AIReF Autoridad Independiente de Responsabilidad Fiscal

Debt Monitor

May 2021

I. Recent evolution and starting point

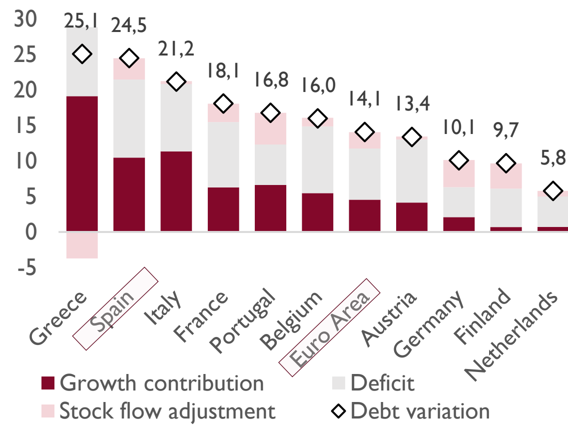
- *The COVID-19 pandemic triggered a global economic crisis in 2020 that has caused a deterioration in the public finances and an all-time high rise in public debt ratios, together with a contraction of global GDP of over 3% and a public deficit standing at more than 10% of GDP in many economies.*
- *The Spanish debt-to-GDP ratio stood at 120% in 2020, an increase of 24.5 points on the level of the previous year. The sharp fall in GDP, the denominator of the ratio, contributed 10.5 points to this rise, while the public deficit added 11 points. In addition, the reclassification of the debt of Sareb has added €34.15bn to government debt, accounting for most of the three points of the stock-flow adjustment. By sub-sector, the Central Government and the Social Security Funds have borne most of the increase in debt in 2020 (21 points).*
- *In the first quarter of 2021, public debt continued to rise sharply, adding €47.13 billion to stand at €1.39 trillion. This has led to an increase in the debt ratio of 5.2 points compared with year-end 2020, to reach a new record of 125.2% of GDP. The upturn in economic activity expected over the coming quarters points out that it may have reached a ceiling in the short term.*
- *The significant increase in the stock of government debt resulting from the shock, on top of a leveraged starting point, places the sustainability of public finances in a highly vulnerable position, in an excellent financing environment.*
- *Despite increased borrowing, the effective cost of financing General Government debt has continued to fall. This has made it possible to reduce interest expenditure both in absolute terms and as a percentage of GDP.*
- *The borrowing of the Public Treasury has increased significantly, with gross issues recording a historic high in 2020, both in monetary terms and in relation to GDP (25%). A slight increase in gross issues is estimated for 2021.*
- *Expectations of economic growth in recent months, driven by fiscal and monetary stimuli in the United States, have triggered a rise in inflation expectations worldwide and an upward trend in long-term sovereign bond yields.*
- *At its April meeting, the ECB kept official interest rates at minimum levels and continued the stimulus programmes adopted in the health crisis, noting that the upturns in European inflation are due to technical and transitional factors. The announcement of a “significantly higher” rate of PEPP purchases in the second quarter than in the first has managed to contain the long-term upward trend in debt interest rates.*

International context of the COVID crisis

❶ The **COVID-19** pandemic triggered a **global economic crisis** in 2020 that has resulted in a **deterioration in public accounts** and **an unprecedented increase in government debt ratios**. In the last 40 years, the world economy had only recorded a slight fall on one occasion (-0.1% in 2009), in the period of the Great Recession following the financial crisis. Recent estimates suggest a global GDP contraction of over 3% in 2020 and public deficits of more than 10% of GDP in a large number of economies.

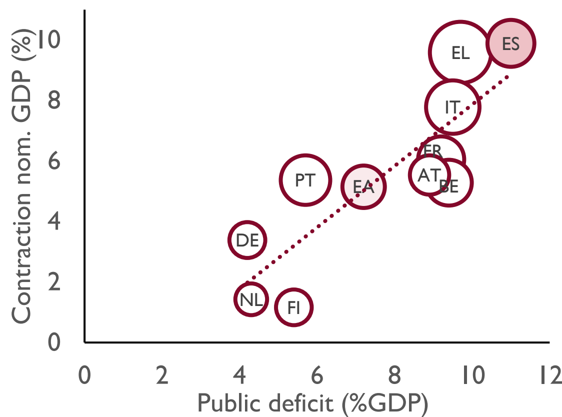
To address the health crisis, ensure the continuity of viable firms and avoid mass redundancies, governments around the world have taken unprecedented fiscal measures. This discretionary increase in expenditure together with the operation of automatic stabilisers has led to a very significant deterioration in the balance of the public accounts and increased borrowing. In particular, it is estimated that the **global and the euro area debt ratios will increase by close to 15 points of GDP**, which in both cases will stand at **around 100%.**

Contribution to the change in debt (% GDP) of the main euro area economies (2020)



Source: Eurostat

Contraction in GDP, deficit and debt size of the main euro area economies (2020)



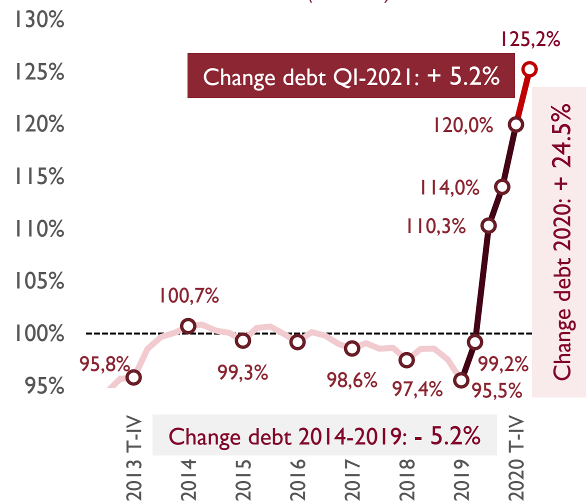
Source: Eurostat

❷ **The Spanish debt-to-GDP ratio stood at 120% in 2020, an increase of 24.5 points on the level of the previous year**. The sharp fall in GDP, the denominator of the ratio, contributed 10.5 points to this increase, while the public deficit added 11 points. In addition, the reclassification of the debt of Sareb added €34.15bn to government debt, accounting for most of the stock-flow adjustment in 2020 (3 points). In this regard, **Spain was the economy most affected by the pandemic within the European Union**, recording the largest public deficit and the largest contraction in GDP in 2020.

Evolution of Spanish debt

❸ **In the first quarter of 2021, public debt continued to rise sharply**, adding €47.13 billion to stand at €1.39 trillion. This has led to an increase in the debt ratio of **5.2 points** compared with year-end 2020, to reach a new high of **125.2% of GDP**. This significant change is mainly due to the traditional accumulation of Treasury issues in the first part of the year and a denominator effect (1 of the 5.2 points) given the fall in GDP in the first quarter (-0.5% in terms of volume). The upturn in economic activity expected over the coming quarters points out that it may have reached a ceiling in the short term.

