



Autoridad Independiente  
*de* Responsabilidad Fiscal

# **Report on the main budgetary lines of the Public Administrations 2019**

José Luis Escrivá  
Congress of Deputies  
25 October 2018

# 1. Preliminary considerations

- ❑ AIReF holds a dual role in relation to the **Government's** macro and budgetary forecasts:
  - The macroeconomic forecasts underlying the budgetary documents, require binding endorsement from AIReF prior to submission to the Commission.
  - The fiscal forecasts are evaluated to identify potential risks of non-compliance and, if appropriate, to issue recommendations that are subject to the principle of 'comply or explain'.
  
- ❑ The Draft Budgetary Plan (DBP) is the annual information sent to the EU institutions with the budgetary forecasts for the following year that serves as the basis for European fiscal supervision. AIReF has analysed:
  - Information from the DBP information sent to European institutions
  - Provision has been made for additional information dated later than the DBP as well as clarifications and details requested

1. Preliminary considerations

2. Re-evaluation of the 2018-2019 inertial scenario

3. Analysis of the measures of the DBP

4. Evaluation of the DBP

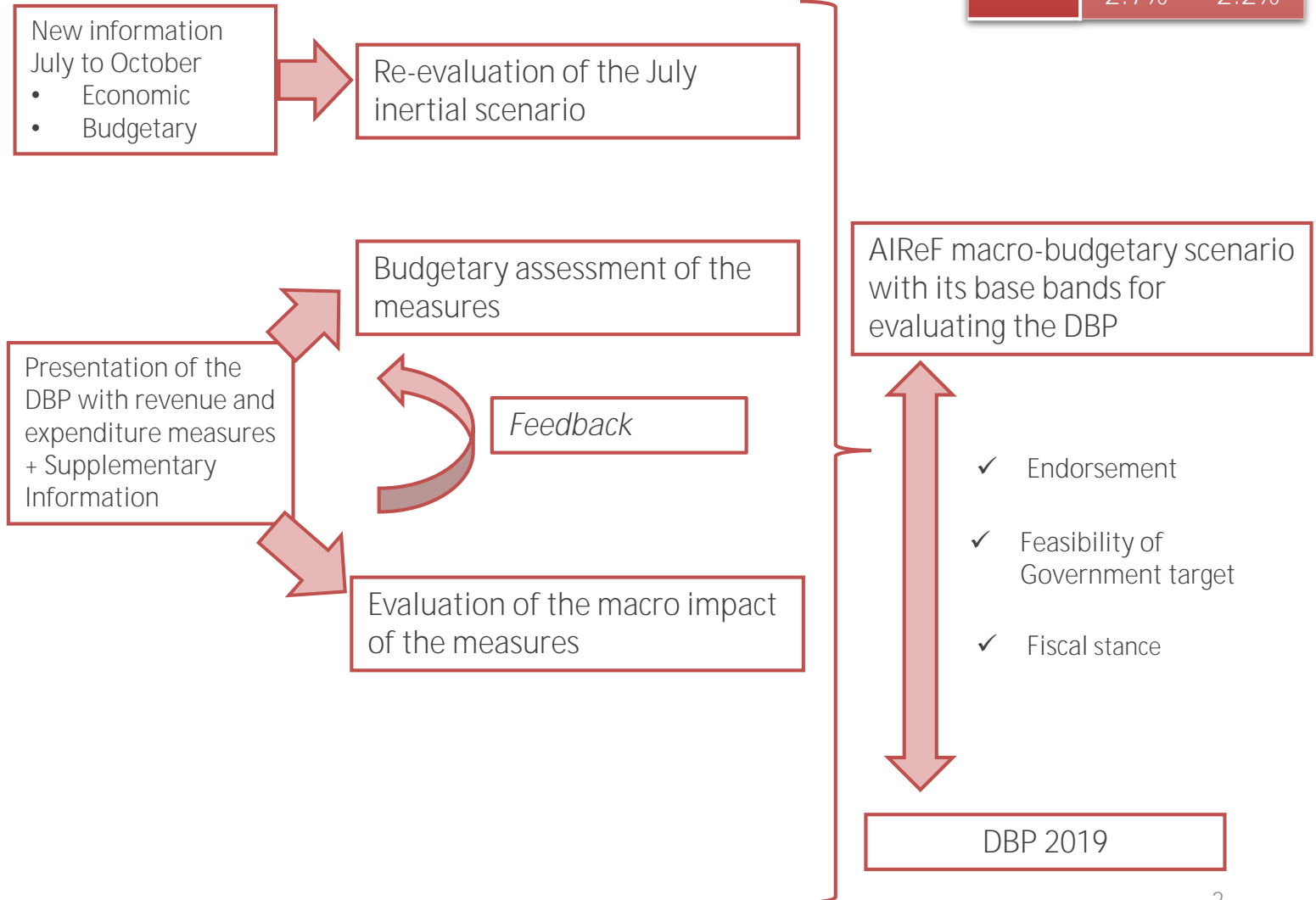
5. Recommendations



# Evaluation methodology

Starting point: publication of the study on AIReF's inertial scenario in July 2018

Deficit	2018	2019
	2.7%	2.2%



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New information  
July to October

- Economic
- Budgetary

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Deficit	2018	2019
	2.8%	2.3%

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+ Supplementary  
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*Feedback*

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- ✓ Endorsement
- ✓ Feasibility of Government target
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## 2. Re-evaluation of the forecasts from July to now

Since the publication of the inertial scenario in July 2018 there have been changes in the assumptions and new information that requires a re-evaluation of the forecasts made

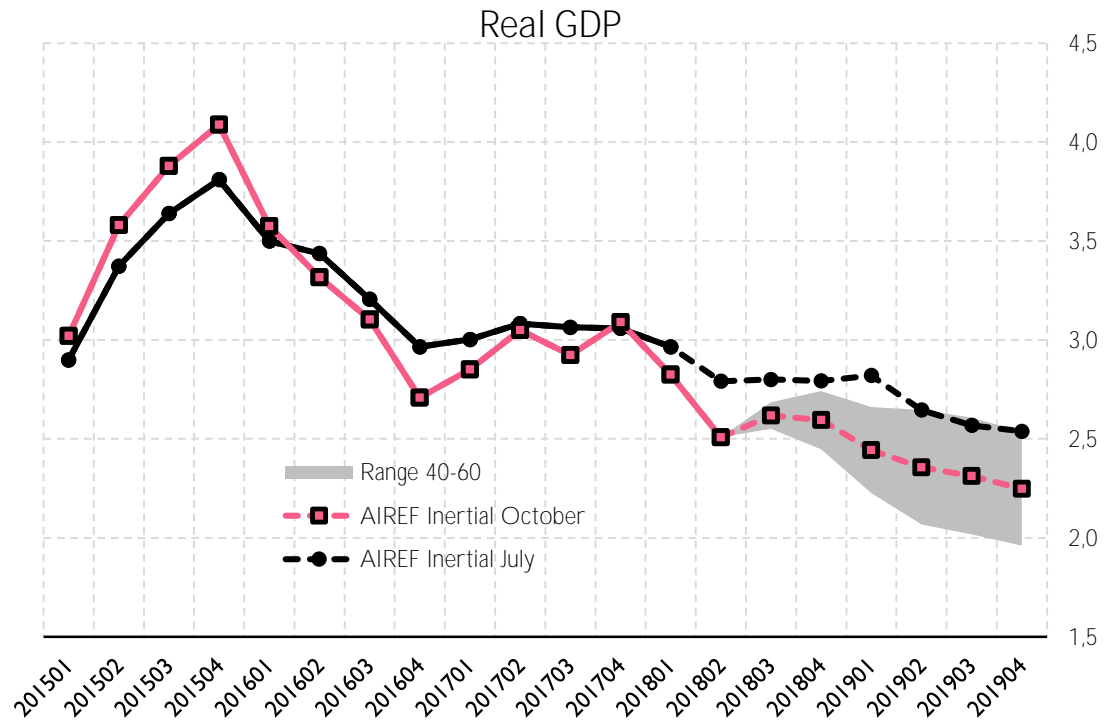
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	Macro scenario	Fiscal scenario
Data	<p>Data available for one more quarter</p> <p>Revision of the estimates of the INE national accounting series from 2015 to 2017</p>	<p>Information on the expected execution at the end of 2018</p>
Evolution of variables	<p>The increase in the price of oil (+3.95 in 2019 with respect to the July forecast) has an impact on the price of energy imports.</p> <p>The downswing of the world economy (-0.5 in 2019 with respect to the July forecast), a result of trade disputes, affects external demand.</p>	<p><b>Evolution of public revenue above the initial forecasts.</b></p> <p>Risk of <b>expenditure deviation</b> in the territorial administrations.</p>

## 2.1. Macro scenario

### Developments: changes in the last quarter

Between July and October AIREF dropped the growth forecasts of its inertial scenario slightly for the next two years (in 2019 0.1% due to INE revision and 0.2% due to worsening of the external environment)



New forecasts in October (real GDP)		Deviation with respect to July (variation)	
2018	2019	2018	2019
2.6%	2.3%	↓ -0.2%	↓ -0.4%



## 2.1. Macro scenario

### Developments: composition of demand

The medium-term diagnosis is maintained: solid domestic demand with potential, although the contribution of the external sector worsens slightly

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		Deviation of the scenario from July to October	
		2018	2019
Domestic demand	<b>SOLID AS A WHOLE BUT CHANGES IN COMPOSITION</b>		
	• Private consumption: more pronounced slowdown from 2019	-0.1	-0.4
	• Public consumption: maintains a stable growth path	0.1	-0.1
	• Investment in capital goods gains traction in 2018 compared to 2019	1.3	-0.9
	• Investment in construction maintains its cruising speed, with a deleveraged private sector and a contained credit evolution	0.7	0.7
External demand	<b>CONTRIBUTION TO GROWTH NEGATIVE FOR THE FIRST TIME SINCE 2016</b>		
	• Exports: abrupt fall in the rate of growth	-1.7	-1.1
	• Imports moderate very gradually due to inertia in consumption and strong pace of investment	-0.9	-0.7

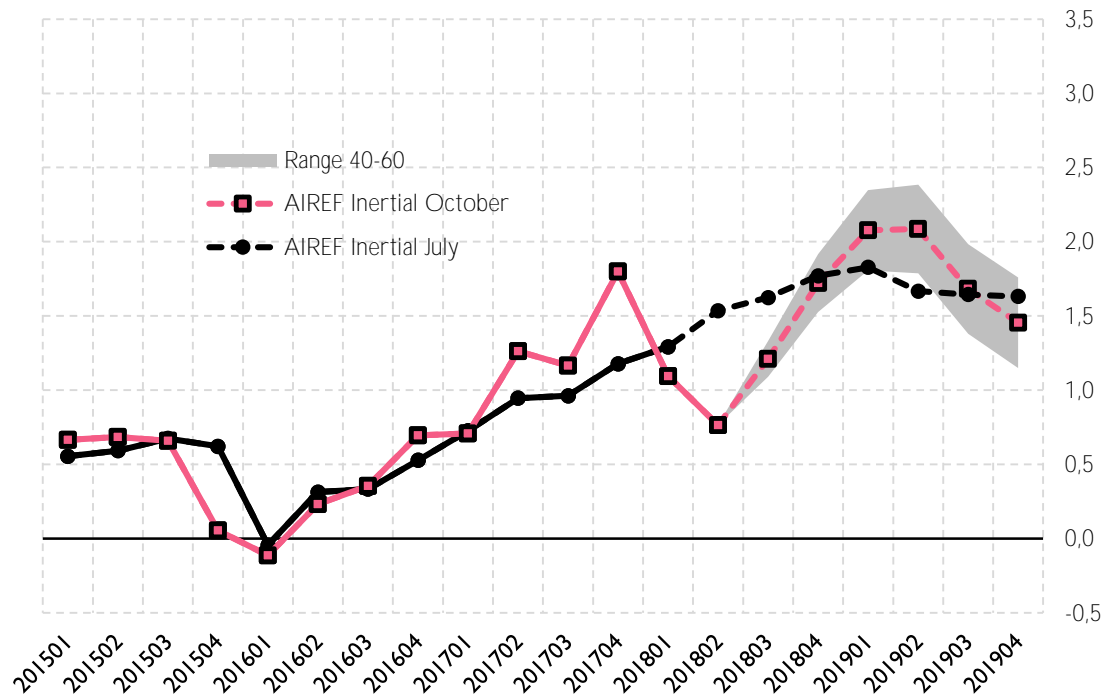


## 2.1. Macro scenario

### Developments: revision of the deflator

The forecast of the deflator in 2019 is maintained, while it is revised downwards in 2018 due the revision of the INE series (-0.3) and exogenous factors (-0.1)

GDP deflator



#### GDP DEFLATOR

New forecasts in October (Deflator)		Deviation with respect to July (variation)	
2018	2019	2018	2019
1.2%	1.8%	↓ -0.4%	+0.0%

#### NOMINAL GDP

New forecasts in October (nominal GDP)		Deviation with respect to July (variation)	
2018	2019	2018	2019
3.8%	4.0%	↓ -0.6%	↓ -0.3%

