



Autoridad Independiente  
*de* Responsabilidad Fiscal

# **Report on the 2021–2024 Stability Programme Update**

**11 May 2021**

# Report on the 2021–2024 Stability Programme Update

- 1. Introduction**
- 2. Macroeconomic scenario**
- 3. Fiscal scenario**
- 4. Recommendations**

# AIReF has the legal mandate to report on the content of the Stability Programme Update

APRIL  
26<sup>th</sup>

AIReF issued the report endorsing the macroeconomic outlook allowing it to be incorporated into the SPU to be submitted to the EU institutions

- Taking into account the **information** of the **SPU**
- The Recovery, Transformation and Resilience Plan (**RTRP**)
- The details on **investments and projects** from the **RTRP**
- Latest **economic and budgetary information**

Today

AIReF issues the full report on the SPU on both the macroeconomic scenario and the fiscal strategy

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# The SPU is once again defined for a medium-term horizon (2021 to 2024) but it cannot be considered a comprehensive fiscal strategy...

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**Incomplete integration of the RTRP**

- ❑ From 2021, a no-policy-change fiscal scenario is presented
  - Without fiscal objectives
  - Without quantifying measures already planned and defined with a certain impact on the SPU horizon
  - It does not incorporate the effects of possible structural reforms yet to be defined
- ❑ It does include the macro impact of investments and their effect on collection, but it does not analyse the possible more permanent effects on expenditure

**Insufficient attention to crisis-related legacies**

- ❑ Our estimates suggest an increase in the underlying imbalance of the public accounts
- ❑ Despite the reduction in government debt over the SPU horizon, debt will remain at high levels. **VULNERABILITY**

## ... therefore, AIReF recommends the design of a medium-term fiscal strategy with a sufficient time horizon and integration of the RTRP

- The SPU is a starting point
- But it still does not constitute the main instrument for medium-term budgetary planning in the terms provided for by European and national legislation

### Recommendation

*The Government should complete the medium-term fiscal strategy for achieving a level of deficit that is sufficient to steer the debt towards more sustainable paths that will reduce the vulnerability of the Spanish economy. This involves:*

- extending the time horizon of the strategy*
- and integrating into it the macroeconomic and fiscal implications of implementation of the investments and reforms set out in the RTRP*

## Comparison with the medium-term plans of peer countries

	SPAIN	GERMANY	FRANCE	ITALY	PORTUGAL	UNITED KINGDOM
<b>TIME HORIZON</b>	2021-2024	2021-2025	2021-2027	2021-2024	2021-2025	2021-2026
<b>FISCAL CONSOLIDATION</b>	2024	2022-2025	2023-2027	2022-2024	2023-2025	2023-2026
<b>MEASURES ANNOUNCED</b>	None	National fiscal plan	Boost potential growth Expenditure control No tax increases	Decrease in expenditure Increase in revenue	None	Mainly increase in taxes
<b>SPECIFICATION OF MEASURES ANNOUNCED</b>	None	High	Low	Low	None	High
<b>SOURCE</b>	Stability Programme	Stability Programme	Stability Programme	Stability Programme	Stability Programme	2021 Budget
<b>MENTIONS OF MTOs</b>	0	3	1	8	1	Not applicable

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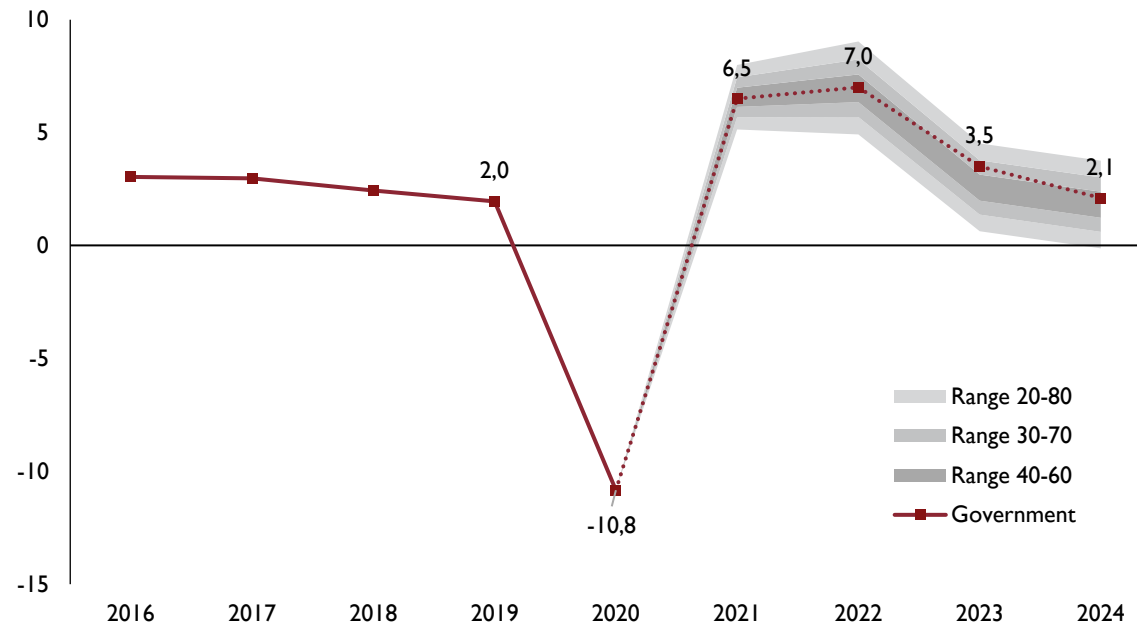
3. Fiscal scenario

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# AIReF's main conclusions on the macro scenario of the SPU

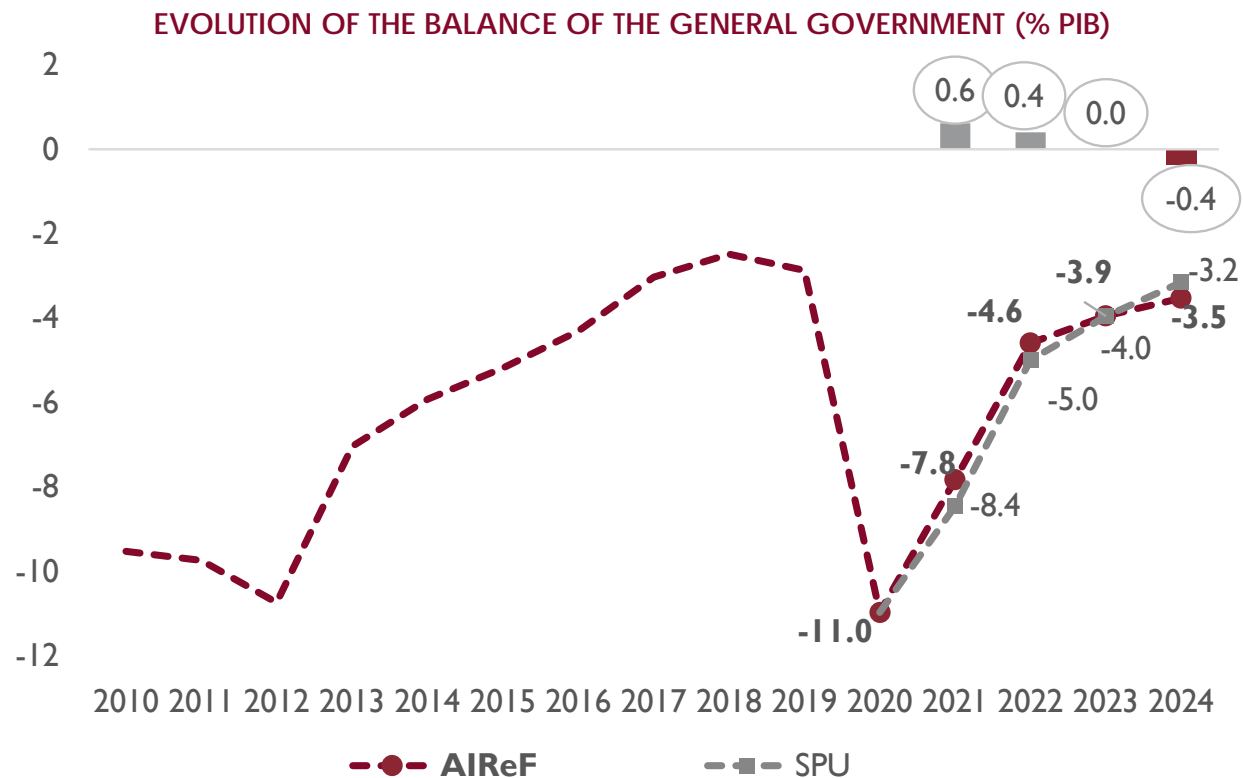
- **Achievable in the short and medium term** providing the global pandemic subsidies, the RTRP projects are implemented on time, meet European requirements and are of sufficient quality to allow the expected knock-on effects to materialise
- **AIReF estimates an impact of RTRP investments** similar to the SPU, but subject to major uncertainty

GROSS DOMESTIC PRODUCT. VOLUME TERMS.  
(YEAR-ON-YEAR RATE OF CHANGE)



# AIReF's main conclusions on the budgetary scenario of the SPU

- AIReF also forecasts a downward path in the deficit of a similar magnitude to that of the SPU, but a little less intense and with a somewhat different timeline.
  - 2024 deficit above 3% of GDP (3.5%)
  - Reductions in 2021 and 2022 more intense than the SPU and due to baseline factors (withdrawal of measures and recovery)
  - Baseline factors run out in 2023 and 2024: slowdown in the reduction
  - The fiscal stance (excluding the boost provided by the RTRP) is considered neutral