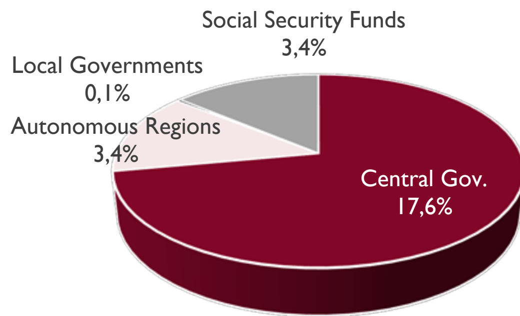
Public Debt (%GDP)



Source: Bank of Spain

Evolution of Spanish debt

Increase in public debt in 2020 by sub-sector (% GDP)

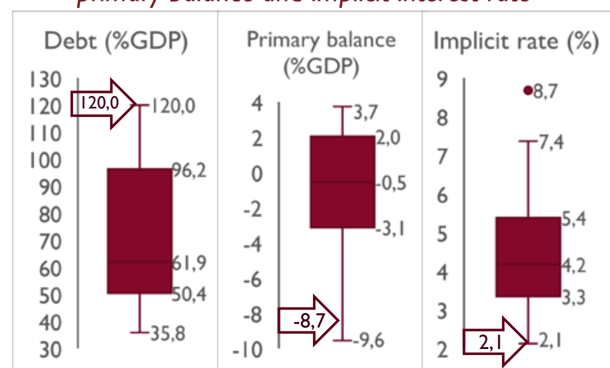


Source: Bank of Spain

❹ **The Central Government and the Social Security Funds bore most of the increase in debt in 2020 (21 points) by financing most of the expenditure associated with the pandemic**. The extraordinary transfers and the non-impact of the fall in tax revenues on the instalment payments made to the Autonomous Regions under the ordinary regime have mitigated the increase in their debt ratio. This ratio has only grown by 3.4 points – to 27.1% of GDP – of which 2.6 points are attributable to the denominator effect. On their behalf, Local Governments saw practically no increase in their debt.

❺ **The significant increase in the stock of public debt due to this crisis on top of a *leveraged starting point* places the sustainability of public finances in a highly vulnerable position.** The Great Recession led to an increase of over 65 pp in General Government debt between 2008 and 2014, placing it at a level of 100% of GDP. In the five years prior to the Covid crisis, there was a subtle reduction in the debt (5 pp) despite the favourable tailwinds (sustained growth and a sharp fall in interest rates).

Frequency distribution (1995-2020) of the debt, primary balance and implicit interest rate



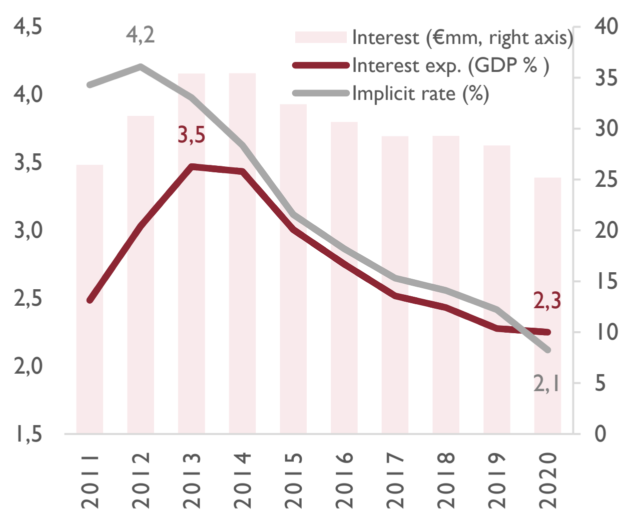
Source: AIReF

The contraction in economic activity and the sharp increase in borrowing caused by the pandemic have placed the sustainability of public finances in a highly vulnerable position, stretching the fiscal variables - both flows (deficit) and stocks (debt) - to all-time highs, in an excellent financing environment.

Financial burden

❻ Despite increased borrowing, **the effective cost of financing General Government debt has continued to fall**. This has made it possible to **reduce interest expenditure** both in absolute terms and as a percentage of GDP, for it to stand at 2.2% at year-end 2020. Since mid-2012, the effective cost of financing General Government debt has systematically fallen by a cumulative total of 210 basis points to record a new all-time low in 2020. In particular, the average cost of outstanding State debt in 2020 stood at 1.86%, while the average cost of new issues fell to 0.18.

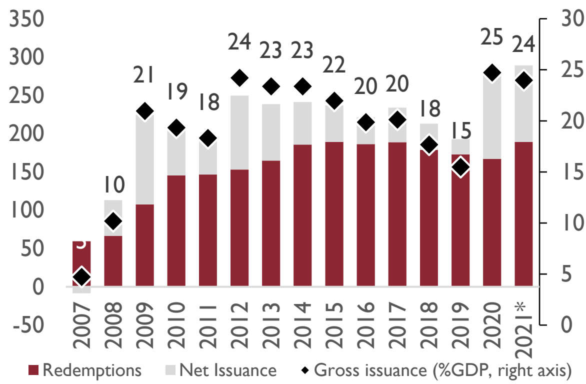
Financial burden and implicit rate of the debt



Source: IGAE, INE and AIReF

Borrowing

Treasury Borrowing (€bn & % GDP)



Source: Public Treasury

❼ **Treasury borrowing has risen significantly in 2020 and 2021.** Gross issuance (€277bn) recorded an all-time high in 2020 both in monetary terms and in relation to GDP (25%). A slight increase in gross borrowing is estimated for 2021 despite the €10bn reduction in net issuance compared with 2020, as a result of the increase in refinancing and greater use of short-term instruments.

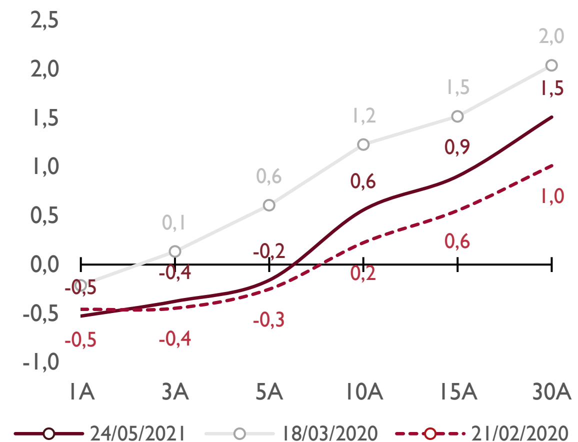
Evolution of sovereign debt markets

❽ **Expectations of economic growth** in recent months, driven by fiscal and monetary stimuli in the United States, **have triggered a rise in inflation expectations worldwide and an upward trend in long-term sovereign bond yields.** In the case of Spain, this has resulted in a certain steepening of the yield curve, with an increase in the yield of the 10-year bond of +50 bp. since the December low. As at the date of this Monitor, the 30-year rate is trading (1.5%) halfway between its value at the start of the crisis (1%) and the maximum recorded at the worst time of March 2020 (2%).

Inflation and nominal interest rates

Source: Refinitiv

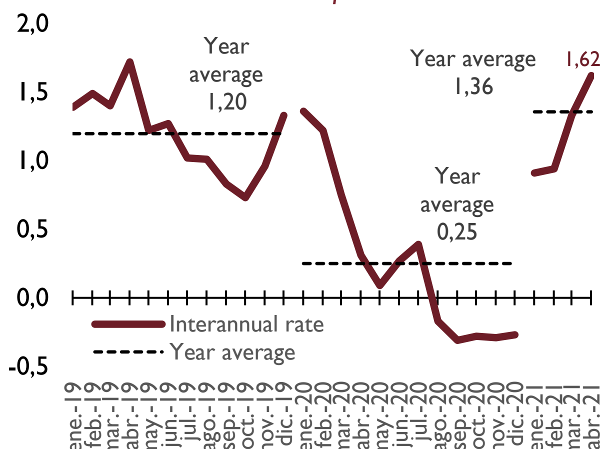
Evolution of Spanish yield curve (%)



Inflation and monetary policy

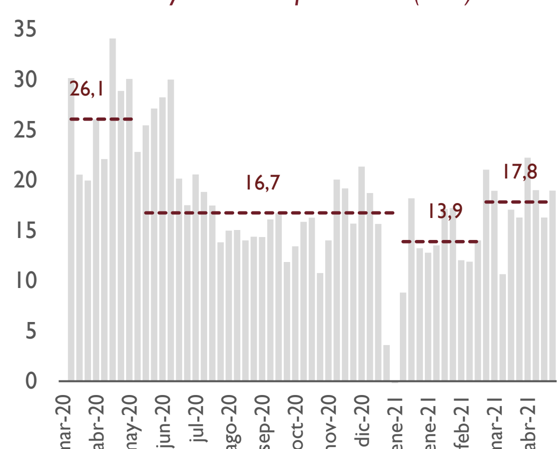
❾ At its April meeting, **the ECB kept official interest rates at minimum levels and continued the stimulus programmes** adopted in the health crisis, **noting that the upturns in European inflation are due to technical and transitional factors**. The announcement of a "significantly higher" rate of PEPP purchases in the second quarter with respect to the first, has managed to contain the long-term upward trend in debt interest rates.

