report of activities, finances and expenses public, along with its strategic plans for the upcoming years.

## 4.3 Analysis of Accountability and Adherence to International Standards

### Accountability

AIReF has increased its accountability with regular parliamentary appearances to discuss key reports and activities. It has also bolstered its Advisory Board with more active participation from subject matter experts. AIReF's continuous follow-up on past external recommendations through its observatory facilities and the president's advocacy for mid-term external evaluation demonstrates a commitment to accountability. Collaboration with European institutions, international bodies, and other IFIs has enhanced shared learning and best practices.

Stakeholders reported that AIReF's appearances before parliament focus only on its analysis, and there is no annual discussion of the institution's own performance and delivery and corporate governance issues. Many EU IFIs devote one hearing a year to discuss these issues as a form of accountability to the legislature.

### Adherence to International Standards

The review team assessed AIReF against the international standards and guideline published by the OECD, EU Law, and other sources, and synthesised in Subsection 1.3. The results are in Table 8.

**Table 8: Assessment of AIReF against international standards**

#### 1. Local Fit

AIReF is a unique institutional model, with no international precedent (it was not copied or imposed from elsewhere). It was designed with subnational analysis at its fore, and its fiscal assessments and guidance have fostered trust and cooperation across all levels of government, particularly regional and local governments.

#### 2. Mandate

AIReF's mandate encompasses a wide array of functions enshrined clearly in law, central to which is the scrutiny of government planning assumptions through benchmarking against its in-house forecasts. It has an official role in monitoring compliance with fiscal rules both *ex ante* and *ex post*,

contributing to a comprehensive oversight mechanism for Spain's fiscal policy framework. Although it does not produce the official forecasts, it plays a role in formulating public opinions on the reasonableness of official macroeconomic and fiscal forecasts. Its evaluations extend to *ex post* analyses of the government's forecasting performance, reinforcing its watchdog role in promoting accuracy and transparency in fiscal forecasting. AIReF enjoys a significant degree of freedom to set the work program within its mandate's confines, although the very high level of mandatory reports and mandatory request fulfilment under the new public expenditure evaluation function leaves it in practice little time to pursue self-initiated research.

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### 3. Leadership

Organic Law 6/2013 requires AIReF's leadership to be appointed based on merit and technical competence. Both the Presidents and Division Directors must have 10 years' experience in related fields. The President's nomination is scrutinised before legislative committees. A non-renewable term of six years ensures the leader spans political regimes and provides the stability and the autonomy necessary for objective fiscal oversight (there may be some flexibility to renew the term, but it would involve a new appointment process rather than a simple extension). The current president was an internal candidate with familiarity with the institution, having been there since 2014 as Director of the Budget Analysis Division. Her background makes her a well-qualified candidate.

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### 4. Operational Independence

AIReF maintains a clear separation from politics, ensuring its analyses and recommendations are based solely on objective data and assumptions. However, it does not have flexibility to set its own workplan in fulfilling the requests of government for its Public Expenditure Evaluation function. Operational independence would also be supported with the ability to determine its own List of Posts and medium-term security and predictability in funding.

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### 5. Communications

AIReF's publications are all available publicly. AIReF's proactively engages with media in its own voice (typically the president's) and has its own website and accounts on social media platforms. Journalists usually communicate with AIReF through the press office (an external contractor, but with a staff member that sits in AIReF nearly full time) and through the President's Office but are also free to discuss technical details with the analysts responsible for the report. One area that AIReF could look at is holding embargoed lockups of its upcoming reports or having embargoed press distribution lists. As it stands, government officials receive AIReF's reports ahead of publication and can brief their respective political office holders and prepare media strategies to spin the report's conclusions. Media and other observers must react in real time to digest the report and are therefore not on an equal footing to question the official response.

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### 6. Transparency

AIReF regularly publishes detailed reports on their methodologies and their website offers tools for users to replicate much of their analysis. Like most IFIs, AIReF uses a "open access with gatekeeping" approach to their models, where the underlying code is typically not published proactively, but rather upon request, where the assumptions can be discussed, and the political motivations of the requestor can be managed.

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### 7. Staff Resources

AIReF is supported by a team comprising 60 analytical staff, 14 corporate staff, and the institution's president, for a total of 75 staff. This is among the largest number of staff in OECD countries, commensurate with the breadth of its considerable mandate. It has also had some success achieving and surpassing its original goal of around 65 staff, albeit with a considerably expanded mandated include the expenditure evaluation function which now has 15 staff. It has made significant progress since the OECD review, when it had 35. Essentially doubled. Although AIReF can manage its mandate

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with the staff it has currently, the sufficiency of resources will depend largely on the workload stemming from the new expenditure evaluation function, which is largely uncertain. Further it generally does not have the capacity to undertake as much self-initiated research as other IFIs. Most problematically, the president is not free to recruit and hire the staff she sees fit, but rather is required to hire staff according to a specific grid of jobs with eligible candidates (for example, she may only hire two public servants with experience from subnational jurisdictions).

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## 8. Financial Resources

Financially, AIReF is a distinct legal entity with its own budget, although it adheres to public sector regulations regarding staff grades and wages. Although ostensibly AIReF's funding is determined by surveillance fees from all levels of government to introduce independence to its budgeting process, in practice its financial allocations must be approved by the Ministry of Finance, which still holds power to control funding and has exerted this control in the past (including occasional reductions both with and without negotiation). However, in recent years the proposed budgets have largely been accepted following negotiations with the Ministry of Finance.

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## 9. Access to Information

AIReF's access to information is legislated, granting AIReF the right to the necessary economic and financial data from public administrations to fulfil its mandate. However, it is defined in general terms that allows for a difference in interpretation leading to some frustrations in its data procurement. AIReF has managed to secure memorandums of understanding with several agencies, including the Spanish Tax Agency; However, it continues to struggle with agreements to operationalise its access to data with the Ministry of Finance and the Ministry of Economy.

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## 10. Accountability Mechanisms

AIReF officially submits key analytical and governance reports to the legislative record, and its leadership participates in legislative hearings to inform and influence fiscal policy discussions. However, it does not have a formal opportunity in front of parliament to discuss its governance issues.

## 4.4 Comparison of AIReF's Guiding Principles with other IFIs

No two IFIs are alike, as each is tailored to its specific local context. Selecting appropriate peers from the growing number of IFIs within the EU, OECD, and beyond presents a significant challenge and inevitably involves a degree of subjectivity.

To choose an appropriate peer group against which to compare AIReF against its guiding principles of independence, transparency, and accountability, the review team began first with the cluster analysis of the OECD's Fiscal Advocacy Index in (OECD, 2024) which identified groups of similar IFIs based on institutional design (leadership, operations, resources, access to information), analytical focus, and communications approaches. This identified that the six most comparable institutions were the Canadian PBO, the US CBO, the Netherlands CPB, the UK OBR, and the Irish Fiscal Advisory Council. To this list, we added the Portuguese Public Finance Council (CFP) as a regional benchmark and as an additional example of an IFI with EU reporting responsibilities, as well as the Belgium Federal Planning Bureau as a benchmark of an IFI that serves multiple decentralised governments.



## Independence

Comparing across peer groups, AIReF’s independence is lessened by not having control over its staff positions or remuneration and not having multi-annual funding commitment (Table 9).

Most IFIs in the OECD have full control over the hiring process, selecting staff through open competition based on merit and technical competence. AIReF, on the other hand, must stick to a prescribed List of Posts and generally must hire within the existing public service. Many IFIs must operate within the prescribed compensation framework of the wider public service based on age, experience, and position. However, the Parliamentary Budget Office of Canada (upon being made a fully independent officer of Parliament in 2017) was able to opt for its own compensation framework under a collective bargaining agreement within the ranks of its staff (staff also could have opted out of such a framework but chose to unionise). Prior to being made a fully independent body, the Parliamentary Budget Office was able to set its staff’s job titles—and therefore compensation—based on the judgment of senior management.

Roughly half of AIReF’s closest peers have secure multi-annual funding commitments. For example,

- The Irish Fiscal Council is guaranteed a baseline funding level in the *Fiscal Responsibility Act 2012* that grows each year by the Harmonised Index of Consumer Prices published by the Central Statistics Office.
- The budget for the Office for Budget Responsibility in the UK is laid out four years in advance from a separate line in the Treasury’s Estimates approved by parliament, with an option for the OBR to submit an additional Memorandum to Parliament to request additional resources if it feels its resources are insufficient to fulfil its responsibilities or have been unduly restricted (HM Treasury, 2019).
- The statutes of the Portuguese Public Finance Council approved by Law No. 54/2011 set a ratcheting mechanism on its budget saying appropriations “only be reduced in duly justified exceptional circumstances” (Article 27).

