Ten years of AIReF: A comparative evaluation

In its first ten years of operation, Spain's Independent Authority for Fiscal Responsibility (AIReF) has helped support the functioning of the country's fiscal policy, enhancing transparency and economic governance. While there are still several areas where AIReF could be improved, the institution's performance is increasingly in line with international standards of good practice across IFIs. [1]

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Abstract: In response to the Global Financial Crisis, an increasing number of countries worldwide adopted independent fiscal institutions (IFIs) to promote good governance in public finances with a view to preventing repetition of such a crisis. By the mid-2010s, all euro member states were required to create IFIs. In Spain, the Independent Authority for Fiscal Responsibility (AIReF) was established as part of a comprehensive legislation consistent with the EU rules-based fiscal framework. Indeed, over the past decade, AIReF has contributed to the enhancement of transparency and economic governance as regards Spain's fiscal policy, with a mandate to monitor not only the central government, but also the subnational governments – in practice a unique function among IFIs. Nevertheless, there is scope for improvement in areas such as formalizing budgetary costing of policy proposals, developing fiscal risk assessment, and assuming the role of official macro-fiscal forecasting. In addition, AIReF's effectiveness should be strengthened by securing timely and full access to the government database and forecasts, which may not always be easy to achieve. Despite these challenges, AIReF's performance is increasingly in line with international good practices across comparable IFIs.

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Background and context

Legislative enactment of AIReF, [2] effective 2014, endowed the institution with a broad mandate that includes monitoring compliance with the rules-based fiscal framework prescribed by the EU Stability and Growth Pact (SGP). In turn, the SGP requirement for IFIs in the euro area, including in its recent reform, has been inspired by the Principles for Independent Fiscal Institutions, promulgated by the OECD (OECD, 2014).

In fact, the OECD Principles for IFIs have become the normative standard of good practice for IFIs within the EU. The nine principles (local ownership, independence and non-partisanship, mandate, resources, relationship with the legislature, access to information, transparency, communication and external evaluation) have been broadly reaffirmed most recently by the European Council for regulation by the European Parliament (European Council, 2024: Art. 22). According to the regulation, besides following the Principles, IFIs in the euro area are required to monitor government compliance with the expenditure rule, as well as the reference values for government deficit and debt; to review the medium-term national structural-fiscal plans; and to endorse or prepare the macroeconomic forecasts underlying the official fiscal forecasts.

Beyond the common denominator of achieving transparency and independence in public finances, there is significant heterogeneity among IFIs in terms of structure and functions. [3] As regards structure, while some IFIs are stand-alone bodies, others are nominally attached to the government, the legislature, the central bank, or the audit authority – without affecting their operational independence. Some are headed by a single leader; others consist of collegial leadership. A few are large; the majority are small in size. The scope of most is limited to the national government, others cover subnational governments as well. The enabling statutory basis ranges anywhere from government decree to constitutional law. Despite some variation in mandate (budgetary forecasting, costing of policy proposals, long-term sustainability analysis, risk assessment, policy advice), by now practically all IFIs in the euro area endeavor to comply with requirements regarding preparation or endorsement of macroeconomic forecasts and assessment of compliance with the fiscal framework.

Since its inception, AIReF's structure broadly conforms with the other EU IFIs and observes good practices. [4] A competent staff, headed by a professional president appointed by the legislature, are charged with macro-fiscal analysis and forecasting, debt sustainability assessments, and policy evaluations.

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Given its proven track record, AIReF seems well-equipped for surveillance and forecasting under the reformed framework.

Meanwhile, AIReF is unique worldwide in that it exercises an effective surveillance role encompassing the entire public sector, including all subnational governments (autonomous communities and municipalities) given more than half of their share of general government expenditures. In fact, AIReF's subnational mandate extends far beyond the merely nominal surveillance over subnational jurisdiction by three other IFIs (Austria, Belgium, Germany). Notably, outside the EU, in two major federal systems (Canada and the US) the IFIs lack altogether such a mandate. Also unique is the financing of AIReF largely from fee-for-service payments by subnational governments. In any event, the institution has met a rapidly increasing number of requests for policy analysis and technical assistance from subnational governments; consequently, it has a much larger staff than most other EU IFIs.

