



Autoridad Independiente  
de Responsabilidad Fiscal

# **Appearance before the Budget Committee of the Lower House of Parliament**

## **Draft 2022 General State Budget and Budgetary Plan**

**Cristina Herrero**  
**President of AIReF**  
**October 25<sup>th</sup> 2021**

# What does AIReF assess in its report on the 2022 Draft Budget of the General Government and the Budgetary Plan?

1. Introduction

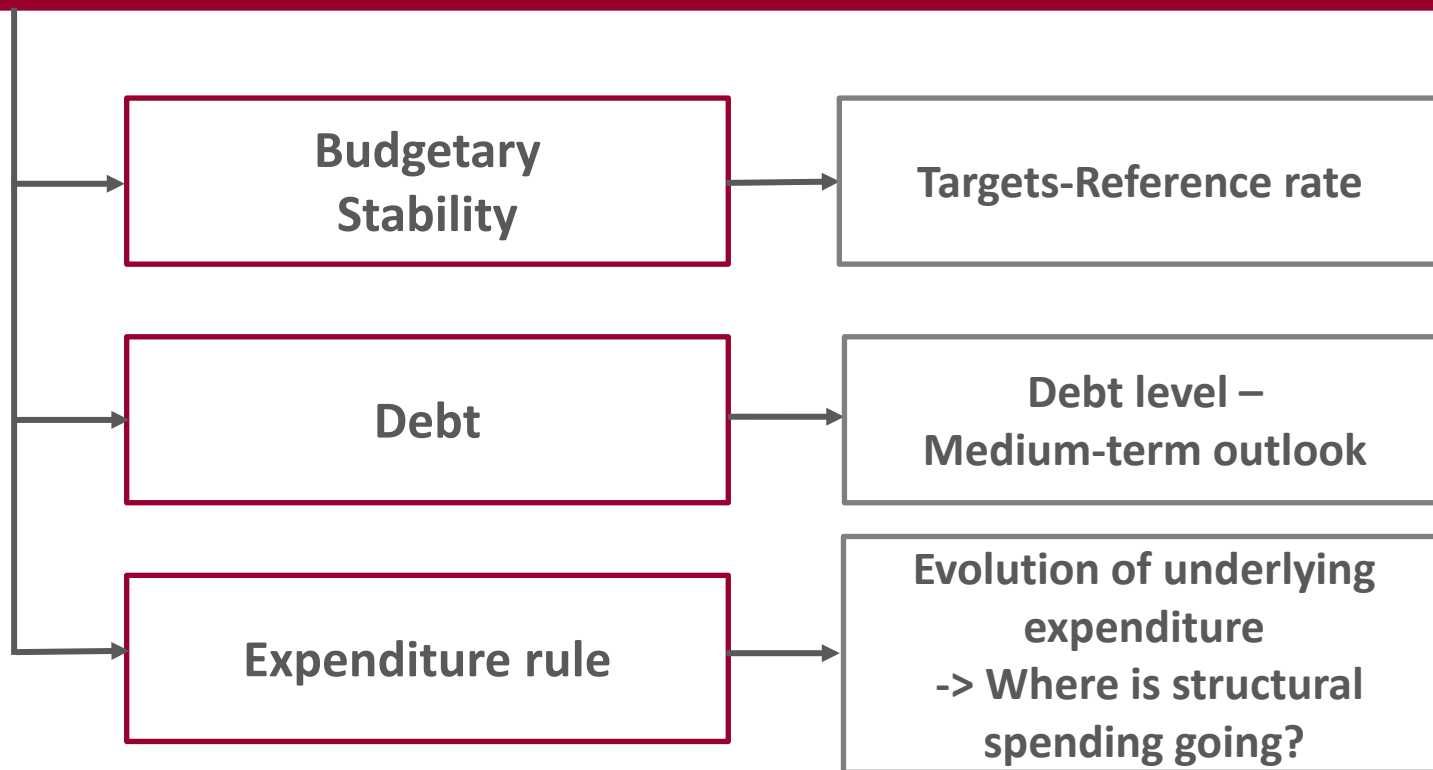
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## Analysis of the feasibility of the budget forecasts for 2022



**The situation of suspended rules persists, but fiscal oversight is maintained.  
EU Guideline 2022: supporting activity, “prudence in countries with high debt levels”**

# Complex analysis given the weaknesses of the GSB and DBP and other added difficulties that reduce their credibility

## Disconnection between DBP and draft GSB grows: EU funds

### Draft GSB for 2022 (October 13<sup>th</sup>)

- Consolidated and disaggregated: State, Social Security, Regional Bodies, Other
- Budgetary accounting
- Flash estimate of 2021 collection and settlement (in national accounting)
- No information on national accounting adjustments for 2022

- **RTRP channelling instrument:** granular information on revenue and expenditure for both the national budget and EU funds. Reflected in budget appropriations. Both RRF and REACT

### Budgetary Plan (October 15<sup>th</sup>)

- GG as a whole without disaggregation by sub-sector
- Uneven information by sub-sector
- Forecasts in national accounting, but only the balance by sub-sector

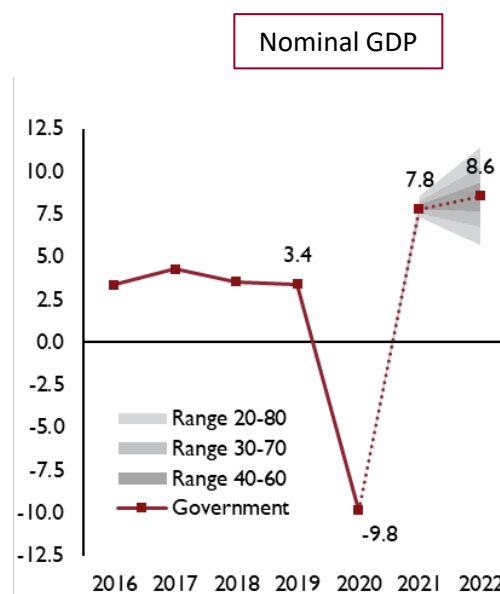
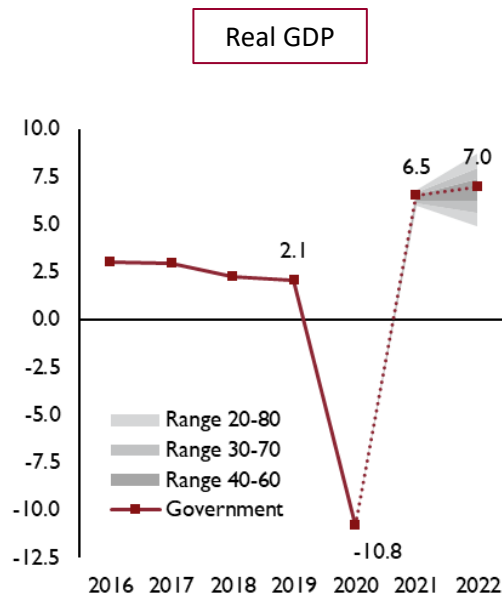
- Incorporates macro impact of the RTRP but **GG revenue and expenditure without RTRP** on the basis of neutrality
- Separate *ad hoc* information only on the impact of RRF
- Does not take into account the non-neutral effect of REACT on public accounts

**Non-inclusion of measures announced a few days after the submission of the GSB and the DBP**

# Is it feasible for the reference rates for 2022 to be fulfilled?

Analysis of the key macroeconomic scenario in order to determine the feasibility of the fiscal forecasts *(EU requirement)*

On September 21<sup>st</sup>, AIReF endorsed the macroeconomic scenario accompanying the draft 2022 GSB, warning of the predominance of downside risks to growth



New risk factors were added to the uncertainty about the impact of the RTRP and the pandemic:

- increased energy prices
- disruptions in supply chains

**AIReF's projections incorporated information known up to September 16<sup>th</sup> and it indicated that they would be revised in the report on the 2022 GSB**

# The new statistical information and the incorporation of risk factors into the central scenario lead to a downward revision in growth for 2021 and 2022