**Table 9: Independence**

	Spain AIReF	Belgium FPB	Canada PBO	Irish Council	Italy PBO	CPB	Portugal CFP	UK OBR	US CBO
Legal basis (primary legislation)									
Leader’s merit and technical qualifications enshrined in law									
Leaders are nominated by stakeholders other than the executive government									
Legislature either appoints directly or approves the appointment									
Clearly defined term lengths									
Clearly defined term limits									
Clearly defined dismissal criteria									
Leaders have control over staff recruitment									
Leaders have control over staff compensation									
Able to undertake and publish analysis at its own initiative									
Has multi-annual funding commitments									

Source: OECD Independent Fiscal Institutions Database (2021) Version 2.0.

## Transparency

AIReF’s transparency is roughly on par to its peers. It could increase its transparency by

- Publishing its model code, as the UK OBR does with its macroeconomic model and other research tools.
- Publishing its fiscal rule calculations in full, as is done by the Irish Fiscal Advisory Council (allowing outsiders to assess the spreadsheets and assumptions themselves), the Portuguese Public Finance Council (CFP) and the UK OBR.

**Table 10: Peer transparency**

	Spain AIReF	Belgium FPB	Canada PBO	Irish Council	Italy PBO	CPB Netherlands	Portugal CFP	UK OBR	US CBO
All research reports publicly available									
Model code published									
Data sources cited									
Equations published									
Equations and estimated coefficients published									
Key assumptions published									
Fiscal rule calculations published <sup>f</sup>		NA	NA			NA			NA
Forecast performance of own in-house models published <sup>g</sup>									
All methodology information (model code, etc.) available by request									
Workplan published									
Annual report published									
Access to information requests published									
Access to information statistics published									
Travel and other miscellaneous or reimbursable expenses published									
Correspondence between IFI and executive or legislature published <sup>*</sup>									
Actively promoting transparency (Scope index of IFIs—EU only)			NA					NA	NA

Source: OECD Independent Fiscal Institutions Database (2021) Version 2.0 and the European Commission’s Directorate-General for Economic and Financial Affairs Scope Index for IFIs where indicated. Notes: <sup>f</sup>IFIs in the Belgium and Netherlands produce the official forecast so do not have a role in fiscal rules monitoring (a separate council does so in each). <sup>\*</sup>Adjustment by authors: Although not indicated in the OECD database, AIReF does publish correspondence with the executive and legislature. <sup>g</sup>Adjustment by authors: since the OECD database was published AIReF has begun publishing forecast assessments of its own in-house models.

## Accountability

On accountability, AIReF compares favourably to its peers due to its practices such as officially submitting key governance reports to the legislative record, involving the legislature in the appointment or dismissal of leadership, maintaining an external advisory panel, seeking external peer reviews of research products, and conducting periodic reviews. AIReF’s leaders participate in legislative hearings on its analysis; however, stakeholders suggested that hearings only rarely touch on issues of its governance and operations. AIReF could improve its accountability by appearing in a hearing before the legislature once a year on its performance and operations, including discussing its annual report. This can be helpful both ways—for AIReF’s oversight and accountability, but also to raise difficulties in fulfilling its mandate, such as its access to information struggles. The requirement for periodic external reviews could also be strengthened by enshrining it in legislation or governance documents, as is the case in the UK OBR, where the

Budget Responsibility and National Audit Act 2011 requires a person or body to be appointed at least once in every 5-year period to review and report on the office.

**Table 11: Peer accountability**

	Spain AIReF	Belgium FPB	Canada PBO	Irish Council	Italy PBO	CPB Netherlands	Portugal CFP	UK OBR	US CBO
Key governance reports officially submitted to the legislative record									
Leaders participate in legislative hearings devoted to the institution's governance	*								
The legislature plays a role in the appointment or dismissal process for leadership									
Has an external advisory panel									
Solicits external peer review of research products <sup>‡</sup>									
Periodic review required by legislation or undertaken voluntarily <sup>§</sup>									

Source: OECD Independent Fiscal Institutions Database (2021) Version 2.0. \*Stakeholders reported that in practice appearances discuss only the institution's analytical reports. ‡Combines the categories (1) always, (2) often, and (3) sometimes. §Hashed boxes indicate the review is undertaken voluntarily. Canada had a review that was legislated, but it was only a one-off (that is, it is not periodic).

## 4.5 Conclusions and Recommendations

### Conclusions

Under the strategic guidance of President Herrero, AIReF has made commendable strides in reinforcing its foundational principles of independence, transparency, and accountability as set out in Strategic Plan 2020-2026. The review team's assessment is summarised in Table 12.

AIReF enjoys legal safeguards that insulate it from political and external influences, ensuring that its analyses and reports are unbiased. This is crucial for maintaining the integrity of its operations and the credibility of its outputs. However, while operational independence is firmly established, financial and staffing autonomy could be further enhanced.

AIReF has regular legislative engagements and the active involvement of an Advisory Board. Accountability could be strengthened through an annual Parliamentary hearing dedicated to governance issues that could provide additional layers of oversight and public trust.

AIReF's adherence to its strategic goals under President Herrero's leadership reflects a mature and forward-looking institution, well-equipped to navigate the complexities of fiscal oversight and economic governance in Spain. The continued enhancements to its governance structures and operational protocols will ensure AIReF remains a benchmark institution among European IFIs.

## Recommendations

**Recommendation 4.1** The Organic Law 6/2013 should be amended to secure AIReF's budget over the medium term by preventing any real-term reductions, except under extraordinary circumstances such as changes following a mandate review or for specific one-off projects.

**Recommendation 4.2** The Organic Law should be amended to bring AIReF's budget under an independent section of the General State Budgets to be approved by the Cortes Generales, as is the case of the Court of Auditors. This would align with OECD Principle 4 (appropriations for IFIs should be published and treated in the same manner as other independence bodies such as audit offices). The Ministry of Finance should publish a three-year financial plan for AIReF, transitioning eventual control over these plans to parliament. This would align with the OECD principles and enhance transparency and stability in AIReF's financial planning, providing a clearer long-term fiscal outlook. The Organic Law also should be modified to provide AIReF with the flexibility to determine its own List of Posts within its budget.

**Recommendation 4.3** AIReF should be called in front of the Congress of Deputies once a year for the purpose of discussing its performance and operational issues, and to seek the legislature's assistance where its analysis is being met with obstacles such as information requests not being fulfilled.

**Recommendation 4.4** The Organic Law should be modified to require AIReF to undergo an external review every 5 years.

**Table 12: Summary evaluation of Strategic Plan 2020-2026 on guiding principles**

Actions	Progress
<b>Objective 1. Strengthening the principle of independence</b>	
a. Consolidating an efficient administrative structure and multidisciplinary staff.	Expanded staff to of 75, surpassing the original goal of around 65 staff. More disciplines reflected, but recommendation to broaden disciplines further.
b. Devising tools for sharing information and developing institutional relations with the Public Administrations.	Achieved through regular engagement and support for regional and local governments.
c. Ensuring a financing and budgeting system for AIReF's activity which has to be appropriate to its necessary functional autonomy.	Budgets largely accepted following negotiations, reflecting improved functional autonomy. More progress required. Recommendation to change Organic Law to prevent reduction in real terms, and for Ministry of Finance to publish t+3 forecast of AIReF funding envelope.
<b>Objective 2. Strengthening the principle of transparency</b>	
a. Publishing documents and recommendations and making all of AIReF's analysis tools available on the website.	Comprehensive online publication of reports and tools.
b. Increased predictability of AIReF's actions and publications.	Structured reporting schedule and calendar as best they can, but for Public Expenditure Evaluation Division the government's requests and timetables are not predictable. Recommendation for government to meet twice a year to plan and update requests for greater certainty.
c. Collaboration with universities (scholarship programme), experts and agencies in matters under AIReF's remit and participation at forums on these matters.	High collaborations and active participation in academic and policy forums

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|----|--|---|
| d. | Presenting AIREF's work to the non-specialised public and, in particular, young people, adapting the audiovisual language and formats. | Have increased public outreach through user-friendly communication formats. Remains some work in developing key performance indicators and reaching lay public. |
|----|--|---|

**Objective 3. Strengthening the principle of accountability**

- |    |  |   |
|----|--|---|
| a. | Appearing before Parliament to report on AIReF's activity and to present reports of interest.  | Regular appearances before Parliament to discuss key reports and activities.                            |
| b. | Establishment of an Advisory Board of a scientific and critical nature with active participation in the work of AIReF.   | Advisory Board established with active participation from experts.                                      |
| c. | Follow-up to the recommendations made in the external evaluations performed on AIReF and preparation of a new evaluation by an independent third party.                        | Continuous follow-up on past recommendations and preparations for future evaluations.                   |
| d. | Collaboration with European institutions, international bodies and other Independent Fiscal Institutions in order to share and exchange views, analyses and working practices. | Active collaboration with European institutions and IFIs, enhancing shared learning and best practices. |

## Chapter 5. Impact

IFIs do not set fiscal policy the way that central banks set policy interest rates. They can only influence policy. They do so directly and indirectly in four ways: (1) by asking governments to change their practices, (2) by convincing the legislature to push for change, (3) by steering the public debate toward change, and (4) by leading by example through their own transparency.