Euro area inflation



Source: Eurostat

Weekly net PEPP purchases (€bn)



Source: European Central Bank

II. Projections in the Stability Programme horizon

- *The expected upturn in economic activity driven by the Recovery, Transformation and Resilience Plan (RTRP), the improvement in the cyclical component of the public balance and the gradual phasing out of the pandemic-related emergency measures, make it possible to project a reduction in the debt-to-GDP ratio of 7.6 points by 2024, when the debt will stand at 112.4%, according to the projections of this Monitor.*

- *In the absence of a medium-term consolidation plan, the high economic growth estimated for the coming years will be the main factor for reducing and stabilising the debt ratio. In addition, the low interest rate environment will help contain the debt ratio, while the large primary deficits projected over the period will continue to push in the opposite direction.*

- *At a sub-sector level, the largest reduction in the debt ratio will be recorded by the Central Government and the Social Security Funds.*

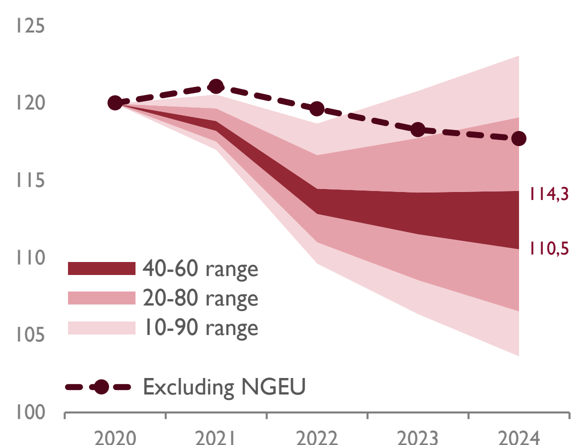
- *AIReF considers the debt projection included in the Stability Programm Update for 2024 to be feasible. According to AIReF's stochastic projections, achieving a debt-to-GDP ratio equal to or lower than that projected by the Government in 2024 is considered feasible.*

1 The macro-fiscal forecasts prepared by AIReF to assess the Stability Programme **project a reduction in the debt-to-GDP ratio of 7.6 points by 2024**, when the ratio would stand at 112.4%. The expected upturn in economic activity driven by the RTRP, the improvement in the cyclical component of the public balance and the gradual phase out of the pandemic-related emergency measures, make it possible to project this reduction in the debt ratio of between 5.6 and 9.4 points by 2024 in the central interval of AIReF's stochastic projections[1]. This would bring the debt-to-GDP ratio to between 110.5% and 114.3%. Most of the reduction in the debt ratio (6.3 out of 7.6 points) takes place in the first two years, while it is forecast to stabilise as from the third year.

Short-term forecasts

The RTRP will have a positive but limited effect on reducing the debt ratio in the coming years. Firstly, the RTRP will provide an additional boost to the recovery and potential long-term growth. This will translate into a better evolution of the fiscal position, and consequently, a further reduction in the debt-to-GDP ratio. Accordingly, an impact of a reduction of between 3.5 and 7 points of the ratio has been estimated for 2024. In addition, it is important to bear in mind that the favourable impact on debt of the funds coming from the Next Generation EU works not only through the expansive effect on the denominator of the ratio, but also thanks to their neutrality as regards the numerator of the ratio.

Stochastic debt projections (% GDP)



Source: AIReF

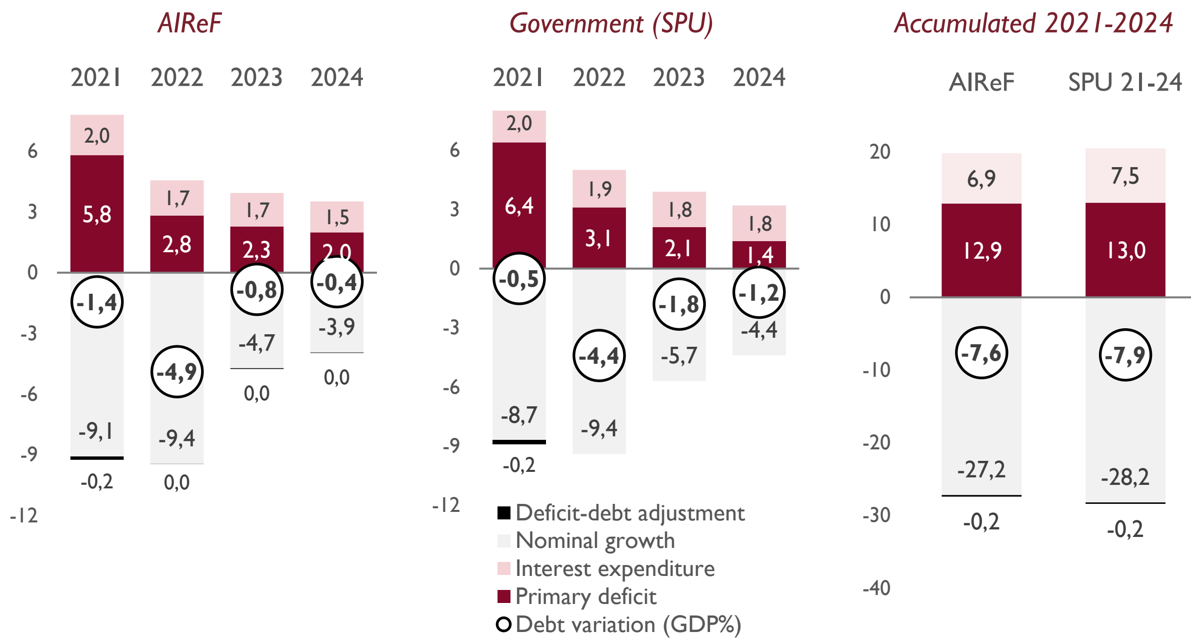
In accordance with the methodological guide published by Eurostat, the principle of neutrality is applied to funds from the Recovery and Resilience Facility. This means, firstly, that they do not imply an increase in the public deficit. Furthermore, the financing obtained in the markets by the European Commission to fund the transfers of the facility is not considered to be debt of the Member States, but debt of the EU as a whole.

[1] The technique consists of simulating a very large number of debt paths incorporating the shocks observed in the past to determine a future probabilistic distribution around a central path through the variance-covariance matrix of the shocks of a VAR model. The central interval corresponds to the 40-60 range of these projections.