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# AIReF's main conclusions on the budgetary scenario of the SPU

- The **reduction** is concentrated in the **Central Government**
- Without extraordinary transfers in 2022, **ARs and LGs** will be **affected** by the impact of the **negative settlements of 2020**
- **Revenue and expenditure** reduce their weight in relation to GDP

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EVOLUTION OF THE BALANCE BY SUB-SECTOR (% PIB)

	2020	AIReF				SPU			
		2021	2022	2023	2024	2021	2022	2023	2024
<b>GG</b>	-11.0	-7.8	-4.6	-3.9	-3.5	-8.4	-5.0	-4.0	-3.2
<b>CG</b>	-8.4	-6.1	-2.0	-2.2	-2.0	-6.3	-3.5	-3.1	-2.5
<b>SSFs</b>	-2.6	-1.8	-1.0	-1.0	-1.0	-1.5	-0.8	-0.7	-0.7
<b>ARs</b>	-0.2	-0.4	-1.7	-1.1	-0.9	-0.7	-0.6	-0.4	-0.2
<b>LGs</b>	0.3	0.3	0.1	0.3	0.3	0.0	0.0	0.3	0.3

## 2. Macroeconomic scenario of the 2021-2024 SPU

The macroeconomic scenario of the stability programme suggests high growth in 2021-2022, supported by the revival of consumption, the normalisation of tourism and the impact of the Recovery, Transformation and Resilience Plan

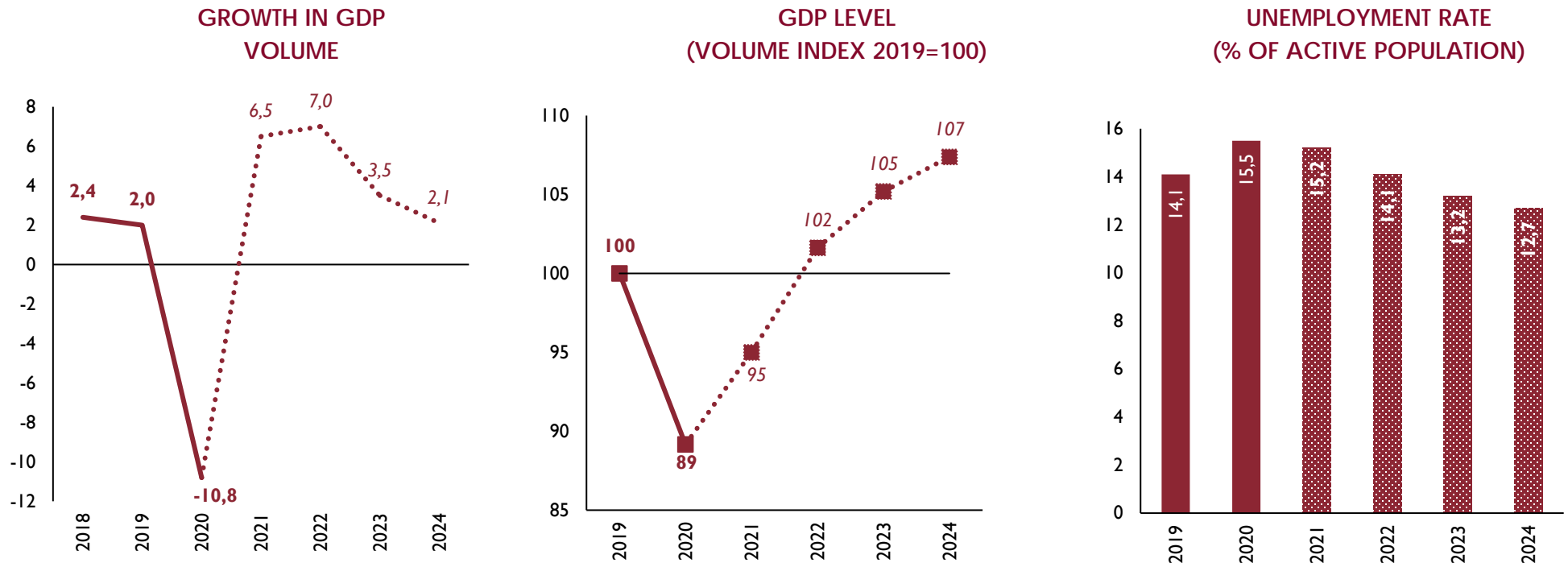
- Activity recovers to pre-crisis levels by the end of 2022 and converges in 2024 to rates above the potential estimated prior to the crisis
- The saving rate reaches levels similar to those of 2019 in 2024
- The unemployment rate in 2024 is lower than that recorded at the end of 2019

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Source: Ministry of Economic Affairs and Digital Transformation.

# AIReF envisages a scenario that in principle is similar to that of the Government, albeit subject to downside risks

The progress made in the vaccination process reduces the likelihood of more adverse scenarios

- A scenario-based analysis is ruled out and a **probabilistic analysis** of the forecasts is once again performed
- However, a detailed analysis of the **risks** is carried out

<i>Year-on-Year Rates of Change</i>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Domestic private final consumption expenditure</b>	-12.1	7.6	6.8	2.4	1.9
<b>General Government final consumption expenditure</b>	3.8	2.6	-0.5	0.8	0.5
<b>GFCF Equipment and cultivated assets</b>	-12.2	16.6	15.9	3.2	1.4
<b>GFCF Construction and intellectual property</b>	-11.0	10.2	10.3	1.9	1.5
<b>Domestic Demand*</b>	-8.8	7.3	6.3	2.0	1.5
<b>Exports of goods and services</b>	-20.2	10.3	14.0	4.1	2.1
<b>Imports of goods and services</b>	-15.8	13.2	12.3	2.6	1.3
<b>External balance*</b>	-2.0	-0.7	0.6	0.5	0.3
<b>Gross Domestic Product</b>	<b>-10.8</b>	<b>6.6</b>	<b>7.0</b>	<b>2.6</b>	<b>1.8</b>
<b>Nominal GDP</b>	<b>-9.9</b>	<b>8.2</b>	<b>8.7</b>	<b>4.3</b>	<b>3.6</b>
<b>Gross Domestic Product Deflator</b>	<b>1.1</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>	<b>1.8</b>
<b>Full-Time Equivalent Employment</b>	<b>-7.5</b>	<b>4.6</b>	<b>5.5</b>	<b>2.2</b>	<b>1.6</b>
<b>Unit Labour Cost</b>	<b>5.3</b>	<b>-1.8</b>	<b>-0.5</b>	<b>1.1</b>	<b>1.6</b>
<b>Productivity per Full-Time Employee</b>	<b>-3.6</b>	<b>1.9</b>	<b>1.4</b>	<b>0.4</b>	<b>0.2</b>
<b>Unemployment rate (% of Active Population)</b>	<b>15.5</b>	<b>16.1</b>	<b>14.4</b>	<b>13.6</b>	<b>13.1</b>
<b>Household Saving Rate (% Gross Disposable Income)</b>	<b>14.8</b>	<b>10.2</b>	<b>8.1</b>	<b>7.6</b>	<b>7.4</b>

Sources: INE and AIReF estimations.

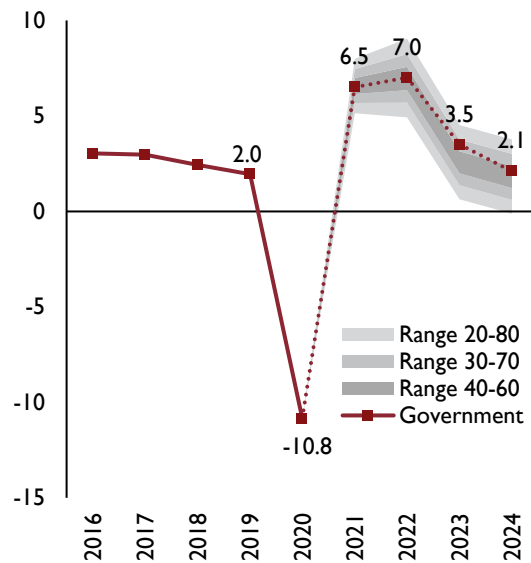
# AIReF considers that the macroeconomic scenario of the SPU is feasible under two fundamental conditions

Both the AIReF and the Government scenarios are drawn up on the basis of the following:

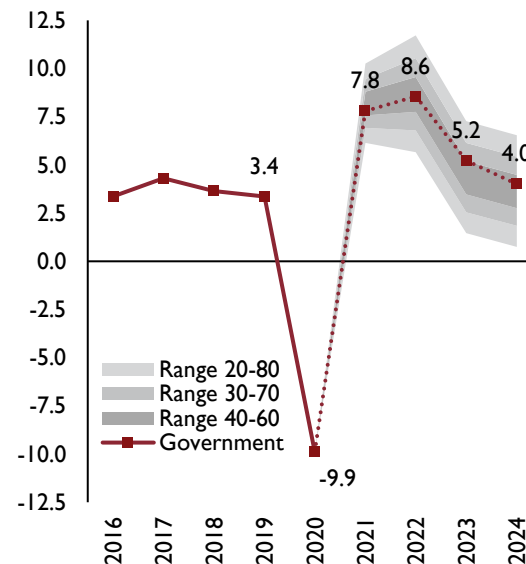
1. The progress in the vaccination process allows for gradual control of the pandemic and a gradual return to normal economic activity, which will be completed by the end of 2022 in the Government's scenario and in 2023 in AIReF's scenario
2. Both scenarios incorporate a **high impact of the RTRP from the second half of 2021**. However, it should be noted that the information in the SPU on the macro impact of the RTRP is not very specific