Core functions

Operational independence

Over the past decade, the majority of IFIs have made significant progress gaining a reputation for independence and competence. Whereas many had a chance to prove their operational independence and technical competence, few have been called upon to confront a government that intends to ignore a critical evidence-based opinion of the IFI, supported by statutory requirement. In the course of 2022, for example, three IFIs stood out as having been thus challenged. In Portugal, Slovakia, and the United Kingdom, the IFIs refused to go along with the government's attempt to fast-track the legally mandated budgetary process and without IFI monitoring. In all three cases, the IFI prevailed, and the government was forced to back down, establishing a valuable precedent in each country. [5]

Albeit less spectacular, recently, AIReF issued a critical assessment of the government's official macroeconomic forecasts underlying its budget bill for 2025 and its medium-term 2025-26 structural-fiscal plan. Hence, because of the lack of information on the nature of the measures incorporated in the budget and the plan, AIReF granted only a qualified endorsement, pursuant the obligation under the new EU fiscal framework (AIReF, 2024b).

In addition to its proven operational independence, AIReF is a nonpartisan institution, unlike the bipartisan IFIs in Austria, Belgium, and Germany, which are in essence corporative bodies consisting of government officials (including at subnational levels) and various interest

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groups (trade unions, business associations, *etc*.). The opinions and forecasts of AIReF are the result of expertise instead of a consensus of subjective views among participants from interest groups. Moreover, there is no evidence of any government attempt to influence or interfere with the workings and opinions of the institution.

Real-time surveillance

As many IFIs, AIReF is legally responsible for continuous real-time assessment of macro-fiscal developments over the full budgetary cycle. But besides the central government level, AIReF's surveillance function includes each autonomous community, and selected municipalities. This task entails short- and medium-term budgetary forecasts twice a year, on time for the legislative debate preceding the vote on the central government budget bill as well as for approval of the structural-fiscal plan. As noted, AIReF is required by EU regulations to endorse or prepare the underlying official macroeconomic forecasts, particularly vouching for the veracity of the interest and growth rate assumptions. This task is, however, hampered by limited access to official databases.

All these exercises are necessary for real-time surveillance of the government's adherence to the EU fiscal rules, including the phased reduction of the debt-to-GDP ratio, and of the availability of fiscal space to contain the effect of crises on the economy. For this purpose, as practiced by some IFIs, AIReF prepares probabilistic fan charts around medium-term forecasts of the budget balance and of the debt ratio to reflect uncertainty. In addition, quantitative estimates of specific risks, consisting mainly of contingent liabilities associated with public pensions, healthcare programs, PPP projects, among others, are to be prepared by the Finance Ministry – which often it fails to do – subject to review by AIReF. [6]

Forward-looking analysis

As do some IFIs, AIReF prepares no-policy-change macro-fiscal forecasts over the short- to medium-term time horizon, which serve to endorse or reject the government's forecasts, as required by the EU. During the pre-COVID period, as compared to the actual outcome, AIReF's macroeconomic forecasts have been more accurate than those of the government and other institutions at home and abroad (Government, Bank of Spain, European Commission, Funcas). Faced with the erosion of credibility of the government, attributable to a historically strong optimistic forecast bias, in the United Kingdom and Netherlands, the IFIs have been assigned the responsibility of preparing the official macroeconomic forecasts. Similarly, transfer of the task of official forecasting to AIReF would likely improve the credibility and transparency of public finances in Spain.

Building on previous analytical work, in 2023, AIReF began publishing biennially debt sustainability assessments for the general government. For this purpose, long-term scenarios are being enhanced with an explicit demographic component, as well as capital accumulation, technological change, climate change, and other determinants of productivity, consistent with an endogenous growth model. As a further step, baseline scenarios would incorporate estimated fiscal risks in debt sustainability assessments.

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Policy costing

At least in ten EU countries, IFIs engage in some form of budgetary costing on a routine basis. The most thorough quantitative costing of every proposed measure can be found in the United States and the Netherlands; in the latter case, every political party requests a costing of the measures contained in its economic platform during electoral campaigns. Given the staff-intensive nature of such function when covering all proposed measures, the UK IFI applies a selective "traffic light" approach to expedite and save resources. The finance ministry is obliged to estimate the budgetary cost of each proposed measure, and then, upon review, the IFI may assign a green light, if the ministry's costing is acceptable; yellow, if it requires further clarification or estimation; or red, if it is declared unacceptable and is returned to the ministry for revision.