Short-term forecasts

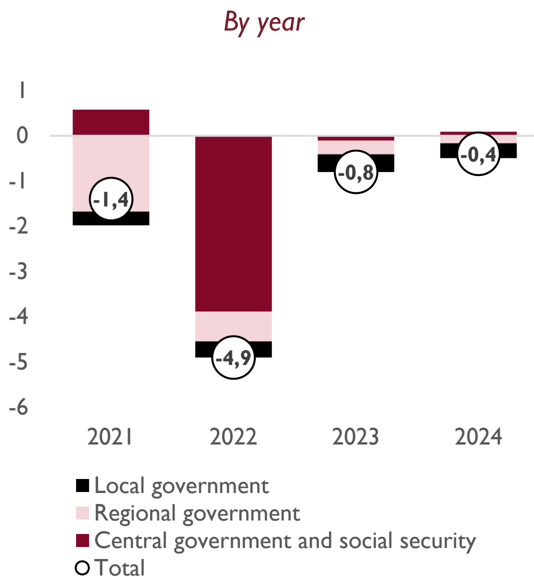
❷ **In the absence of a medium-term consolidation plan, the high economic growth estimated for the coming years will be the main factor in the reducing and stabilising the debt ratio.** The sharp upturn in economic activity expected over the next two years will boost the reduction in the debt ratio in the short term. In addition, the low interest rate environment will help contain the debt ratio, while the large primary deficits projected over the period will continue to push in the opposite direction.

Contributions to the change in the debt-to-GDP ratio



❸ **At a sub-sector level, the largest reduction in the debt ratio will be recorded by the Central Government and the Social Security Funds.** According to forecasts prepared by AIReF, the CG and the SSFs will record the largest reduction in the debt ratio (4.2 of the 7.6 points), to stand jointly at 86.9% of GDP in 2024. The ARs and LGs will reduce their ratio to a lesser extent, by 2.1 and 1.3 points, respectively.

Change in debt by sub-sector (GDP points)



Cumulative in period (2021-2024)

Local government -1,3

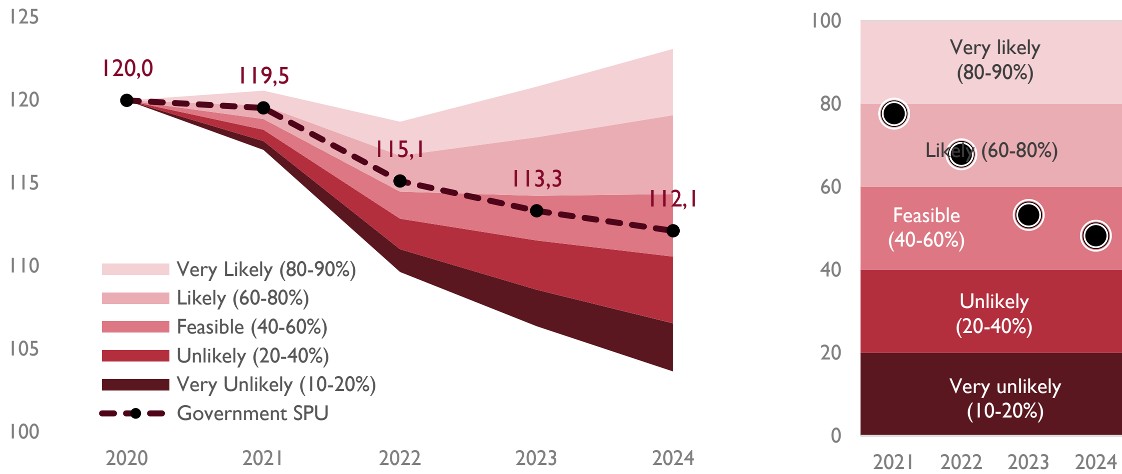
Central governm and social security -3,4

Regional government -2,1

Source: Government and AIReF

❹ **AIReF considers the debt projection included in the SPU for 2024 to be feasible**. According to AIReF's stochastic projections, achieving a debt-to-GDP ratio equal to or lower than that projected by the Government in 2024 is considered feasible.

Debt forecasts (%GDP) and likelihood of reaching a ratio equal to or lower than that projected by the Government in the 2021-2024 SPU



Source: Government and AIReF

III. Sustainability and risk analysis

- *The pandemic has heightened the challenges associated with high levels of public debt, the future sustainability of which is strongly linked to the policies of the European Central Bank. The Pandemic Emergency Purchase Programme (PEPP) has made it possible to cover most of the extraordinary borrowing needs of 2020, while managing to place the entire yield curve at historic lows. Similarly, the ECB is expected to make purchases in 2021 for an amount greater than the net borrowing for the year.*

- *The ECB's various public asset purchase programmes initiated in 2015 and intensified in 2020 have made the Bank of Spain one of the main holders of Spanish government debt, increasing its share of total debt by 20 points in the last five years to around 30%.*

- *In the medium and long term, the withdrawal of non-conventional monetary policy instruments and the reduction of sovereign debt from the ECB's balance sheet may pose a significant challenge that is not without risks. These include a possible upturn in interest rates to higher levels in line with their historical trend and the need for much of the resident investment base that has been displaced over recent years to return.*

- *The high level of debt represents a high upside risk for public spending. According to AIReF's simulations, a 100 bp increase in rates would mean an additional accumulated interest expense by 2024 of over €15 billion. This amount exceeds the impact estimated by AIReF of the new revenue measures provided for in the SPU or the cost of the Minimum Living Income in that period.*

- *The current level of interest rates, close to historical lows, favours debt sustainability. However, given the high debt level, an upturn in interest rates might quickly generate an upward trend in the ratio, which would need to be offset by additional fiscal adjustments for it not to become unsustainable.*

- *Maintaining a structural deficit similar to that of 2024, i.e. between 3.5% and 4.5% of GDP, would stabilise the debt-to-GDP ratio at levels of between 110% and 130% of GDP. A gradual and sustained reduction in the public deficit towards structural equilibrium would generate a path for reducing the debt ratio, placing it at pre-pandemic levels over the coming decade.*

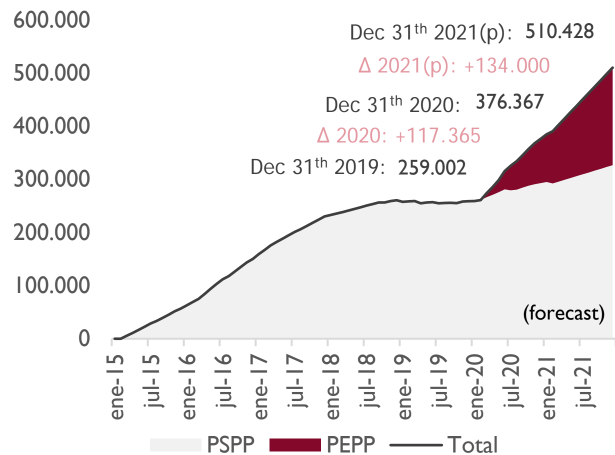
- *The high levels of public debt mean that, when the crisis is over, consolidation plans must be designed to generate a sustained reduction in the debt ratio to more prudent levels. The expectations of a lasting low interest rate environment offer greater room for manoeuvre when designing a consolidation strategy and make it possible to return to a balanced budget in a gradual manner that is not detrimental to growth.*

- *Although there is a significant risk that part of the COVID-19 Guarantee Lines will be enforced, the impact of the materialisation of these contingent liabilities on government debt is limited and does not, in itself, endanger its sustainability.*

- *The projected increase in pension expenditure is one of the major risks for the sustainability of public finances in the medium term. Higher structural expenditure on pensions that is not covered by additional revenue will lead to a very significant rise in debt from historically very high levels.*