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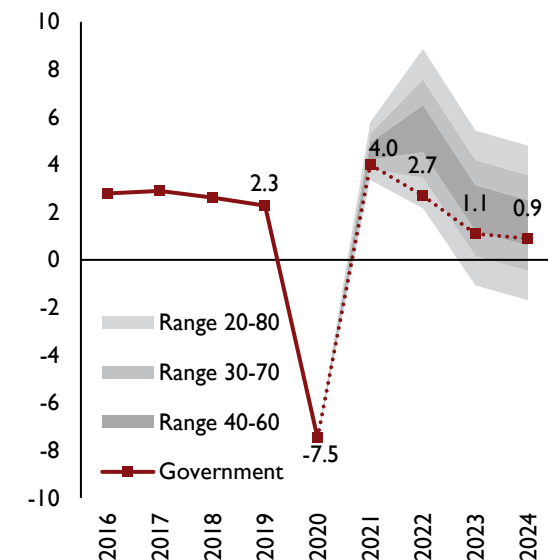
GROWTH IN GDP VOLUME (% CHANGE)



GROWTH IN GDP NOMINAL (% CHANGE)



FULL-TIME EQUIVALENT EMPLOYMENT (% CHANGE)



Source: Ministry of Economic Affairs and Digital Transformation and prepared by AIReF.



# The existing risks and challenges must not be underestimated

## Evolution of the pandemic and vaccination

### The degree of normalisation it will be possible to achieve remains uncertain

- This may condition the **pace of normalisation** of social activities and, in particular, tourism
- The **persistence of the pandemic** raises the likelihood of **structural damage** to the business fabric and the labour market

## The impact of the Recovery, Transformation and Resilience Plan

- The Government has published the details and timing of the **investments**, but the **reforms remain outstanding** in core areas such as the labour market, pensions and taxation. These areas are crucial for assessing the impact of the Plan in the medium term and for the analysis of the sustainability of public finances
- In the short- and medium-term, the implementation of the RTRP faces a major **management challenge**. The **pace of implementation and the quality of the projects that are executed** condition the growth pattern over the SPU forecast horizon

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# A slower return to normal for tourism and other social activities could have a significant impact on growth ...

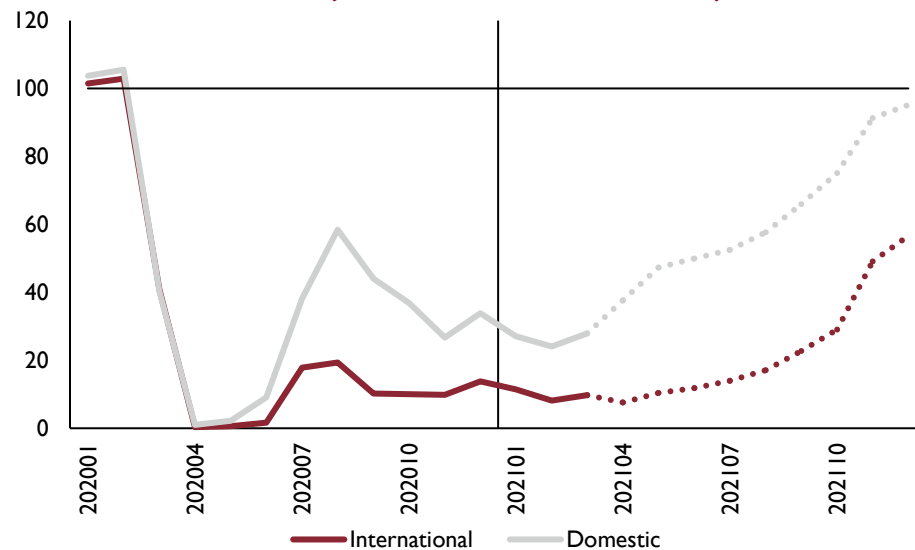
AIReF's scenario assumes that this summer **domestic tourism** maintains levels similar to those of 2020 and recovers pre-crisis levels at the end of the year due to progress in the vaccination process

In the case of **foreign tourism**, the normalisation pattern is slower and until 2023 it does not reach a full recover, in line with the UNWTO scenarios

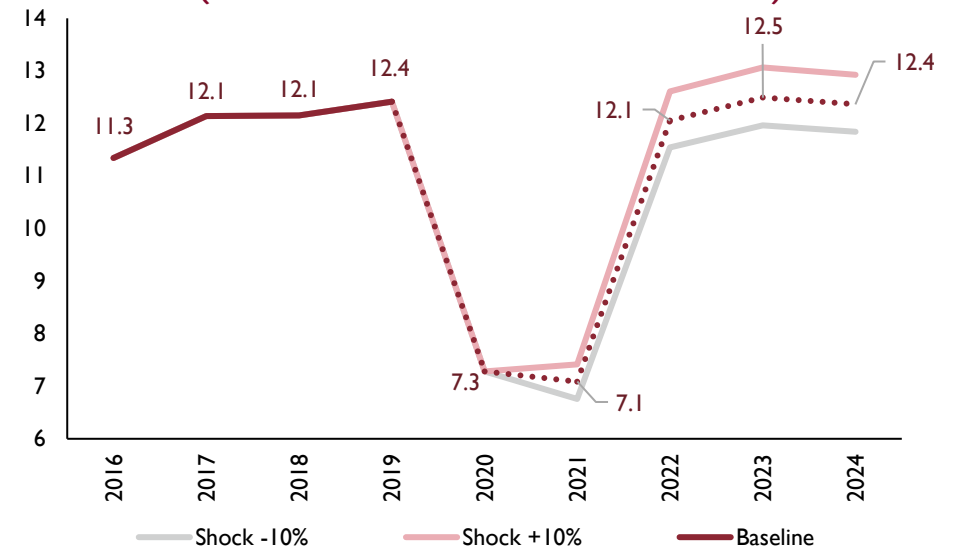
The **SPU** scenario assumes a **full recovery by the end of 2022**

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ASSUMPTIONS OF EVOLUTION OF AIR PASSENGER TRAFFIC IN 2021. (SAME MONTH OF 2019=100)



WEIGHT OF TOURISM IN GDP. SENSITIVITY EXERCISE (±10% GROWTH IN THE PERIOD 2021-2024)



Source: AENA, National Statistics Institute and prepared by AIReF.



## ... and conditions the pattern of job recovery

The SPU scenario assumes a re-absorption of workers on job-retention schemes (ERTEs) over 2021  
The recovery of activities with a higher degree of social contact is essential for this to happen

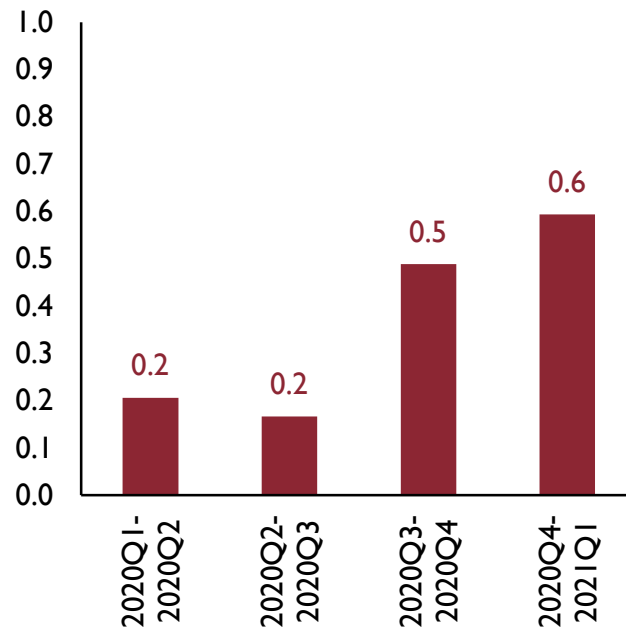
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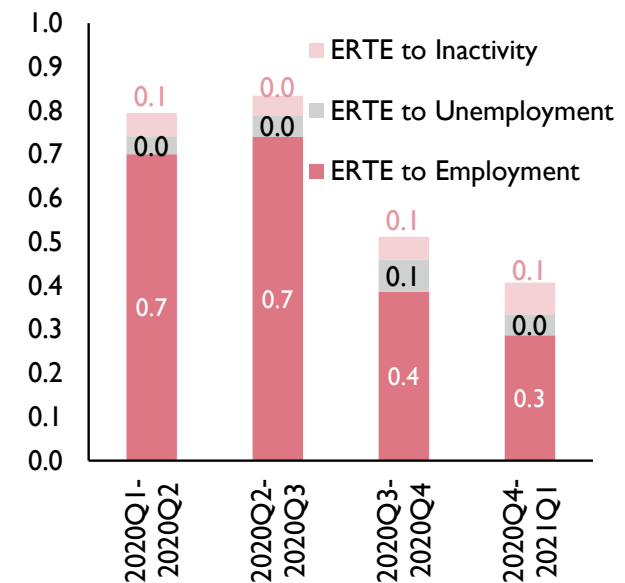
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PROBABILITY OF REMAINING UNDER ERTE



LIKELIHOOD OF LEAVING FROM ERTE TO...