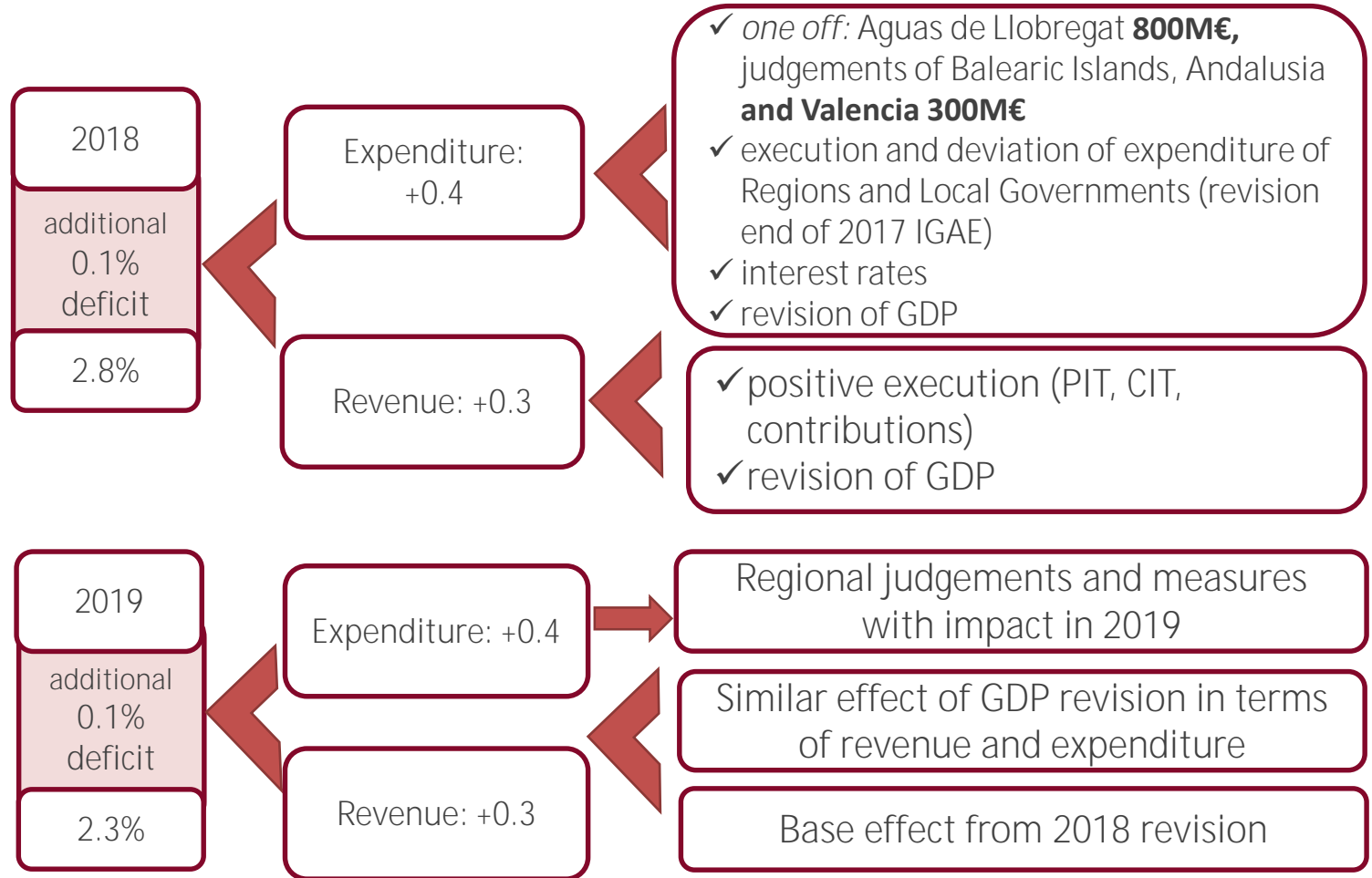


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## 2.2. Revised fiscal scenario

Upward revision of revenue and expenditure estimates made in July that entail an additional 0.1% deficit in 2018 and 2019: new deficit estimate of 2.8% in 2018 and 2.3% in 2019



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### 3.1. Impact on the budgetary scenario

#### Revenue measures

Revenue measures	DBP 2019	AIReF range
Central Administration: Tax reform measures		
1. <a href="#">Corporate Income Tax: Limitation on exemptions from deduction for double domestic taxation (DDI) and minimum rate on taxable base</a>	1,776	[ 1,650 to 1,900 ]
2. <a href="#">Corporate Income Tax: Discounted rate for SMEs</a>	-260	[ -242 to -278 ]
3. <a href="#">Increase of personal income tax rates on higher income</a>	328	[ 245 to 255 ]
4. <a href="#">Green taxation (Hydrocarbons Tax)</a>	670	[ 649 to 693 ]
5. VAT	-53	-53:
Central Administration: Measures for creating new taxes		
6. <a href="#">Tax on Financial Transactions</a>	850	[ 420 to 850 ]
7. <a href="#">Tax on certain Digital Services</a>	1,200	[ 546 to 968 ]
Central Administration: Anti-fraud measures		
8. <a href="#">Limitation of cash payments</a>	218	[100 to 200 ]
9. <a href="#">Strengthen list of defaulters</a>	110	[ 50 to 100 ]
10. <a href="#">International best practices</a>	500	[200 to 270 ]
11. <a href="#">Social security: social security contributions due to minimum wage increase</a>	1,500	[ 1,500 to 1,700 ]
12. <a href="#">Autonomous Regions: Heritage Tax</a>	339	[ 0 to 8 ]
<b>Total estimate of measures in DBP</b>	<b>7,178</b>	<b>[ 5,065 to 6,613 ]</b>
13. <a href="#">Measure not contemplated in the DBP: increase of maximum contribution bases</a>	-	[ 1,000 to 1,100 ]
<b>TOTAL</b>		<b>[ 6,065 to 7,713 ]</b>



### 3.1. Impact on the budgetary scenario Expenditure measures

Expenditure measures	DBP2019*	AIReF estimate 2019
Revaluation of pensions to the CPI and increase of minimum and non-contributory pensions to 3%	736	843
1. <a href="#">Pension revaluation to CPI</a>		518
2. <a href="#">Increase of minimum and non-contributory pensions</a>		325
Measures quantified jointly in the Budgetary Plan	1,318	1,318
3. <a href="#">Improve minimum and agreed level of dependency</a>		515
4. <a href="#">Recovery of SS contributions of carers</a>		0
5. <b>Increase in the minimum wage to 900€ per month</b>		0
6. <a href="#">Recover subsidy for those older than 52 years</a>		323
7. <a href="#">Paternity leave of 5 to 8 weeks</a>		300
8. <a href="#">Minimum income</a>		180
Measures listed and quantified in the additional information	425	725
9. Increased funding for scholarships	150	150
10. Aid for school materials	50	50
11. <a href="#">Meal aid</a>	25	25
12. Increase in appropriations for Science and R&D&i	150	150
13. Support for film production in different languages	20	20
14. <a href="#">Gender Violence Pact</a>	20	20
15. Depopulation offices	10	10
16. <a href="#">Elimination of copayment</a>		300
17. <a href="#">Universalisation of school for 0 to 3 years</a>		0
<b>TOTAL MEASURES</b>	<b>2,479</b>	<b>2,886</b>

(\*) The quantification of many of these measures has been provided in additional information provided by the MINHAC



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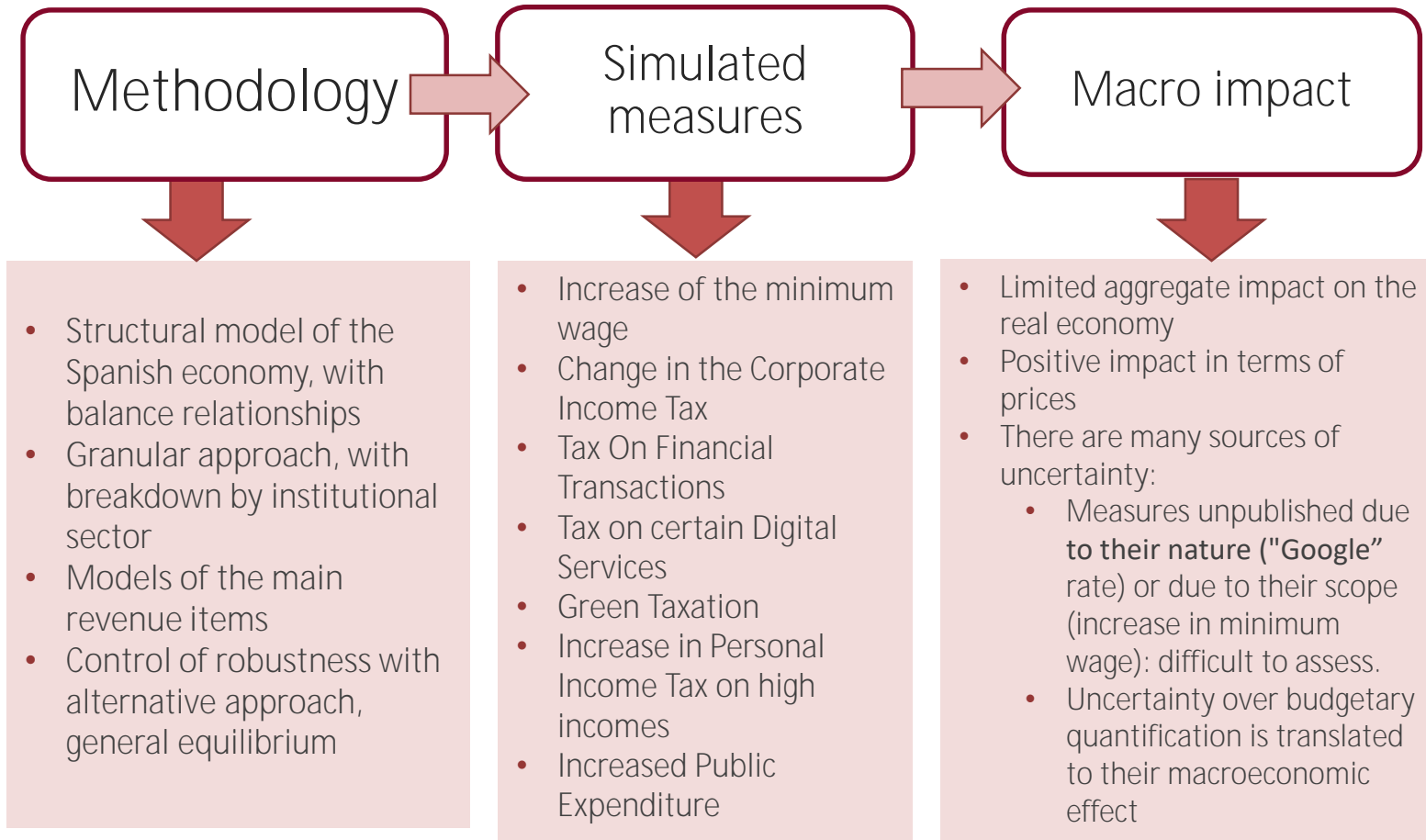
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## 3.2. Macro impact of the budgetary plan Approximation

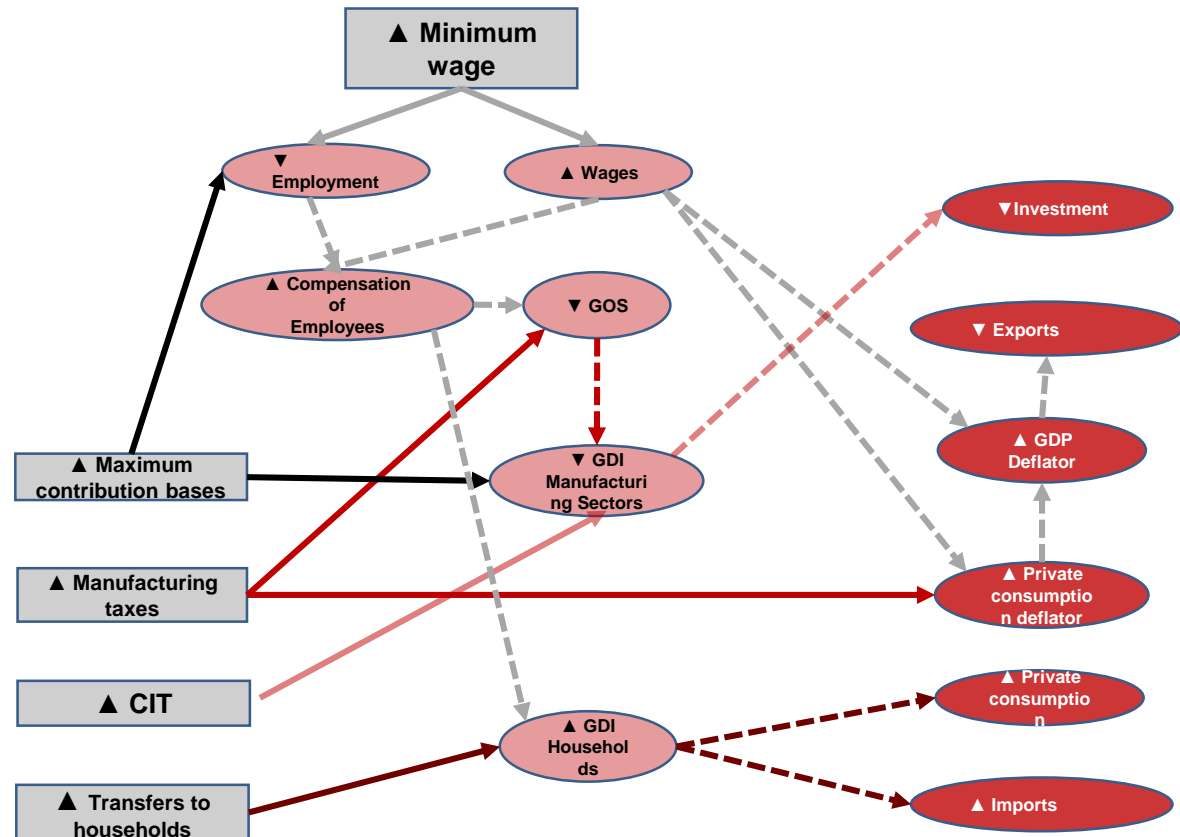


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## 3.2. Macro impact of the budgetary plan

### Main channels

The economic impact of the new measures is mainly transmitted through the accounts of households and firms