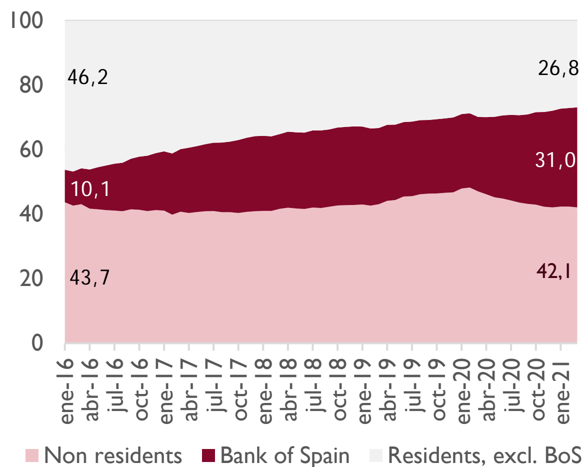
❶ **The pandemic has heightened the challenges associated with high levels of public debt, the future sustainability of which is strongly linked to the policies of the European Central Bank.** Large-scale monetary policy support over recent years has helped to stabilise and maintain very favourable financing conditions for government bonds, even at the most critical times of this crisis. The Pandemic Emergency Purchase Programme (PEPP) has allowed most of the extraordinary borrowing needs of 2020 to be met, while managing to place the entire yield curve at historic lows. Similarly, it is expected that in 2021, the programme will make purchases for an amount higher than the net borrowing for the year.

ECB net purchases of Spanish debt (€m)



Source: European Central Bank

State debt holdings by investor type (%)

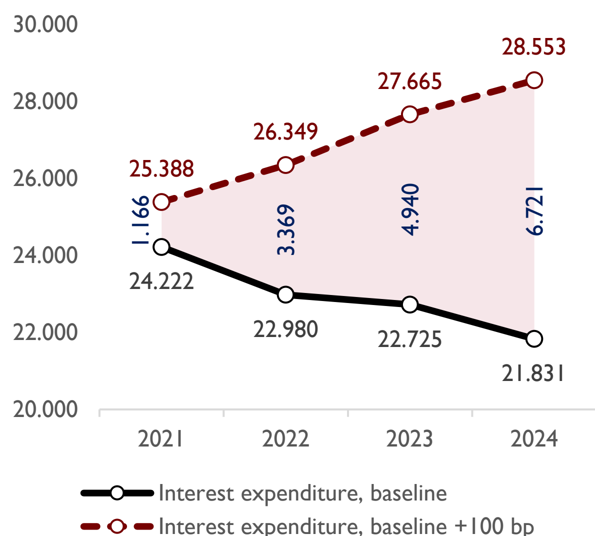


Source: Public Treasury

❷ **The various ECB public asset purchase programmes** initiated in 2015 and intensified in 2020 **have made the Bank of Spain one of the main holders of Spanish government debt,** increasing its share of total debt by 20 points in the last five years to around 30%. This increase in holdings **has displaced part of the resident investor base**, with non-resident investment in securities remaining stable at slightly over 40%. In the long term, **the reduction** of sovereign debt on the **ECB's balance sheet** might pose a major **challenge that is not without risk** as it will require the return of a significant part of the resident investor base that has been displaced over recent years.

❸ **The high level of debt represents a high upside risk for public spending.** According to AIReF's simulations, a 100 bp rise in rates in all sections of the curve would not result in a substantive change to the evolution of the debt ratio in the short term (specifically, it would generate an increase of 0.8 points in 2024). However, it would result in a certain increase in the financial burden as a percentage of GDP (of 0.5 points) and **an additional accumulated interest expense in 2024 of over €15bn**. This amount by far exceeds, for example, the impact estimated by AIReF of the new revenue measures provided for in the SPU (€10bn) or the cost of the Minimum Living Income in that period.

Interest expenditure according to scenario (€m)

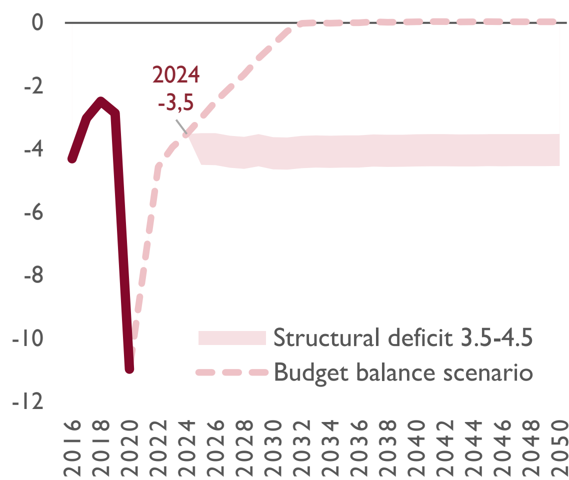


Source: AIReF

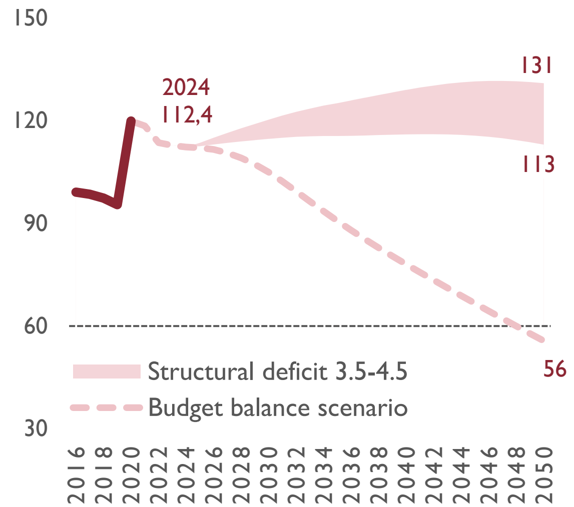
❹ **As shown by the simulations performed by AIReF, the high levels of public debt mean that, when the crisis is over, consolidation plans must be designed to generate a path of sustained reduction in the debt ratio to more prudent levels.** Beyond containing and stabilising the level of debt generated by the economic recovery once the pandemic has been overcome, the financial sustainability of the public accounts will require a path for reducing the debt ratio towards a much more stable position. The tailwind of a likely scenario with economic growth higher than the implicit interest-rate on debt will be a necessary, but not sufficient, condition for generating a downward path in the debt ratio, which, at any rate, will require the correction of the structural imbalances in the public accounts.

Maintaining a **structural deficit similar to that of 2024**, i.e. between 3.5% and 4.5% of GDP, over the long term **would stabilise the debt-to-GDP ratio at levels significantly over 100%.** A gradual and sustained reduction of the public deficit towards structural equilibrium, as indicated by the fiscal framework, will generate a steeper path for reducing the debt ratio, placing it at pre-pandemic levels over the coming decade.

Structural government deficit evolution scenarios (% of GDP)



Debt simulation (% of GDP) according to structural deficit evolution scenarios

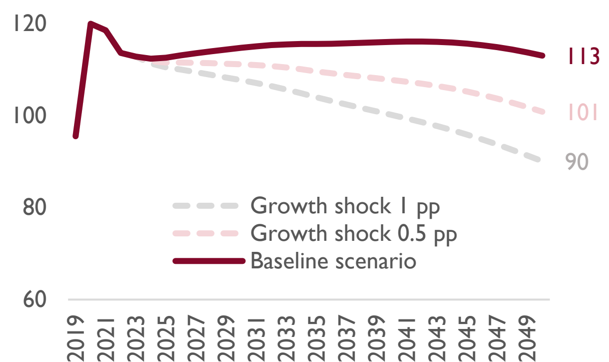


Source: AIReF

The current expectations of a **lasting low interest rate environment offer greater room for manoeuvre when designing a medium-term consolidation strategy**, and in theory make it possible to return to a balanced structural budget in a gradual manner that is not detrimental to growth. Achieving this budgetary balance will be essential in order to create the fiscal space needed to cope with the debt pressure associated with the materialisation of different risks in the future. In addition, a return to a balanced budget will be essential in order to reduce debt below high thresholds, which, according to economic literature, may be associated with a negative impact on growth.