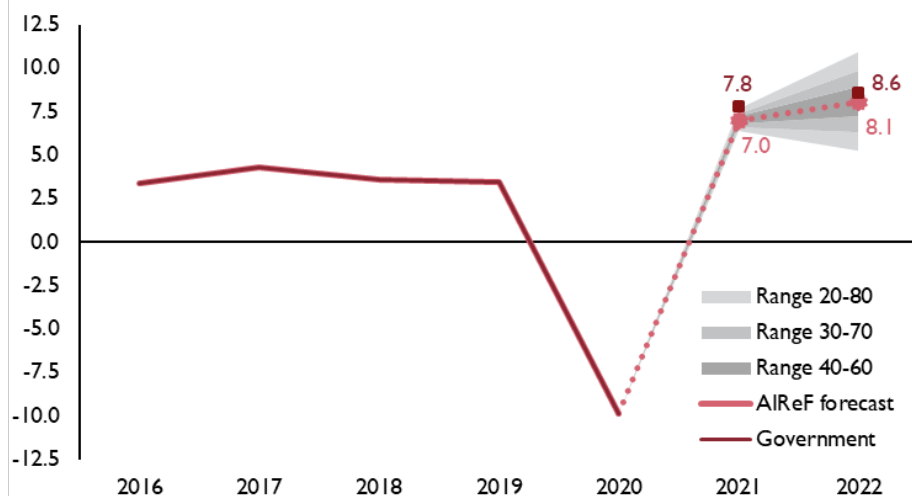
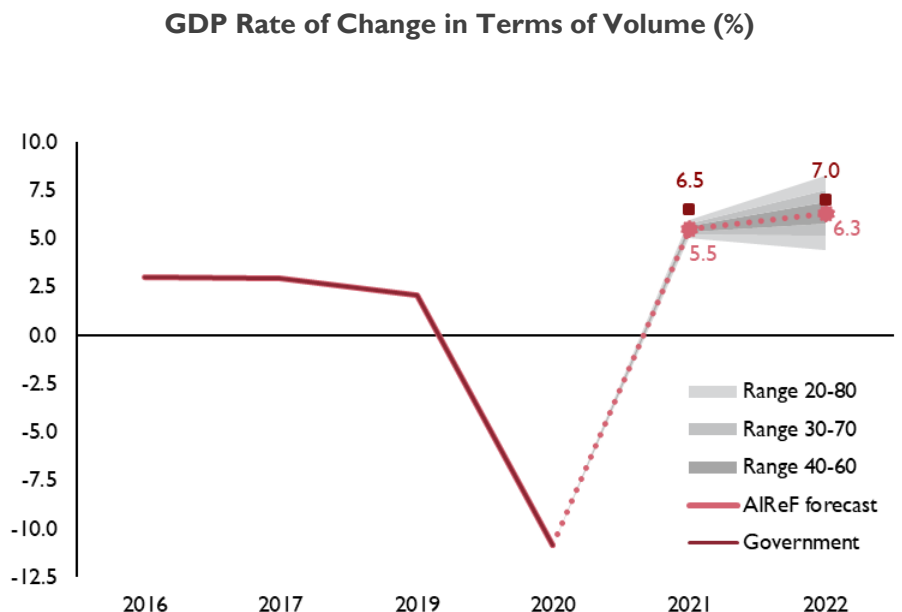
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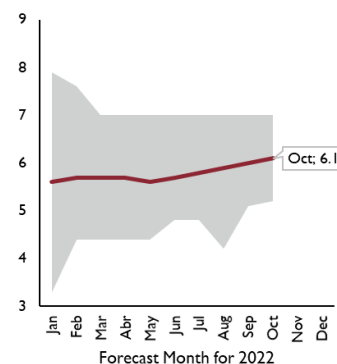
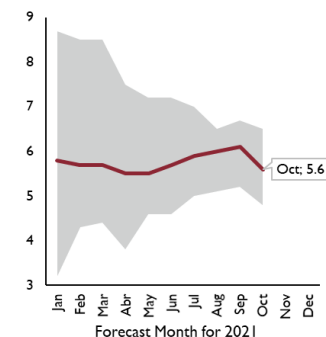
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**Range and Average Forecast of GDP Growth in volume. Panel of Forecasters**



**In a context in which it is difficult to perform probabilistic exercises**



# What new information has resulted in the revision of AIReF's macroeconomic scenario for 2021 and 2022?

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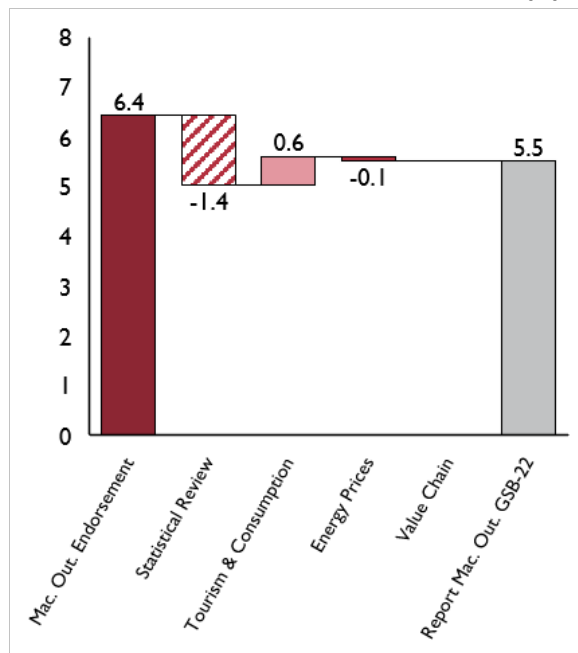
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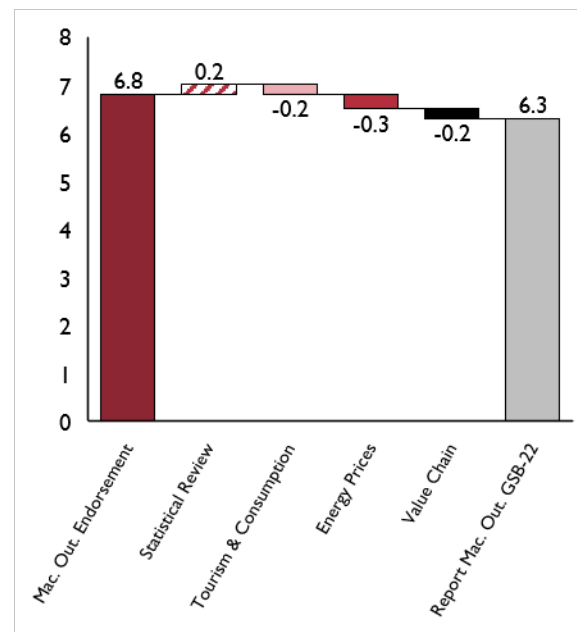
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**Breakdown of Sources of the Revision of AIReF's forecasts for 2021 (%)**



Source: Prepared by AIReF.

**Breakdown of Sources of the Revision of AIReF's forecasts for 2022 (%)**



Source: Prepared by AIReF.

Revision of the national accounting aggregates for the second quarter, which show a less vigorous performance of GDP in 2021

Better evolution of household consumption and tourism, despite the last wave of SARS-CoV-2 coinciding with the summer

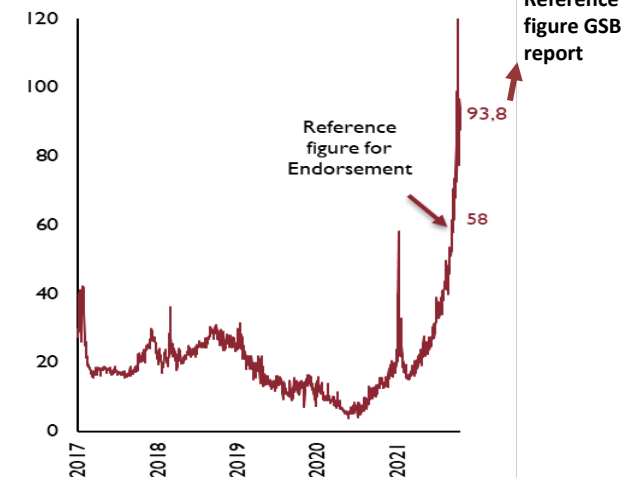
Materialisation and increase of downside risks related to:

- Escalation of the price of energy inputs
- Emergence of friction in global supply chains

# 1) Prices of energy raw materials at historical highs

- Caused by rapid recovery in global demand and geopolitical factors
- Although they are expected to reverse in the second half of 2022, a negative impact on activity is estimated

Price of Natural Gas in the Iberian Gas Market. €/MWh

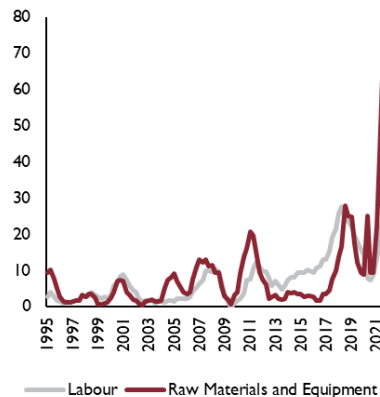


Source: MIBGAS. Path up to October 18<sup>th</sup>, 2021

## 2) Emergence of bottlenecks in manufacturing

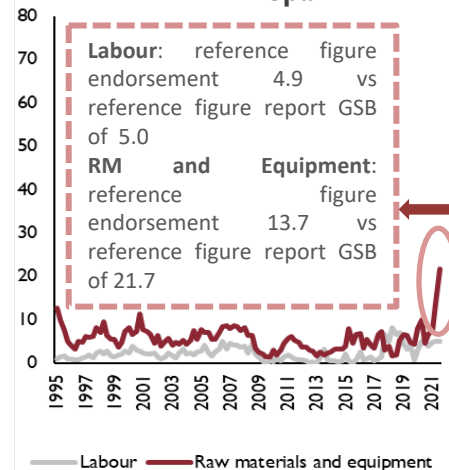
Percentage of Companies in the Industry that Report Production Limiting Factors

Germany



Source: European Commission.