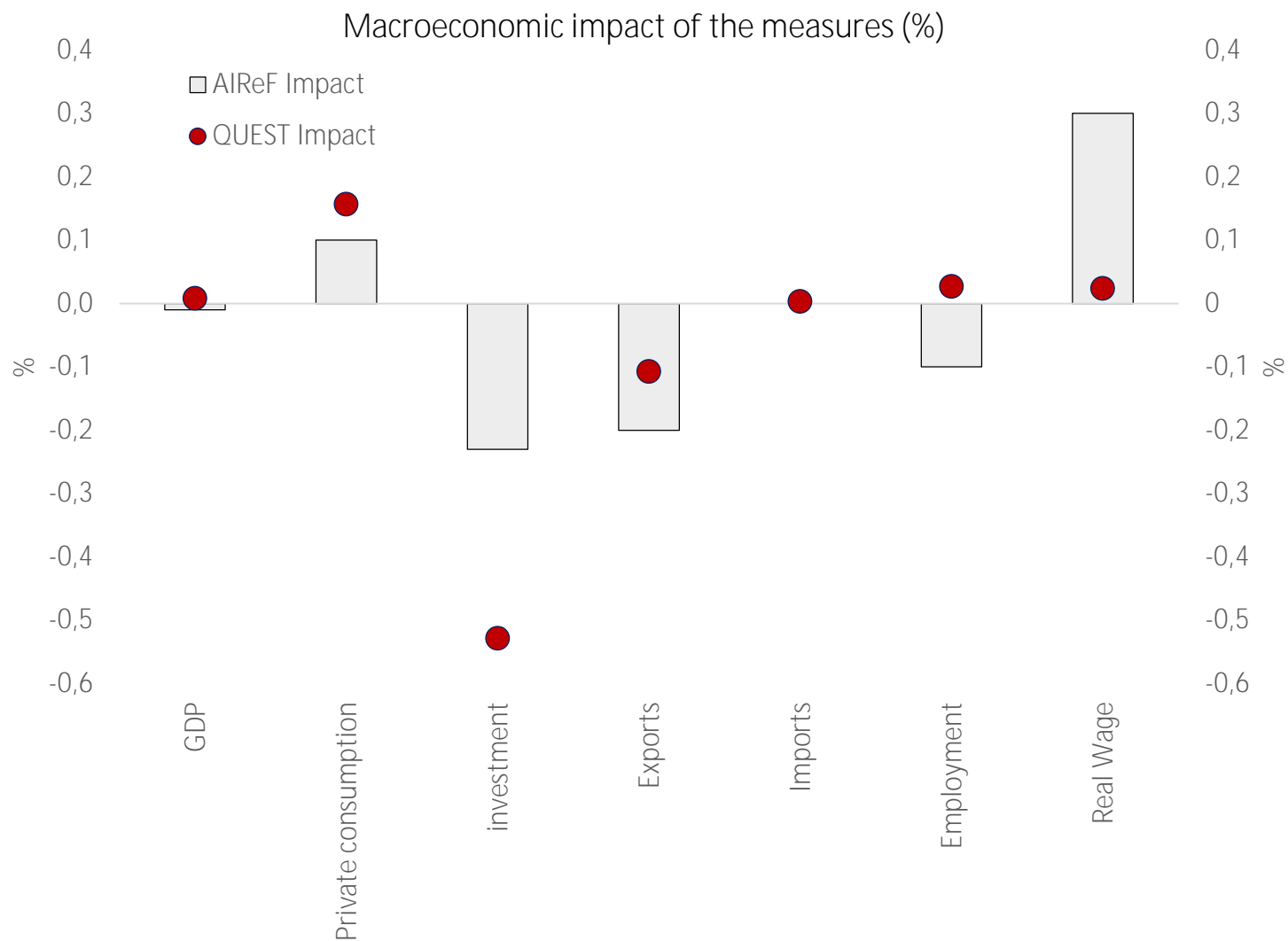


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## 3.2. Macro impact of the budgetary plan Robustness monitoring

**Results obtained through the robustness exercise with a general equilibrium model are consistent with the estimated impact**



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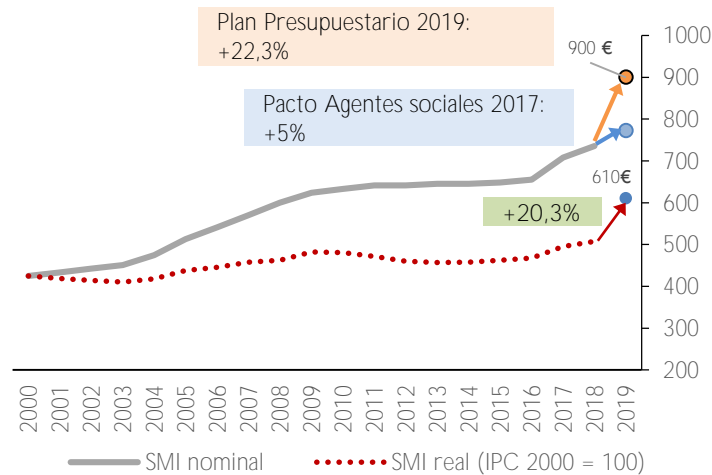


### 3.3. Macro impact of the increase in the minimum wage Contextualisation

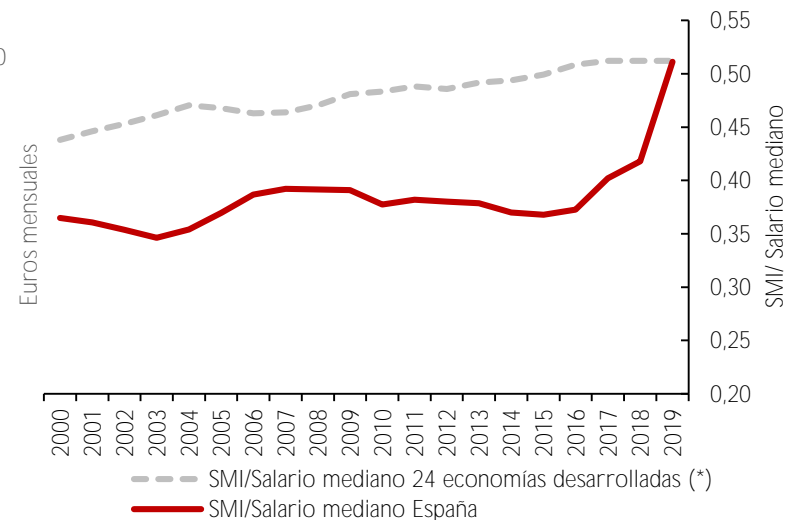
The increase of the minimum wage to 900€ in 2019 (+22.3%) is one of the measures with the greatest potential impact

- After remaining stable for years and with slight losses of purchasing power, the minimum wage starts a trend with significant increases in 2017
- In relative terms, the increase envisaged in the Budgetary Plan entails the convergence of the minimum wage/median wage ratio with a set of advanced countries

Real GDP (quarterly, %)



Minimum wage/Median wage (%)

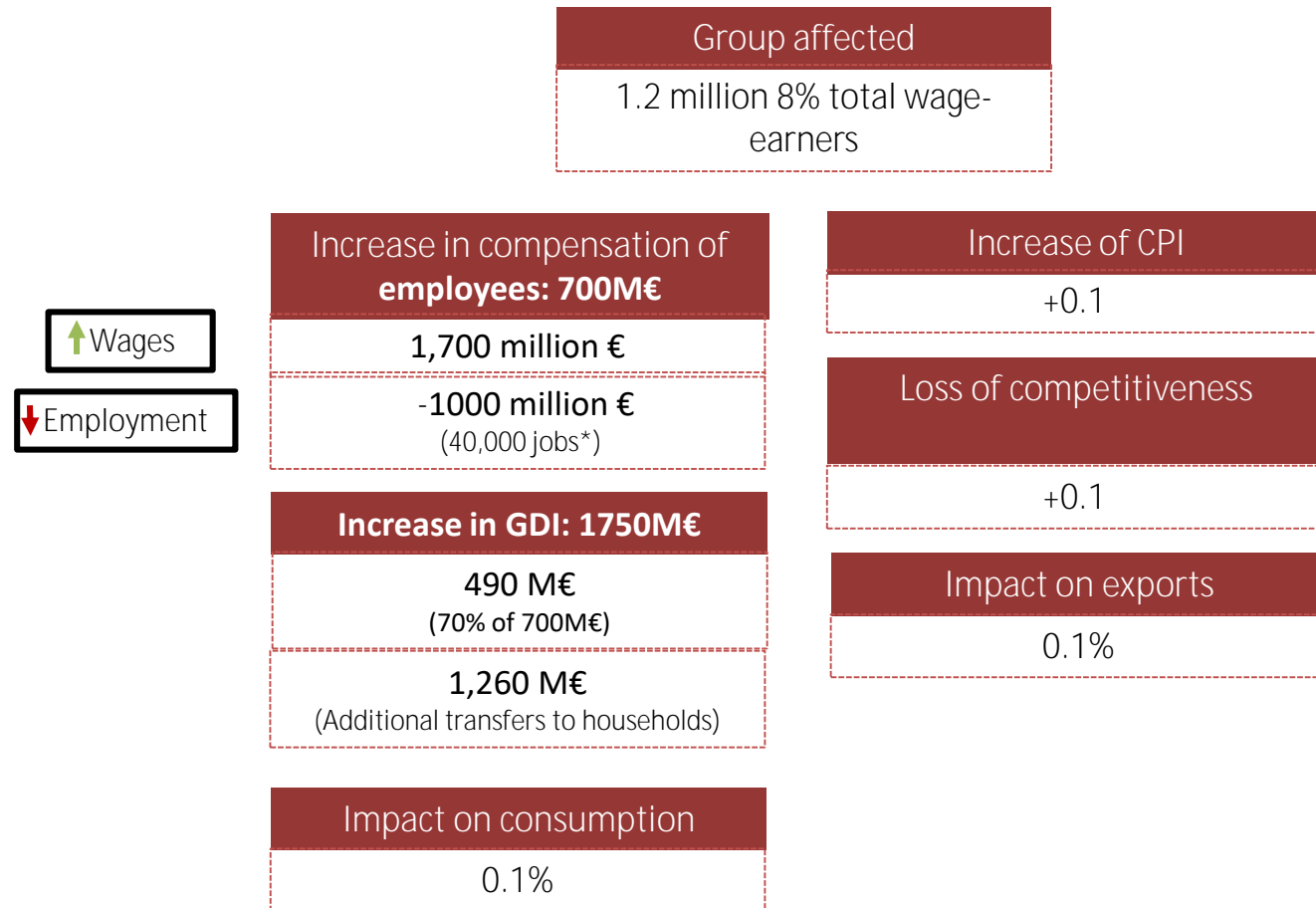


Source. Self-processing by Ministry of Labour, Migrations and Social Security (MITRAMISS) and INE Source. OECD



### 3.3. Macro impact of the increase in the minimum wage Impact

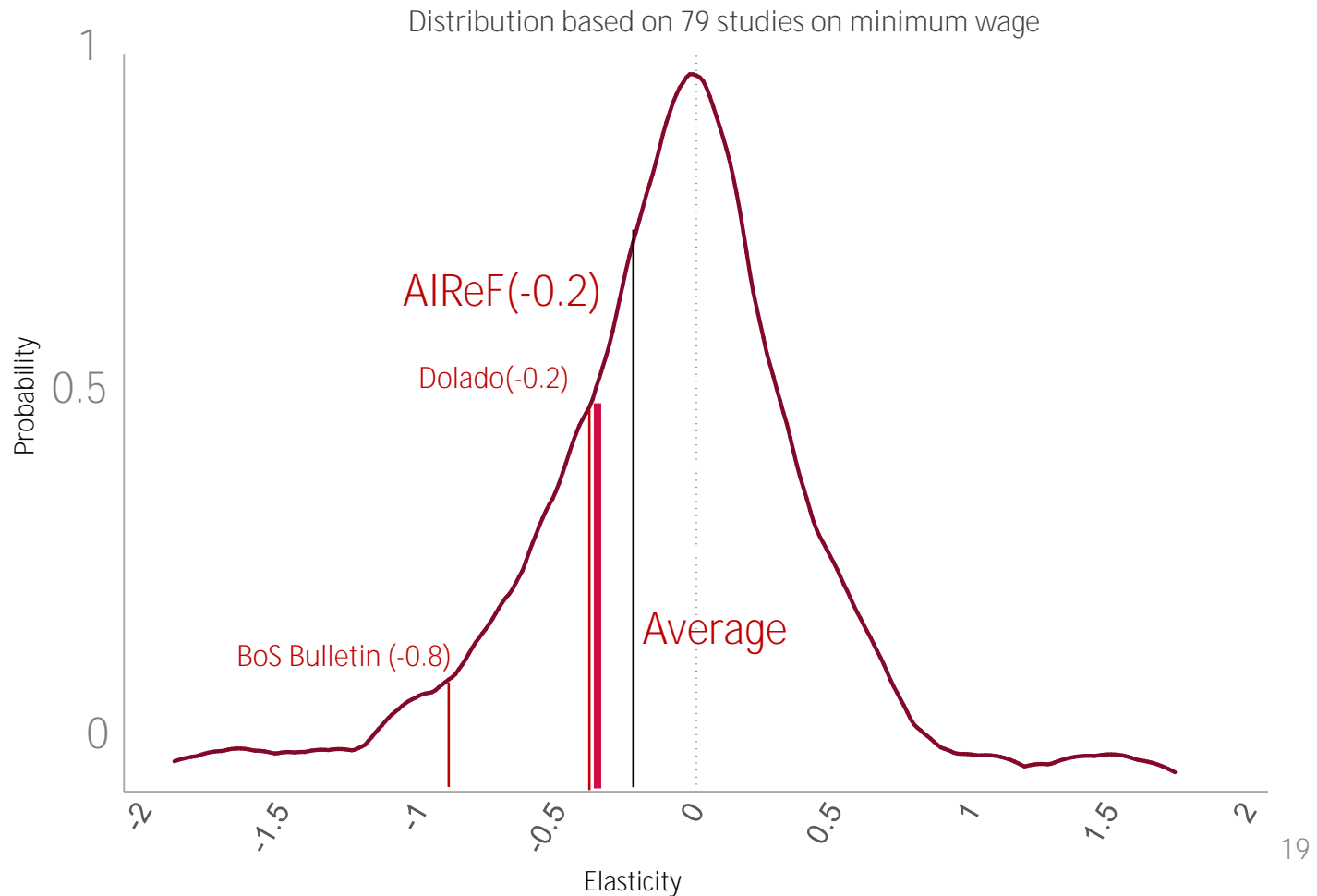
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\*Estimate with Microdata from the Continuous Professional Life Sample 2017 (MCVL)

### 3.5. Impact of the measures: Minimum wage, effect on employment

The impact on employment estimated by AIReF (-40.000 in 2019 and a further 50% in later years) is in line with the average of international studies



Source: Giotis (2015). Distribution in the literature of variations in employment against increases in minimum wages



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### 3.3. Macro impact of the increase in the minimum wage Risks and uncertainties

- Possible overflow effects in the renewal of wage negotiation agreements
- Very important increase to 900€, unprecedented in recent experience in Spain
  - Difficult to extrapolate elasticities of previous episodes
  - Possible non-linearities at higher levels and close to the average wage
- Final impact on employment: discussion on elasticities not yet concluded
  - Studies indicate a negative but small impact in the short term
  - There are possible additional delayed effects in the medium term
- Distributional effects: groups affected are highly concentrated in low skill and productivity segments, such as young people and the long-term unemployed



Requires the continuous monitoring of the evolution of the labour market, with special attention to data from administrative records