❺ **In the medium and long term, greater growth of the economy would generate more fiscal space.** According to AIReF's simulations, greater potential growth in the medium and long-term associated with a combination of higher investment in public capital together with the adoption of reforms that increase the potential performance of the economy in the future may lead to a fall in the long-term debt ratio of between 10 and 20 points.

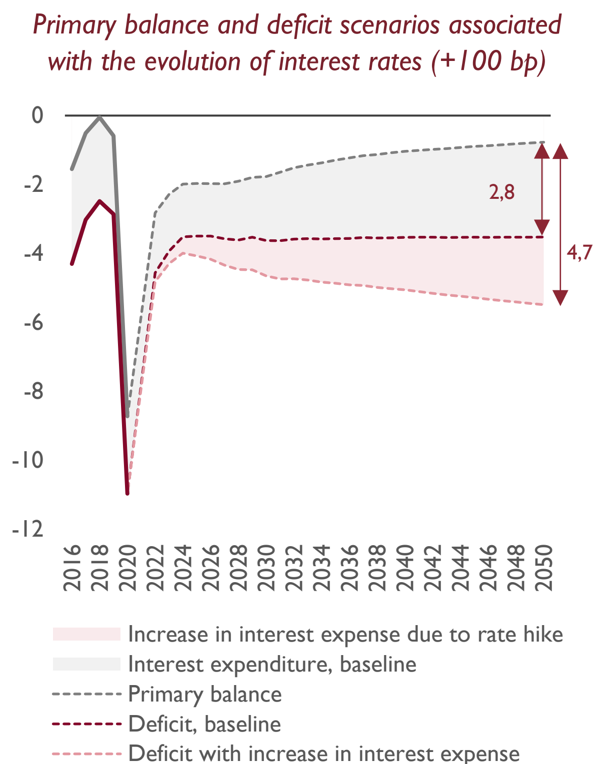
Debt simulation (% of GDP) according to growth shock scenarios

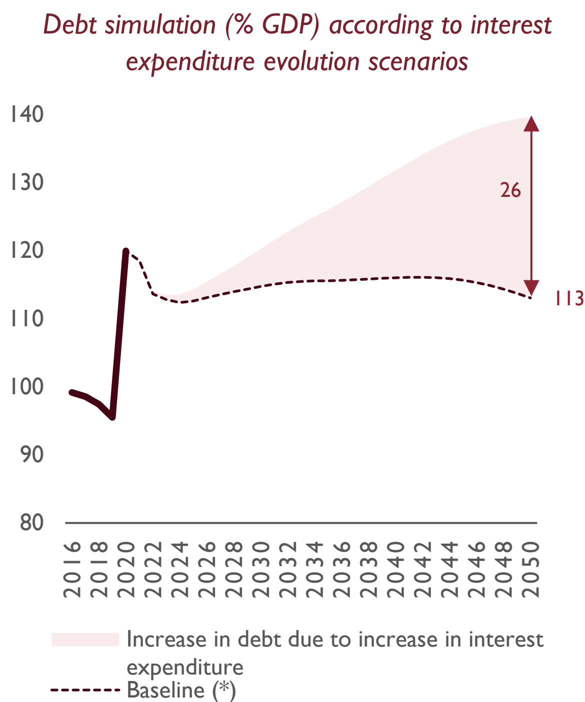


Source: AIReF

Interest rate and debt dynamics

❻ **The reliance on an environment of low interest rates over a long time horizon has become one of the most prominent aspects of the dynamics of debt sustainability.** The current level of interest rates at historic lows favours debt sustainability, even allowing the stabilisation of the debt ratio under a given primary deficit. However, given the high debt level, an **upturn in interest rates might quickly generate an upward trend in the ratio**, which would **need to be offset by additional fiscal adjustments** for it not to become unsustainable. Accordingly, a 100 bp rise in interest rate expectations over 2021 would lead to an increase in the financial burden of 1 point of GDP in 2030, 1.5 in 2040 and almost 2 in 2050, placing the heading of interest expenditure at 2.9%, 4% and a 4.7% of GDP, respectively. This would result in an increase in the debt ratio of 6 points in 2030, 16 in 2040 and 26 in 2050.





(*) The baseline scenario is built under the assumption of maintaining a long-term deficit similar to that projected for 2024, that is, 3.5%. The deficit resulting from the scenario with a higher interest expenditure calculated on the assumption of a 100 bp rise in future expectations of all sections of the curve is then added.

Source: AIReF

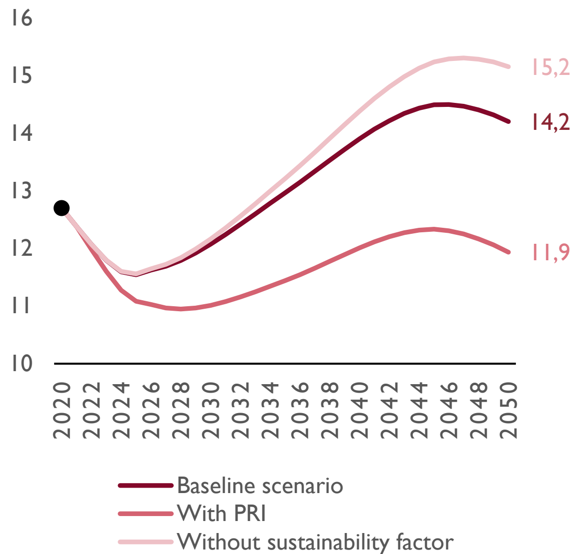
Contingent liabilities

❼ **Although there is a significant risk that part of the COVID-19 Guarantee Lines will be enforced, the impact of the materialisation of these contingent liabilities on government debt is limited and does not, in itself, endanger its sustainability.** In 2020, the Government approved the implementation of two lines of guarantees for a joint amount of up to €140bn aimed at guaranteeing the financing granted to self-employed workers and Spanish companies affected by the economic effects of COVID-19. This has led to a significant increase in contingent liabilities. By the end of April 2021, the COVID-19 Guarantee Lines had deployed guarantees for an amount in excess of €90bn. The Government has included in the SPU an estimate of Non Performing Loans for an amount of €6bn in 2022 and €4bn in 2023, which are already reflected in the evolution of the deficit and debt path of those years. The materialisation of larger write-offs in the coming years would lead to an additional rise in the debt ratio. A sensitivity exercise indicates that for the debt-to-GDP ratio to increase by 1 to 2 percentage points over the next five years, an additional call on guarantees of between €15bn and €30bn will be required over that period.