AIReF's direct influence is empowered by Article 20 of Organic Law 6/2013, by which AIReF issues recommendations throughout the year on:

- Macroeconomic forecasts
- Draft budgets and main lines of the General Government sector
- Individual reports on the autonomous regions (ARs)
- Supplementary reports on the local governments
- Any other report under its mandate, for example the medium-term fiscal documents.

AIReF's indirect influence comes via its regular appearances in congress, which have increased in frequency to three or more a year (except in 2023 where the dissolution of Parliament for elections prevented such opportunities). The duration of such appearances has also increased under President Herrero; however, they remain only half an hour per session with 10 minutes of questions. AIReF's endorsement of macroeconomic forecasts and evaluations of the General State Budget are often cited in parliamentary debates, influencing the parliamentary oversight process. AIReF also holds biannual technical meetings at its head offices for members of the Cortes Generales. These meetings, well-received by interviewed parliamentarians, explain recent activities and technical approaches. They were held in 2020 with 18 parliamentarians, in 2022 with 13 attendees, and in 2024 with 18 participants. AIReF's physical presence at the Autonomous Regions at a parliamentary level is not frequent and the institution is still seen by stakeholders in those governments as being distant.

AIReF's indirect influence also comes from its power to speak directly to the public through its own website with its own products in its own name, free of government or bureaucratic approval. Although engagement by a lay audience is low, AIReF's reports are covered in the general and economic press and the President's media appearances amplify AIReF's message to households who may not follow the specialist press.

Strategic Plan 2020 – 2026 lays out President Herrero's vision for making an impact:

- For public administrations, by acting as an impartial meeting point, by making our analyses available to them and by establishing constructive dialogue, among other aspects.
- For the fiscal debate, through positive analyses and a critical spirit with fiscal policy objectives as the central aim.
- For Parliament, making ourselves available to contribute to the economic and fiscal debate with our objective and independent analyses.
- For society, bringing the fiscal debate closer to the public.

The remainder of this chapter reviews the delivery of this vision within the agreed reporting structure.

## 5.1 Recommendations and principle of comply and explain

AIReF's direct recommendations to government are subject to the "comply or explain" principle, whereby public authorities either implement AIReF's recommendations or provide a rationale for not doing so. The comply and explain principle has been reconfirmed in the new EU economic governance framework under Article 29 of Regulation (EU) 2024/1263 of the European Parliament and of the Council.

AIReF issues a significant number of recommendations. In 2023 alone, AIReF issued over 148 recommendations and good practice guidelines, predominantly targeting regional and local authorities (AIReF, 2023). Of the 121 new recommendations (rather than repeated, live or good practice guidelines), 106 recommendations were aimed at subnational governments, including 29 for autonomous regions and 77 for local governments. They primarily related to the application of the expenditure rule framework.

AIReF's "observatories" that collate the issuance, adoption, and implementation of recommendations play a crucial role in tracking the government's response to AIReF's recommendations, without which the breadth and volume would be nearly impossible to manage.

AIReF's follow-up on these recommendations shows excellent adherence or pledges to comply with them by subnational governments (with 93% of recommendations for autonomous regions and 99% for local government). However, the central government's compliance rate is poor, at 28% (AIReF, 2023).

President Herrero oversees the formulation of recommendations, ensuring they are grounded in robust economic analysis and that they align with AIReF's strategic objectives. As part of Strategic Plan 2020-2026, she hopes to increase the synergy between the Public Expenditure Evaluation Division. This integrated approach ensures that recommendations are comprehensive and consider all aspects of fiscal policy and public spending.

An empirical assessment of AIReF's recommendations poses significant challenges. The primary difficulty lies in establishing a clear economic and fiscal counterfactual, particularly considering the repeated economic crises and other upheavals that have disrupted the economic and public finances during AIReF's decade-long existence. Consequently, econometric analysis is unlikely to be an effective approach.

Instead, qualitative methods, such as stakeholder interviews and anecdotal evidence is the best source of insight. The review team's stakeholder interviews revealed a consensus among public officials and academics that AIReF has positively influenced Spain's planning and fiscal consolidation efforts (while caveating that there remains work to be done). These interviews are discussed in detail in Deliverable 4A.

## 5.2 Specific proposals from the Evaluation Function

AIReF's Monitoring Tool of Findings and Proposals consolidates evaluation results and simplifies access to them. It also tracks the progress of implementing the proposals. An analysis of the Monitoring Tool shows varying levels of government response to proposals. For instance, the "Strengthening Business Competitiveness" proposals were fully implemented, showing a strong alignment with government priorities, however this study had only three high-level proposals (reviewing and creating alternatives to the RCI implement). "Active Employment Policies" had a



large volume of proposals and saw over 82% implementation, indicating significant proactive government efforts to adopt AIReF's proposals in employment strategies.

However, "Municipal Waste Management" faced substantial resistance, with nearly half of the proposals rejected and only 7% implemented, highlighting alignment challenges with local government priorities. "Transport Infrastructures" also experienced high rejection rates, with 21% of proposals rejected and just 4% implemented, suggesting practical or policy constraints.

**Table 13: Reception of proposals by study (%)**

Title of Study (Translated)	In Progress	Implemented	Not Applicable	Rejected
University Education Scholarships	8.7	65.2	2.2	23.9
Tax Benefits	0.0	36.8	26.3	36.8
Evaluation of Strategy and Procedures in Hospital Medication Acquisition	24.0	64.0	0.0	12.0
Evaluation of Financial Instruments for Businesses	88.9	0.0	5.6	5.6
Strengthening Business Competitiveness	0.0	100.0	0.0	0.0
Hospital Spending of the National Health System: Pharmacy and Infrastructure Investment	2.7	81.1	0.0	16.2
Municipal Waste Management	41.0	6.6	4.9	47.5
Incentives for Hiring and Self-Employment	9.5	85.7	4.8	0.0
Transport Infrastructures	75.0	4.2	0.0	20.8
Medications Dispensed Through Prescription	22.2	50.0	0.0	27.8
Opinion on Minimum Income Scheme (2023)	0.0	0.0	100.0	0.0
Active Employment Policies	17.4	82.6	0.0	0.0
Active Employment Policies in Extremadura	0.0	0.0	100.0	0.0
Promotion of Talent and Employability in R&D+i	0.0	79.5	2.7	17.8
Spanish State Society of Post and Telegraphs and the Provision of the Universal Postal Service	18.8	50.0	0.0	31.0

Source: AIReF's Monitoring Tool of Findings and Proposals.

The methodologies used in AIReF's evaluations predominantly involve combinations of document analysis, individual interviews, descriptive statistical analysis and causal inference methods. The most common methodology is "documentary analysis," and "descriptive statistical analysis" used in 27 and 25 reports respectively. More complex methodologies, such as difference in differences, matching methods, microsimulations and individual interviews are used less frequently.

Overall, AIReF's methodological choices reflect a preference for integrating multiple information sources to ensure thorough and nuanced evaluations, with the complexity of methods tailored to the specific demands of each study.

