Debt Monitor

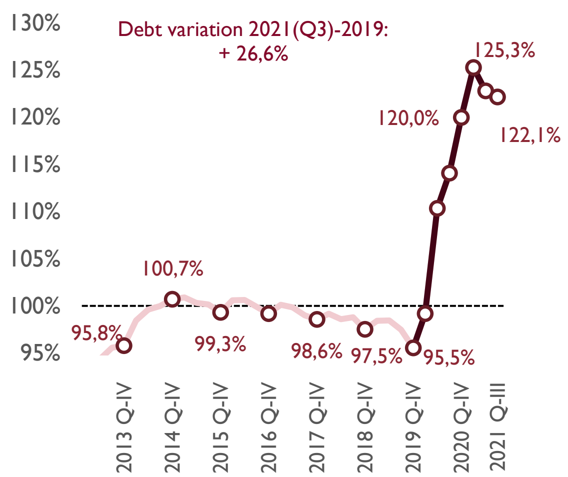
November 2021

I. Recent evolution and short-term projections

- *The Spanish debt-to-GDP ratio stood at 122.1% in the third quarter of 2021, an increase of 2.1 points on a year-to-date basis and 26.6 points on the pre-pandemic level.*
- *In monetary terms, public debt has continued to grow to reach a new all-time high of €1.43tn. However, the quarter-on-quarter growth rate of debt has been lower than that of nominal GDP in the last two quarters. This has led to a reduction in the public debt ratio (after five consecutive quarters of growth).*
- *More than half of the increase in the debt ratio compared with the level at the end of 2019 is due to the high public deficit caused by the health crisis. The contraction in GDP - the denominator of the debt ratio - contributes with an increase of 5.2 points.*
- *In the short term, the macro-fiscal forecasts prepared by AIReF project a reduction in the debt-to-GDP ratio of 4.3 points on the level recorded in 2020, placing the ratio at 115.7% in 2022.*
- *Despite higher borrowing needs, the average cost of the outstanding debt has continued to fall, recording a new all-time low. The low issuance rates have made it possible to reduce and stabilise the financial burden despite a significant increase in the stock of public debt.*
- *In the short term, AIReF's models project the continuation of the trend of a slight reduction in the financial burden and in the average debt rates.*

Evolution of Spanish debt

Debt (GDP), quarter-on-quarter evolution



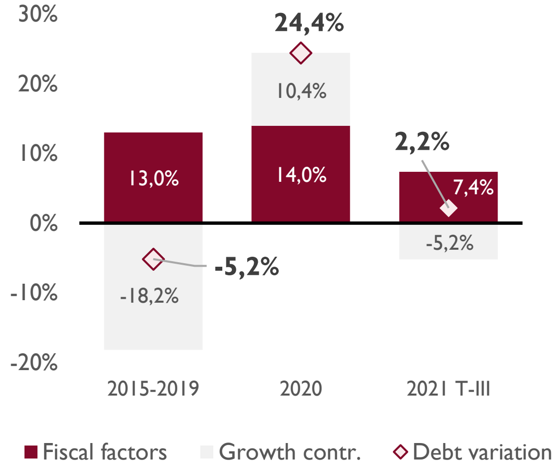
Source: INE and Bank of Spain

Spain's debt-to-GDP ratio stood at 122.1% in the third quarter of 2021, an increase of 2.1 points on a year-to-date basis and 26.6 points on the pre-pandemic level. In monetary terms, public debt has continued to grow to reach €1.43tn. However, the quarter-on-quarter growth rate of debt has been lower than that of nominal GDP in the last two quarters. This has led to a reduction in the public debt ratio (after five consecutive quarters of growth) of 3.2 points from the high (125.3%) reached in the first quarter.

Evolution of Spanish debt

More than half of the increase in the debt ratio compared with the level at the end of 2019 is due to the high public deficit caused by the health crisis. The contraction in GDP - the denominator of the debt ratio - contributes approximately one fifth of the debt increase (5.2 of the 26.6 points), as a negative contribution caused by the sharp contraction in GDP in 2020 (10.4 points) begins to be offset by the economic recovery in 2021 (-5.2 points). The public deficit and the stock-flow adjustment (where the reclassification of the Sareb debt added €34.15bn to the public debt) are responsible for the increase of 21.4 points.