# The duration of the pandemic will also determine the recovery in confidence and the pattern of consumption and savings over the forecast horizon

The SPU assumes that savings fall in 2024 to levels similar to those recorded prior to the crisis (around 7%). **AIReF's scenario is somewhat more cautious.** However, the duration of the pandemic crucially affects this fall

The **vulnerability and uncertainty of some households has risen** and this may introduce caution into their spending decisions

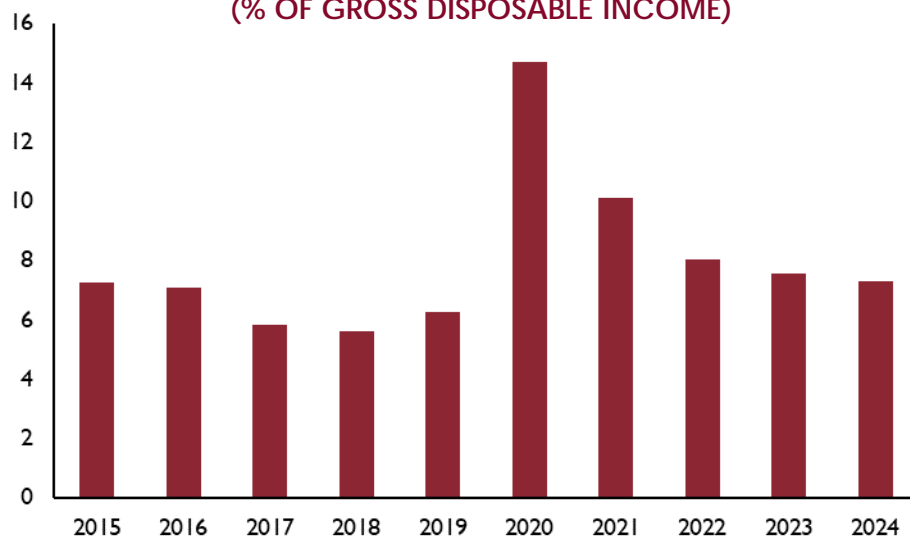
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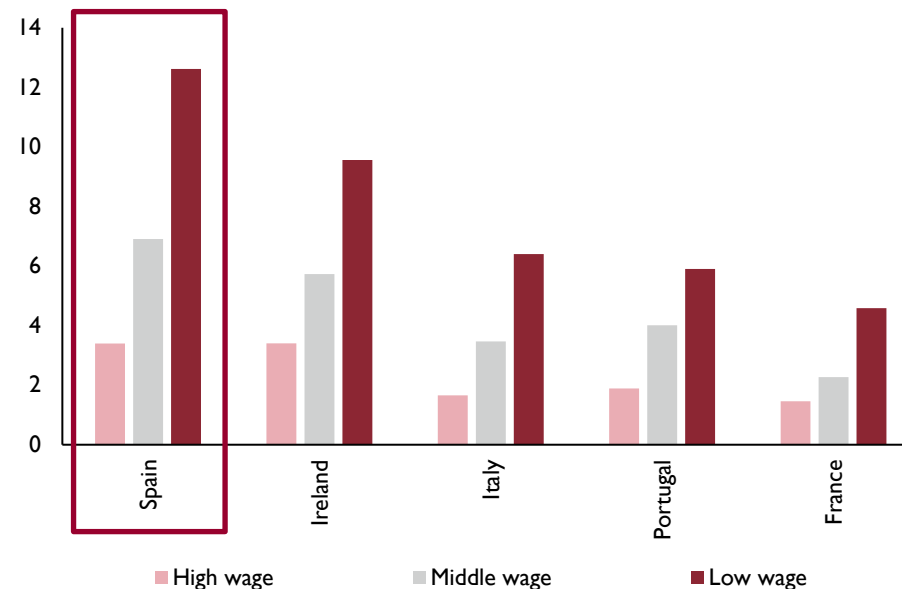
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HOUSEHOLD SAVING RATE  
(% OF GROSS DISPOSABLE INCOME)



Source: National Statistics Institute and AIReF forecasts.

RISK OF EMPLOYMENT LOSS BASED ON LEVEL SALARY FOR THE  
SECOND QUARTER OF 2020 (%)



Source: Eurostat's experimental statistics.



# The impact of the RTRP remains uncertain

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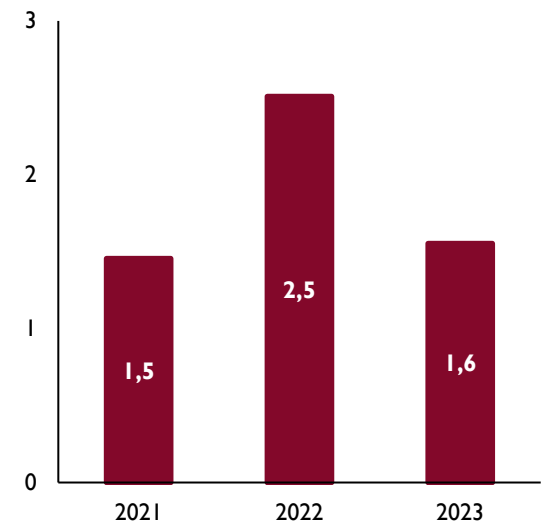
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The SPU is very unspecific about the impact of the RTRP over the forecast horizon: “...in aggregate terms, the Plan will result in an additional 2 points of growth and the creation of over 800,000 jobs over the next three years”

It does incorporate long-term effects (+0.4 pp on GDP growth), even though the details of the reforms are unknown

AIReF estimates that the multipliers may be high (1.2), but warns of the challenges associated with managing this amount of resources in such a short time and of **the need for coordination** between the different public authorities and with the private sector, to achieve additionality, so that the projects will have the assured quality effects

ANNUAL RTRP GROWTH BOOST (PP)



Source: AIReF estimates.

# Macroeconomic impact of recovery plans: comparative analysis

Spain is one of the countries that presents the least information in its RTRP on the macroeconomic impact of the Plan

The multipliers are comparatively high in the short term

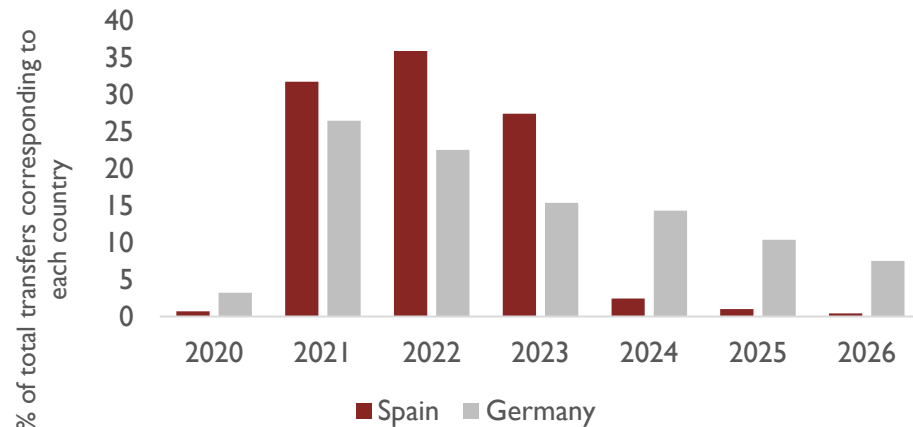
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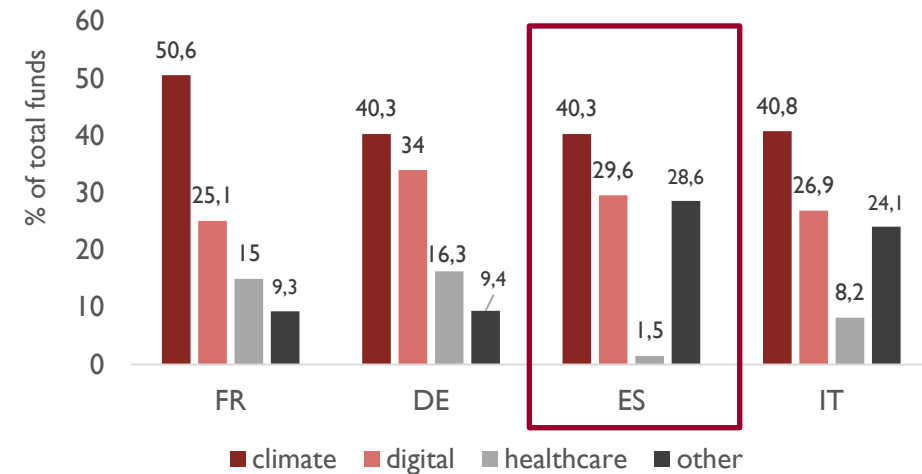
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Time distribution of transfers from RRF