Spain



- Shortage of raw materials and employment lower in Spain, although significant in certain sectors
- Given the European interconnection, it might spread to the Spanish economy
- Indicators of slowing growth in China (third quarter growth of 0.2%)

## 3) Pandemic moves to the background, but outbreaks cannot be ruled out

# The impact of the RTRP on the macroeconomic scenario is maintained, although subject to uncertainty

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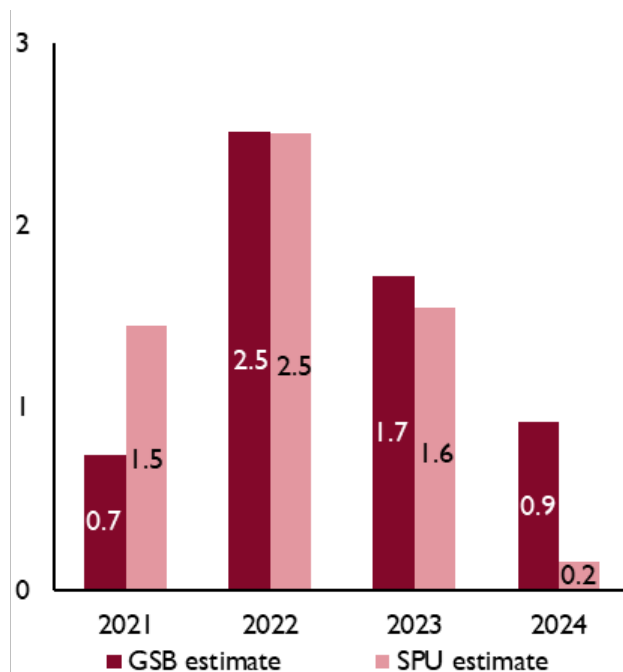
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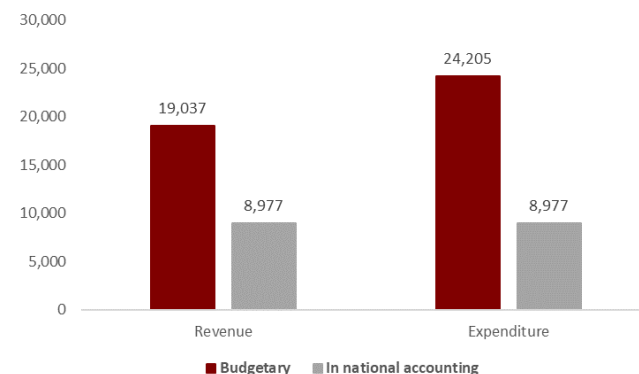
**Annual RTRP Boost to Growth  
(Percentage Points)**



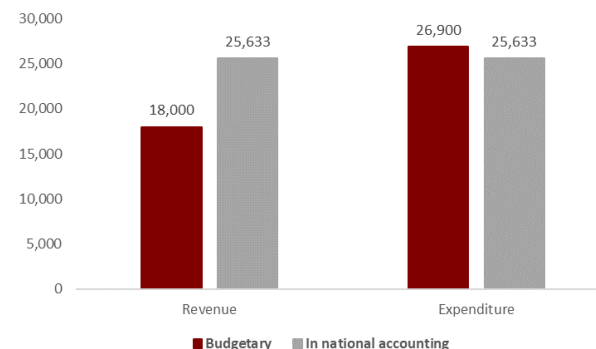
Source: Prepared by AIReF.

**RTRP revenue and expenditure (€m)**

**2021**



**2022**

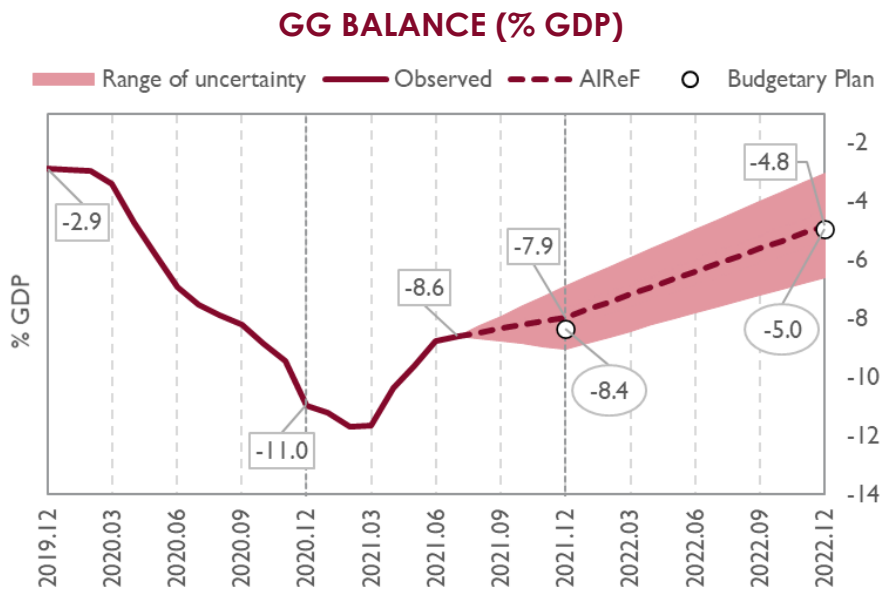


Source: GSB and AIReF in national accounting

- Necessary replacement of RTRP for private consumption
- Incomplete or inefficient implementation of the Plan would compromise its contribution to the recovery and structural transformation of the economy

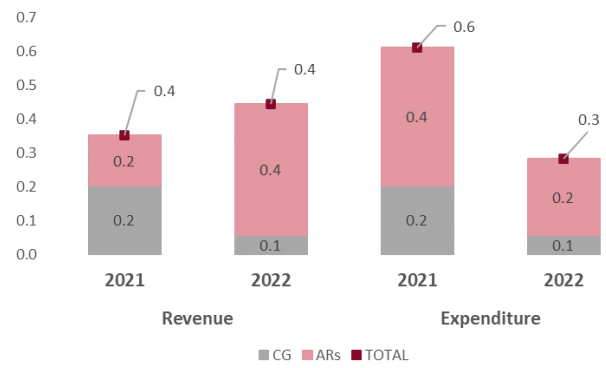


# AIReF considers the Government's forecasts to be feasible: it estimates a deficit of the entire GG of 7.9% in 2021 and 4.8% in 2022



Unlike the Government, due to their non-neutrality on the deficit, **AIReF includes** in its forecasts the effect of the REACT-EU funds

### REACT EU REVENUE AND EXPENDITURE (% GDP)



**Excluding the funds**, the deficit estimated by AIReF would be 7.7% in 2021 and 5% in 2022, which better reflects the underlying position