Contribution to the change in debt (% GDP)

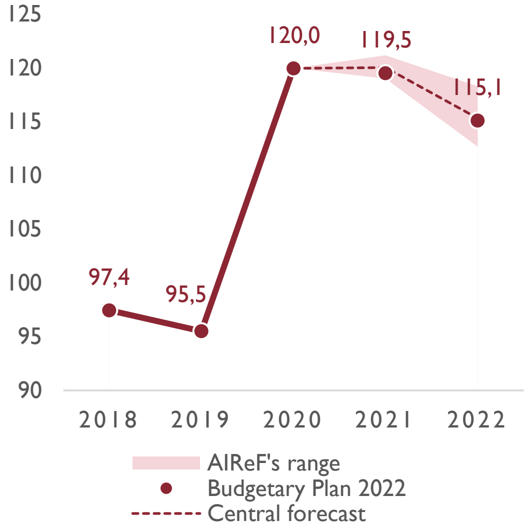


Source: AIReF

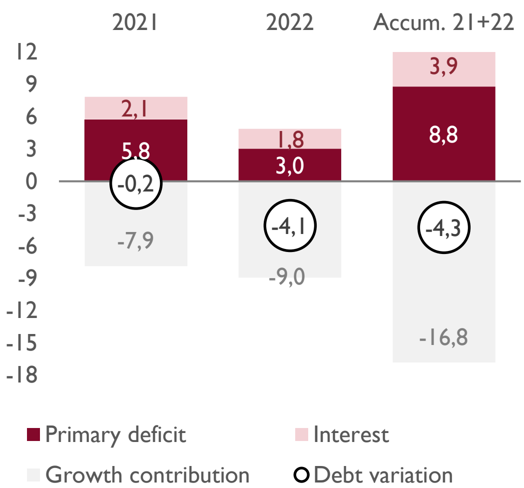
Short-term forecasts

In the short term, the macro-fiscal forecasts published by AIReF in the [*REPORT ON THE MAIN BUDGETARY LINES AND DRAFT BUDGET OF THE GENERAL GOVERNMENT FOR 2022*] **project a reduction in the debt-to-GDP ratio of 4.3 points on the level recorded in 2020, placing the ratio at 115.7% in 2022.** In the first quarter of 2021, the debt ratio recorded an all-time high (125.3%), which, according to AIReF's forecasts, will be the ceiling after which a downward path will begin, which will place the ratio at 119.8% of GDP at the end of this year and 115.7% at the end of 2022. This forecast is in line with the forecasts of 119.5% and 115.1% presented by the Government in the draft 2022 GSB and the draft Budgetary Plan (of 119.5% and 115.1% in 2021 and 2022, respectively), with those of the IMF's October WEO (120.2% and 116.4%, respectively) and are somewhat lower than the European Commission's autumn forecasts (120.6% and 118.2%). The reduction in the ratio will be primarily supported by economic growth as the persistent deficit will continue to contribute substantially to the increase in debt despite the reduction in the financial burden resulting from the favourable financing environment.

Debt forecasts (% GDP)



Contributions to the change in debt (GDP points)