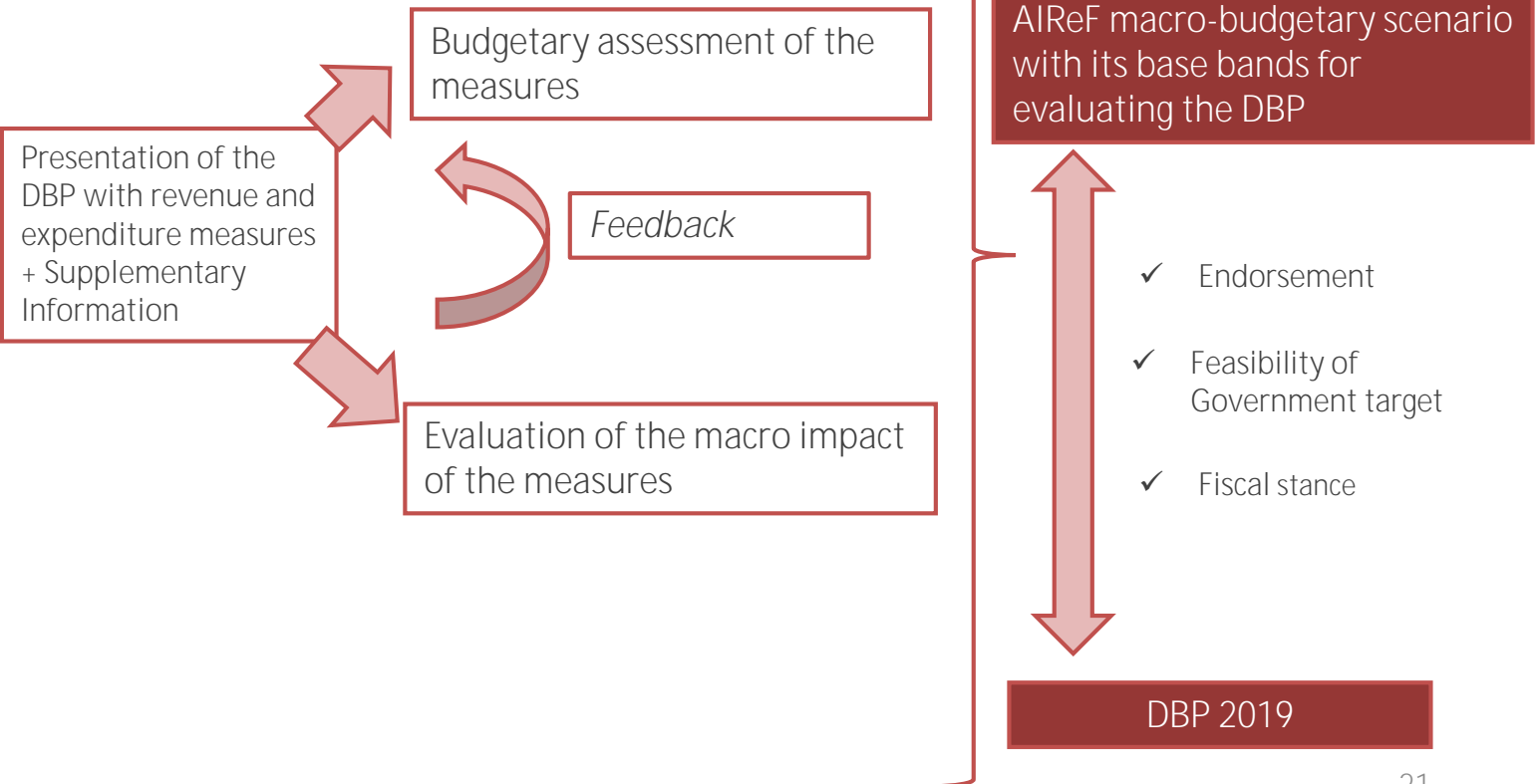
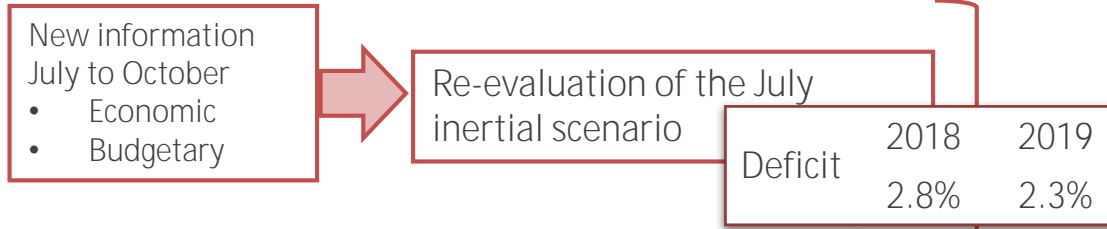
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## 4.1. Evaluation of the DBP Endorsement of the macroeconomic forecasts

### AIReF endorses the Government's macroeconomic forecasts included in the 2019 Draft Budgetary Plan

<ul style="list-style-type: none"><li>▪ Feasible basic assumptions</li></ul>	<ul style="list-style-type: none"><li>• Global growth: in line with international agencies</li><li>• Oil price: intermediate between agencies and future</li><li>• Long-term interest rates: prudent</li></ul>
<ul style="list-style-type: none"><li>▪ Reasonable changes with respect to the previous macro scenario</li></ul>	<ul style="list-style-type: none"><li>• Downward revision of most aggregates</li><li>• Inertia of domestic demand</li><li>• Neutral external demand contribution</li></ul>
<ul style="list-style-type: none"><li>▪ Macroeconomic impact of the measures in the Budgetary Plan feasible</li></ul>	<ul style="list-style-type: none"><li>• Access to inertial scenario to evaluate transmission channels</li><li>• Effect of the measures in line with the result of <b>AIReF's internal models</b></li><li>• Without major biases in the forecast for the variables analysed in 2014-2017</li></ul>
<ul style="list-style-type: none"><li>▪ Future risks concentrated downwards</li></ul>	<ul style="list-style-type: none"><li>• Situation in Italy</li><li>• Increase in oil prices</li><li>• Intensification of protectionist and geopolitical tensions</li></ul>

AIReF considers the **Government's** macroeconomic scenario to be prudent overall, taking into account the exogenous assumptions and defined policies.

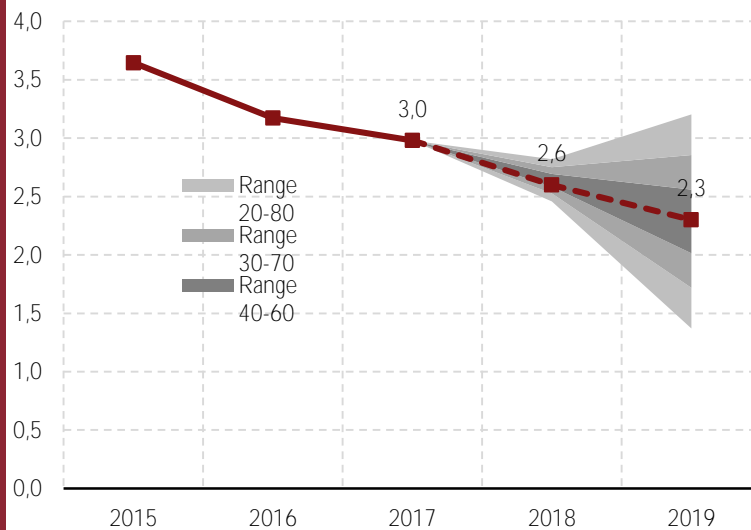


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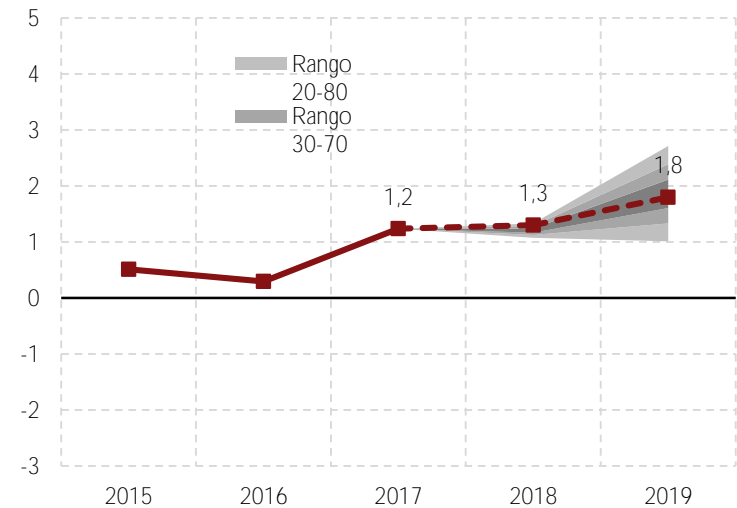
## 4.1. Macro endorsement Growth profile

The growth profiles forecasted for 2018 and 2019 presented in the Budgetary Plan, as well as their composition, are considered to be plausible

Real GDP (%)



GDP deflator (%)



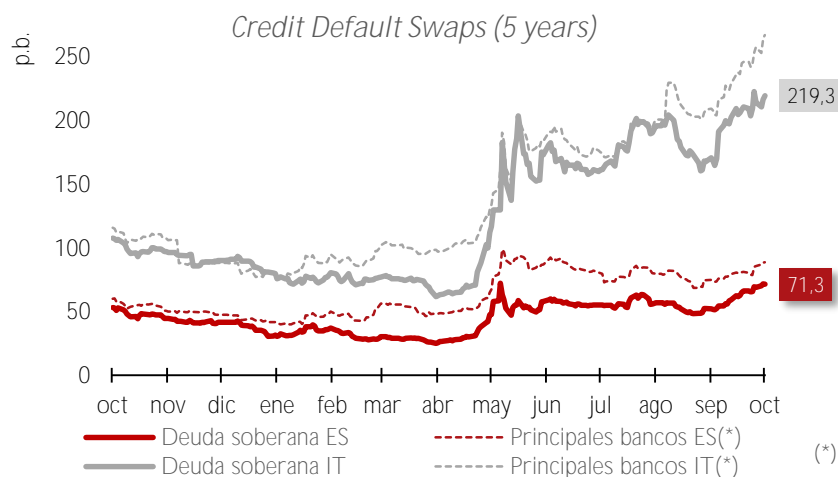
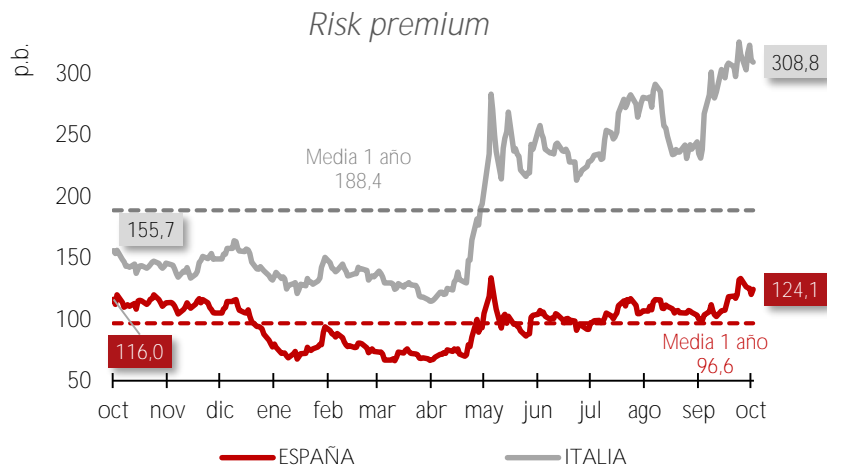
Source: Ministry of Economy and Competitiveness (dashed line) and AIReF estimates



## 4.1. Macro endorsement

### Macro uncertainty : Situation in Italy

A steep rise of 100 basis points in the interest rates of the Treasury would increase **expenditure by 1,500 M€ in the first year and an additional 25,000 M€ in 5 years.**



- Uncertainty about compliance with the fiscal rules in Italy has once more caused an increase in its premium...
- ...But the Spanish risk premium has remained relatively stable, in line with its annual average.
- The transmission of Italian tensions could have a negative impact on European economies.
- Part of the tensions in sovereign debt markets have been transferred to the banking sector where the market identifies an increased risk.

(\*) Average of CDS at 5 years:

ES: Banco Santander, BBVA, B. Sabadell, Bankia and Bankinter  
 IT: Intesa Sanpaolo, Unicredit, Mediobanca, Unione Di Banche, Banca BPM, Banca Monte Paschi

Source: Datastream



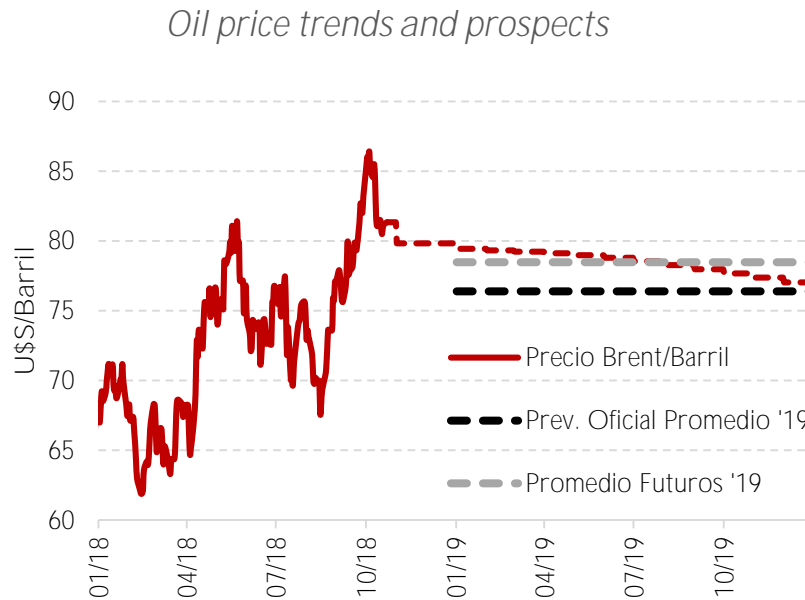
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## 4.1. Macro endorsement

### Macro uncertainty: Oil price

There is an upward risk in oil price trends with respect to the forecast of the Budgetary Plan, which stands below the markets' forecasts



Source: Datastream

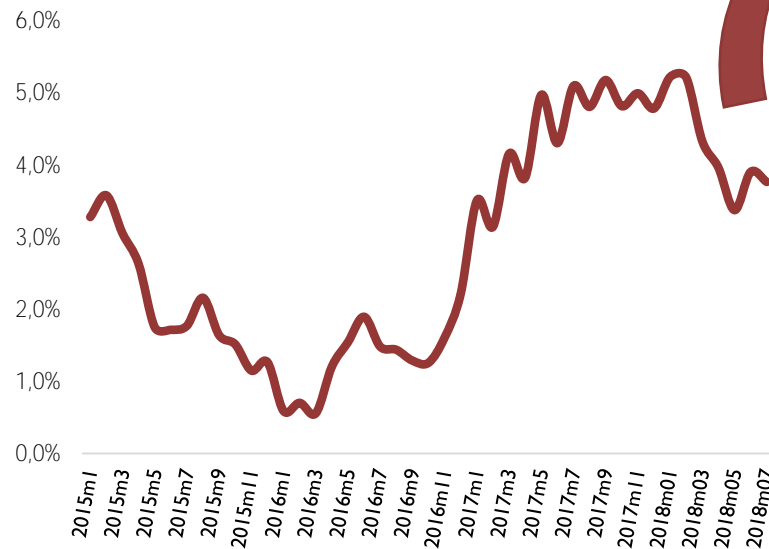
- In 2018 the price of crude oil experienced a significant **increase...**
- The official forecasts are below market expectations.
- A permanent increase of 10% in the price would have a limited effect on GDP, reducing growth by 0.1% in the short-term

## 4.1. Macro endorsement

### Macro uncertainty: External demand

The intensification of protectionist and geopolitical tensions may adversely affect economic growth in the Spanish economy.