Distribution of RRF funds by thematic area



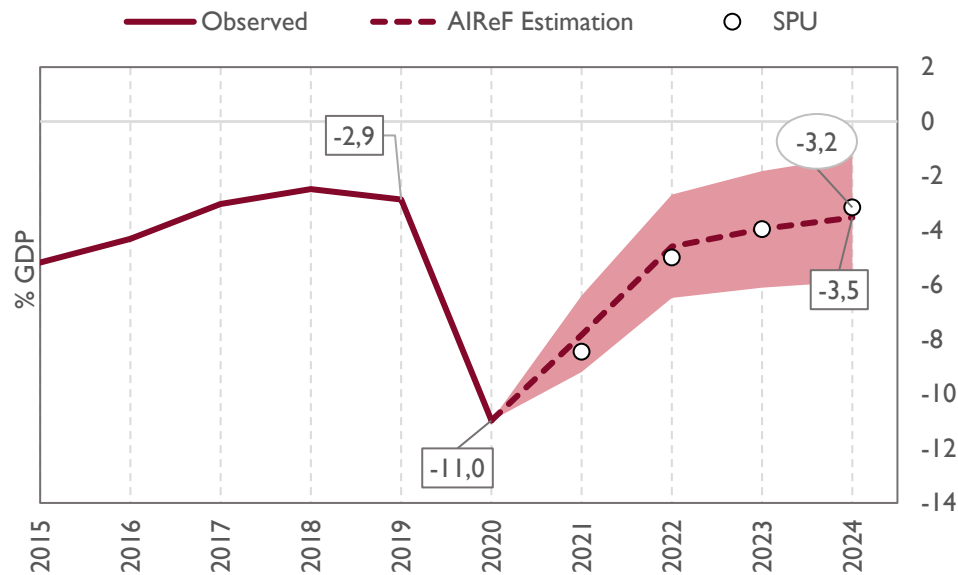
FISCAL MULTIPLIERS

	Germany			France	Italy	Spain
	short-term	medium-term	long-term			
	0.5	1.1	2.0	0.8	1.2	1.1

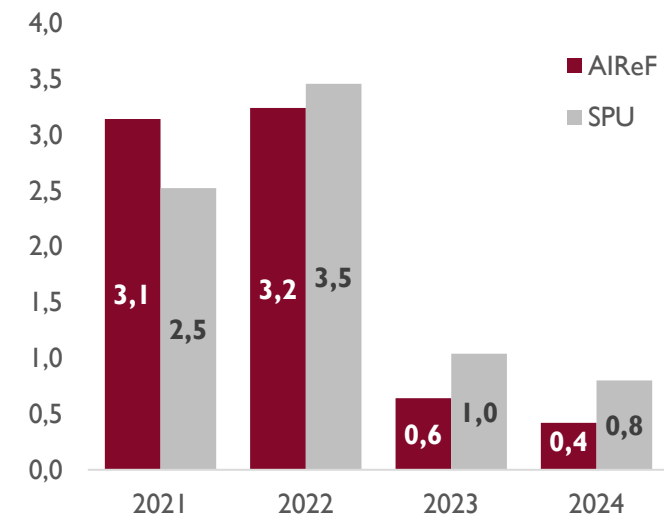
### 3. 2021-2024 Budgetary scenario

For its central scenario, AIReF estimates a reduction in the General Government deficit over the period to 3.5% of GDP in 2024, 0.3 points higher than the figure included in the SPU

EVOLUTION OF GG BALANCE (% GDP)



FORECAST REDUCTION IN THE GG BALANCE (% GDP)

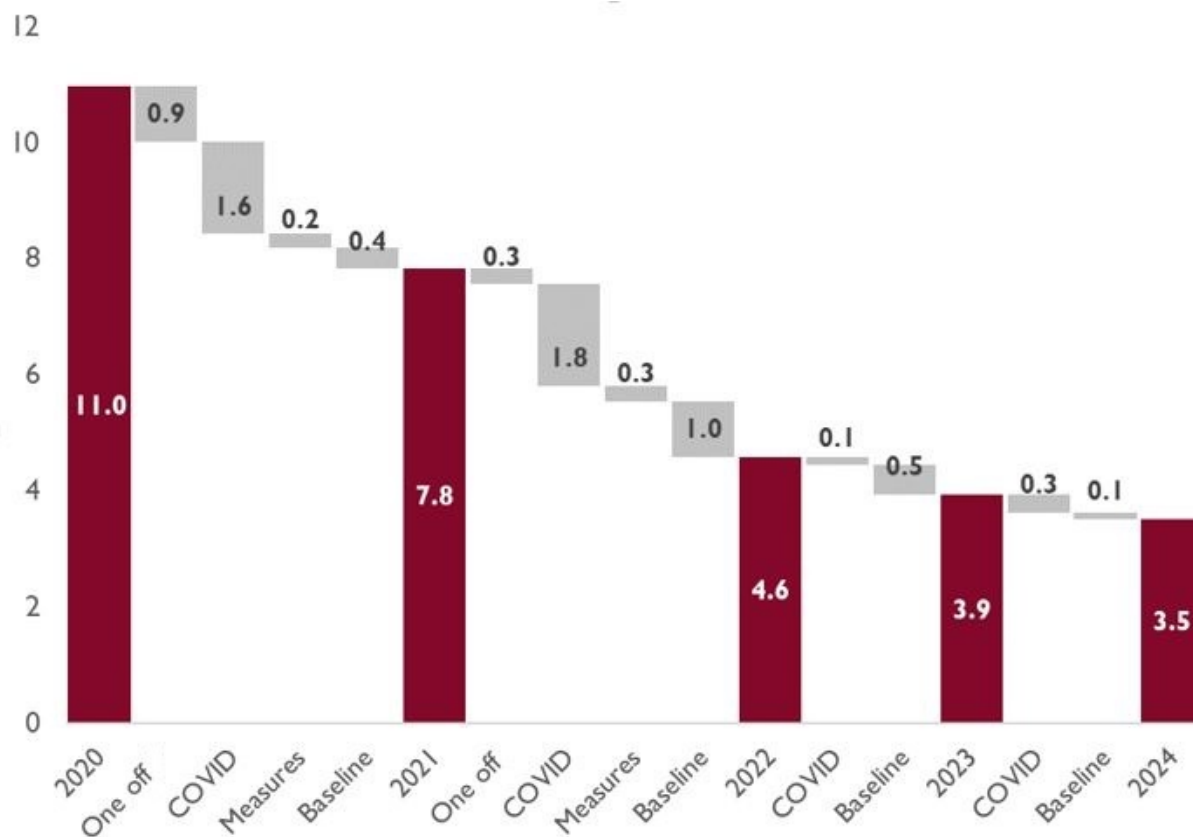


- ❑ **2021-2022:** Sharp reduction in the deficit due to the withdrawal of COVID-19 measures and the economic recovery
- ❑ **2023-2024:** Slowdown in the reduction of the deficit, greater in the case of the AIReF scenario

# 2021-2024 fiscal strategy

The gradual withdrawal of measures to mitigate the effects of the crisis accounts for the bulk of the reduction in the deficit

EVOLUTION OF GG BALANCE (% GDP)

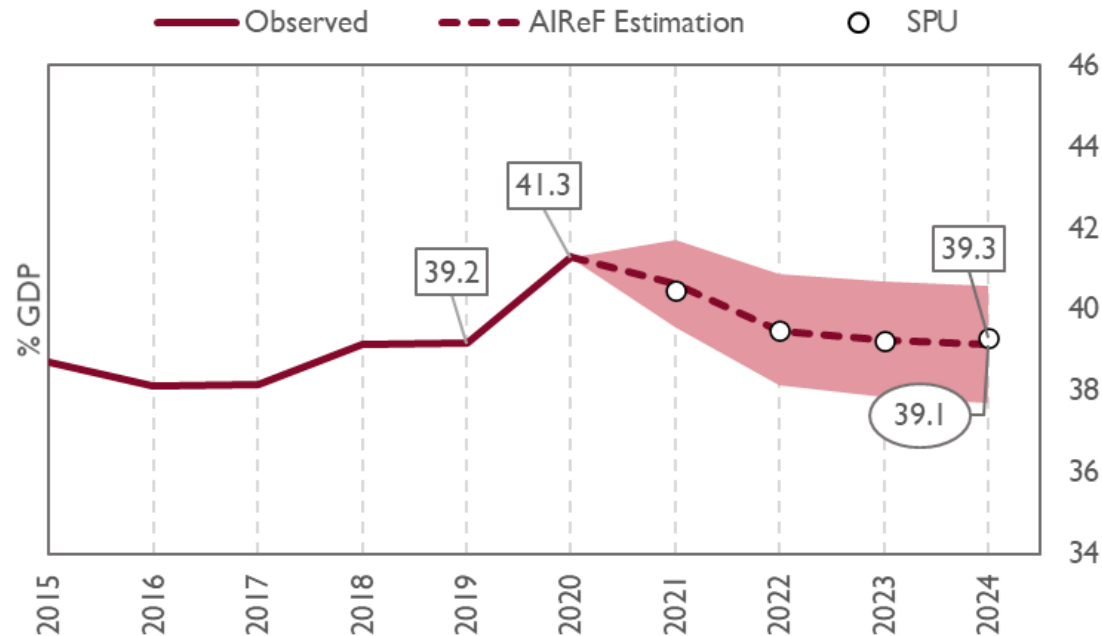


- ❑ **COVID measures:** The resolution of the health crisis allows for their gradual withdrawal
- ❑ **One-off:** Absence of non-recurring items such as SAREB, Castor (2020), ACESA (2021) and APSs
- ❑ **Measures:** Tax reforms included in the 2021 GSB
- ❑ **Baseline:** Increase in revenue from economic recovery offset by baseline evolution of expenditure
- ❑ **RTRP & React EU:** Neutral impact

# Revenue

AIReF forecasts that the weight of revenue over GDP, excluding the RTRP, will gradually fall to 39.1% in 2024, slightly less than 0.2 points below the path of the SPU

EVOLUTION OF GG REVENUE (% GDP)



- The **weight** falls as revenue grows at a slower pace than nominal GDP and practically regains its 2019 weight over GDP
- **Period 2021-2022:** The buoyant economic recovery would lead to average growth of 6%
- **Period 2023-2024:** This growth moderates to an average of 3.5%