**Table 14: Overview of methodologies in expenditure evaluations**

Methodologies	Evaluation reports
Documentary analysis	27
Descriptive statistical analysis	25
individual interviews	20
International comparison	11
Comparative analysis	9
Exploratory data analysis	7
Difference in differences	6
Focus groups	6
Matching methods	5
Cost-efficiency analysis	4
Microsimulators	4
Non-linear parametric regression methods	3
Distributive analysis	3
Regression discontinuity	3
Parametric linear regression models	3
Cost-benefit analysis	2
Conditional descriptive statistical analysis	2
Observational techniques	2
Bibliometric and scientometric analysis	2
Quantile treatment	1
Elasticity analysis	1
Normative analysis	1
Case studies	1
Non-parametric models	1

Source: AIReF.

### 5.3 Evaluation of the Media Impact of the Institution and its Products, Presence in the Media, Knowledge of the Institution by Society

An effective communications strategy helps distribute an IFI's insights and recommendations but also builds trust and accountability in its operations. By maintaining a strong and consistent media presence, an IFI can effectively engage with stakeholders, shape public discourse, and advocate for necessary fiscal reforms. This visibility can foster a better understanding of the IFI's role and contributions, cementing its place within the broader fiscal and economic dialogue and in the national consciousness.

AIReF's communications function is ranked 11<sup>th</sup> out of 36 among OECD IFIs in the OECD's IFI Communications Index and its communications elements are ranked 5<sup>th</sup> out of 36 on the OECD's Fiscal Advocacy Index (OECD, 2024). Among its benchmark peers, AIReF is ranked third in the Fiscal Advocacy Index for communications "apparatus and impact".

**Table 15: AIReF is third among its peers in communications apparatus and impact**

CPB Netherlands Bureau for Economic Policy Analysis	1 <sup>st</sup>
Office for Budget Responsibility of the United Kingdom	2 <sup>nd</sup>
Spain AIReF	3 <sup>rd</sup>
Irish Fiscal Advisory Council	4 <sup>th</sup>
Portuguese Public Finance Council (CFP)	5 <sup>th</sup>
Parliamentary Budget Office of Italy	6 <sup>th</sup>
Federal Planning Bureau of Belgium	7 <sup>th</sup>

Source: (OECD, 2024).

Among peers it receives by far the largest number of citations in the three largest national media outlets (Table 16) and is 8<sup>th</sup> out of 36 of OECD IFIs in media share, that is, percentage of online articles on budget topics that mention the institutions (OECD, 2024).

**Table 16: AIReF is the most cited IFI of its peer group by far**

	Number	Share
Spain AIReF	324	6%
CPB Netherlands Bureau for Economic Policy Analysis	212	21%
Office for Budget Responsibility of the United Kingdom	182	24%
Portuguese Public Finance Council (CFP)	107	2%
Irish Fiscal Advisory Council	84	29%
Parliamentary Budget Office of Italy	37	4%
Federal Planning Bureau of Belgium	31	0%

Source: (OECD, 2024)

Note: "Number" is the number of articles in the three biggest national news websites, "share" is percentage of articles on the topic of the budget that mention the institutions.

Through AIReF's strong media presence, its work reaches a broad audience, including journalists, academics, and the general public. The data collected in Pillar 4A of the technical support (Annex F), along with statements from AIReF's stakeholders during external evaluation interviews, indicates that AIReF is well-known, valued as an objective enhancer of democracy, and considered very useful among specialised and technical audiences.

AIReF's analysis has gained greater traction in recent years in the International Monetary Fund's annual Article IV report, which is a key component of the IMF's surveillance function over its member countries' economies. After receiving virtually no mention before 2020, it has received an average of 7-10 mentions in recent years.

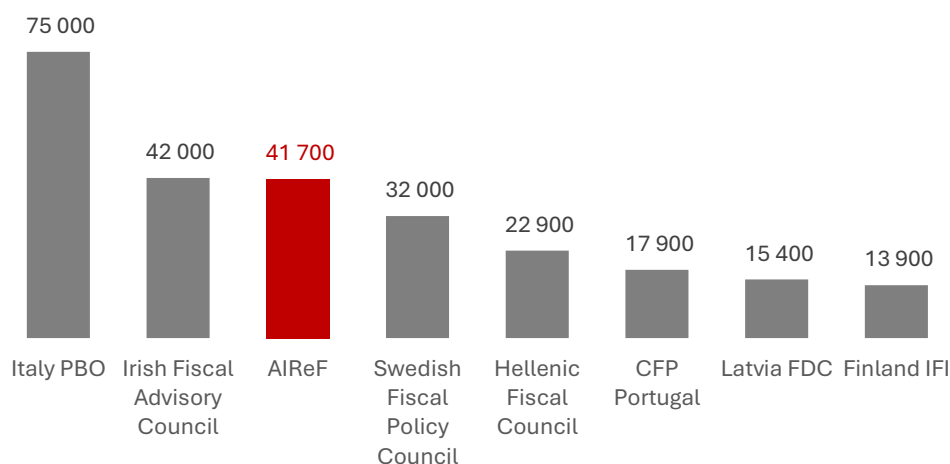
Although AIReF's communications strategy is achieving results, it is an outlier among its peers in outsourcing its communications functions to an external agency (although one member of the external agency spends considerable time working within AIReF's office). Its peers list several advantages of maintaining a communications team in-house:

- **Consistency and Control:** An in-house team ensures consistent messaging and better control over communication strategies aligned with the institution's values and objectives.
- **Deep Institutional Knowledge:** Internal staff will have a better understanding of the institution's work and its technical nuances, leading to more accurate and relevant communication.
- **Immediate Response:** An in-house team can respond more quickly to emerging issues, crises, or opportunities.

- **Long-term Strategy:** An in-house department can develop ongoing relationships with stakeholders and the public (the agency’s contract requires open-tender renewal every two years).
- **Confidentiality:** Handling sensitive information internally reduces the risk of leaks and ensures greater confidentiality.
- **Cost-effectiveness:** Over time, an in-house team can be more cost-effective, eliminating the need for continuous contracting and potential high fees of outside firms.

A criticism among interviewees was the length and impenetrability of language of AIReF’s reports. Journalists and the public are busy and will generally not read a long report. AIReF’s annual Report on the Stability Programme Update is among the longest and wordiest of its peers in the EU (a different peer group was used for this measure, as institutions like CPB Netherlands, the Belgium Federal Planning Bureau, and the UK OBR do not publish Stability Programme Updates). It is roughly on-par with the Irish Fiscal Advisory Council and surpassed only by the Parliamentary Budget Office of Italy (Figure 3). The Stability Programme Updates of the Portuguese Public Finance Council (CFP) averaged 42 pages while AIReF’s averaged 149 pages over the last five comparable years. Although AIReF’s mandate may be broader than some of these IFIs, the attention spans of its audience are not.

**Figure 3: AIReF’s reports are lengthy relative to other well-established EU IFI peers for comparable reports (in words)**



Source: Author’s calculations.

On readability, the executive summaries of a collection of AIReF’s reports were compared to those of the Portuguese Public Finance Council (CFP) using a series of readability formulas including the Gunning-Fog Index, Flesch Kincaid Grade Level, and FORCAST readability formula. These formulas use factors like the number of words per sentence and the number of long words (by number of syllables) per total number of words to benchmark its readability. The reading level of AIReF’s reports was roughly the equivalent of one extra year of education compared to the those of the Portuguese Public Finance Council.

## 5.5 Conclusions and Recommendations

### Conclusions:

AIReF's impact on fiscal policy and public debate in Spain is substantial by the account of stakeholders. Overall, many of its recommendations are integrated into policy, and subnational governments do so nearly universally. The central government remains reluctant to adopt AIReF's recommendations.

Stakeholders also reported that AIReF is becoming a central hub that connects subnational governments with central government departments like the Spanish Tax Agency (Agencia Estatal de Administración Tributaria) and National Institute of Social Security (Instituto Nacional de la Seguridad Social), which have in the past struggled to collaborate or are legally unable to work directly together.

AIReF's communications have built it a strong reputation as a technical authority, perceived as reliable, independent, and useful by its stakeholders. It is the go-to benchmark for forecasts of Spain's economy and budget. Its audience remains niche, consisting mainly of highly educated and politically engaged professionals who deal with the institution's work through the course of their job professionals in the executive, administrative and legislative branches of government, academia, European and global IFIs, and the national media. This is understandable, as fiscal policy is unlikely to ever capture the hearts and minds of the general population, but more can be done to support general awareness of the institution.

The "comply or explain" principle has been instrumental in promoting adherence to best practices and fostering a culture of transparency and dialogue between public authorities and AIReF and accountability among public bodies.