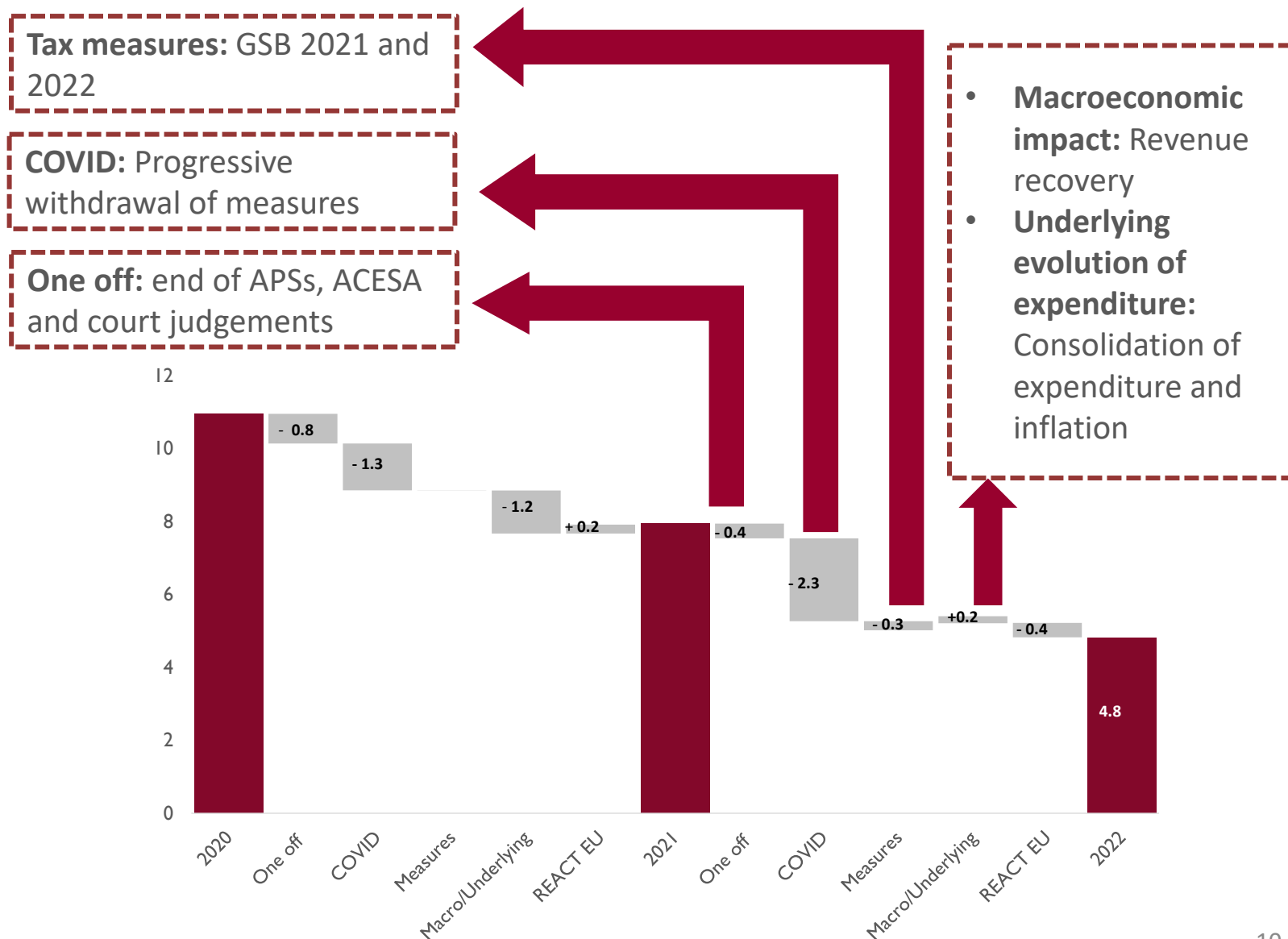
Source: AIReF



**Without the effect of REACT-EU, AIReF estimates a reduction in the deficit in 2022 lower than that of the Budgetary Plan (2.7 points versus 3.4 points)**

# The deficit falls due to withdrawal of the measures, but the underlying growth in expenditure outstrips the cyclical improvement in revenue

BREAKDOWN OF THE CHANGE IN THE GG DEFICIT (% OF GDP)



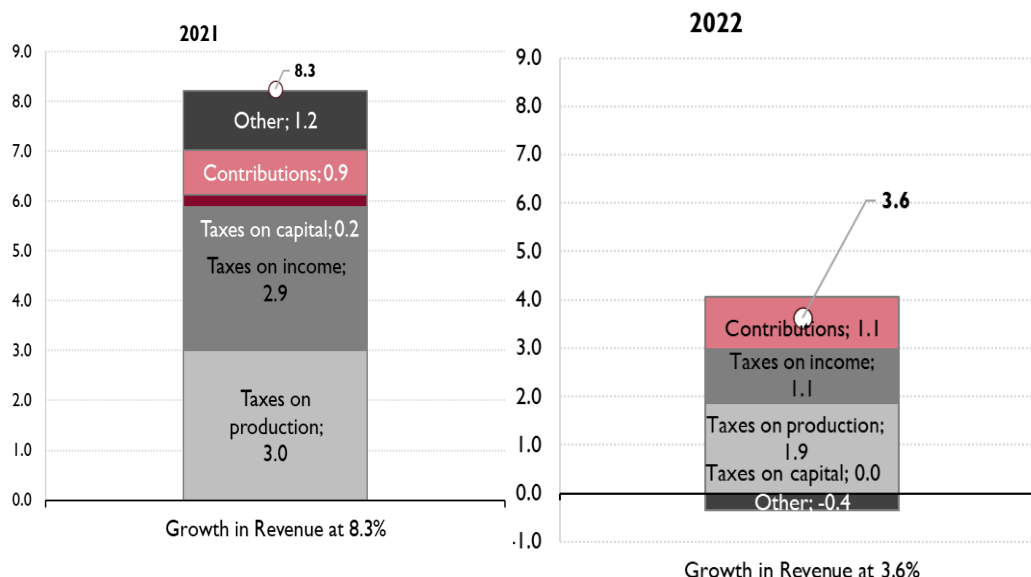
Source: AIReF

# Revenue: forecast of 40.2% of GDP in 2022, excluding REACT-EU and the RTRP, compared with 39.8% in the Budgetary Plan

## REVENUE AS % OF GDP IN BUDGETARY PLAN VS AIReF IN NATIONAL ACCOUNTING

	2021			2022		
	DBP	AIReF	Difference	DBP	AIReF	Difference
<b>REVENUE</b>	<b>41.3</b>	<b>42.0</b>	<b>0.7</b>	<b>39.8</b>	<b>40.2</b>	<b>0.4</b>
<b>TAXES</b>	<b>23.6</b>	<b>23.7</b>	<b>0.2</b>	<b>22.8</b>	<b>23.1</b>	<b>0.3</b>
On production	11.4	11.7	0.2	11.3	11.5	0.2
On income	11.7	11.6	-0.1	11.1	11.1	0.0
Capital	0.4	0.5	0.0	0.4	0.4	0.1
<b>CONTRIBUTIONS:</b>	<b>13.7</b>	<b>13.9</b>	<b>0.3</b>	<b>13.2</b>	<b>13.3</b>	<b>0.1</b>
<b>Other revenue</b>	<b>4.1</b>	<b>4.3</b>	<b>0.2</b>	<b>3.8</b>	<b>3.8</b>	<b>0.0</b>

### CONTRIBUTIONS TO CHANGE IN REVENUE (%)



- In **aggregate**, the difference in the ratio is due to the denominator (lower GDP AIReF)
- Differences by **component**
  - Lower growth in indirect taxes and social contributions
  - More positive evolution of direct taxes
  - Lower growth of other revenue

Source: AIReF

## Extraordinarily high revenue/GDP elasticity in 2021

**AIReF recovers lower levels in 2022, close to the historical values with respect to the bases of each tax**



**There is evidence of a high sensitivity of revenue elasticity to a positive transitory shock to income.** The ECB estimates that Spain is the country in which the elasticity to a positive transitory shock to income changes most, going from 1.06 in long-term equilibrium to 1.8 in the expansionary period

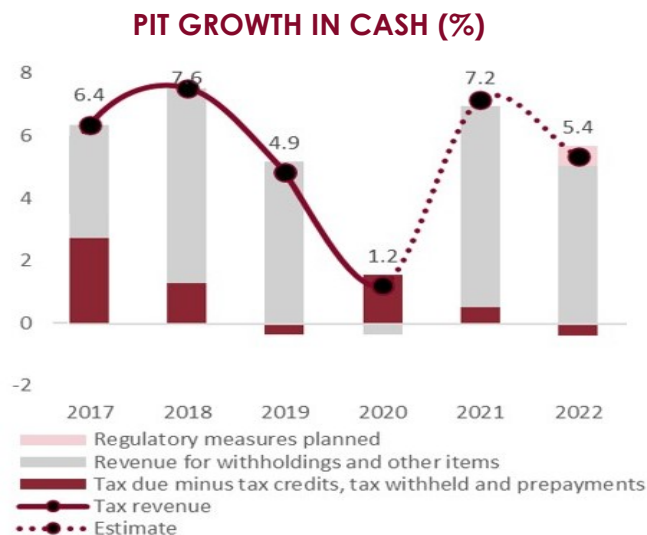


### **What factors might explain the high elasticity in 2021?**

- Linked to the progressivity of personal income tax and composition of the growth: recovery in employment and income maintenance policies
- Changes in composition of consumption basket: recomposition towards basket taxed at higher rates after the increase in the percentage of expenditure (8% to 10%) on essential goods (4% rate) in 2020
- Increase in card payments (emergence of undeclared income)