# Revenue

**AIReF forecasts higher revenue from taxes on production and lower social security contributions and income taxes**

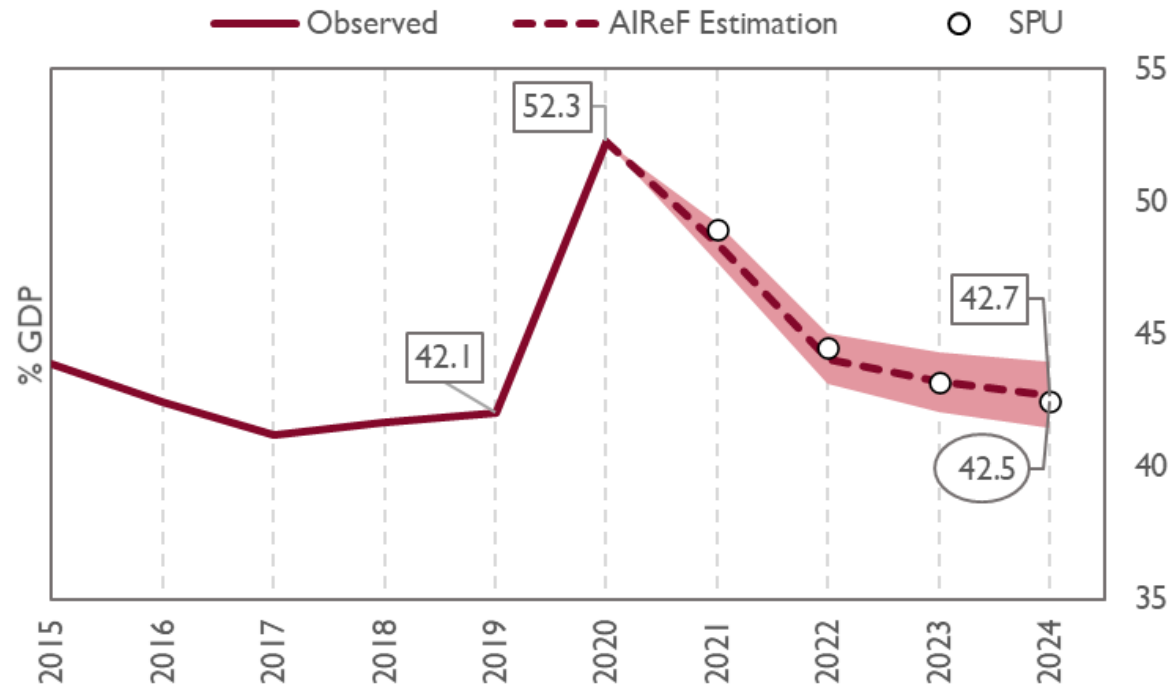
	AIReF				SPU			
	2021	2022	2023	2024	2021	2022	2023	2024
REVENUE	40.6	39.5	39.3	39.1	40.5	39.5	39.3	39.3
TAXES	22.9	22.7	22.7	22.7	22.8	22.3	22.3	22.4
<i>On production</i>	11.5	11.4	11.3	11.2	11.3	11.1	11.0	10.9
<i>On income</i>	11.1	10.9	11.0	11.1	11.1	10.8	10.9	11.2
<i>Capital</i>	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3
CONTRIBUTIONS:	13.6	13.0	12.9	12.9	13.6	13.2	13.1	13.2
Other revenue	4.1	3.7	3.6	3.6	4.1	4.0	3.8	3.7

- **Taxes on Production (VAT & STs):** Growth of over 8% in 2021 – 2022, stabilising at the end of the period at around 3% in line with domestic demand
- **Taxes on Income (PIT & CIT):** Gradual fall in growth in income taxes from 7.2% in 2021 to 4.4% at the end of the period, following the evolution of compensation of employees (PIT) and of GOS (CIT)
- **Contributions:** In 2021 – 2022, strong employment growth offset by the withdrawal of exemptions to move towards more balanced growth between employment and wages of around 3.4%
- **Other revenue:** Stable evolution throughout the period. Back to historical levels

# Expenditure

The weight of expenditure as a proportion of GDP, excluding the RTRP, also falls in AIReF's central scenario, to 42.7% in 2024, 0.2 points above the figure included in the SPU

EVOLUTION OF GG EXPENDITURE (% GDP)



- The **weight falls**, but it does not drop all the way to pre-crisis levels
- **Period 2021-2022:** Sharp reduction as a result of the measures and the fall in non-recurring items
- **Period 2023-2024:** Baseline evolution, more contained in the case of the SPU
- AIReF expects higher figures in public consumption and in other expenditure and lower spending on social transfers

## Expenditure

	AIREF				SPU			
	2021	2022	2023	2024	2021	2022	2023	2024
EXPENDITURE	48.5	44.1	43.2	42.7	48.9	44.5	43.2	42.5
Employee remuneration	11.9	11.2	11.1	11.1	12.1	11.3	11.1	10.9
Intermediate consumption	5.5	5.2	5.0	5.0	5.5	5.1	4.9	4.8
Social transfers in kind via market	2.8	2.7	2.6	2.6	2.9	2.6	2.6	2.5
Social benefits in cash	18.5	16.8	16.7	16.7	18.6	17.2	17.0	17.0
Interest	2.0	1.8	1.7	1.5	2.0	1.9	1.8	1.8
Subsidies	1.5	1.2	1.1	1.1	1.4	1.1	1.0	1.0
Gross capital formation	2.5	2.2	2.1	2.1	2.6	2.1	2.1	2.1
Capital transfers	1.6	1.1	0.9	0.6	1.7	1.2	0.9	0.6
Other expenditure	2.0	1.9	2.0	2.0	2.0	1.9	1.9	1.8

- **Public consumption:** More contained evolution in 2022 as a result of the withdrawal of COVID-19 measures, although a part remains structural
  - Employee remuneration at CPI, number of employees at 1.1% and wage drift according to historical average
- **Social benefits in cash:** Reduction of expenditure on unemployment and ERTes
  - Pensions grow by around 4%: Number of pensions (1%), decreasing substitution effect and revaluation at CPI
- **Interest:** Sharper reduction in the case of AIREF
- **GFCF:** Return to the previous level in the absence of non-recurring items and without including the RTRP
- **Other expenditure:** Withdrawal of capital transfer measures and the rest stable



## Balance by sub-sector

AIReF forecasts a lower deficit for the CG and a higher deficit for the SSFs and the ARs than the SPU, which may be due to the implicit assumption of higher transfers between these sub-sectors.

BALANCE BY SUB-SECTOR (% GDP)

	AIReF				SPU			
	2021	2022	2023	2024	2021	2022	2023	2024
GG	-7.8	-4.6	-3.9	-3.5	-8.4	-5.0	-4.0	-3.2
CG	-6.1	-2.0	-2.2	-2.0	-6.3	-3.5	-3.1	-2.5
SSFs	-1.8	-1.0	-1.0	-1.0	-1.5	-0.8	-0.7	-0.7
ARs	-0.4	-1.7	-1.1	-0.9	-0.7	-0.6	-0.4	-0.2
LGs	0.3	0.1	0.3	0.3	0.0	0.0	0.3	0.3

- **CG:** It took on the bulk of the increase in the deficit in 2020 and also the bulk of its reduction
- **SSFs:** They would stabilise their deficit at around 1% of GDP as from 2022
- **ARs:** In the absence of extraordinary transfers, increase in deficit in 2022 as a result of the negative settlements of the regional financing system and normalisation in 2023 and 2024 with a higher deficit than in 2019 as part of the expenditure associated with the crisis becomes structural
- **LGs:** They would recover their structural surplus at around 0.3% of GDP, following the impact of the negative settlement in 2022

# The implementation of the RTRP has implications for fiscal strategy that have not been assessed in the SPU and which AIReF has not been able to evaluate

The RTRP investments have different levels of risk of raising structural expenditure once completed

**High risk**

IV. Modernisation of the GG  
VI. Science and Innovation Pact. Strengthening capabilities of the NHS  
VII. Education and knowledge, lifelong learning and capacity building  
VIII. New care economy and employment policies

**Medium risk**

V. Modernisation and digitisation of the industrial fabric and SMEs, recovery of tourism and promotion of Spain as an entrepreneurial nation  
IX. Promotion of culture and sports industries

**Low risk**

I. Urban and rural agenda, the fight against depopulation and agricultural development  
II. Resilient infrastructures and ecosystems  
III. Just and inclusive energy transition

The fiscal strategy should provide for structural financing (more revenue or less expenditure in other areas) for structural spending increases

# The RTRP reforms that might lead to savings are not detailed or quantified in the SPU

The reforms are not yet specifically implemented through legislation and affect core areas for the growth and sustainability of public finances

## Pension reform

Complex reform with many conflicting and undefined components:  
- Revaluation with the CPI, effective retirement age, supplements...