Prior to this review, AIReF had not yet undertaken a satisfaction survey among its key groups or target audience. Complying with the OECD recommendation earlier would have provided deeper, measurable key performance indicators for its communication impact. While Pillar 4 of the current TSI on increasing outreach and visibility towards the general public and stakeholders addresses this to some extent, it cannot replace ongoing surveys and polls among its audiences.

AIReF has increased its presence at the regional level, for example by participating in academic events. However, subnational legislatures continue to view it as operating at a distance.

AIReF has yet to set detailed, measurable communication targets and self-assessment tools to evaluate goal achievement accurately and make data-driven strategic decisions. Currently, AIReF lacks in-depth knowledge and classification of its social media followers, newsletter subscribers, and website users, risking its communications efforts are misdirected.

### Recommendations

**Recommendation 5.1** AIReF should create an in-house communications department and allocate resources to maintain it. The department should include a civil affairs specialist (a professional responsible for managing and improving an organisation's relationship with the general public and community stakeholders).

**Recommendation 5.2** To ensure its analysis and recommendations influence—and are influenced by—the legislative process, AIReF should foster closer one-on-one relationships with individual legislators' offices, for example with an "our door is always open" policy that encourages legislatures to approach the institution with questions and concerns. This will complement the occasional fixed open sessions AIReF currently offers. This proactive approach,

used by institutions like the CBO in the U.S. and the Canadian PBO, has proven effective in creating “champions” of their analysis in the legislature. This would also give legislators an opportunity to suggest analytical topics for AIReF to study, including areas to undertake Expenditure Reviews (per Recommendation 3.3).

**Recommendation 5.3** When accepting a regional or local commission, AIReF should require the subnational body to have a communications plan to disseminate the evaluation findings. AIReF and the involved institutions should launch and share the report in public spaces relevant to the findings, helping citizens understand the impact of fiscal policy. AIReF should also attend more hearings before subnational legislatures to demonstrate accountability. Additionally, AIReF should explore providing technical assistance and capacity-building support to subnational governments that want to implement recommendations but lack the necessary resources and expertise.

**Recommendation 5.4** AIReF should begin tracking its mentions in parliamentary debate transcripts. This will allow AIReF to assess trends in its impact on the political debate and adjust its strategy accordingly.

**Recommendation 5.5** AIReF's recommendations should be clear, precise, and actionable. Reports should be brief and avoid generic statements and provide detailed guidance on implementation. The lack of specificity in recommendations can lead to nominal compliance rather than effective policy changes. AIReF could introduce a ranking system to indicate the level of priority in recommendations, such as “necessary”, “suggested”, and “good practice”.

**Recommendation 5.6** AIReF should strengthen the "comply or explain" framework by setting clearer guidelines on what constitutes an adequate explanation for non-compliance. AIReF can provide examples of acceptable explanations and outline the consequences of inadequate responses. Additionally, a scoring or rating system for compliance and the quality of explanations of refusal could be introduced, making it easier to track and compare the performance of different government bodies over time.

**Recommendation 5.7** AIReF should strive to improve the readability scores of its reports with plain, simple language and to reduce their page length.

**Recommendation 5.8** AIReF should host embargoed distribution lists or lockups of its upcoming reports for legislatures and the media to ensure they can react on an equal footing with governments, which receive reports in advance of publication.

## Chapter 6. Conclusions and general reflections

As AIReF marks the tenth anniversary of its inception, it is an opportune time to assess its impact on Spain's fiscal landscape, to reflect on its achievements and to take stock of its capacity and resilient to face potential tests ahead.

AIReF has made significant strides in enhancing its resources, analytical capabilities, and communication efforts since the 2017 OECD review. President Herrero's Strategic Plan 2020-2026 has been instrumental in guiding these improvements. AIReF has successfully met the expansion of its mandate, becoming a critical player in policy evaluation.

Despite these advancements, AIReF faces several challenges. While its budget has increased, it still lacks a medium-term financial commitment from the government, which is crucial for strategic planning and operational independence. Additionally, AIReF faces challenges in securing timely access to essential data, particularly from the Ministry of Finance, which hampers its monitoring functions.

AIReF operates in a complex national context characterised by significant decentralisation and regional fiscal disparities. It must continually adapt to evolving political and economic conditions. Chief among those is the new economic governance framework adopted by the EU. AIReF will require legislative support to solidify its role within it. Global risks, including climate change, geopolitical instability, and technological disruptions, pose additional challenges that AIReF must integrate into its fiscal surveillance and policy recommendations.

AIReF is developing robust economic forecasting and budgetary analysis to meet these challenges. However, it lacks a comprehensive microsimulation model to provide detailed distributional analysis of the effects of tax and benefit policies on individuals and households.

AIReF has had a significant impact on fiscal policy debates in Spain, providing critical insights and recommendations. The effectiveness of its recommendations relies on its ability to influence governments adopt them. AIReF's communications efforts have improved immensely but its reach remains primarily among specialised audiences.

AIReF has established itself as a mature institution in Spain's fiscal governance landscape. By addressing the challenges identified in this review and implementing the recommended actions, it will continue to enhance its impact, promoting sustainable public finances and informed fiscal policy debates in Spain.



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## Glossary

**Agent-Based Models (ABMs):** Computational models that simulate interactions of agents (e.g., individuals, firms) to assess their effects on the economic system.

**Causal Inference:** The process of determining whether a cause-and-effect relationship exists between variables.

**Debt-Sustainability Analysis (DSA):** An assessment of a country's ability to sustain its current level of debt without external assistance or defaulting.

**Difference-in-Differences (DiD):** A statistical technique used to estimate causal relationships by comparing the changes in outcomes over time between a treatment group and a control group.

**Dynamic Stochastic General Equilibrium (DSGE) Models:** Economic models that use microeconomic principles to explain macroeconomic phenomena, incorporating random fluctuations and time dynamics.

**European Green Deal:** An EU initiative aimed at making the EU's economy sustainable by turning climate and environmental challenges into opportunities.

**Ex Ante Evaluation:** Assessment of policies or programs before they are implemented to predict their potential impact and effectiveness.

**Ex Post Assessment:** Evaluation of policies or programs after they have been implemented to determine their effectiveness and impact.

**Fiscal Gap:** The difference between a government's projected revenues and expenditures over a long-term horizon, indicating the adjustments needed to maintain fiscal sustainability.

**General State Budget Act:** The annual law that outlines the budgetary allocations and financial plans of the Spanish government.

**Harmonised Index of Consumer Prices (HICP):** A measure of inflation and price stability used most significantly by the European Central Bank to assess price changes across Member States.

**Microsimulation Model:** A type of economic model that simulates the impact of policy changes on individual units, such as households or firms, to assess distributional effects.

**Monte Carlo Simulation:** A statistical technique that uses random sampling to estimate the probability distributions of uncertain variables.

**National Accounts:** A system of accounts that provides a comprehensive and detailed record of the economic activities of a country.

**Public Administration (PA):** Government agencies and institutions responsible for implementing public policies and delivering public services.

**Public Financial Management (PFM):** The system by which financial resources are planned, directed, and controlled to enable and influence the efficient and effective delivery of public service goals.

**Quasi-Experimental Methods: Research** methods that aim to estimate the causal impact of an intervention without random assignment.

**Regression Discontinuity Design:** A quasi-experimental statistical method used to estimate the causal effect of interventions by assigning a cutoff point above or below which the intervention is assigned.

**Stochastic Analysis:** Analysis involving random variables and probability distributions to assess uncertainty and risk.

**Stock-Flow Consistent (SFC) Models:** Models that ensure all flows (e.g., income, expenditure) and stocks (e.g., assets, liabilities) in an economy are consistently accounted for over time.

**Technical Support Instrument (TSI):** An EU program providing technical support to member states to implement reforms and improve governance.

## Annexes

### Annex A: Evaluation Team

The final Team composition is as follows:

- Scott Cameron, an economist with experience in finance ministries and IFIs in the United Kingdom, Canada, Europe and Southeast Asia, and formerly serving as the secretariat for the OECD Working Party of Parliamentary Budget Officials and Independent Fiscal Institutions.
- Marcel Jansen, associate professor in Economics at the Universidad Autónoma de Madrid, a fellow at IZA and a researcher at Fedea.
- Daniel van Vuuren, head of the Social Security department at SEO Amsterdam Economics, professor of Economics at Tilburg University, and former head of Department of Public Finance at the CPB Netherlands Bureau of Economic Policy Analysis.
- Lucia Olivera, strategic communications expert, specialized in institutional engagement. Independent consultant with experience at United Nations Brazil and Spain (ACNUR), the Instituto de Pesquisa Ambiental da Amazonia (Brazil), Spanish Ministry of Industry, and the Council of Science and Education in Cantabria, Spain.
- A. Nicolas Lorenti, PhD candidates in Economics (UCM, Madrid). Independent Consultant: Specialised consultant in Macroeconomics and Public Finance.
- Joao de Almeida, Project Manager at AARC Consultancy and Invited Teaching Assistant at Nova School of Business and Economics.