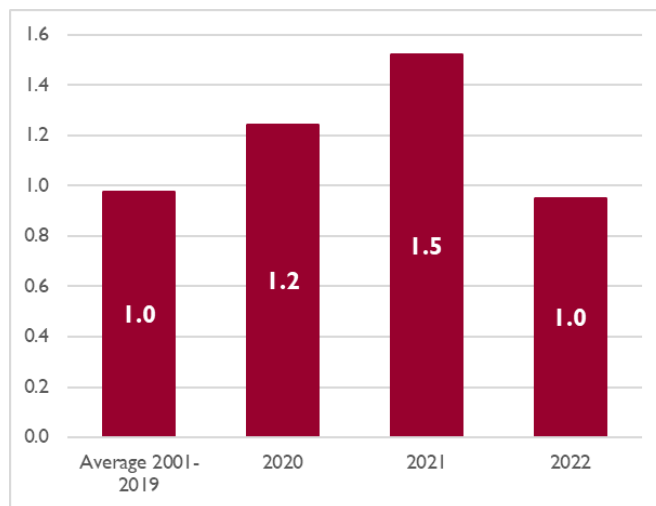
# Tax revenue moderates its growth in 2022, following the high rates recorded in 2021

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**PIT** moderates its growth (5.4%) due to a reduction in withholdings on work and a negative contribution of tax due minus tax credits, tax withheld and prepayments

## VAT ELASTICITY (WITHOUT MEASURES) – NATIONAL DEMAND



**VAT would grow by 8.8%**, regaining its historical elasticity over domestic demand in 2022 due to the return to a shopping basket following the greater consumption of reduced-rate products in 2020

# Revenue measures included in the GSB

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REVENUE measures (Total annual impact)	Source	Government 2021	Government 2022	AIReF 2021	AIReF 2022	Difference 2021	Difference 2022
<b>PIT</b>		<b>-73</b>	<b>536</b>	<b>-67</b>	<b>750</b>	<b>6</b>	<b>214</b>
Increase in rates on higher income bases	GSB21	144	490	154	523	10	33
Modification of pension plan contribution limits	GSB21	0	580	0	761	0	181
Increase in deduction for donations, deductions for housing rehabilitation and COVID measures	RDL 17/2020, 19/2021, 15,35/2020	-217	-534	-221	-534	-4	0
<b>Corporate income tax</b>		<b>140</b>	<b>1,516</b>	<b>139</b>	<b>1,516</b>	<b>-1</b>	<b>0</b>
Limitation on exemption for dividends and capital gains	GSB21	173	1,520	173	1,520	0	0
Increase deductions for films, increase in SOCIMI (Spanish REIT company) tax rate and COVID measures	RDL 17/2020	-33	-4	-34	-4	-1	0
<b>VAT</b>		<b>-775</b>	<b>-85</b>	<b>-630</b>	<b>89</b>	<b>145</b>	<b>174</b>
Increase in rates on sugary drinks	GSB21	190	225	257	309	67	84
Reduction in electricity rate	RDL 12/2021	-565	-310	-438	-219	127	91
COVID measures	RDL 15, 28, 34, 35/2020	-400	0	-448	0	-48	0
<b>STs</b>		<b>-303</b>	<b>-107</b>	<b>-252</b>	<b>-104</b>	<b>51</b>	<b>3</b>
Reduction in electricity rate	RDL 17/2021	-303	-107	-252	-104	51	3
<b>OTHER</b>		<b>550</b>	<b>1,195</b>	<b>515</b>	<b>914</b>	<b>-35</b>	<b>-281</b>
Financial Transaction Tax: Establishment	Law 5/2020	340	372	287	340	-53	-32
Tax on Certain Digital Services: Establishment	Law 4/2020	155	225	140	203	-15	-22
Tax on Insurance Premiums: Increase in rates	GSB21	455	507	452	493	-3	-14
Tax on the Value of Electricity Production: Suspension	RDL 17/2021	-400	-400	-364	-309	36	91
Tax on single-use plastics: Establishment	In process	0	491	0	188	0	-303
<b>TOTAL</b>		<b>-461</b>	<b>3,055</b>	<b>-295</b>	<b>3,165</b>	<b>166</b>	<b>110</b>



# Expenditure: forecast of 45.2% in 2022, excluding REACT and RTRP, compared with 44.7% in the Budgetary Plan

## EXPENDITURE AS % OF GDP IN BUDGETARY PLAN VS AIReF IN NATIONAL ACCOUNTING

		2021			2022		
		DBP	AIReF	Difference	DBP	AIReF	Difference
<b>EXPENDITURE</b>	<b>52.4</b>	<b>49.6</b>	<b>49.7</b>	<b>0.0</b>	<b>44.7</b>	<b>45.2</b>	<b>0.5</b>
Compensation of employees	12.5	12.1	12.2	0.1	11.4	11.6	0.2
Intermediate consumption	5.9	5.6	5.6	0.0	5.2	5.2	0.1
Social transfers	23.4	21.5	21.7	0.2	19.9	19.9	0.0
Interest	2.2	2.1	2.1	0.0	2.0	1.8	-0.2
Subsidies	1.9	1.5	1.5	-0.1	1.1	1.1	0.1
Gross fixed capital formation	2.6	2.7	2.6	-0.1	2.2	2.3	0.1
Capital transfers	2.0	2.1	1.9	-0.2	1.2	1.3	0.1
Other	1.9	2.0	2.1	0.1	1.9	2.0	0.1

Source: AIReF

- **AIReF estimates a slightly higher expenditure ratio** as a result not only of lower GDP but also of a smaller reduction in expenditure than that forecast in the Budgetary Plan (-1.6% versus -2.1%)
- By **component**, AIReF estimates:
  - Higher expenditure on public consumption and on capital
  - Lower expenditure on interest and unemployment benefits

# Risk of consolidation of structural expenditure in the medium term

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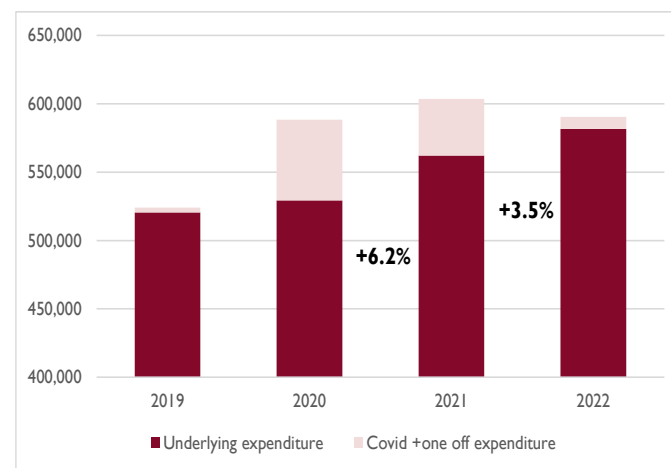
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CONTRIBUTIONS TO CHANGE IN EXPENDITURE (%)



EVOLUTION OF UNDERLYING EXPENDITURE (%)



- The progressive withdrawal of measures is partially offset by the evolution of expenditure and consolidation of part of the healthcare expenditure
- Some **ARs** are submitting draft budgets with reference rates above 0.6%, which would imply growth in structural spending
- **Over 50% of indexed expenditure:**
  - increase in civil service salaries by 2%
  - revaluation of pensions with CPI of the previous year



# Analysis by sub-sector: AIReF's estimates for 2022 are in line with those of the Government except for LGs

DEFICIT COMPARISON BY SUB-SECTOR  
(% GDP)

	2020	2021		2022	
		DBP	AIReF	DBP	AIReF
<b>GG</b>	<b>-11.0</b>	<b>-8.4</b>	<b>-7.9</b>	<b>-5.0</b>	<b>-4.8</b>
<b>CG</b>	-8.4	-6.3	-6.3	-3.9	-3.9
<b>SSFs</b>	-2.6	-1.5	-1.5	-0.5	-0.5
<b>ARs</b>	-0.2	-0.6	-0.4	-0.6	-0.6
<b>LGs</b>	0.3	0.0	0.3	0.0	0.2

Source: AIReF

- **By sub-sector, the CG will continue to take on part of the deficit** of the other sub-sectors, mainly the SSFs and ARs through direct transfers
- The **implementation of the RTRP** will affect every sub-sector, although it is neutral for each one of the administrations
- **Reference rates** included in the Budgetary Plan: AIReF estimates similar forecasts for the CG and SSFs in 2022, while the positive impact of the REACT-EU funds will allow the ARs to achieve the reference rate (-0.8% without REACT)
- AIReF estimates a surplus of 0.2 points in the **LGs** compared with the balanced budget forecast in the Budgetary Plan