Pension expenditure

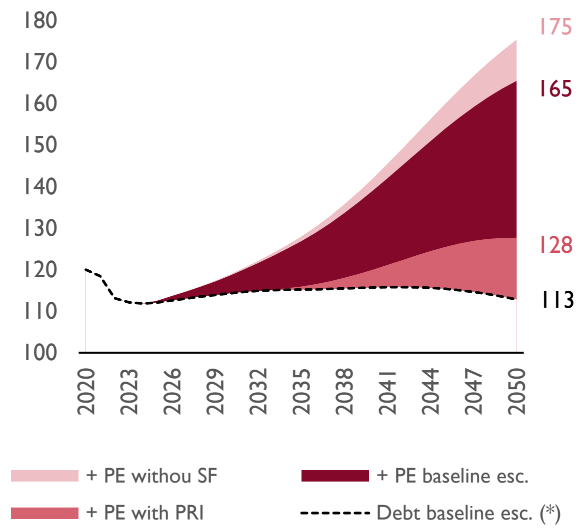
❽ **The projected increase in pension expenditure is one of the major risks for the sustainability of public finances in the medium term.** Higher structural expenditure on pensions that is not covered by additional revenue will lead to a very significant rise in debt from historically very high levels. In AIReF's baseline scenario of the evolution of pension expenditure over GDP, the public debt ratio would reach 165% of GDP by 2050 (an increase of about 50 pp on the forecasted path). If the elimination of the sustainability factor were added, debt would increase by an additional 10 percentage points in 2050 to 175% of GDP. If, in contrast, the assumptions presented in the 2021-24 SPU of revaluation with the PRI and entry into force of the sustainability factor in 2023 were adopted, the expenditure path would result in growth of public debt to 128% in 2050, almost 40 pp lower than that resulting from the evolution with revaluation with the CPI, according to AIReF estimates.

Pension expenditure (% GDP), scenarios with PRI and without Sustainability Factor



Fuente: AIReF

Debt path (% GDP) with increase in pension expenditure



(*) The baseline debt scenario is built under the assumption of maintaining a long-term deficit similar to that projected for 2024, that is, 3.5%. The structural deficit resulting from higher pension expenditure (PE) is then added.

Risk matrix

Risk matrix

	Short term		Medium/long term	
	Probability of occurrence	Impact in public debt	Probability of occurrence	Impact in public debt
Refinancing risk	Very low	Medium	Low	Medium
Interest rate risk	Medium low	Low	Medium high	Medium high
Contingent liabilities, public guarantees	Medium	Low	Medium high	Medium low
Contingent liabilities, population ageing	Medium low	Medium low	High	High

Higher pension expenditure resulting from the ageing of the population, together with a possible tightening of financing conditions, are the main risks for the sustainability of public finances in a medium and long-term horizon. This is due both to the likelihood of occurrence and to their high impact.

IV. Regional debt projection and risks

- *The macro-fiscal forecasts prepared by AIReF project a cumulative reduction in the regional debt ratio of 2.1 points of GDP by 2024, with the sub-sector ratio for that year standing at 25%.*

- *The high economic growth estimated for the coming years will be the main factor in reducing and stabilising the debt ratio. In contrast, a significant deterioration in the regional balance is expected in 2022, which would lead to a higher need for financing in 2024 than that existing before the crisis.*

- *The transfer of funds from the Central Government totalling a non-refundable amount of €29.49bn will offset slightly more than two thirds of the regional fiscal deficit in 2020 and 2021, thus transferring part of the increase in the risk for the sustainability of public finances from the level of the Territorial Administration to that of the Central Government.*

- *The macro-fiscal forecasts at a territorial level show an uneven decrease in the debt ratio across the different Autonomous Regions.*

- *In the coming years, both the Basque Country and the Canary Islands are expected to be at the reference level of 13%, while Madrid and Navarre would be at values close to that level. With a debt ratio close to 50% of its GDP, Valencia would rank as the region with the most vulnerable position.*

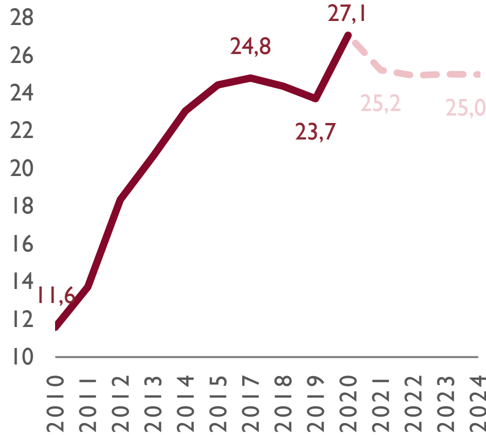
- *The containment and stabilisation of the regional debt ratio will require a convergence of the budgetary balance in the future, although it will be essential that the adjustment path is appropriate so as to not compromise growth in the short and long term.*

- *Under a scenario of correction of the primary deficit, the level of debt (23.7%) recorded at the end of 2019 would be achieved again at the end of this decade.*

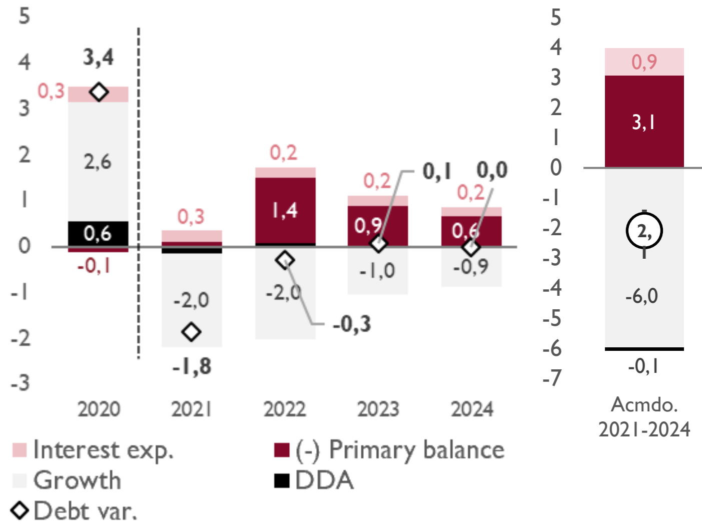
- *In contrast to the scenarios projected by AIReF prior to the crisis, in which the legal reference limit of 13% was reached around the year 2035, in the wake of the crisis the time when the sub-sector reaches this limit is delayed by about 15 years.*

1 The macro-fiscal forecasts prepared by AIReF to assess the Stability Programme **project a cumulative reduction in the debt-to-GDP ratio of 2.1 points of GDP for 2024, placing the sub-sector's ratio** for that year at **25%.** The high economic growth estimated for the coming years will be the main factor in reducing and stabilising the debt ratio (contributing 6 points). In contrast, a **significant deterioration of the regional balance is forecast for 2022, which would lead to a higher need for financing** in 2024 than that existing prior to the crisis. The transfer of funds from the Central Government totalling a non-refundable amount of €29.49bn will offset slightly more than two thirds of the regional fiscal deficit in 2020 and 2021, thus transferring part of the increase in the risk to the sustainability of public finances from the level of the Territorial Administration to that of the Central Government.

Regional debt projections (% GDP)



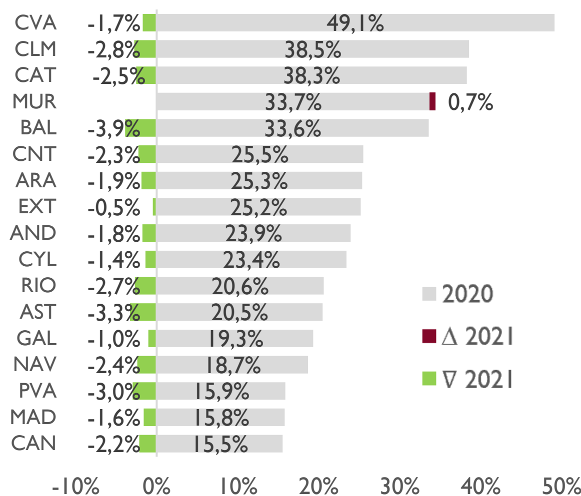
Contributions to changing debt (GDP points)