*Evolution of world trade index*



Source: CPB Netherlands Bureau for Economic Policy Analysis  
Note: Average annual growth rates

- The growth of world trade has driven external demand since 2016...
- ...but has begun to show signs of exhaustion in early 2018.
- The imposition of tariffs between the major actors of world trade or an unsatisfactory agreement in the case of Brexit might accentuate this dynamic.

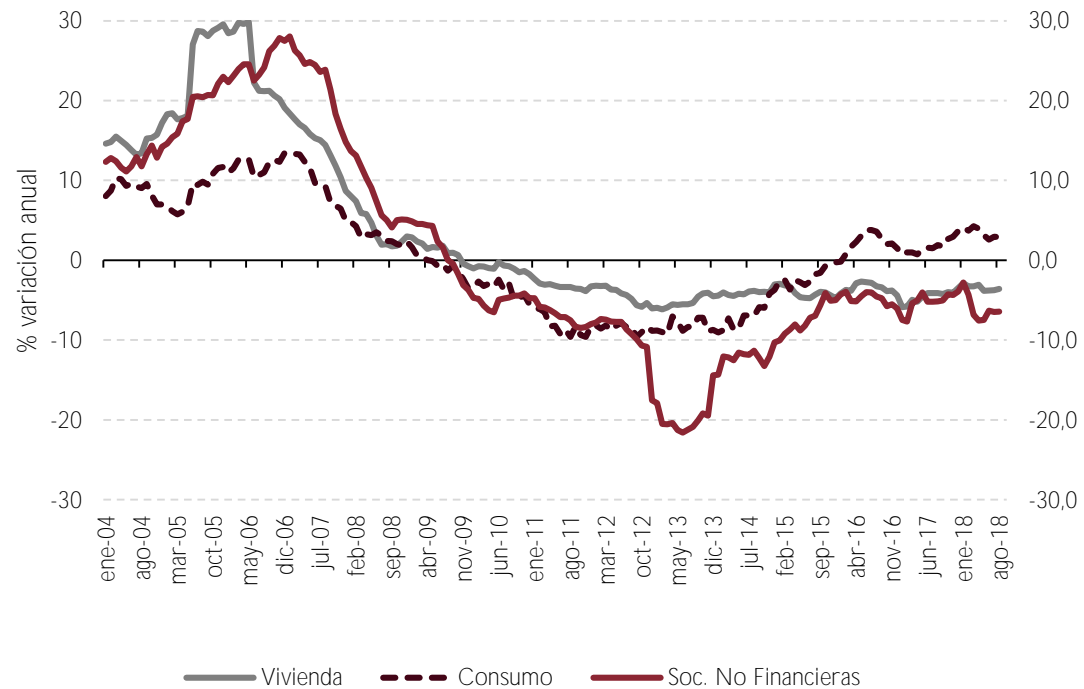
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## 4.1. Macro endorsement

### Re-evaluation of the inertial scenario. Growth supports

"Creditless Recovery": The deleveraging process has led credit levels to values close to those of 2003, which provides a broad margin to finance growth over the medium term.

*Evolution of credit (% annual var)*

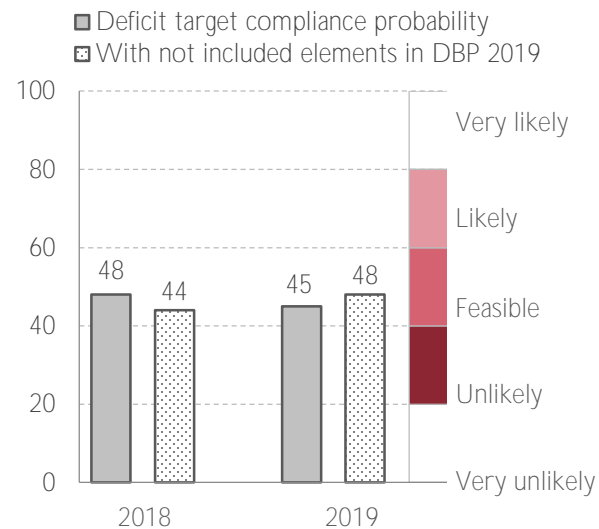
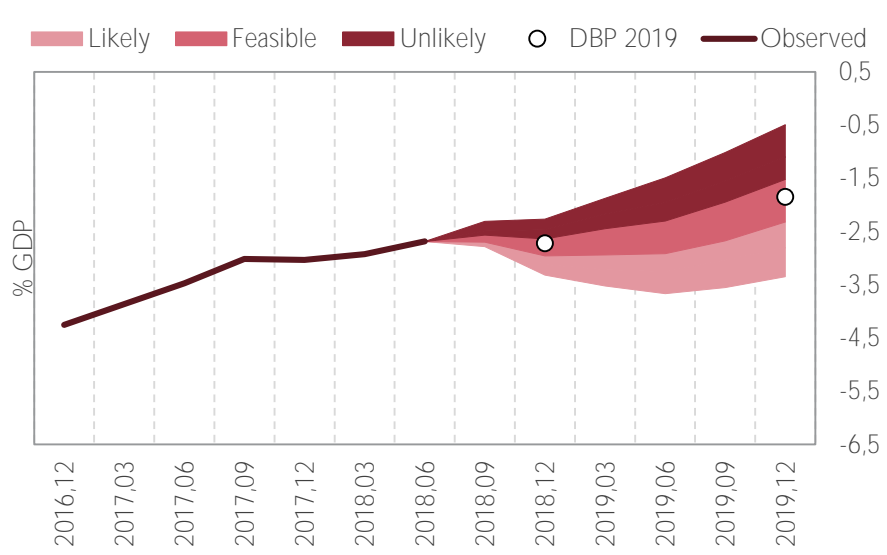


Source: Bank of Spain and INE Note: The outstanding balance of credit was deflated with the CPI to calculate the variation rates.



## 4.2. Evaluation of the DBP Feasibility of budgetary scenario Net lending/borrowing

Borrowing: feasible



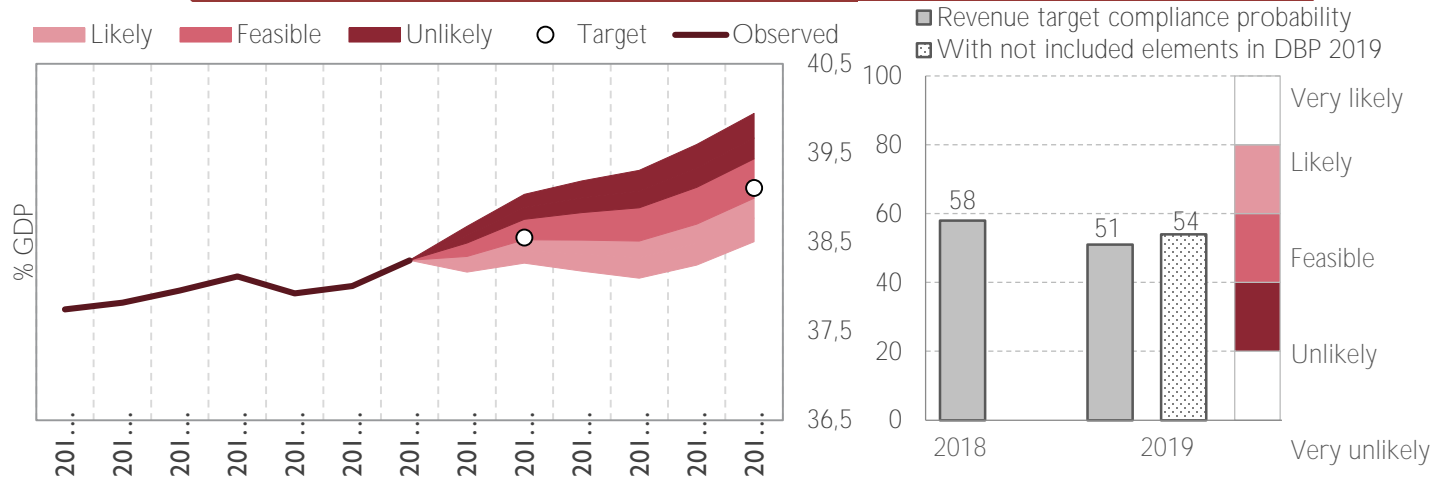
New elements brought to the attention of AIReF subsequent to the DBP are included:

- Realization of the increase in maximum contribution bases
- Reversal of the concession of Aguas de Ter-Llobregat (impact moved from 2019 to 2018)

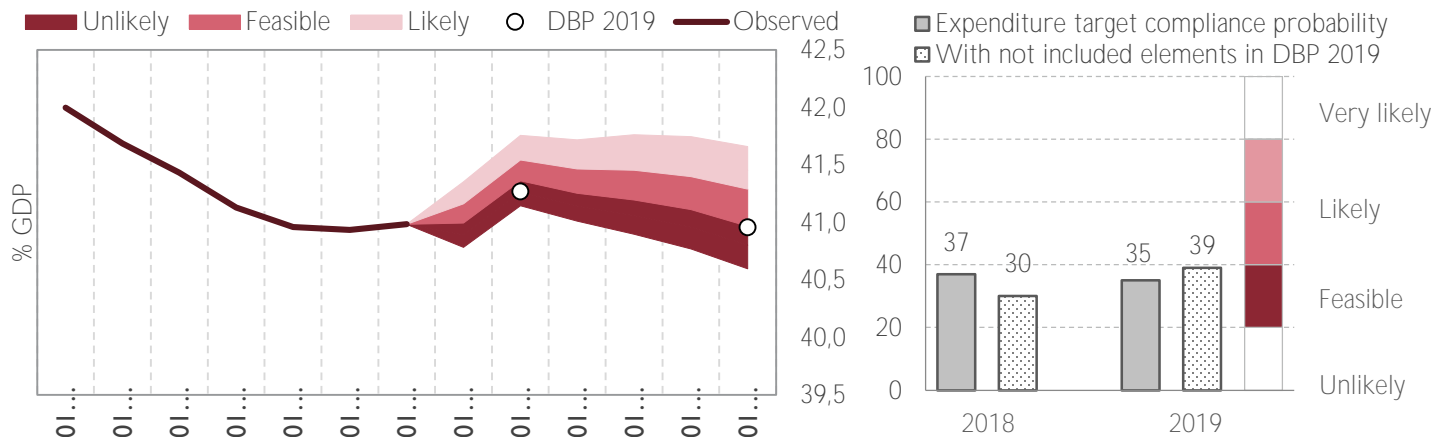


## 4.2. Evaluation of the DBP. Feasibility of budgetary scenario Revenue and expenditure

### General Government revenue: feasible in 2018 and 2019



### General Government expenditure: unlikely in 2018 and 2019



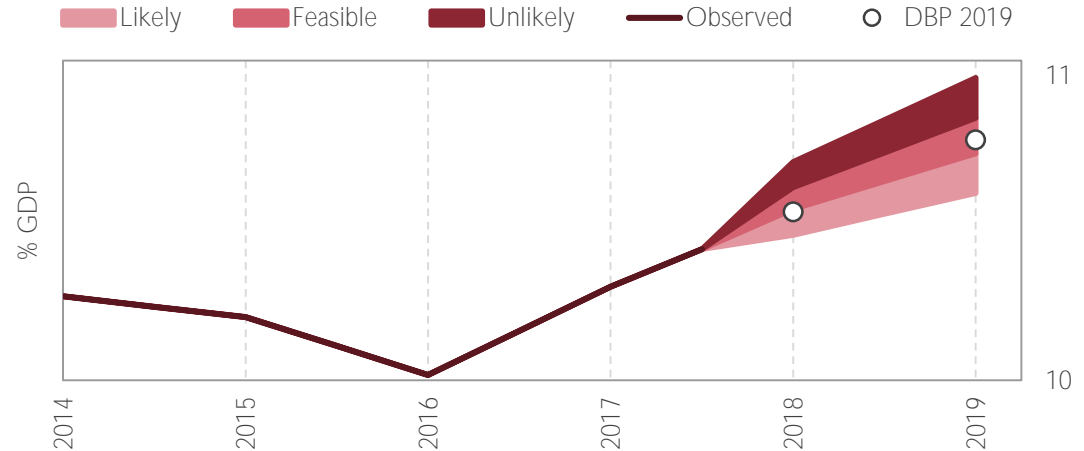
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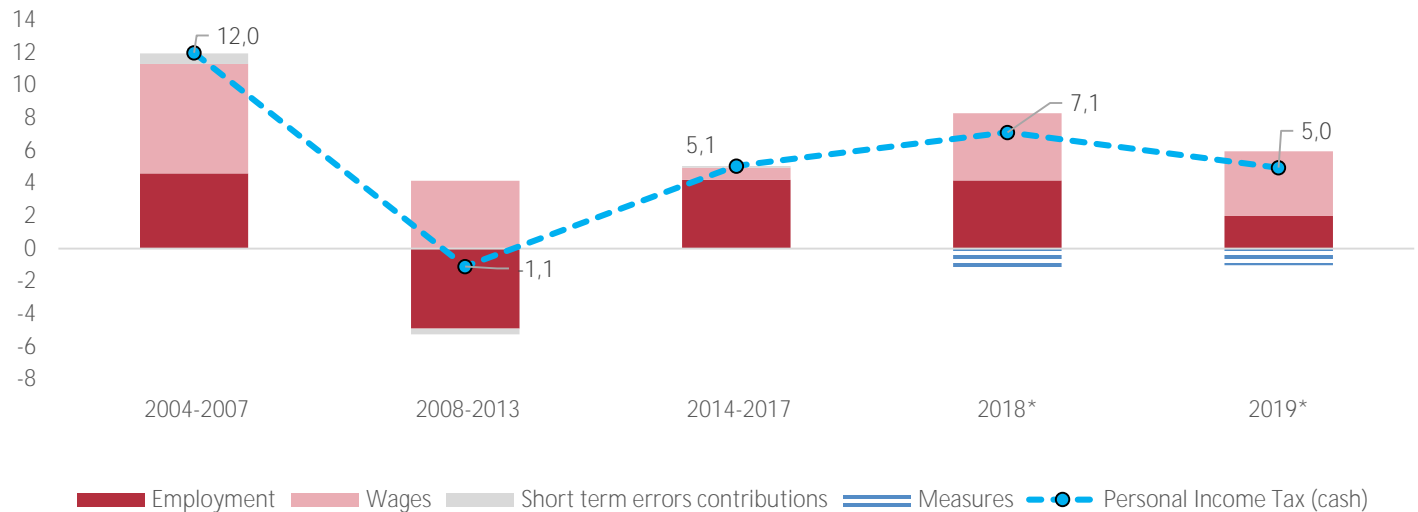
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Direct taxes: likely in 2018, feasible in 2019