## Labour reform

Pending definition  
Possible impact on unemployment expenditure  
Active employment policies

## Modernisation of the GG

Increase in investment in the short term  
Long-term savings?  
Improvement in public spending efficiency

## Tax reforms

Bringing revenue closer to the level of peer countries  
Environmental taxation  
Measures to combat fraud

The SPU does not contain information on REACT-EU funds, which would also not be incorporated into the budget projections

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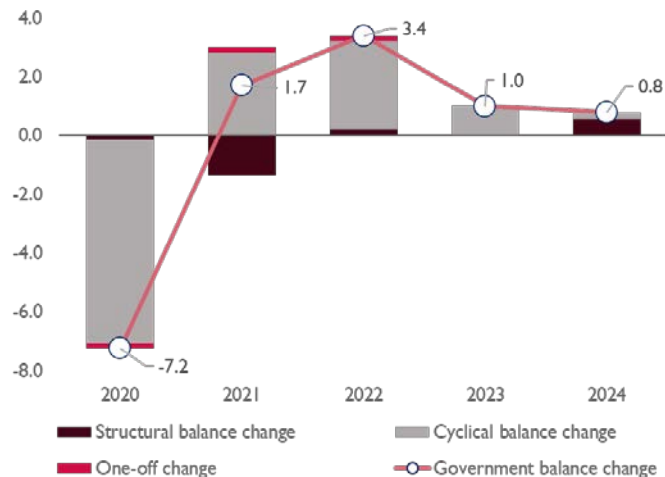
4. Recommendations

# Evaluation of the fiscal policy stance implicit in the fiscal path of the SPU

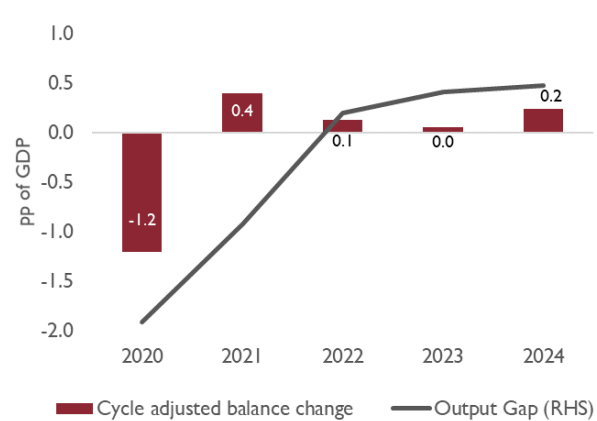
- The SPU's budgetary path implies a **strongly expansionary fiscal policy in 2021**, which becomes **neutral in 2022 and 2023**, to begin **consolidation in 2024**
- AIReF's estimates yield a somewhat different path, with a **basically neutral fiscal policy stance from 2022**
- When the **output gap recovers to an equivalent level to that prior to the pandemic**, the **structural deficit will be one point higher than at year-end 2019**

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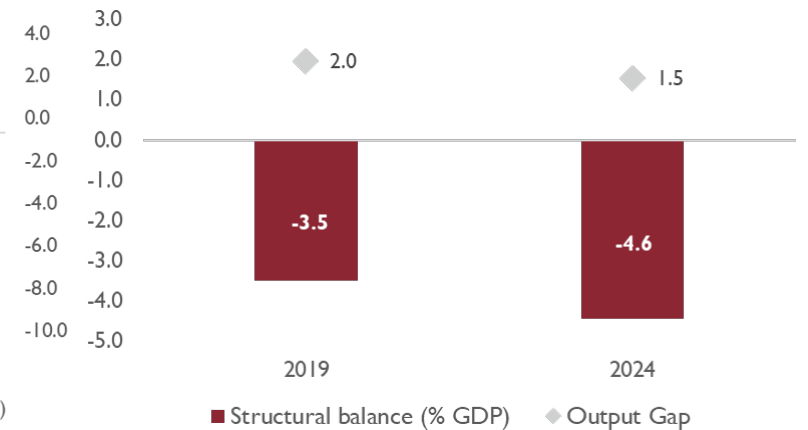
CONTRIBUTIONS TO THE CHANGE IN GOVERNMENT BALANCE - STABILITY PROGRAMME



DETAIL OF CYCLE ADJUSTED BALANCE - AIReF



STRUCTURAL BALANCE AND OUTPUT GAP - AIReF



# The starting fiscal position is an additional difficulty when tackling the challenges of the crisis

- **24.5-point increase** in the debt ratio, to 120%. Spain has the worst deficit and the deepest recession of all EU countries
- On top of the previous high level, the increase in the government debt-stock **places sustainability in a position of greater vulnerability**
- Despite this rise, **the financial burden has eased**, both in absolute terms and as a percentage of GDP (2.2%)

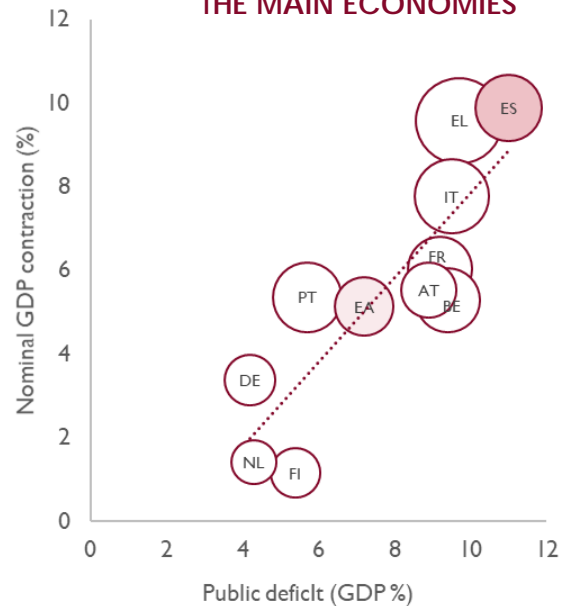
1. Introduction

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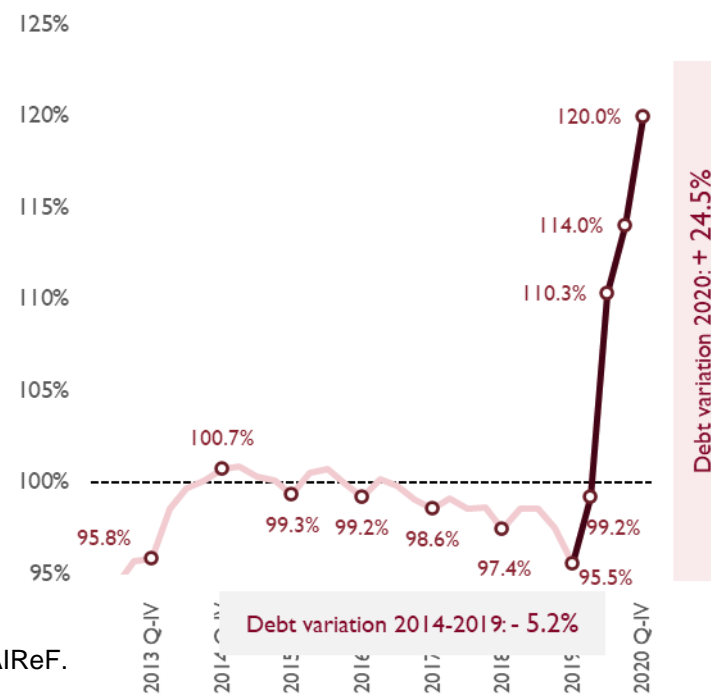
3. Fiscal scenario

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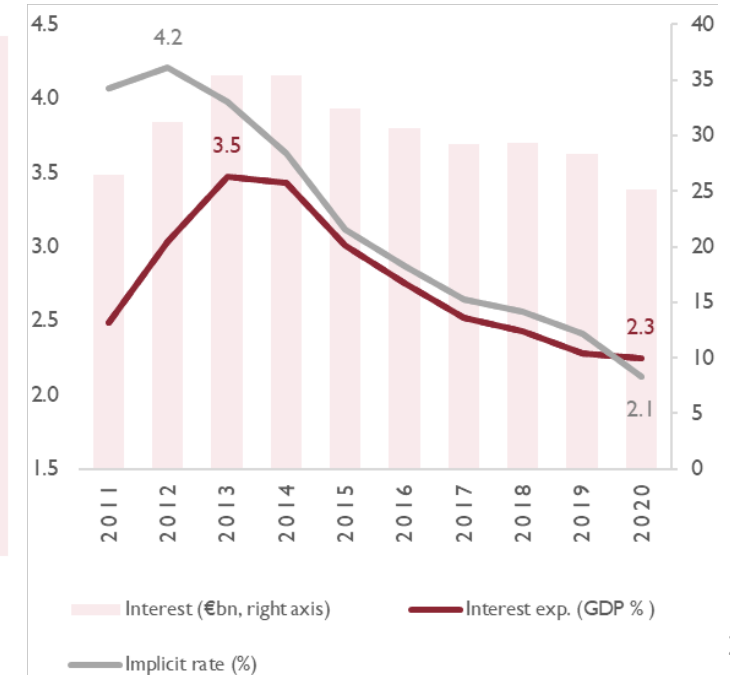
FALL IN GDP, DEFICIT AND DEBT SIZE OF THE MAIN ECONOMIES



DEBT (% GDP)



FINANCIAL BURDEN AND IMPLICIT RATE OF THE DEBT



Sources: Bank of Spain, INE, Eurostat and prepared by AIReF.