# Central Government: deficit forecast of 3.9% in 2022, in line with the Government

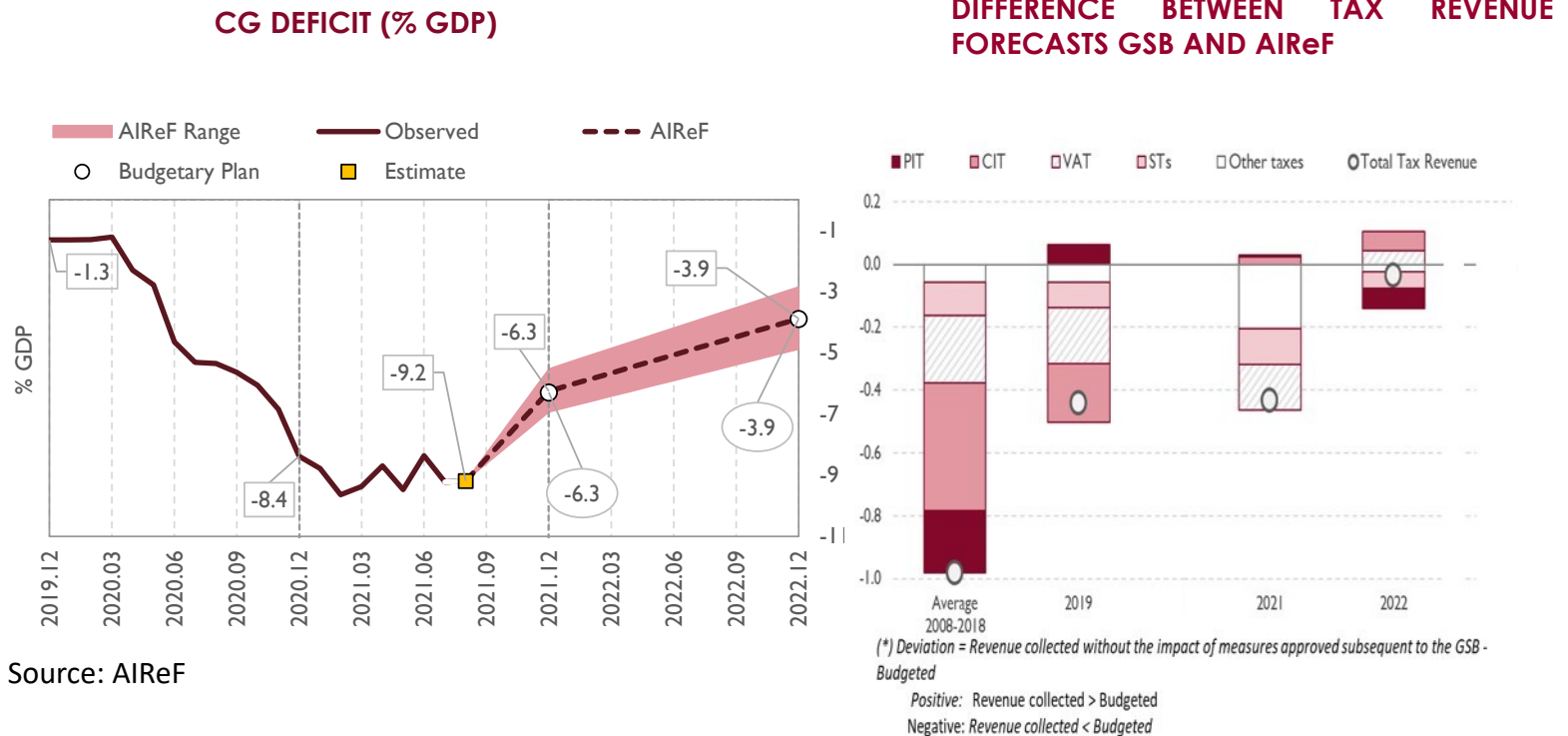
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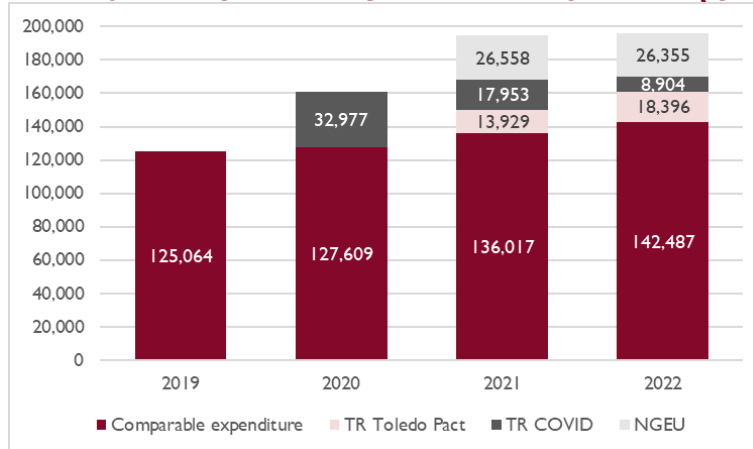
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- **Forecast of the CG deficit** in line with that of the Government: 6.3% in 2021 and 3.9% in 2022
- Unlike in past years, **revenue and social contributions** forecast in line with the Government
- The **CG continues to take on** part of the deficit of the SSFs and ARs via transfers

# The expenditure ceiling incorporates an increase in structural expenditure

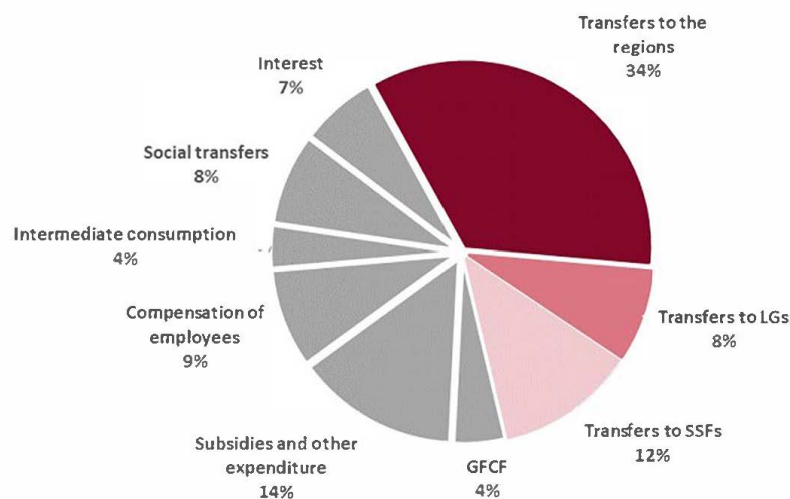
STATE NON-FINANCIAL EXPENDITURE LIMIT (€M)



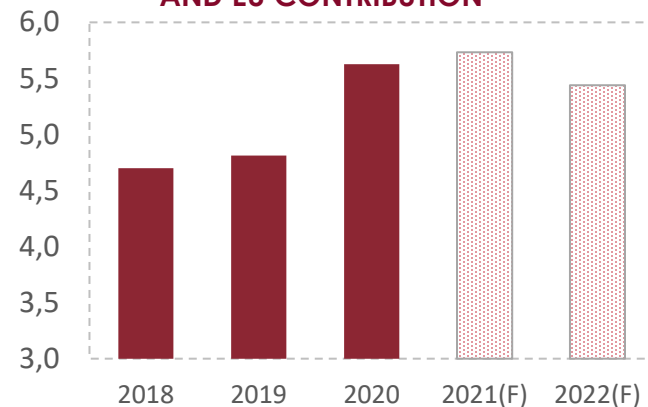
- The expenditure ceiling without NGEU funds or extraordinary transfers grows by 18% in 2021 and 7% in 2022
- Without the new transfers of the Social Security, this growth is 7% and 5% respectively

This strengthens the role of the CG as a funder of other administrations - 54% of their expenditure - and reduces the discretionary spending margin compared with 2021