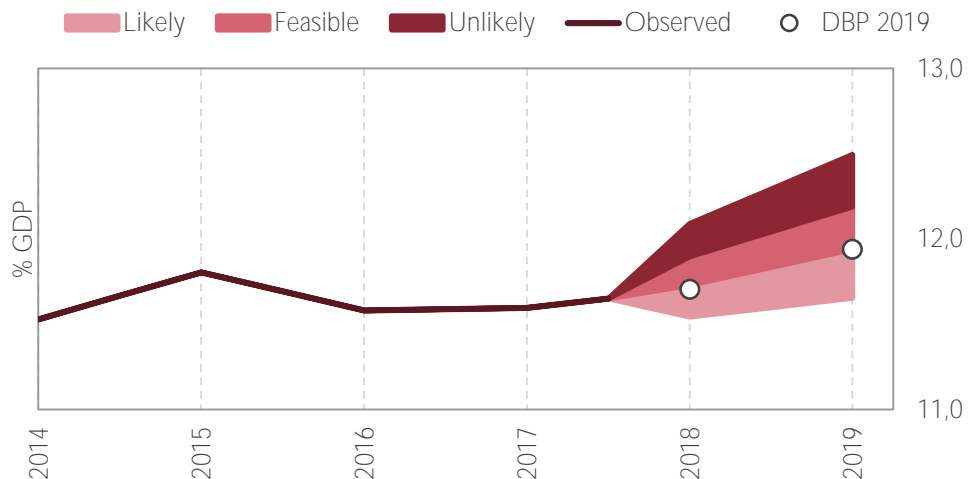


### Contributions to the growth of Personal Income Tax (cash basis)

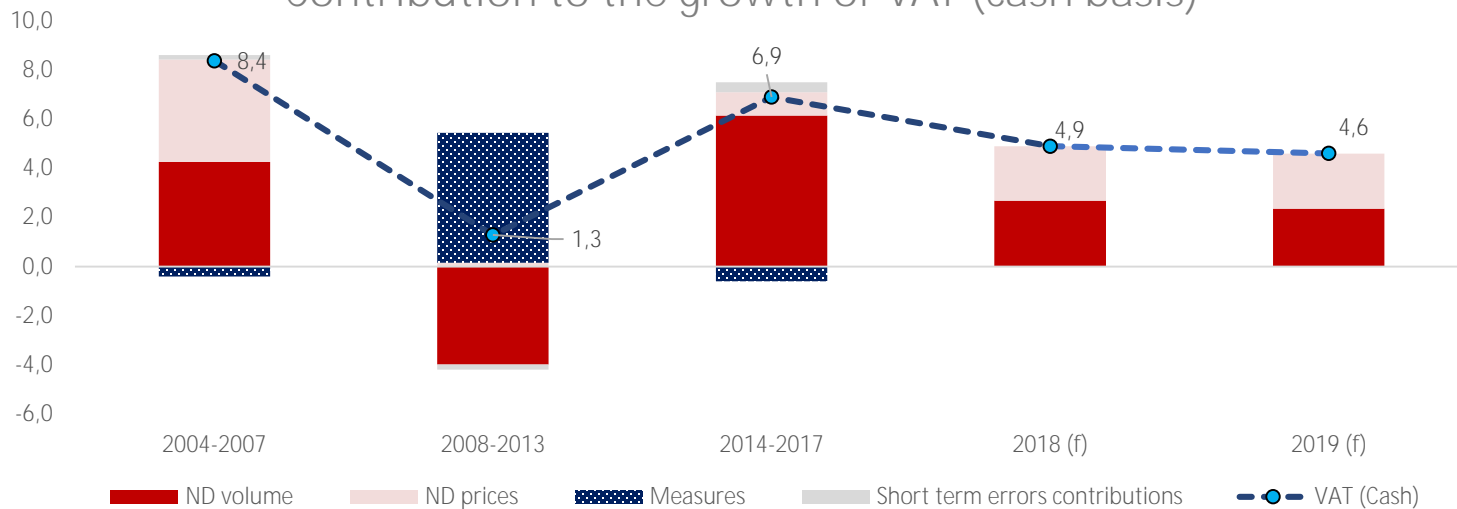


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Indirect taxes: likely in 2018, feasible in 2019

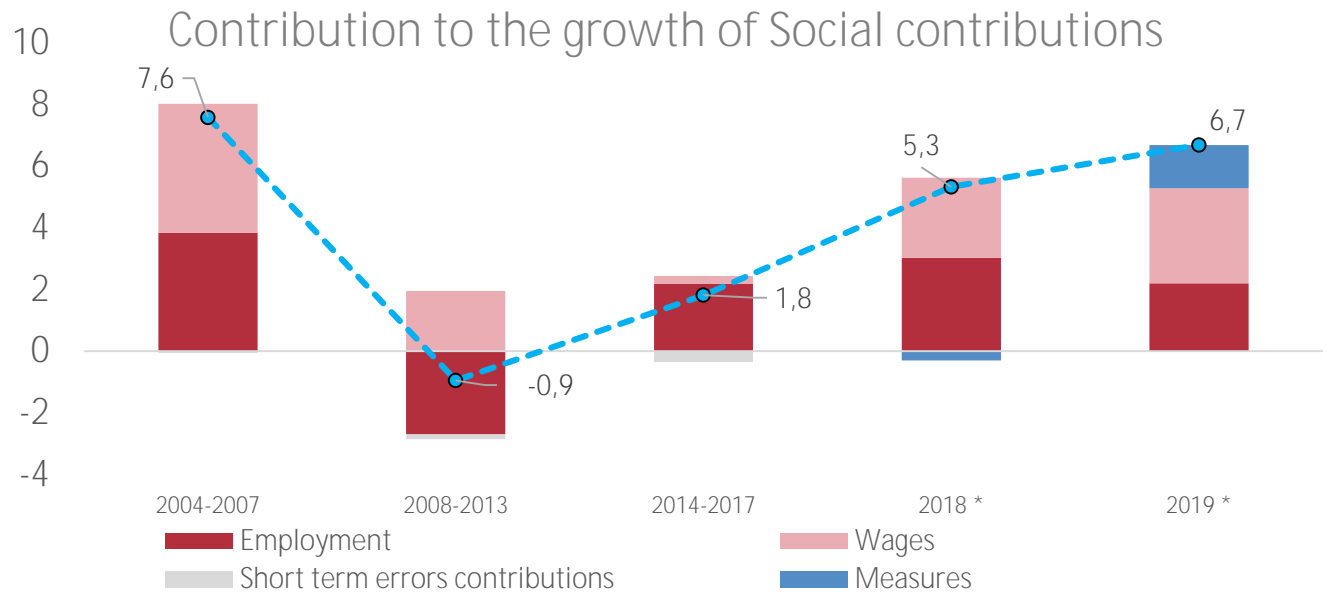
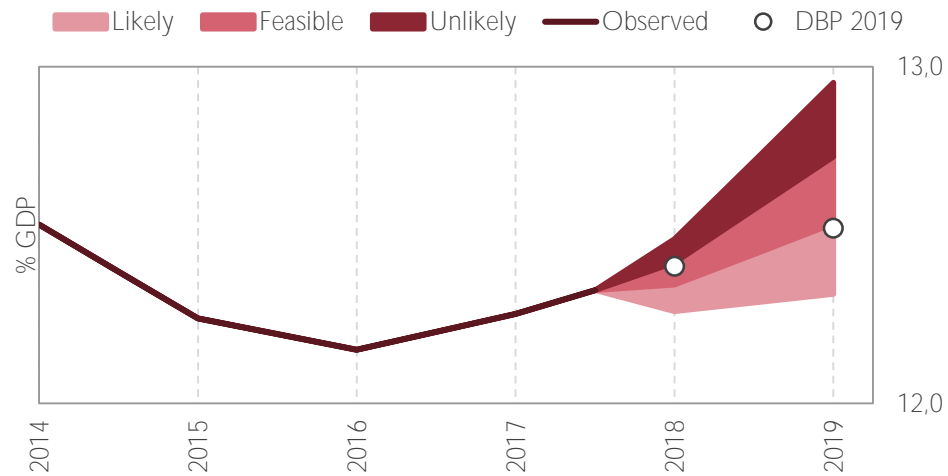


### Contribution to the growth of VAT (cash basis)



## 4.2. Evaluation of the DBP. Feasibility of budgetary scenario Contributions

Contributions: feasible in 2018 and likely in 2019



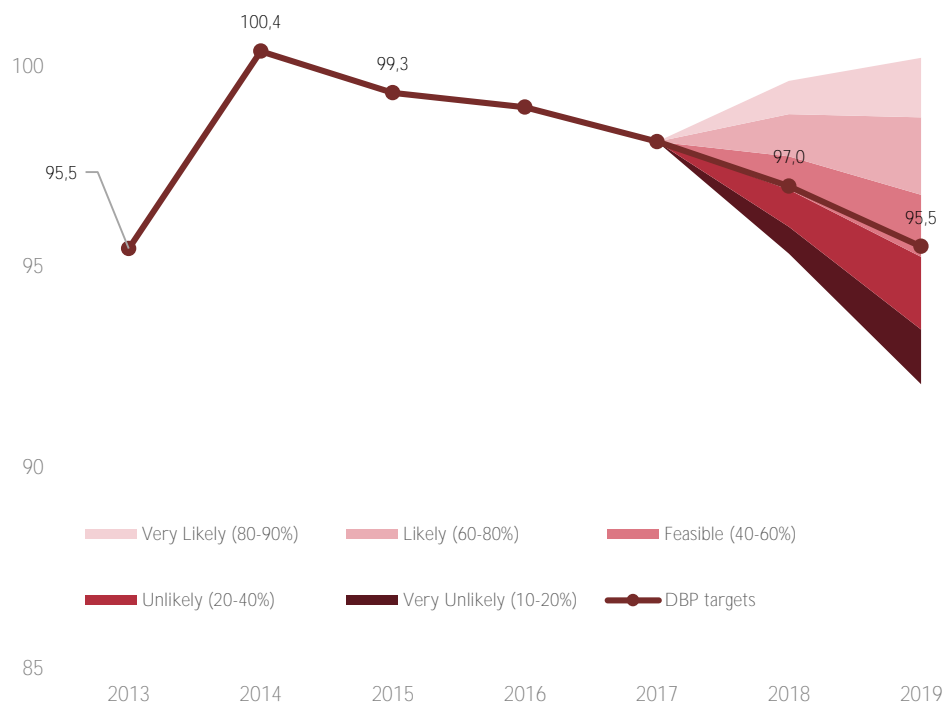
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## 4.2. Evaluation of the DBP. Feasibility of budgetary scenario Debt

The debt forecasts outlined by the 2019 Budgetary Plan are feasible, although the pace of reduction projected is not significant

*Government debt to GDP*

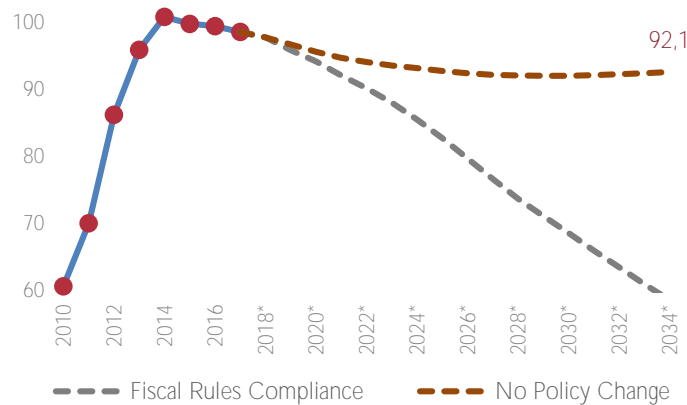


## 4.2. Evaluation of the DBP. Feasibility of budgetary scenario Debt

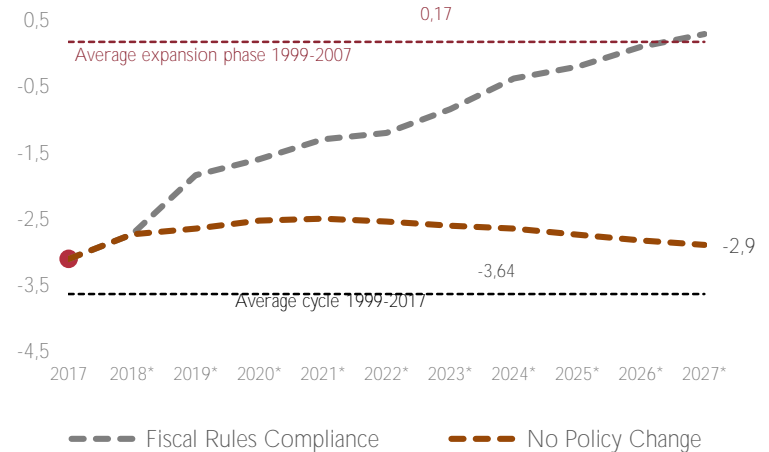
Generating enough fiscal space to respond to future crises requires a more intense debt reduction, which will ultimately depend on compliance with the current framework of fiscal rules.

- A legislative scenario, which assumes compliance with fiscal rules, projects achievement of 60% GDP in 2034.
- Maintaining the structural primary balance at current levels would stabilise the debt ratio at around 90% GDP.
- The legislative scenario entails the achievement and maintenance of budgetary balances in line with the average recorded during the last expansionary phase (1999-2007).

Government debt (%GDP)



Budgetary Balance (%GDP)



- The legislative scenario entails a progressive improvement of the structural budgetary balance until it reaches levels around budgetary equilibrium and an average primary structural balance of 1.6% GDP until 2034.

## 4.3. Fiscal policy stance Methodology

The expected departure of Spain from the excessive deficit procedure implies a greater emphasis on structural deficit reduction effort

In the face of bottom-up approaches that analyse the measures and their fiscal impact in detail, the Commission uses a very aggregate methodology (top-down) which is applied uniformly to all countries.

### 1 Non-recurrent measures

- They are isolated because they distort the underlying position
- **AIReF's** own series. No data yet from the Commission for 2019.