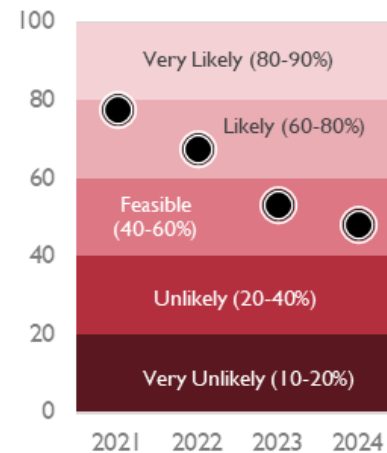
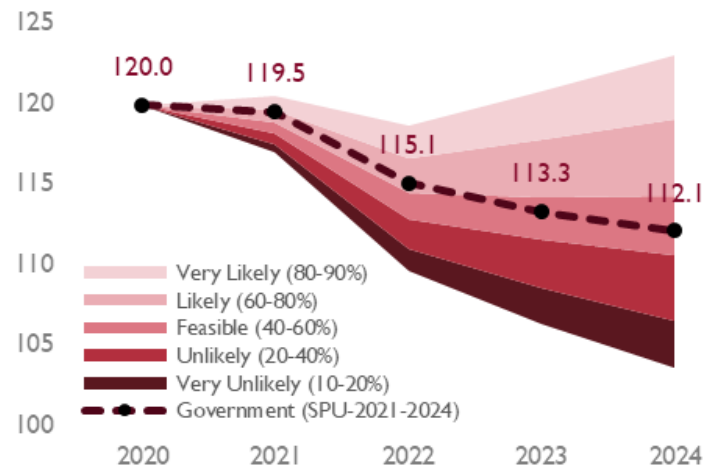


# The expected rebound in economic activity together with the boost from the RTRP project a reduction in the debt ratio...

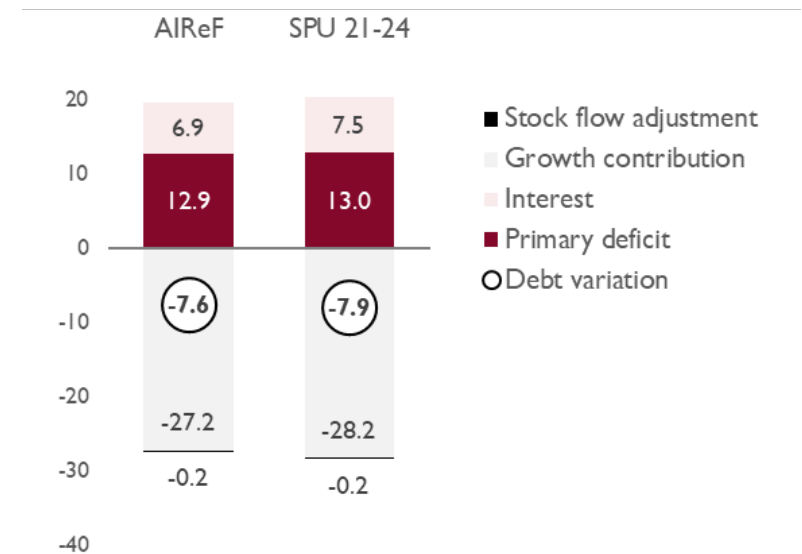
- Under the macro-fiscal forecasts, AIReF projects a reduction in the debt-to-GDP ratio of 7.6 points for 2024, placing the ratio at 112.4%.
- AIReF considers the debt projection included in the SPU for 2024 to be feasible
- The RTRP will have a positive but limited effect on reducing the debt ratio in the coming years, between 3.5 and 7 points by 2024

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DEBT FORECASTS (%GDP) AND LIKELIHOOD OF REACHING A RATIO EQUAL TO OR LOWER THAN THAT PROJECTED BY THE GOVERNMENT IN THE 2021-2024 SPU



CONTRIBUTIONS TO THE CHANGE IN THE DEBT-TO-GDP RATIO



Sources: Government and prepared by AIReF.



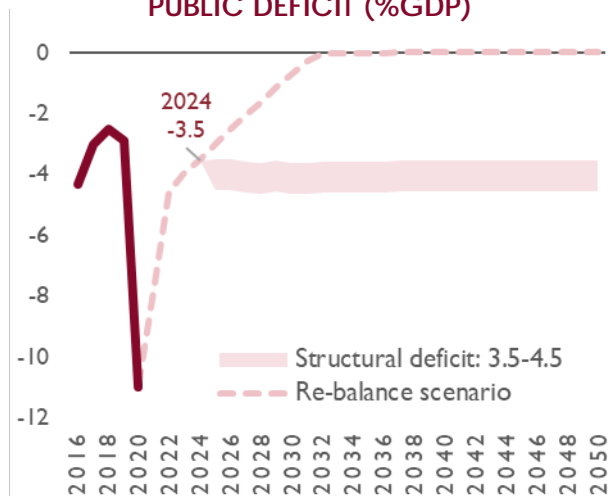
# ...although it will also be necessary to design a consolidation plan that puts debt at more prudent levels and generates fiscal space allowing future risks to be addressed

- **Monetary policy** support has helped to maintain **very favourable financing conditions for government bonds** at the most critical times of this crisis
- But the **high levels** imply that it will be necessary to design consolidation plans that generate a downward path that makes it possible to **address future risks**
- **Higher spending on pensions**, together with a possible tightening of financing conditions, are seen as the **main risks for sustainability**

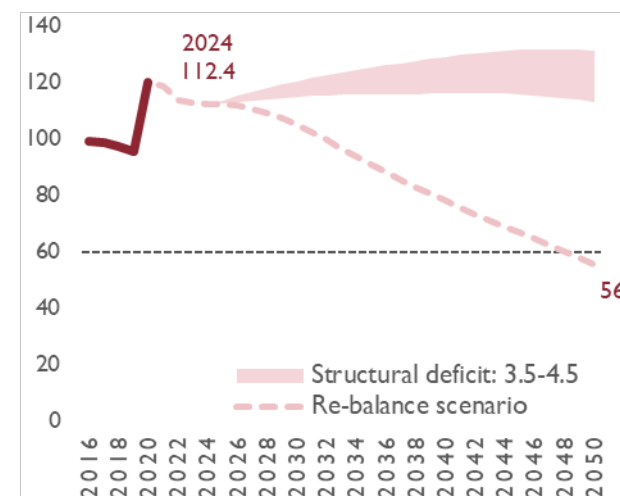
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Maintaining a structural deficit similar to that of 2024 (between 3.5% and 4.5% of GDP) would stabilise the debt-to-GDP ratio at levels significantly over 100%

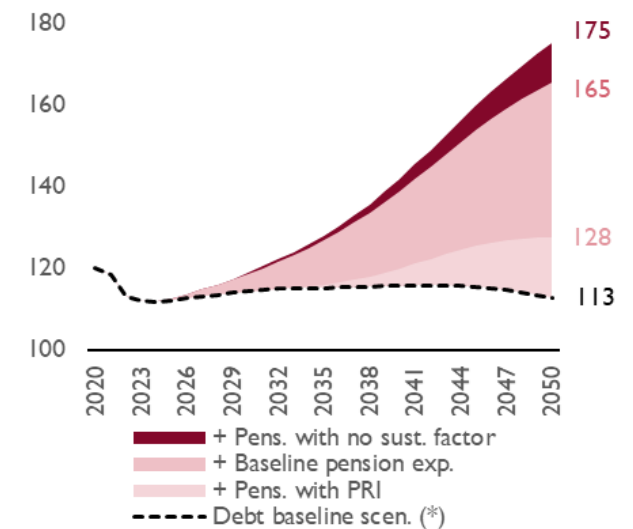
SCENARIOS FOR THE EVOLUTION OF THE PUBLIC DEFICIT (%GDP)



DEBT SIMULATION (% GDP) ACCORDING TO DEFICIT SCENARIOS



DEBT PATH (% GDP) WITH INCREASED EXPENDITURE ON PENSIONS



(\*) With a deficit of 3.5% plus the structural deficit resulting from higher pension expenditure (PE)

Sources: Prepared by AIReF.



## 4. Recommendations in the Report on the SPU

### **New Recommendation: Medium-term fiscal strategy**

*The Ministry of Finance should complete the medium-term fiscal strategy for achieving a level of deficit that is sufficient to steer the debt towards more sustainable levels that will reduce the vulnerability of the Spanish economy, which involves:*

- a. Extending the time horizon of the strategy*
- b. Integrating into the strategy the macroeconomic and fiscal implications of the implementation of the investments and reforms set out in the RTRP*

### **Live recommendation: Information in the SPU**

*Include the following information in the Stability Programme Update (SPU):*

- Budgetary projections for the General Government as a whole and for every of the sub-sectors, incorporating the measures and showing their contribution to the planned deficit reduction*
- Government debt targets broken down by sub-sector*
- Detailed information for analysing the expenditure rule for each of the sub-sectors (computable expenditure and reference rates for all the years covered by the SPU)*
- More information on any risks which, should they occur, might affect budgetary or debt stability targets*

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# Recommendations in the endorsement of the macroeconomic forecasts

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## **New Recommendation: Information for the endorsement of the macroeconomic forecasts**

*AIReF also called for more information on the budgetary and fiscal measures included in the macroeconomic scenario with the aim of increasing the rigour of the endorsement process. The law establishes that the endorsement refers exclusively to the macroeconomic outlook and not to the public finances scenario. However, given the interrelations between the two aspects, AIReF believes that an endorsement with greater rigour would require more detail on the measures incorporated, particularly when these are of the significance of those contained in the European Recovery, Transformation and Resilience Plan.*

## **Live recommendation: Memorandum of Understanding**

*AIReF once again reiterated the need for the process of endorsing the macroeconomic forecasts to be regulated by an agreement between the parties. With the aim of making the process of endorsing the macroeconomic framework more transparent and efficient, AIReF reiterates its recommendation to the Government to regulate the flow and timing of the exchange of information through an agreement or "memorandum of understanding", in line with current practices in comparable countries with regard to the interaction between the Government and the National Independent Fiscal Institution.*



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