DISTRIBUTION OF NON-FINANCIAL EXPENDITURE OF THE CG



CG EXPENDITURE WITHOUT TRANSFERS GG SUB-SECTORS, INTEREST, CIVIL SERVANT PENSIONS AND EU CONTRIBUTION



Source: AIReF

# SSFs: deficit forecast of 0.5% of GDP in 2022 , in line with the Government

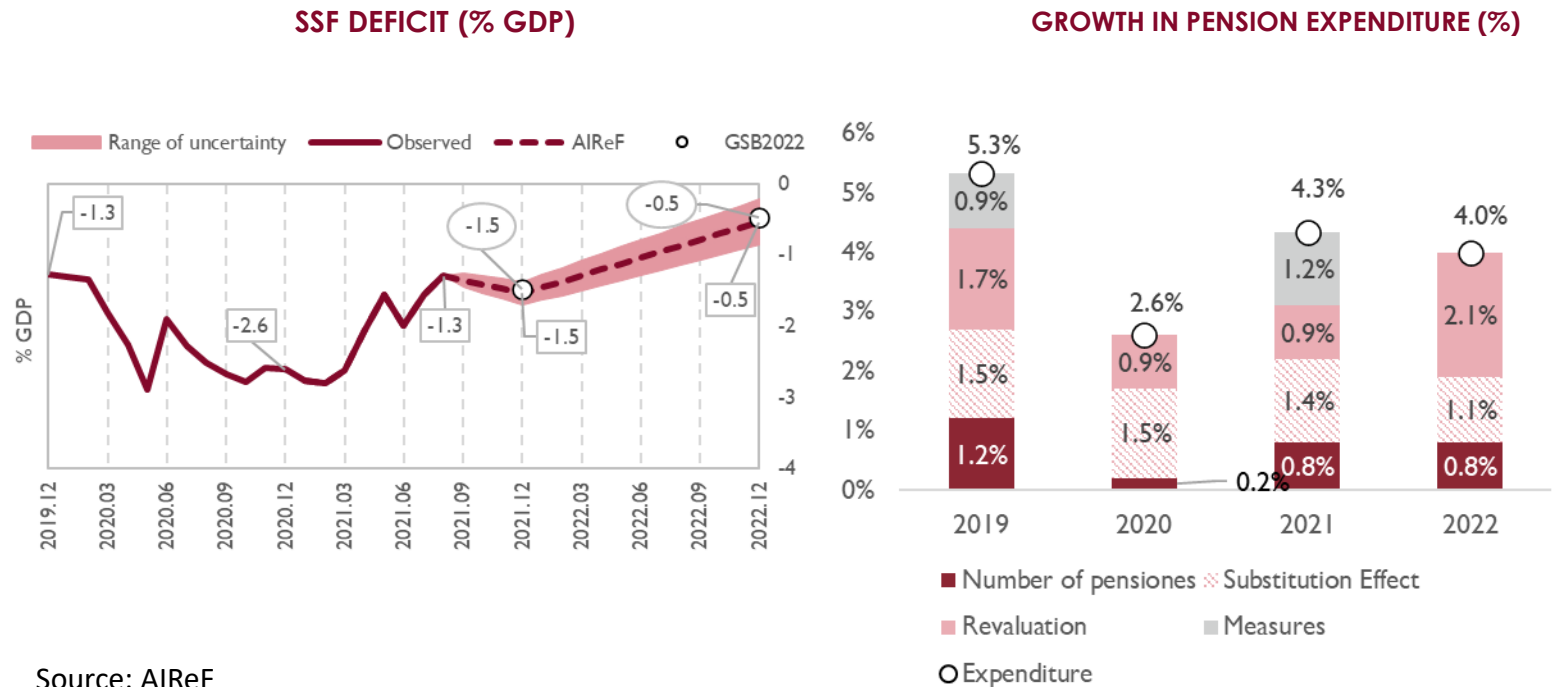
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Source: AIREF

- **Reduction in the deficit** in relation to the 1.5% of 2021 due to the progressive withdrawal of measures (ERTEs – job retention schemes – and cessation of activity for self-employed workers), recovery of employment and increase in transfers from the CG to finance “improper” expenses
- **Pension expenditure grew** by 4% mainly as a result of the revaluation above 2% (after including compensation for deviation in 2021), the substitution effect (1.1) and less dynamic growth in the number of pensions than in previous years due to the impact of the reform
- Decrease in **unemployment expenditure** due to good performance of employment

# ARs: a worsening in 2022 is estimated, with a widening of the deficit by 0.2 points compared with 2021

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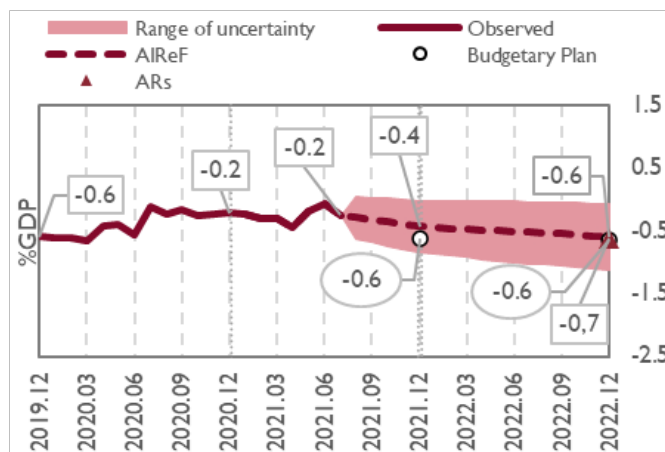
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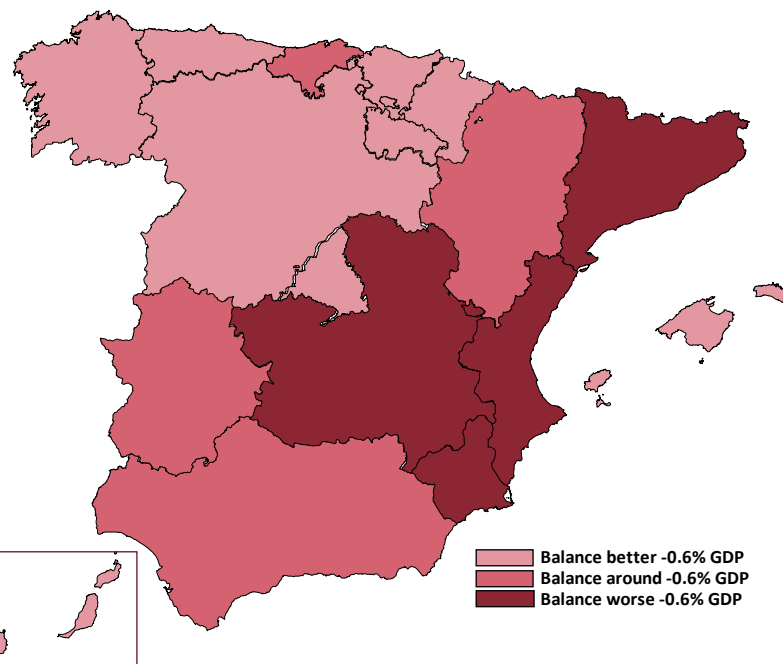
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REGIONS' DEFICIT (% GDP)



Source: AIReF

ESTIMATED DEFICIT 2022 IN RELATION TO THE REFERENCE OF -0.6%



- Some **ARs** are submitting draft budgets with reference rates above 0.6%
- According to AIReF's estimates, **regional revenue** would fall by around 2% while **expenditure** would remain at a level close to that of 2021 despite an estimated reduction of 0.7 points of GDP in expenditure directly associated with the healthcare crisis

# LGs: AIReF estimates that they will reach a surplus of 0.2% in 2022, in contrast with the balanced budget estimated by the Government

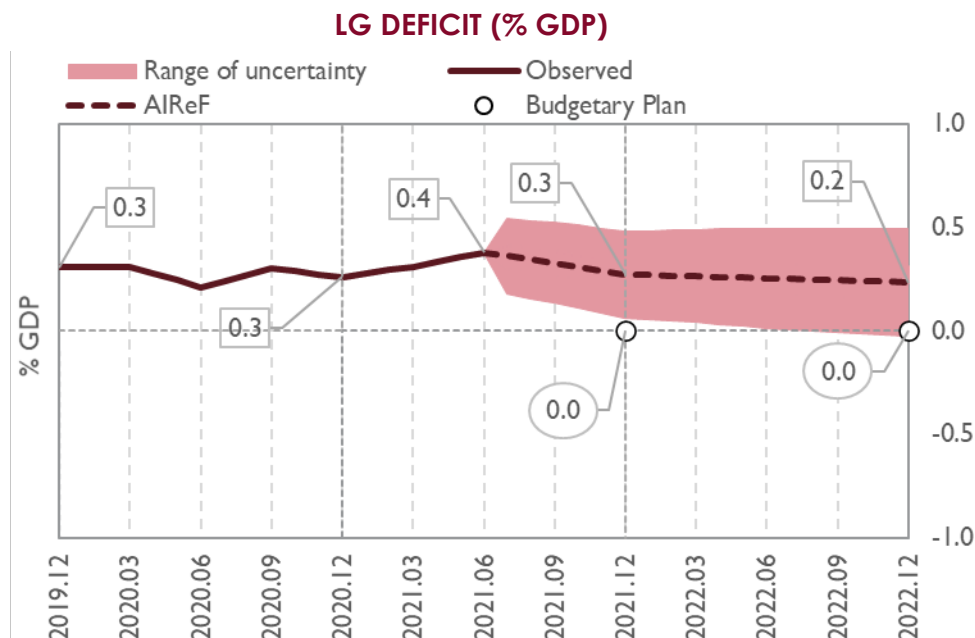
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Source: AIReF