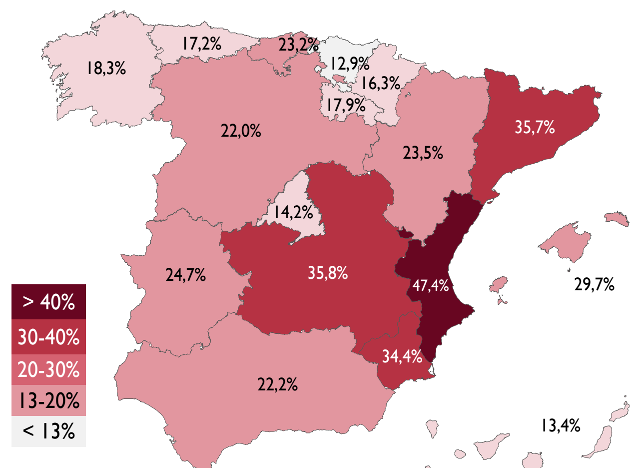
Source: AIReF

2 The macro-fiscal forecasts at a territorial level show **an uneven decrease in the debt ratio across the different Autonomous Regions**. In the coming years, **both the Basque Country and the Canary Islands** are expected to be **at the reference level of 13%**, while Madrid and Navarre would be at values close to that level. With a debt ratio close to 50% of its GDP, **Valencia would rank as the region with the most vulnerable position.**

Regional debt-to-GDP ratio, 2020 and change in 2021



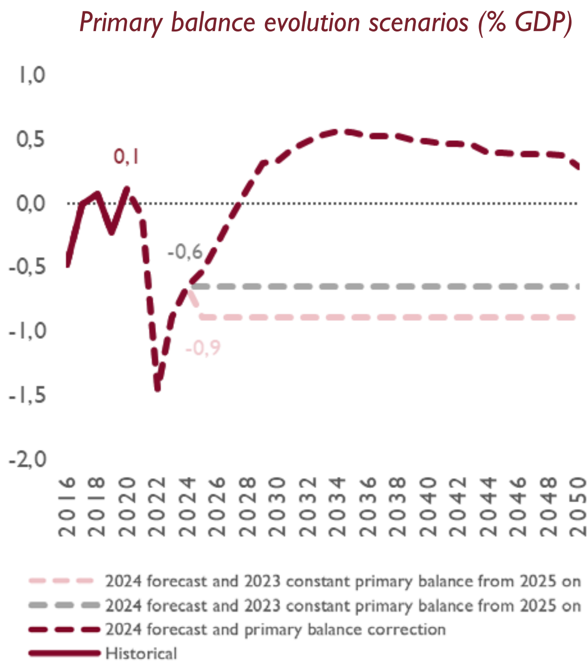
Regional debt-to-GDP ratio, 2021

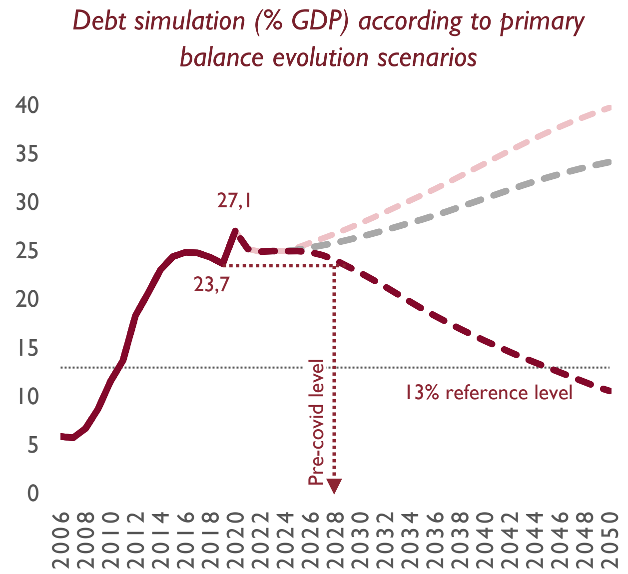


Source: Bank of Spain and AIReF

❸ The **containment and stabilisation of the regional debt ratio will require a convergence of the budgetary balance in the future**, although it will be essential that the adjustment path is appropriate so as not to compromise growth in the short and long term.

Under a scenario of correction of the primary deficit (*), the debt level (23.7%) recorded in 2019 would be regained at the end of this decade. In contrast to the scenarios projected by AIReF prior to the crisis, in which the legal reference limit of 13% was reached around the year 2035, in the wake of the COVID-19 crisis the time when the sub-sector reaches this limit is delayed by about 15 years. This will require the budgetary balance to be maintained for two decades.





(*) Assumption of correction of the primary deficit of 0.25 points of GDP in each Autonomous Region until a maximum primary surplus of 0.75 points is reached, which would be maintained until the debt ratio falls below the reference level of 13%. Once that threshold is passed, a budgetary balance is projected, which implies a primary surplus equal to the financial burden

Regional indicators table

Indicadores de Deuda	2003	2008	2013	2018	2019	2020	Proyec. 2021	Rating: Moody's	Rating: S&P	Rating: Fitch	Coste financiero 2020: Tipo Implícito	Coste financiero 2020: %PIB	FLA y resto mecanismos (% deuda): 2020-IV
TOTAL CCAA [2)]	6,1	6,7	20,6	24,4	23,7	27,1	25,2	-	-	-	1,2	0,3	61,1
ANDALUCIA	6,8	5,4	18,0	22,1	21,4	23,9	22,2	Baa2	BBB+	BBB-	1,1	0,3	75,8
ARAGÓN	4,4	4,3	16,7	22,4	21,9	25,3	23,5	-	BBB+	-	1,6	0,4	51,8
P. DE ASTURIAS	5,1	3,2	14,7	18,7	18,3	20,5	17,2	Baa1	-	-	1,1	0,2	25,0
ILLES BALEARS	4,3	9,8	26,5	26,6	26,2	33,6	29,7	-	BBB+	-	1,1	0,3	68,8
CANARIAS	3,5	4,5	13,5	14,9	14,0	15,5	13,4	-	A	BBB-	0,8	0,1	76,6
CANTABRIA	3,8	3,9	18,4	23,1	22,5	25,5	23,2	-	-	BBB	1,1	0,3	86,3
CASTILLA Y LEÓN	3,4	4,6	16,6	21,1	20,9	23,4	22,0	Baa1	-	-	1,4	0,3	27,4
CASTILLA –LA MANCHA	2,9	6,5	31,4	35,4	34,9	38,5	35,8	Ba1	-	BBB-	1,0	0,4	74,3
CATALUÑA	7,2	10,0	30,3	34,3	33,4	38,3	35,7	Ba2	-	BB	1,4	0,5	75,5
EXTREMADURA	6,0	5,0	15,4	23,0	22,8	25,2	24,7	Baa2	BBB	-	1,1	0,3	61,9
GALICIA	7,7	6,8	17,1	18,2	17,6	19,3	18,3	Baa1	A	-	0,9	0,2	49,7
COMUNIDAD DE MADRID	6,3	5,7	11,9	14,5	13,9	15,8	14,2	Baa1	A-	BBB	2,0	0,3	4,3
REGIÓN DE MURCIA	3,4	2,6	20,9	29,6	29,6	33,7	34,4	Ba1	-	BBB-	1,2	0,4	88,9
C. FORAL DE NAVARRA	4,8	4,7	18,2	17,2	15,7	18,7	16,3	-	AA-	-	2,0	0,3	-
PAÍS VASCO	3,1	1,5	13,4	14,0	12,7	15,9	12,9	A3	AA-	A-	1,3	0,2	-
LA RIOJA	3,1	4,8	15,2	18,5	18,1	20,6	17,9	-	-	BBB-	0,1	0,0	34,9
COMUNITAT VALENCIANA	10,3	12,7	34,4	42,1	41,8	49,1	47,4	-	BB	BBB-	0,8	0,4	84,2