### 2 Impact of the cycle

- Aggregate approach: output gap \* semi-elasticity.
- Commission semi-elasticity
- Output gap: AIReF estimate. Best reflection of the specificities of the Spanish economy and incorporation of uncertainty

### 3 Structural effort

- Obtained by residue
- AIReF incorporates the uncertainty over public finances

Despite the obvious limitations of this approach, it was followed with certain particularities, especially by incorporating the ex ante uncertainty associated with the cycle and public finances



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## 4.3. Fiscal policy stance

### Non-recurrent measures quantified by AIREF

The non-recurrent measures account for almost 0.5% of the deficit in 2018 and fall slightly more than 0.1% in 2019, contributing to the reduction of the public deficit by around 0.4%

	2017	2018	2019
GG Deficit (% GDP)	-3.1	-2.8	-1.9
<i>NON-RECURRENT ELEMENTS</i>			
• State Financial Liability		1,800	-700
• Deferred tax assets	512	1,000	500
• Asset protection schemes	797	1,749	1,351
• Rest of financial aid	508	200	0
• Regions ( Catalonia, Balearic Islands, Andalusia and Valencia judgement)		1,054	320
Total non-recurrent elements	1,817	5,083	1,471
Non-recurrent elements. (% GDP)	0.16	0.48	0.12
Deficit without non-recurrent elements (% GDP)	-2.9	-2.3	-1.8

Source: AIREF



1. Preliminary considerations

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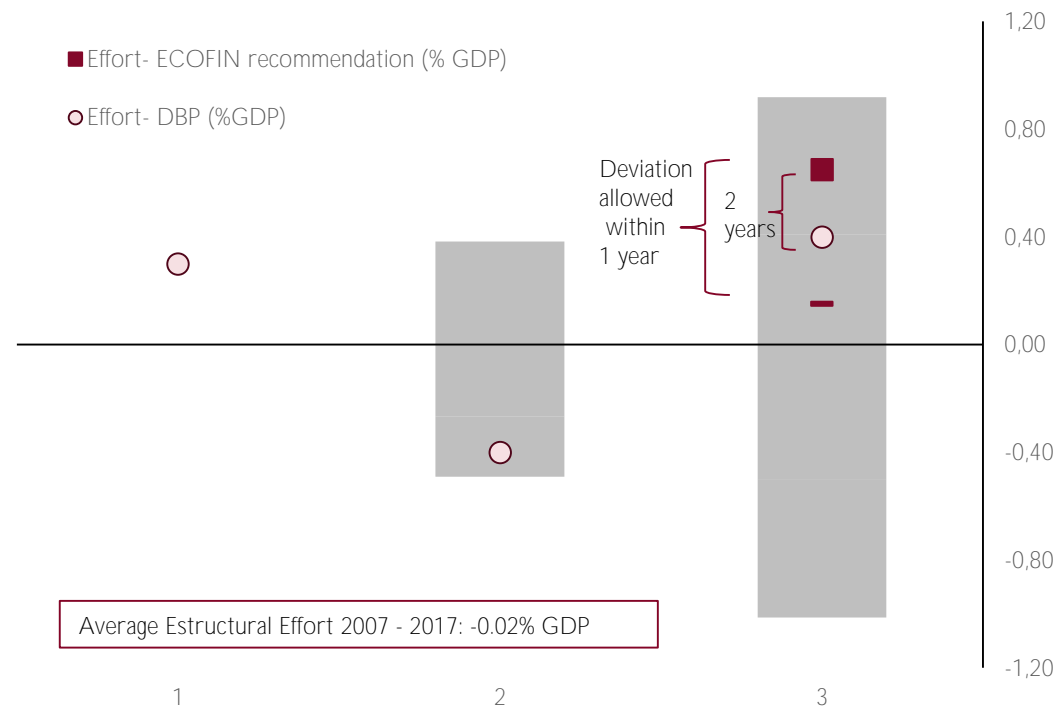
5. Recommendations

## 4.3. Fiscal policy stance

### Structural effort in the DBP and ECOFIN recommendation

- The improvement in the cyclical position, estimated by AIReF, would make it possible to reduce the public deficit for 2019 by between 0.3% and 0.9% GDP
- The structural effort is obtained with a high degree of uncertainty. That foreseen in the DBP could stay within this range but falling short with respect to the recommendation of the ECOFIN, although within the margin of tolerance admitted

*Structural effort- Change in structural deficit*



Source: AIReF. Commission methodology with estimate of the output gap and non-recurrent measures by AIReF. It incorporates the uncertainty of the cycle and of own public finances.

## 5. Recommendations

### Recommendations relating to the application of the fiscal framework: monitoring of measures and prevention of deviations

- Continuous monitoring by the Ministry of Finance (MINHAC) of budgetary execution to verify that there are no deviations in the impact of the planned measures.
- Establishment of a procedure for monitoring the implementation of the Central Administration and Social Security that specifically includes:
  - I. Monthly monitoring by the MINHAC of the degree of implementation and impact of the revenue measures, particularly new tax figures contained in the DBP
  - II. Evaluation of the differential behaviour of the labour market as a result of the rise of the minimum wage and its impact on fiscal variables
- MINHAC should intensify monitoring, control and early warning systems to ensure compliance with the fiscal rules by the Territorial Administrations.

### Recommendation on the medium-term budgetary scenario

- On the occasion of the Stability Programme Update, a legitimate medium-term programming, anchored in a credible debt reduction path, should be carried out.

- 1. Preliminary considerations
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- 3. Analysis of the measures of the DBP
- 4. Evaluation of the DBP
- 5. Recommendations





Autoridad Independiente  
*de* Responsabilidad Fiscal

[www.airef.es](http://www.airef.es)

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## Corporate Income Tax

Estimate	DBP	AIReF
Measures 1 and 2	<b>1,776 M€</b>	1,650 – <b>1,900 M€</b>
Measure 3	<b>-260 M€</b>	-242 – <b>-278 M€</b>

	Measure	Government Methodology	AIReF's evaluation
1	Limitation of the exemptions to dividends and capital gains generated abroad to 95%.	Joint evaluation of both measures as their effects overlap.	<ul style="list-style-type: none"> <li>✓ AIReF has revised the MINHAC microsimulation and has estimated a counterfactual scenario using CIT statistics and its own models resulting in an impact that includes the uncertainty</li> <li>✓ Impact in terms of accrual Range: 1,650 – <b>1,900M€</b></li> <li>✓ AIReF estimates that this impact will occur in 2019 as measures on instalment payments are adopted</li> </ul>
2	Minimum rate of 15% on the tax base (18% for entities that are taxed at 30%).  Affects fiscal groups and individual companies with business equal to or <b>greater than 20 M€</b>	Microsimulation based on reporting entities of CIT2016. Breakdown of the total number of entities affected and the cost of the measure for both consolidated groups and for individuals.  Joint impact: <b>1,776 M€</b>	
3	Lowering the nominal CIT rate from 25% to 23%. Companies that turnover less than a million euros	Estimated with the same methodology as the above measures. The rate of 25% is replaced with 23% and the declarations are calculated Impact: -260 million	<ul style="list-style-type: none"> <li>✓ AIReF considers this methodology to be adequate and has included the uncertainty that its own estimation models provide.</li> <li>✓ Impact: range -242 – <b>-278M€</b></li> </ul>





## Increase in PIT on high incomes

Estimate	DBP	AIREF
Measure 1	<b>328 M€ (2019)</b>	245 - <b>255 M€ (2019)</b> 108 - <b>112M€ (2020)</b>
Measure 2	<b>332 M€ (2020)</b>	360 - <b>375 M€ (2020)</b>

	Measure	Government Methodology	AIREF's evaluation
1	2-Point increase in the state rate on the general base for taxpayers with incomes higher than <b>130,000€</b> and 4 points for those that exceed <b>300,000€</b>	<ul style="list-style-type: none"> <li>✓ Microsimulation based on reporting entities of PIT2017.</li> <li>✓ Calculation of new declaration for affected taxpayers.</li> <li>✓ Calculation of the impact using the difference between the calculated and the real declaration.</li> <li>✓ The MINHAC considers the total impact in 2019. Impact: 328 million</li> </ul>	<ul style="list-style-type: none"> <li>✓ Regarding the first measure <b>MINHAC's estimate</b> is considered adequate although AIREF increases the estimate for 2019 at a rate between 4% and <b>6% (according to AIREF's models)</b>. <b>This places the impact between 353 and 367 M€.</b></li> <li>✓ However, AIREF believes that part of the effect will move to the declaration for 2020 as a part of this income is not from work, therefore its withholding does not increase. Withholding is not increased if the earnings come from various payers even though it is earnings from work.</li> <li>✓ In a comparison with what happened in 2012 with the introduction of the complementary levy it can be seen that 39% of the increase moved to the following year, therefore the impact would be: Impact: 2019: 245 – <b>255 M€</b> 2020: 108 – <b>112 M€</b></li> <li>✓ Regarding the second measure <b>the MINHAC's estimate</b> is considered adequate; it applies the same increases as the first measure and coincides with understanding that the effect will move to the declaration for 2020 as the withholding rate has not increased. Impact: <b>2019: 0 M€</b> 2020: 360 – <b>375 M€</b></li> </ul>
2	4-point increase in the state rate on the savings base for income from savings in excess of 140,000 euros	<ul style="list-style-type: none"> <li>✓ Microsimulation based on declarants of PIT2017 using the same method as the previous measure.</li> <li>✓ Calculation of the impact using the difference between the calculated and the real declaration.</li> <li>✓ The MINHAC considers that the impact is moved entirely to the declaration of 2020 as the withholding rate has not risen. Impact: 332 million</li> </ul>	

## Green taxation. Tax on Hydrocarbons

Estimate	DBP	AIReF
	<b>670 M€</b>	649 – <b>693 M€</b>

Measure	Government Methodology	AIReF's evaluation
Increase in the tax rate of diesel of 38 euros per thousand litres. It does not affect professional use diesel or agricultural diesel	<p>Its estimate is made in three phases:</p> <ol style="list-style-type: none"> <li>1. Diesel consumption for 2019 is estimated based on the special taxes databases.</li> <li>2. Application of the increase in the levy on the Tax on Hydrocarbons and its effect on VAT.</li> <li>3. Discounting the estimated returns to professionals.</li> </ol> <p>Impact: 670 million</p>	<ul style="list-style-type: none"> <li>✓ Estimation of the diesel consumption for non-professional use in 2019 including uncertainty of the models</li> <li>✓ Estimate of the increased revenue from the Tax on Hydrocarbons due to the application of rate increase and the collection effect on VAT.</li> <li>✓ Second-round effects are not considered (inelastic demand of diesel fuel).</li> <li>✓ Coincidence between results obtained by MINHAP and AIReF within the range of uncertainty.</li> <li>✓ Impact: 649-693 million</li> </ul>

## Tax on financial transactions

Estimate	DBP	AIREF
	<b>850 M€</b>	420 – <b>850 M€</b>

Measure	Government Methodology	AIReF's evaluation
<p>0.2% levy on transactions with shares in Spain.</p> <p>Affects companies with market capitalization in excess of 1,000 M€ in any market. Does not tax intra-day transactions, debt or derivatives</p>	<ul style="list-style-type: none"> <li>• According to the Spanish TFT report, the figure for the gross annual transactions is obtained from the AEAT (State Agency for Tax Administration) declaration model 198.</li> <li>• The annual revenue would be obtained by applying the tax rate of 0.2% to the amount of these gross transactions, giving a maximum <b>amount of about 1,300 M€</b>.</li> <li>• The amount collected is then <b>reduced to 850M€ because the tax levies net transactions</b>.</li> <li>• Impact: 850 million.</li> </ul>	<ul style="list-style-type: none"> <li>✓ AIReF has estimated the tax with two approaches:</li> <li>✓ If using an approach similar to that of the Government, collection could <b>rise to 850M€</b>. <b>Instead of the model 198</b>, AIReF used the volume of gross operations with Bolsas y Mercados Españoles data for 2017 and 2018, which is slightly lower as it does not include the data of Spanish companies traded on international markets. The <b>Government's approach</b> is considered the most comprehensive. However, there is some uncertainty about passing from gross to net.</li> <li>✓ For this reason, AIReF also compared the collection obtained from TFT in France. In France in <b>2017 the collection was 1,451M€</b> with a rate of 0.3% and with 144 companies affected. On the basis of this collection figure and by applying the data for Spain (0.2% and 64 companies), an impact of approximately 420 million is obtained.</li> <li>✓ Estimated impact of the measure: 420- 850 million.</li> </ul>



## Tax on digital services

Estimate	DBP	AIREF
	<b>1,200 M€</b>	546 – <b>968 M€</b>

Measure	Government Methodology	AIREF's evaluation
<p>Levy of 3% on certain digital services.</p> <p>Affects services that involve data exploitation for economic purposes.</p> <ul style="list-style-type: none"> <li>Online advertising services</li> <li>Online intermediation services</li> <li>Data transmission</li> </ul>	<ul style="list-style-type: none"> <li>The Government uses a working document of the EC (*) according to which this tax would have an impact of <b>6,000M€ per year for the EU</b>.</li> <li>The percentage that Spain represents (9.1%) in the European digital market is <b>applied and a collection of 546M€ is obtained</b>.</li> <li>There are two elements according to which the Spanish tax differs from the European and that would increase collection: <ul style="list-style-type: none"> <li>It incorporates intra-group transactions, with which Spanish collection <b>would amount to 728M€</b>.</li> <li>The minimum market capitalisation threshold for the companies affected <b>in Spain is 3M instead of 5M€, with which collection would amount to 968M€</b>.</li> </ul> </li> <li>In addition, it is estimated that digital trade will grow in 2019, with which collection would rise from 968M to <b>1,200M€</b></li> <li>Impact: 1,200million.</li> </ul>	<ul style="list-style-type: none"> <li>✓ AIREF considers the calculations performed in relation to Spanish <b>trade relating to the 546M€ to be feasible</b>.</li> <li>✓ There is uncertainty with respect to other elements that could increase collection: <ul style="list-style-type: none"> <li>✓ The Spanish tax does not incorporate digital platforms that offer content for payment (cloud computing) and the European one does.</li> <li>✓ There are doubts about the effect of the change in the capitalisation threshold from 5M to 3M.</li> </ul> <p>In any event, although these positive effects will materialise, the <b>maximum collection in AIREF's range is 968M€, as it is estimated that the base figure of the EC study already refers to 2019.</b></p> </li> <li>✓ Impact: 546 - 968 million.</li> </ul>

(\*) Commission Staff Working Document. Impact Assessment, Proposal for a Council Directive on the common system of a digital services tax on revenues resulting from the provision of certain digital services, SWD (2018) 81 final/2