Although not an explicit part of its legal mandate, AIReF occasionally performs policy costing of new measures or reform programs but only upon request by the central government or by subnational governments, rather than on its own initiative. Instead, for the sake of fiscal transparency, policy costing should become a routine function of the institution. Adoption of the "traffic light" approach would be particularly commendable on grounds of being the most cost-effective, assuming that the finance ministry be required to disclose its own calculations of the budgetary cost of each measure.

Access to information

The most serious constraint facing the AIReF is the lack of timely and unlimited access to information from the Finance Ministry and the Economy Ministry – unlike most other EU IFIs which are legally obliged to receive such access. Refusal to grant necessary timely and usable information by these ministries violates the AIReF's mandate laid down in the Organic Law. [7] For example, the Finance Ministry provides only aggregated subnational governments data, without detail on the individual jurisdictions; also, it fails to translate cash-based into accrual-based accounts. The Economy Ministry provides aggregate data and forecasts with delays beyond the deadline for endorsement by AIReF.

In more than a dozen countries, the legal mandate is reinforced by a Memorandum of Understanding (MoU) signed by the IFI and each relevant government agency to confirm automatic and full access to information. In Spain, MoUs only exists between AIReF and the tax and the social security authorities. Senior ministry officials deem unnecessary subscribing to a memorandum on grounds that AIReF already has access to any information relevant for its activities as soon as it is made available to the general public – but in fact without sufficient detail and too late for AIReF's supervisory function. In any event, access to critical data and information should be made automatic and timely, removed permanently from the discretion of public officials.

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Implications

Policymaking

Any rigorous attempt at assessing the impact and usefulness of an IFI in shaping policy is rather elusive insofar as it would require comparing the actual fiscal performance with a counterfactual outcome in the absence of the IFI, which cannot be observed. The impact on public perceptions or on market perceptions is likewise challenging as it would involve disentangling the effect of the IFI among a range of other determinants.

Among the various efforts at communication and outreach by IFIs, expected to help strengthening their public image, has been the observance of the "comply-or-explain" obligation by governments as regards compliance with IFI recommendations. Laudable in principle, the "comply-or- explain" requirement, has been invoked rather frequently by AIReF albeit with mixed results.

Indirectly, however, the effectiveness of IFIs in influencing policymaking might be assessed by means of a key manifestation of good governance, namely, transparency in public finances. Promotion of openness is, in fact, a fundamental rationale of IFIs. According to cross-country estimates of fiscal transparency by the International Budget Partnership (2024) – based on a comprehensive survey of the availability and quality of information contained in budget documents of the central government – Spain is located at the bottom of the ranking of euro area members and next to the last place among all EU member states. [8] The low score reflects a culture of opacity entrenched in the Ministry of Finance over a long time. [9] (Notably, the score excludes the surge in transparency of subnational government finances since AIReF's surveillance of subnational governments.)

The central question on impact involves the influence of the IFI on specific policy settings or policy decisions. This influence can take place explicitly or implicitly. Even the most established IFI can seldom explicitly influence policymaking that is observable in an episode where the government or the legislature changes policy course, modifies a budget bill, or retracts a proposed measure when confronted by an adverse IFI opinion – given the likely reputational cost incurred by the government.

Far more frequent, albeit less tangible, is the implicit influence exercised through the legislative debate, policy dialogue in think tanks, or public reaction to IFI views reported in the media. Most powerful implicit influence takes place in a preemptive manner, through the technical arm of the executive or legislature, which alerts the political decision-makers as to the potentially critical IFI assessment that would elicit a given policy measure under consideration. Such implicit influence eludes statistical documentation and can only be supported with anecdotal evidence, though it intensifies over time as the role of the IFI becomes routine and anticipated by the press and the public. On the other hand, not even a robust IFI can guarantee sound fiscal policymaking. In fact, so far the US government could ignore altogether the warnings of an IFI about the ominous consequence of a rapidly growing public debt ratio, regardless of a proven 50-year excellence of the IFI, as demonstrated under the current and previous administrations.[10].