- AIReF estimates that the LGs **will close 2021** with a surplus of 0.3% and that this will fall slightly in 2022
- There are **significant uncertainties** about the level of expenditure financed by surpluses from previous years and the substitution effect that such expenditure produces on expenditure financed by revenue for the year

# The reactivation of economic activity makes it possible to project a reduction in the debt ratio of 4.3 points for 2022

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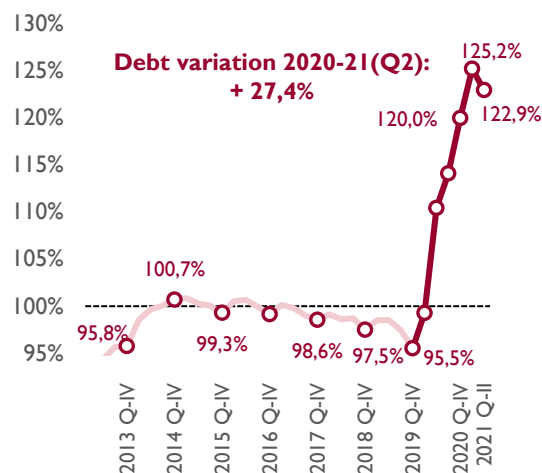
- The crisis caused by the pandemic brought the **debt-to-GDP ratio to 122.9%** in June 2021, an increase of 27.4 points compared with the level at the end of 2019
- The economic upturn, favourable financing conditions and the improvement in the cyclical component of the public balance, according to the AIReF models, project a **reduction of 4.3 points compared with the 2020 level**, which will take place almost entirely in 2022

In the first quarter of 2021, the debt ratio continued to grow (5.2 points), setting a maximum value (125.2%)...

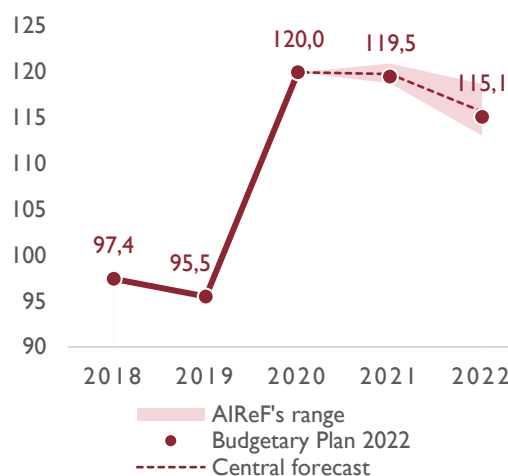
...after which a downward path has begun that will bring the ratio to 119.8% of GDP at the end of this year and 115.7% at the end of 2022

In 2021, the positive contribution of the expected increase in GDP will be neutralised by the still persistent deficit

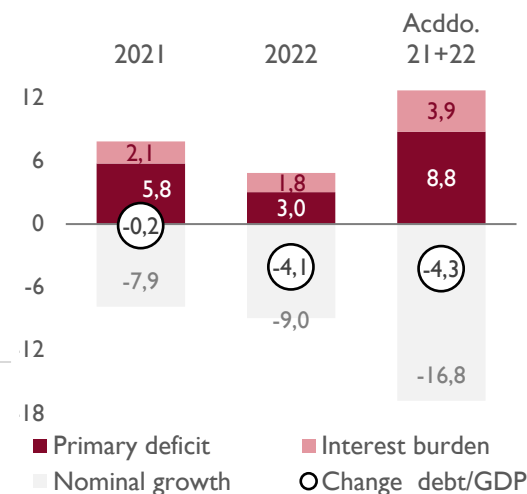
DEBT (% GDP)  
QUARTERLY EVOLUTION



DEBT (% GDP)  
SHORT-TERM PROJECTION



CONTRIBUTIONS TO THE CHANGE  
IN DEBT (% GDP)



Source: Bank of Spain and National Statistics Office (INE).

Source: Government and AIReF

Source: AIReF



# Although in the medium and long term, AIReF's projections draw an unfavourable trend

1. Introduction

2. Macroeconomic scenario

3. Fiscal scenario

3. Sustainability

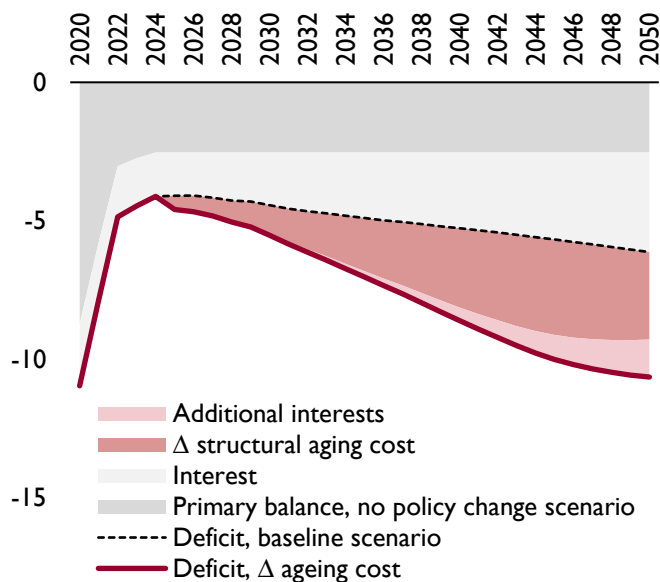
4. Recommendations

- The debt-to-GDP ratio **will return to an upward path** under the assumption of a no-policy change scenario with a constant primary structural deficit of around two and a half points
- This trend is considerably aggravated **by adding structural expenditure relating to the ageing population**, projecting a debt ratio close to 190% of GDP by mid-century

The differential of the interest rate over growth will not be sufficient to maintain the debt ratio stable with a primary deficit of over two points...

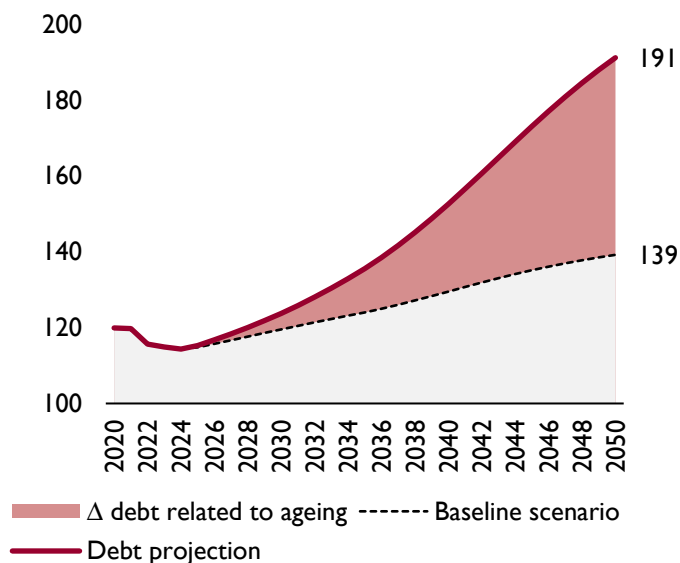
...generating an increasing debt path, which is significantly aggravated by adding structural spending related to an ageing population

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



Source: AIReF

DEBT SIMULATION (% GDP) ACCORDING TO DEFICIT SCENARIOS



Source: AIReF



## Two new recommendations...

### **Occupation of fiscal space associated with overcoming the crisis**

The General Government should adopt the measures necessary to prevent the fiscal space left by the withdrawal of the measures to combat COVID and the positive evolution of revenue being used to carry out structural expenditure that does not have a permanent source of funding

### **Quality of information and fiscal planning of the Budgetary Plan**

The Budgetary Plan should incorporate all the measures planned by the Government and the impact of the REACT – EU and the RTRP funds on the GG revenue and expenditure, as well as the breakdown of revenue and expenditure by sub-sector in national accounting terms

**... that supplement the recommendation on a medium-term strategy,  
which is reiterated**

**AIReF reiterates the need to establish a medium-term fiscal consolidation strategy that will act as fiscal guidance and will realistically and credibly ensure the financial sustainability of the GG.**

- This is laid down in the Organic Law on Budgetary Stability and Financial Sustainability itself: it is not suspended
- The projects and reforms to be financed with EU funds have a multi-annual perspective
- Although it makes planning difficult, the uncertainty itself also makes it necessary not to lose sight of the long-term implications of current decisions

**The recommendation remains to include information on the national accounting adjustments**



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