In the early planning stages of the Project, the team composition included Mr. George Kopits, Mr. Santiago Lago Peñas and Mr. Diego Martinez Lopez, who participated in early discussions (including the methodological note), technical meetings and interviews, having left the Team by the end of the first mission (in March 2024).

## Annex B: List of interviews

- AIReF:
  - Advisory Board
  - Budget Analysis Division
  - Communications team
  - Economic Analysis Division
  - Legal Affairs Division
  - President's Office
  - Public Expenditure Evaluation Division
  - Steering Committee
- Bank of Spain
- EU IFI Network
- Castile and Leon's Regional Ministry of Economy and Finances
- Catalonia's Regional Ministry of Economy and Finances
- General Council of Spanish Economists
- Independent fiscal councils including:
  - Brazilian Independent Fiscal Institution
  - Colombian Autonomous Committee of the Fiscal Rule
  - CPB Netherlands Bureau for Economic Policy Analysis
  - Irish Fiscal Advisory Council
  - Parliamentary Budget Office of Canada
  - UK Office for Budget Responsibility
- Journalists and media professionals from:
  - ABC
  - Canal Sur Radio
  - Castilla La-Mancha Media
  - Economic Information Journalists Association (APIE)
  - El Confidencial
  - El Mundo
  - El País
  - El Periódico
  - La voz de Cádiz newspaper
  - RadioTelevisión Española
- Ministry of Economy
- Ministry of Finance – Secretariat for Budget and Expenditure
- Ministry of Inclusion, Social Security and Migration
- Ministry of Inclusion, Social Security and Migrations, Secretariat of Inclusion
- Spanish Congress Members
- Spanish Court of Auditors



- Other professionals in public and economic policy from:
  - Government of Spain
  - IMF country desk
  - La voz de Cádiz
  - RTVE
  - UNICEF
  - University of the Basque Country

## Annex C: Adherence to International Standards

The review team synthesised the following international frameworks against which to assess AIReF.

Principle	Justification	Measurement	Article 8a of Council Directive 2011/85/EU amended 30.04/2023. And article 2 of Regulation (EU) 473/2013	OECD Recommendation of the Council on Principles for Independent Fiscal Institutions, February 2014	European Commission common principles on national fiscal correction mechanisms  Brussels, 20.6.2012 COM(2012) 342 final
<b>1. Local fit</b> is the most important. IFIs must suit their local context, particular its existing institutional history and fiscal challenges.	If a specific IFI model is imposed from external pressure, for example as conditions of EU membership, it will be viewed with suspicion and public buy-in could be a challenge.	Are there any outstanding questions of its role? Are people suspicious of its motivation, suspicion? Did it work with existing structures and institutions or impost new ones? Was it only motivated by conforming to EU requirements?	Member States shall ensure that independent fiscal institutions are established by national laws, regulations or binding administrative provisions.  Member States may establish more than one independent fiscal institution.	Principle 1.1 “Broad national ownership, commitment, and consensus across the political spectrum. Models from abroad should not be artificially copied or imposed.”  Principle 1.2 “Local needs and the local institutional environment should determine options for the role and structure of the IFI.”	“The design of the above bodies shall take into account the already existing institutional setting and the country-specific administrative structure.”
<b>2. Mandate.</b> Its mandate and functions should be in statutes and legislation, the more specific the better.	If left open to interpretation, can lead to accusations of “straying beyond its mandate.”	Are there mandatory reports specified in legislation? An explicit role in the budget process?	Independent bodies must be underpinned by a statutory regime grounded in national	3.1.The mandate of IFIs should be clearly defined in higher-level legislation, including the general types of reports and analysis they	“National legal provisions ensuring a high degree of

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<p><b>3. Leadership</b> nomination procedures should involve the legislature and term lengths should be staggered, appointment should be based on merit and nonpolitical.</p>	<p>Non-political nomination ensures independence and credibility.</p>	<p>Are appointments influenced by current political leaders or parties? Do they coincide with the political cycle?</p>	<p>laws, regulations or binding administrative provisions;</p> <p>Shall be composed of members nominated and appointed on the basis of their experience and competence in public finances, macroeconomics or budgetary management, and by means of transparent procedures.</p>	<p>are to produce, who may request reports and analysis, and, if appropriate, associated timelines for their release.</p> <p>“Leadership should be appointed through a non-partisan, transparent process.”</p>	<p>functional autonomy shall underpin the above bodies, including:</p> <p>i) a statutory regime grounded in law.”</p> <p>National legal provisions ensuring a high degree of functional autonomy shall underpin the above bodies, including:</p> <p>ii) “nomination procedures based on experience and competence”</p>
<p><b>4. Communications.</b> Should be able to communicate directly with the public on its terms and should be able to undertake and publish analysis at their discretion (barring any legislated obligations or restrictions).</p>	<p>Direct communication enhances transparency and public trust. Own website gives independence from government intervention or “blocking” of reports.</p>	<p>Does the IFI have unrestricted capability to publish reports and analyses? Are communications clear and accessible to the public</p>	<p>The capacity to communicate publicly in a timely manner;</p>	<p>“Should have the ability to communicate findings directly to the public without political interference.”</p>	<p>National legal provisions ensuring a high degree of functional autonomy shall underpin the above bodies, including “shall be in a capacity to communicate publicly in a timely manner;”</p>
<p><b>5. Analytical and operational transparency.</b> IFIs should lead by example in their models, reports, and interactions with stakeholders. They should report publicly on their operations, such as in annual reports.</p>	<p>Operational and analytical transparency builds trust and accountability.</p>	<p>Is there a clear protocol for how data and methodologies are shared both proactively and upon request?</p>		<p>“Transparency in methodologies and operations should be a core principle.”</p>	
<p><b>6. Operational independence.</b> IFIs should be able to carry out their mandate free of interference from government or other public administrators.</p>	<p>If they must have their workplan approved by senior bureaucrats or elected officials, can be obstructed in their duties.</p>	<p>Are their reports in their own name? Are there instances where external pressures have influenced the IFI’s analysis or reporting?</p>	<p>Should not take instructions from the budgetary authorities of the Member State concerned or from any other public or private body;</p>	<p>Should operate without any political interference in analysis and reporting.”</p>	<p>National legal provisions ensuring a high degree of functional autonomy shall underpin the above bodies ii)</p>

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freedom from interference, whereby the above bodies shall not take

instructions

<p><b>7. Staff appointments</b> should be under the IFI’s control and nonpolitical .</p>	<p>An IFI should be able to choose how its office is staffed and appointments or selections should not be political, as it could bias analysis and operations.</p>	<p>Are staff hired based on merit and expertise without political considerations?</p>	<p>Shall be composed of members nominated and appointed on the basis of their experience and competence in public finances, macroeconomics or budgetary management,</p>	<p>“Staffing decisions should be based on expertise and be free from political influence.”</p>	
<p><b>8. Financial resources</b> should be <b>adequate</b> relative to mandate Medium-term budget commitments.</p>	<p>Adequate funding ensures the IFI can fulfil its mandate effectively.</p>	<p>Are financial resources sufficient and stable over the medium term to support its functions?</p>	<p>adequate resources and appropriate access to information to carry out their mandate</p>	<p>“Financial independence with adequate budgeting is essential.”</p>	<p>iv) adequacy of resources and appropriate access to information to carry out the given mandate.</p>
<p><b>9. Access to information</b> should be guaranteed in law, with detail, with limitations explicit.</p>	<p>Access to necessary information must be legally guaranteed and limitations explicitly listed, or governments will have room to block access.</p>	<p>Are there clear laws specifying what information the IFI can access? Are there restrictions that hinder effective operation?</p>	<p>Must have adequate and timely access to the information needed to fulfil their tasks</p>	<p>“Should have unrestricted access to all relevant government data.”</p>	<p>iv) adequacy of resources and appropriate access to information to carry out the given mandate.</p>
<p><b>10. Accountability mechanism</b> to the legislature.</p>	<p>Mechanisms to ensure accountability to the legislature enhance credibility and effectiveness and provide a remedy if the office is politicised.</p>	<p>How does the IFI report to the legislature? Are there procedures for initiating independent evaluations of its performance?</p>	<p>Upon invitation, participate in regular hearings and discussions at the national Parliament. Be subject to regular external evaluations by independent evaluators</p>	<p>“Must be accountable to the legislature and have mechanisms for external evaluation.”</p>	