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Perceptions

Whereas the impact of IFI’s performance on public perceptions are often revealed in opinion surveys, press coverage, or commentaries by specialized stakeholders, none of these sources is immune to subjective confirmation bias. Market perceptions reflected in levels and changes in sovereign risk premiums and in credit ratings tend to be more reliable indicators of the soundness of government finances and of the influence of an IFI. At an extreme, circumstantial evidence suggests a possible causal effect of the creation (abolition) of an IFI on the decline (increase) in the risk premium on government bonds as experienced in some highly indebted countries. [11]

The Spanish economy, where public debt stands larger than the size of GDP, is likely to be particularly vulnerable to sudden shifts in investor sentiment, reflected in a relatively high sovereign risk premium – of about 70 basis points on 10-year bonds, over same maturity German bunds – surpassed only by Greece and Italy, within the EU. In such circumstances, perceptions of effectiveness of AIReF’s vigilance over fiscal policymaking could shield the economy from shocks regardless of their nature or provenance. An important lesson is that Spain could benefit greatly from greater fiscal transparency and a more cooperative – although always at arm’s length – relationship between the Ministries of Finance and Economy and AIReF in terms of timely and automatic access to information, including to the government’s database, albeit this may not be easily achieved in practice.

Concluding remarks

AIReF has faced multiple challenges, especially given a mandate encompassing the entire public sector, including a wide range of sectoral and regional components. On the tenth anniversary of its creation, having largely complied with OECD Principles for IFIs, while supervising the government’s compliance with the national and EU rules-based fiscal framework, AIReF has made significant progress towards converging with standards of good practice across EU IFIs.

Nevertheless, there is still scope for improvement, especially in securing timely and full access to the government database and forecasts, confirmed with a MoU with the Ministries of Finance and of Economy. Agreement on the draft MoU would be a major step toward enhancing the Government’s credibility in front of the general public and financial markets. In addition, the effectiveness of AIReF would greatly benefit from formalizing the budgetary costing of policy proposals, strengthening fiscal risk assessment, and transferring the role of official macro-fiscal forecasting to AIReF.

Ultimately, however, it should be kept in mind that adherence to sound practices by an IFI, such as AIReF, including an effective communication strategy, constitutes a necessary but not sufficient condition to maximize its beneficial influence on policymaking and society. The sufficient condition consists of ownership of the institution by the political leadership and the public at large, which may waver over time. There are current examples even in countries (notably, the United States) where the favorable image of, and respect for, the

IFI have been deeply rooted for decades, yet eroded significantly in recent years, so that by now its forecasts and analysis practically have no longer any influence on policymaking.

Notes

[1] This article draws on a fact-finding visit to Madrid, on March 11-22, 2024, conducted by the author at the invitation of AIReF for meetings with its staff and interviews with senior government officials and private stakeholders. The author assumes responsibility for all views expressed.

[2] *Spanish Official State Gazette* (2013).

[3] Case studies of the earliest IFIs are provided in Kopits (2013).

[4] For an in-depth assessment of AIReF's structure, functions and performance, see Kopits (2024).

[5] In Slovakia, the IFI deemed that the government's proposed measures violated the constitutional requirement of consistency with long-term debt sustainability. In Portugal, the government attempted to submit a medium-term forecast without incorporating envisaged policy measures over the forecast period. In the UK, a short-lived government unveiled a mini-budget bill without the support of official macro-fiscal forecasts by the IFI as mandated by law.

[6] Gaps in information on specific risks are flagged in AIReF (2024a, pp. 130-131).

[7] The Organic Law unequivocally requires government agencies, including the ministries, to provide AIReF all information necessary for fulfilling its functions, subject to confidentiality on the part of AIReF; see Spanish Official State Gazette (2013, chapter 1, article 4).

[8] The Transparency Index is calculated for 125 participating countries on the basis of answers to 109 questions. Each country is assigned a score from 0 to 100 as a simple average of the responses to each question. Countries with a score above 80 are deemed to have extensive information available; scores in the 61 to 80 range denote availability of substantial information; and scores in the 41 to 60 range denote limited availability, including Spain with a score of 54.

[9] This interpretation is confirmed by Cabo (2024).

[10] The most recent no-policy-change baseline long-term projection reported by the US Congressional Budget Office (2024) indicates that the federal debt held by the public (excluding subnational government paper), which averaged 58 percent of GDP over the past 30 years and expected to reach 100 percent this year, is forecast to rise to a stunning 166 percent over the next three decades.

[11] Coincidentally, the cases of the United Kingdom and Hungary following elections in mid-2010 illustrate this point. While the (then) conservative government in the UK created immediately an IFI, a similar government in Hungary proceeded to abolish a well-functioning IFI. Without claiming causality, it was observable that the risk premium on sovereign debt declined significantly in the former and rose in the latter.

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