# Anti-fraud. Limitation of cash payments

Estimate	DBP	AIReF
	<b>218 M€</b>	100 – 200 M€

Measure	Government Methodology	AIReF's evaluation
<p>Limitation of cash payments Reduction of the threshold for cash transactions from 2,500€ (current limit) to 1,000 €.</p>	<ul style="list-style-type: none"> <li>MINHAC estimated the transactions affected based on information of the IIS, which represents 80% of actual transactions. According to the IIS, there are about 55,000 M€ worth of transactions between 1,000€ and 2,500€. Therefore, the actual amount of the transactions affected would be approximately 70,000 M€.</li> <li>MINHAC considers that the tax burden on these transactions would be 40.6% according to a World Bank report.</li> <li>It then calculates the impact of the measure by applying the percentages of 7.7% for fraud and 10% for improved collection efficiency established by the experience of AEAT.</li> <li>Impact: 218 million.</li> </ul>	<ul style="list-style-type: none"> <li>✓ AIReF considers MINHAC's calculation to be adequate except for the estimate of the tax burden. Applying the tax burden on the trading volume means double accounting of the added value of the economy and that GDP should be used.</li> <li>✓ Based on the information provided by MINHAC, AIReF estimated that the ratio of GDP to transactions is 49.8%. Then this ratio is applied to the 70,000 M€ of affected transactions, obtaining a value added affected of 34,900 M€.</li> <li>✓ Then the tax burden (40.6%) and collection effectiveness (10%) coefficients provided by MINHAC are applied.</li> <li>✓ In addition, in accordance with international evidence the percentage of fraud could range from 7% to 15%.</li> <li>✓ Taking into account that there is variability on fraud and effectiveness the impact is estimated to be: 100-200 million.</li> </ul>



## Anti-fraud. List of debtors

Estimate	DBP	AIRéF
	<b>110 M€</b>	<b>50 – 100 M€</b>

Measure	Government Methodology	AIRéF's evaluation
<p>Reinforcement of the list of debtors.</p> <p>The minimum threshold for debts to appear in the list of debtors is <b>reduced from 1M€,</b> currently enforced, to 600,000.</p> <p>Debtors jointly and severally liable are also included.</p>	<ul style="list-style-type: none"> <li>The average revenue made by the people who have appeared on the list of defaulters from the first year of its publication (2015) until the present is considered. <ul style="list-style-type: none"> <li>Revenue both from settlements and from the improvement in self-settlements are included.</li> </ul> </li> <li>This average revenue is applied to the potential number of new debtors that would appear in the list both as principal and jointly liable debtors. <ul style="list-style-type: none"> <li>Impact: 110 million</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>✓ Access to estimation methodology provided by MINHAP.</li> <li>✓ It is considered that the amounts collected could be 50% lower due to the lower amount of the average debts of the new defaulters, as the list exclusively <b>includes people with debts between 600,000€ and 1M€.</b></li> <li>✓ Impact: 50-100 million</li> </ul>

## Anti-fraud. International best practices

Estimate	DBP	AIREF
	<b>500 M€</b>	200 – <b>270 M€</b>

Measure	Government Methodology	AIREF's evaluation
<p><b>International best practices</b></p> <ul style="list-style-type: none"> <li>Regulatory measures against dual-use software</li> <li>Creation of a control unit for taxpayers with significant wealth</li> <li>Strategy to address new taxpayers</li> <li>Improvement of the automatic exchange of information</li> </ul>	<ul style="list-style-type: none"> <li>With regard to the dual-use software, MINHAC sets the hidden tax base on the basis of a household final <b>expenditure of 400,000 M€ in 2019, of which 200,000 M€ would be in cash</b> (Bank of Spain statistics). 1% is assumed <b>to be hidden: about 2,000 M€</b>. Then the average effective rate of 15.67% <b>VAT is applied (approximately 320 M€)</b>. In addition, collection from CIT of 1/3 <b>VAT (100 M€) is estimated</b>. In total the collection would be about <b>420 M€</b>.</li> <li>For the group of taxpayers with great wealth an increase of 1/3 on the results obtained on this group in 2017 is assumed: <b>about 110 M€</b>.</li> <li>For the rest of the measures, a 1% improvement of the results of AEAT <b>proceedings (12,000 M€ without extraordinary)</b> is assumed, obtaining around <b>120 M€</b>.</li> <li>Total impact: given the overlaps, an estimated 500 million (equivalent to <b>estimates of 323 M€, 84 M€ and 91 M€, respectively</b>).</li> </ul>	<ul style="list-style-type: none"> <li>✓ Access to MINHAP methodology.</li> <li>✓ Regarding the new dual-use software, a more prudent hidden tax base percentage of between 0.5% and 0.65% is estimated instead of 1%, resulting in an estimate of <b>200-270 M€</b>.</li> <li>✓ With regard to the group of large taxpayers, the estimate is not incorporated due the uncertainty about the implementation period of the measure.</li> <li>✓ With respect to the third measure, the information provided does not allow for an estimate of the effect on collection during 2019 so it is not included.</li> <li>✓ Impact: 200-270 million.</li> </ul>



## Social Security. Contribution bases

Estimate	DBP	AIREF
Minimum bases	<b>1,500 M€</b>	1,500 – - <b>1,700 M€</b>
Maximum bases	-	1,000 – - <b>1,100 M€</b>

	Measure	Government Methodology	AIREF's evaluation
1	Increase in the minimum contribution base of the General Regime of 22.3% Increase of the base from 859€ to 1,050 €.	The Ministry of Labour has provided the number of workers affected (1.5 million) <b>and the increase in collection (600 M€)</b>	AIREF considers the calculation using the Continuous Professional Life Sample (MCVL) to be reasonable
2	Increase of the minimum contribution base of the Self-Employed Workers Regime of 13%. Increase of the base from 933€ to 1,050 €	The Ministry of Labour has provided the number of workers affected (2.3 million) <b>and the increase in collection (994 M€)</b>	<ul style="list-style-type: none"> <li>✓ AIREF considers the calculation using the Continuous Professional Life Sample (MCVL) to be reasonable</li> <li>✓ Scenarios with different variations of bases and rates that result in similar amounts</li> <li>✓ Move to contributions based on real income in 2020 at the earliest</li> </ul>
3	Increase of the maximum Social Security contribution base of 10%. Increase of the base from 3,804 to 4,651€	Measure not quantified in the DBP The Ministry of Labour has provided the number of workers affected (1.5 million) <b>and the increase in collection (2113 M€)</b> against an increase of 22.3% in the base	<ul style="list-style-type: none"> <li>✓ AIREF considers the calculation using the MCVL and simulating an increase of 10-12% to be reasonable=&gt; impact between 1,000 and 1,100 million</li> </ul>



## Heritage Tax

Estimate	DBP	AIReF
	<b>339 M€</b>	[0-8]

Measure	Government Methodology	AIReF's evaluation
1% increase in the heritage <b>exceeding 10 Million €.</b>	Estimate of the increase in collection if the last section of the state rate or those approved by the Regions increases by 1% on the assumption that the tax is not subsidised: 339 million.	<ul style="list-style-type: none"> <li>✓ MINHAC estimate by Region and affected taxpayers.</li> <li>✓ The HT is assigned to the Regions with extensive regulatory powers. Most of the Regions have regulated their rate, as the state rate is not applicable.</li> <li>✓ The measure would only be directly applicable to Aragon, the Canary Islands, Castile-La Mancha, Castile and Leon, and is estimated by <b>MINHAC at 6M€. Effect on the State</b> of 1.6M for non-residents, Ceuta and Melilla.</li> <li>✓ AIReF does not incorporate the expected effect of this measure given its small amount and the need for approval of the law before 31-12-2018.</li> </ul>

## Revaluation of pensions to the CPI

Estimate	DBP	AIReF
	<b>352 M€</b>	<b>518 M€</b>

Measure	Government Methodology	AIReF's evaluation
<p>Revaluation of pensions to the CPI in 2018</p> <p>Special payment if 2018 inflation exceeds the 1.6% approved in the 2018 GSB</p>	<ul style="list-style-type: none"> <li>✓ Does not distinguish between maintaining purchasing power and extra revaluation of minimum pensions.</li> <li>✓ Does not specify CPI rate.</li> <li>✓ In the supplementary information the Government estimates an increase in expenditure of 352 million</li> </ul>	<ul style="list-style-type: none"> <li>✓ AIReF expects that inflation will be 1.8% in 2018</li> <li>✓ Impact: 518 million.</li> <li>✓ Breakdown: <ul style="list-style-type: none"> <li>✓ <b>Special payment 254 M€</b></li> <li>✓ <b>Base effect in 2019: 265 M€</b></li> </ul> </li> <li>✓ If the inflation were 1.7% in 2018, the impact would be <b>260 M€</b>. And if it were <b>1.9%</b>, the impact would amount to <b>780 M€</b>.</li> <li>✓ For 2019 there is no additional cost as the revaluation announced in <b>the SPU and AIReF's</b> forecast (1.6%) coincide.</li> </ul>

## Main expenditure measures (CA and SSF)

Estimate	DBP	AIReF
	<b>992 M€</b>	<b>900 – 1,000 M€</b>

Measure	Government Methodology	AIReF's evaluation
Revaluation of minimum and non-contributory pensions of 3% in 2019	<ul style="list-style-type: none"> <li>✓ No estimate of individual impact</li> <li>✓ In the supplementary information the Government estimates an increase in expenditure of 384 million</li> </ul>	<ul style="list-style-type: none"> <li>✓ Applies revaluation excess of 3% to the 1.6% on the minimum and non-contributory pensions (2.9 million).</li> <li>✓ Impact: 325 million.</li> </ul>
Unemployment benefit for those aged over 52. Expansion of age requirement from 55-61 to 52-65 years.	<ul style="list-style-type: none"> <li>✓ No estimate of individual impact.</li> <li>✓ In the supplementary information the Government estimates an increase in expenditure of 308 million</li> </ul>	<ul style="list-style-type: none"> <li>✓ An 70 thousand increase in the number of beneficiaries is assumed, from its current value to the number of beneficiaries in 2012 adjusted by the cycle</li> <li>✓ Impact: 323 million.</li> </ul>
Progressive equalisation of paternity leave Increase in paternity leave from 5 to 8 weeks.	<ul style="list-style-type: none"> <li>✓ No estimate of individual impact.</li> <li>✓ In the supplementary information the Government estimates an increase in expenditure of 300 million</li> </ul>	<ul style="list-style-type: none"> <li>✓ It is extrapolated based on the cost of increasing <b>from 4 to 5 weeks in 2017 (100 M€)</b>.</li> <li>✓ Impact: 300 million.</li> </ul>

## Main expenditure measures (CA and SSF)

Estimate	DBP	AIRéF
	<b>184 M€</b>	180 – -190 <b>M€</b>

Measure	Government Methodology	AIRéF's evaluation
<p>Minimum income. In 2019 the child allowance for vulnerable families will increase from <b>291 €/year to 473 €/year</b> per child.</p>	<p>Impact: 184 million</p>	<ul style="list-style-type: none"> <li>✓ The households receiving the child allowance are identified through the Living Conditions Survey 2017 (last published).</li> <li>✓ <b>An increase of 182 €/year is applied to obtain the total budgetary impact.</b> Estimate in line with the forecasts of the DBP.</li> <li>✓ Impact: 180-190 million</li> </ul>
<p>Contribution for non-professional carers. Definitive financing and recovery of the special agreement in the Social Security system for carers. Payment of their social contributions by the General State Administration.</p>	<p>Neutral</p>	<ul style="list-style-type: none"> <li>✓ The State pays the contributions of non-professional carers.</li> <li>✓ Does not affect the consolidated public deficit: the CA assumes the expenditure and the SSF receives the revenue.</li> <li>✓ The impact will occur in the future through the generation of greater pension rights.</li> <li>✓ No budgetary impact in 2019.</li> </ul>

## Main expenditure measures (affecting Regions)

Estimate	DBP	AIReF
Total DBP measures affecting Regions with impact on General Government deficit	<b>515 M€</b>	<b>835 M€</b>

Measure	Government Methodology	AIReF's evaluation
Increase in Dependency benefits Definitive financing intended to increase the minimum level of dependency benefits	No estimate of individual impact.	<ul style="list-style-type: none"> <li>✓ Intended to increase the minimum amount of the benefits</li> <li>✓ Its impact will be the budget appropriation allocated in the GSB, does not require additional expenditure from the Regions to the party financed, neutral impact on its balance</li> <li>✓ Impact (on CA deficit): 515 million (allocation provided for in the GSB according to MINHAC)</li> </ul>
Removal of co-payment to <b>"most vulnerable"</b> pensioners No description in the budgetary plan.	No estimate of impact	<ul style="list-style-type: none"> <li>✓ The plan does not describe the content of the measure.</li> <li>✓ The "most vulnerable" pensioners were considered as those receiving less than 800 euros in accordance with the provisions of the Government-Podemos Agreement.</li> <li>✓ The maximum co-payment of the affected population was calculated in accordance with the statistics on pensioners published by the AEAT and Social Security, taking into account the co-payment cap per person. This maximum amount has been corrected by an incidence rate of 80% according to the available health statistics data.</li> <li>✓ The total effect on the Regions was limited by the expenditure expected in the Regions that already subsidise the co-payment to pensioners</li> <li>✓ Impact (on <b>Regions'</b> deficit): 300 million</li> </ul>

## Main expenditure measures (affecting LGs)

Estimate	DBP	AIReF
Total DBP measures affecting LGs with impact on General Government deficit	<b>375 M€</b>	<b>45 M€</b>

Measure	Government Methodology	AIReF's evaluation
Promote the universalisation of school between 0 and 3 years facilitating the LGs spending part of their surplus to improve these FSIs <b>(330 M€)</b> .	Not provided. Funded by the local surplus. Affects General Government balance.	<ul style="list-style-type: none"> <li>✓ Investments in nursery schools can now be considered financially sustainable investments from the Royal Decree-Law of 2018, although they require authorisation under certain conditions.</li> <li>✓ The impact of the measure was <b>already included in AIReF's overall</b> assessment of the expansion of the 2018 FSI catalogue.</li> <li>✓ Its additional impact would be coupled with the reduction of the conditions necessary for inclusion in this category, without AIReF considering that this could increase the overall impact estimated.</li> </ul>
Meal aid to combat poverty (25 <b>M€</b> ) and duplicate funds to eradicate gender-based violence <b>(20 M€)</b> .	Not provided. Funded with contributions from the State. Affects General Government balance.	<ul style="list-style-type: none"> <li>✓ Its impact will be that of the budget appropriations allocated in the GSB</li> <li>✓ Impact (on CA): 45 million (allocations envisaged in the GSB according to MINHAC).</li> </ul>