## Annex D: Follow-up to the recommendations of the 2017 review (extended analysis)

Resources		Status
Recommendation 1	Reassess AIReF's resources in light of its expanding mandate to ensure they are commensurate with its responsibilities.	<b>Achievement.</b> Nearly 30 new positions added, across business lines and via the creation of the Evaluation Division. Supervision fees increased. Among the most well-funded IFIs, commensurate with its considerably broader mandate than most IFIs.
Recommendation 2	AIReF should refrain from taking on additional tasks without corresponding resource adjustments—that is, avoid external consultants.	<b>Achievement.</b> Has always been the practice, except when necessary to hit deadlines in early years of its mandate.
Recommendation 3	Consider a multiannual funding commitment to AIReF to enhance its independence and provide budget predictability	<b>Not achieved.</b> Continues to be a lack of medium-term commitments and protection.
Recommendation 4	A review of the budget process for AIReF could enhance its independence further by ensuring funding commitments are published and treated as those of other independent bodies.	<b>In progress.</b> This review recommends that the Organic Law should be amended to bring AIReF's budget under an independent section of the General State Budgets to be approved by the Cortes Generales, as is the case of the Court of Auditors.
Access to information		
Recommendation 5	Develop a memorandum of understanding between AIReF and the Ministry of Finance (MINHAFF) to clearly outline AIReF's information needs, establish collaborative request processes, and set realistic response timelines.	<b>Partial achievement.</b> Secured for Spanish Tax Administration Agency (Spanish: Agencia Estatal de Administración Tributaria, AEAT) and social security authorities (Ministry of Inclusion, Social Security and Migration)

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		Ministerio de Inclusión, Seguridad Social y Migraciones) but not Ministry of Finances (MH-Hacienda) and Ministry of Economy, Trade and Enterprise (MINECO)
Recommendation 6	Consider granting AIReF advance access to data or documents on a confidential basis to strengthen analysis and timeliness.	<b>Partial achievement.</b> Not Ministry of Finances or Ministry of Economy.
<b>Analysis</b>		
Recommendation 7	AIReF should regularly include medium-term projections in its analysis to balance its current focus on near-term estimates. This shift would improve the analytical balance and provide a broader perspective on fiscal sustainability.	<b>Achieved.</b> Regularly publish medium-a and long-term projections and analysis on full scope of economic and fiscal planning areas.
Recommendation 8	Enhance the transparency of AIReF's analysis by incorporating more data tables, graphics, and detailed breakdowns of economic and budgetary estimates	<b>Achieved.</b> Significantly increased visual aids, web graphics, and level of detail.
Recommendation 9	Regular self-evaluations of economic forecasts and budget projection accuracy should be published to reinforce AIReF's analytical credibility.	<b>Achieved.</b> Forecast error assessments have been published covering a large range of variables that make up the main macro and budget aggregates.
Recommendation 10	Continue to develop AIReF's work on benchmarking regions and municipalities, focusing particularly on fiscally stressed municipalities.	<b>Achieved.</b> Analysis and publications expanded in 2021, 2022, 2023, all town councils and provincial councils, full fiscal situation, changes over time, public-sector employment numbers, downloadable.
Recommendation 11	Deepen the analysis of regional economic models and fiscal sustainability.	<b>Achieved.</b> Modelling capacity at subnational level has been augmented.
<b>Influence</b>		
Recommendation 12	Expand communication efforts at the subnational level and	<b>Partial achievement.</b> Regionalised emails, invited to press conferences, geographic forums, etc. But subnational legislatures continue to feel AIReF makes recommendations from a distance.

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Recommendation 13	AIReF should use the comply-or-explain principle more selectively to focus on its most important messages and potentially test different approaches to improve compliance rates.	<b>Partial achievement.</b> Has streamlined with a recommendation tool. But stakeholders feel recommendations remain overwhelming, unfocused and unspecific.
Recommendation 14	Develop more accessible materials for non-technical stakeholders and expand outreach through a broader range of media.	<b>Partial achievement.</b> Moved technical topics to boxes and annexes, simplified and increased accessibility, communications strategy reformed to pursue greater accessibility to public, interactive website tools and infographics, forums for non-specialists and specialists. Reports remain lengthy and at a challenging reading level.
Recommendation 15	Setting clear and measurable targets for social media communications can also help AIReF refine its engagement strategy	<b>In progress.</b> Communications plan and successful bidder contain measurable performance targets X (formerly twitter) and LinkedIn priorities and accounts have grown in interest. However, analysis in Deliverable 4A suggest a continued lack of key performance indicators.
Recommendation 16	AIReF should expand its activity with academia and universities	<b>Achieved.</b> Regular attendance and participation in university seminars, vice presidency of the Network of IFIs, job positions tenders to attract more academic profiles.
Recommendation 17	AIReF should undertake periodic surveys to gauge stakeholder satisfaction, particularly among parliamentarians and academics, to ensure its work remains relevant and impactful	<b>In progress.</b> Stakeholder consultations will be part of multi-country TSI Pillar 3 and Pillar 4A (this review).



## Annex E: Peer Review (identification of useful reference experiences for AIReF in other long-standing IFIs)

### Medium-term Budget Certainty

- The Irish Fiscal Council is guaranteed a baseline funding level in the *Fiscal Responsibility Act 2012* that grows each year by the Harmonised Index of Consumer Prices published by the Central Statistics Office.
- The budget for the Office for Budget Responsibility in the UK is laid out four years in advance from a separate line in the Treasury's Estimates approved by parliament, with an option for the OBR to submit an additional Memorandum to Parliament to request additional resources if it feels its resources are insufficient to fulfil its responsibilities or have been unduly restricted (HM Treasury, 2019).
- The statutes of the Portuguese Public Finance Council approved by Law No. 54/2011 set a ratcheting mechanism on its budget saying appropriations "only be reduced in duly justified exceptional circumstances" (Article 27).

### Modelling Capabilities and Tools

- Belgium has developed the open-source LIAM2 framework for its microsimulation models.
- Netherlands MICSIM 2.0 is a behavioural microsimulation model highlighted for analysing tax-benefit reforms.
- The Italian PBO uses a reduced form semi-structural New-Keynesian macro model.
- The Portuguese Public Finance Council uses a semi-structural macroeconomic with long-run equilibrium with short-run estimated Keynesian dynamics, captured through an error-correction (ECM) framework estimated on ESA 2010 quarterly national accounts data with 137 equations, 40 of which are estimated behavioural equation. The model is complemented by a suite of vector autoregressive (VAR) models of quarterly real gross domestic product (GDP) and inflation, and a collection of bridge and mixed-data sampling (MIDAS) models which provide short-term forecasts of GDP and its components (Goncalves & Moreira, 2018). The Portuguese CFP primarily relies on error correction models of its main tax bases with a macroeconomic anchor.
- The Canadian PBO uses semi-structural macroeconomic models for forecasting the medium-term, uses HP filters and a simple production function for long-term potential GDP. It built a dynamic factor model for short-term monitoring but did not maintain the expert staff to maintain it.

### Serving as a Hub for Data Collection and Microsimulation Model Building

- The Federal Planning Bureau serves as a secretariat for coordinating inter-federal government departments and public bodies in the production of national accounts under the guise of Belgium's National Accounts Institute (NAI). It also brings together stakeholders in microsimulation to share data and build capacity.

## Standardised and Public Approaches to Expressing Uncertainty

- **Parliamentary Budget Office of Ireland:** The Irish PBO uses a color-coded stoplight scorecard to signify low, medium, and high uncertainty, which visually aids stakeholders in understanding the level of risk associated with different estimates (Irish Parliamentary Budget Office, 2024).
- **Congressional Budget Office (U.S.):** The CBO explains why it uses a point estimate and avoids reporting confidence intervals in forecasts because in their experience doing so allow politicians to cherry-pick data that support their agendas (Congressional Budget Office, 2007).
- **Parliamentary Budget Officer of Canada:** The Canadian PBO includes a qualitative statement in its cost estimates that assesses five metrics: modelling approach, data quality, volatility, sensitivity to the economy, and behavioural response (Parliamentary Budget Officer of Canada, 2018).
- **Parliamentary Budget Office (Australia):** The Australian PBO publishes a qualitative reliability statement describing factors that could cause an estimate to range from most uncertain to most reliable (Parliamentary Budget Office of Australia, 2017).

## Annex F: “As-Is” & “Best Practice” Report (Deliverable 4A on Communication)

Deliverable 4A is intended to define the existing state of play of AIReF communication, as well as an international comparison with peer IFIs. Herein, we have identified solely the key findings encompassed. For more information, please see Deliverable 4A.

### Key Findings

#### 1. Communications structure

- AIReF has reached a reliable, comfortable position in what concerns sharing information with the public in a one-way style, where they provide updates and reports without much interaction. They have also started to make progress in listening and responding to feedback, but it is still mostly one-sided. Now, AIReF is ready to take things to have more open, two-way conversations with their closest partners, and to improve how they listen and respond to feedback from the general public.
- Since its last external evaluation, AIReF has managed to consolidate its communications structure and overcome potential threats posed by external events.
- AIReF has managed to strengthen its technical and general reputation, and is perceived as a reliable, independent, and useful institution amongst its stakeholders. It has become a “reference” concerning budgetary analysis and public finances sustainability amongst its specialized audiences: the executive, legislative and academic spheres, its IFI’s peers (European and global), and the media (national and regional level). Its new challenge would be to achieve an “ally reputation” amongst the citizenry, the regional general administration, and the regional media.
- AIReF has built a solid communications system to timely inform its technical stakeholders and to establish itself as an efficient and trustworthy consultive tool for experts; it contributes to foster fiscal and public policy literacy amongst all its specialized and technical audiences improving the quality of the democratic debate.
- The IFI is not allowed to dispose of its economic resources freely or to make its own staff appointments without the authorization of the Ministry of Public Finances, which hampers the improvement of its communications activities and its operational independence.

#### 2. Audiences

- AIReF has established a dynamic relation-network amongst all its technical audiences. To reach a fully operational state within its potential scope, AIReF is yet to get acquainted with civil society, by being seen as useful and benefiting from its support.
- Spanish decentralized structure requires from AIReF additional time, human and economic resources in comparison to most of its IFI’s peers to reach the institutions and stakeholders at regional level. If AIReF had less uncertainty of the resources it will have allocated – by the Ministry of Finance - in the medium-term, it could benefit from increasing its physical presence at the regional territories, which would provide more visibility and influence on its work.

### 3. Channels and Contents

- The Institution has made significant effort to be present in debates, seminars and congresses; it has also started prioritizing less technical activities and audiences within university and the Autonomous Regions; AIReF's presidential figure visibility has increased since the opening of a LinkedIn and X account. The president has also been invited to master graduation and award ceremonies, which has enhanced the IFI's humane aspect and shows its will to connect with wider audiences.
- With the aim to reach common citizens AIReF has developed more accessible materials – videos and infographics -, and established new communication channels. The complex nature of AIReF's activities and the lack of an articulated plan to address the general public has prevented this initiative from reaching its full potential. Yet, these new contents have contributed to foster fiscal literacy amongst highly educated citizens whose specialization fields are not necessarily linked to fiscal policy or economy, increasing the scope and nature of AIReF's usual audiences. The materials are also appreciated by journalists and gatekeepers.

### 4. Impact over audiences

- AIReF' presence in the press is common and steady - relevant variations are due to external circumstances -, which shows the Institution has managed to carve its own space within the media agenda. Yet, amongst other IFI's and alike institutions, media impact's assessment processes are leaning towards prioritizing quality over quantity and more strategic performance indicators.
- The Spanish IFI has made great progress with the construction of its website, positioning itself as a reference for experts in terms of consultive spaces and showing very positive performance rates.

## Annex G: AIReF's Strategic Plan 2020-2026

### 1. In-depth supervision of all levels of government

Objectives	Actions
I. Monitoring the economic and budgetary situation	<ul style="list-style-type: none"> <li>a. Developing models for forecasting and projecting short and medium-term macroeconomic and budgetary variables</li> <li>b. Developing databases and macroeconomic forecasting systems and monitoring budgetary implementation data in each of the PAs</li> <li>c. Preparing reports, studies and opinions, as well as working papers on macroeconomic and fiscal matters</li> <li>d. Monitoring and assessing the macroeconomic and fiscal impact of economic policy measures</li> <li>e. Self-assessment of macroeconomic and fiscal forecasts</li> <li>f. Formulating and monitoring recommendations subject to the comply or explain principle</li> </ul>
II. Compliance with the national and European fiscal framework	<ul style="list-style-type: none"> <li>a. Analysis of the application of EU and national fiscal rules</li> <li>b. Monitoring of the reform of European fiscal rules and analysis of how they operate</li> </ul>
III. Early warning of risks	<ul style="list-style-type: none"> <li>a. Monthly monitoring of compliance with fiscal targets</li> <li>b. Defining leading indicators and macro-fiscal risk indicators for all levels of the PAs</li> <li>c. Analysing other risks (health, environmental...) and their budgetary implications</li> </ul>

### 2. Ensuring the sustainability of public finance with a long-term vision

Objectives	Actions
IV. In-depth analysis of long-term sustainability	<ul style="list-style-type: none"> <li>a. Long-term macroeconomic, demographic and budgetary forecasting</li> <li>b. Monitoring and analysing the sustainability of the public administrations, in particular the Social Security system</li> <li>c. Monitoring and analysing contingent liabilities and other economic and fiscal policy measures with possible impact on the sustainability of public finances in the medium and long term</li> </ul>
V. Contribution to the definition of a sustainable fiscal strategy	<ul style="list-style-type: none"> <li>a. Analysing strategies for reaching a sustainable level of public debt</li> <li>b. Preparing empirical studies on the impact of the various fiscal measures</li> </ul>

### 3. Making public policy evaluation a core activity of AIReF

Objectives	Actions
I. Promoting the necessary policy changes to enable evaluation to be a permanent function of AIReF	<ul style="list-style-type: none"> <li>a. This would allow for the structure and human resources necessary to perform evaluations as a permanent function and to undertake evaluations at AIReF's own initiative</li> </ul>
II. Public policy evaluations	<ul style="list-style-type: none"> <li>a. Public policy evaluations at the request of the PAs</li> <li>b. Making available the information used in evaluations with the aim of encouraging public policy decision-making based on data and academic research</li> </ul>
III. Evaluation monitoring system	<ul style="list-style-type: none"> <li>a. Establishing a system for monitoring proposals and publishing the progress made.</li> <li>b. Promoting mechanisms for cooperation with the PAs to drive implementation of the proposals made by AIReF.</li> </ul>
IV. Fostering the culture of evaluation within the budget process	<ul style="list-style-type: none"> <li>a. Promoting the process for implementing evaluation in the budget cycle</li> <li>b. Inclusion of assessments on the quality of the budget and on the impact of some public policies of particular importance in fiscal supervision reports</li> <li>c. Dissemination of knowledge on public policy evaluation methodologies gained through the studies conducted</li> </ul>

	d. Cooperation and knowledge sharing with institutions and agencies with evaluation functions in the PAs and in the academic field
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#### 4. Strengthening the **guiding principles** of independence, transparency and accountability

Objectives	Actions
I. Strengthening the principle of independence	a. Consolidating an efficient administrative structure and multidisciplinary staff
	b. Devising tools for sharing information and developing institutional relations with the Pas
	c. Ensuring a financing and budgeting system for AIReF's activity which has to be appropriate to its necessary functional autonomy.
II. Strengthening the principle of transparency	a. Publishing documents and recommendations and making all of AIReF's analysis tools available on the website
	b. Increased predictability of AIReF's actions and publications
	c. Collaboration with universities (scholarship programme), experts and agencies in matters under AIReF's remit and participation at forums on these matters
	d. Presenting AIReF's work to the non-specialised public and, in particular, young people, adapting the audiovisual language and formats
III. Strengthening the principle of accountability	a. Appearing before Parliament to report on AIReF's activity and to present reports of interest
	b. Establishment of an Advisory Board of a scientific and critical nature with active participation in the work of AIReF
	c. Follow-up to the recommendations made in the external evaluations performed on AIReF and preparation of a new evaluation by an independent third party
	d. Collaboration with European institutions, international bodies and other Independent Fiscal Institutions in order to share and exchange views, analyses and working practices



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