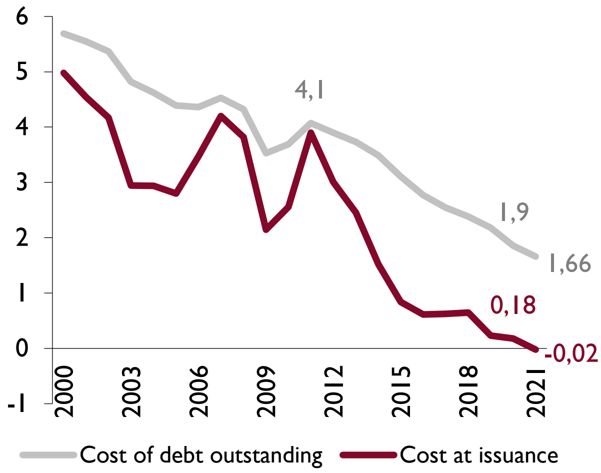


Source: Government and AIReF

Evolution of the cost of financing and debt burden

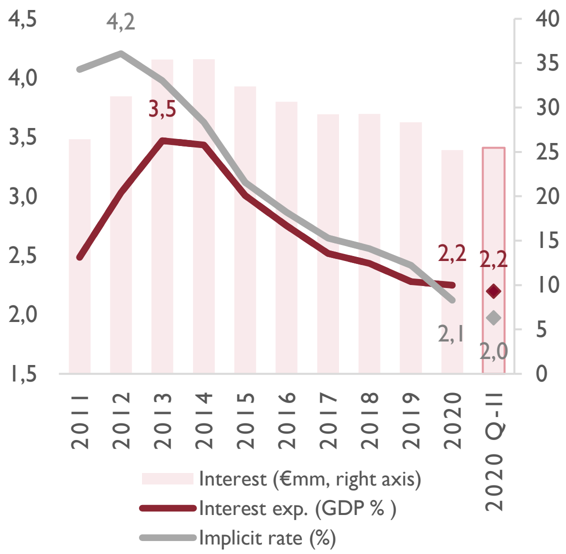
Despite higher borrowing needs, the cost of the debt has continued to fall, recording a new all-time low. The low yields recorded in all sovereign debt issuance maturities, close to all-time lows, have placed the average rate of new issues at practically zero. This has made it possible to maintain the path of reducing the average cost of financing, which has reached a new all-time low. Specifically, the average cost of new issues fell in October 2021 to -0.02%, from 0.18% at the end of 2020, which meant that the average cost of the entire State debt portfolio stood at 1.66% at that date, down from 1.86% at the end of 2020.

Average cost of State debt (%)



Source: Public Treasury

Financial burden and implicit rate of the debt



Source: IGAE, INE, Bank of Spain and AIReF

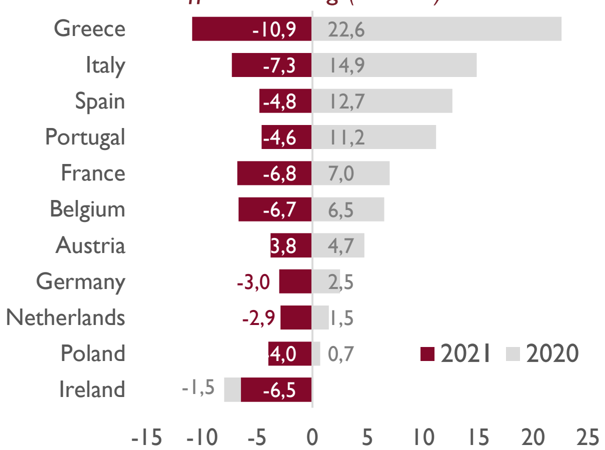
The low issuance rates have made it possible to reduce and stabilise the financial burden despite a marked increase in debt. Interest expenditure stood at 2.2% of GDP in mid-2021. This is the same value as at year-end 2020 although in absolute terms the accumulation of the last four quarters shows a slight upturn (243 million euros). The implicit rate continued the downward trend started in 2012, standing at 2% in June.

In the short term, AIReF's models project the continuation of this trend of a slight reduction in the financial burden and in the average debt rates. The issuance of debt at interest rates similar to (or slightly higher than) those recorded throughout 2021 will allow for a further reduction in the average portfolio rate, stabilising interest expenditure at an absolute level despite the greater stock of debt, which will result in a slight reduction as a percentage of GDP.

Dynamics of European debt

2021 will be a year of stabilisation of the public debt ratio for most European Union countries (in the EU it will rise from 91.8 to 92.1 pp of GDP according to the EC's autumn forecasts). This stabilisation is mainly due to a favourable growth differential over the interest rate in 2021 compared with the unfavourable effect in 2020. **In 2020, Spain was one of the countries that suffered the most unfavourable snowball effect, 12.7 pp, due to the sharp fall in GDP.**

Contributions to the change in the debt differential r - g (% GDP)



Source: AMECO

II. Long-term projections and risks

- *Large-scale monetary policy support in response to the health crisis has helped to maintain very favourable financing conditions for public debt.*

- *The current favourable financing conditions, with interest rates at virtually their lower limit, may lead in the short term to additional marginal improvements in debt interest, but the high level of debt will result in a future increase in the financial burden and, therefore, in the sustainability risk.*

- *The strong upturn in inflation worldwide is already generating an upward trend in long-term sovereign bond yields and some signalling of the withdrawal of stimulus programmes by central banks. In addition, the rise in prices has a direct and substantial impact on the financial burden through the portfolio of government bonds indexed to inflation, which has increased significantly over recent years.*

- *The high debt levels reached mean that debt dynamics are fundamentally conditioned by the future evolution of interest rates. In the short term, a rise in sovereign debt interest rates would have a limited impact on the interest expenditure due to the high average maturity of the portfolio. 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 measures to improve the deficit for it not to become unsustainable.*

- *AIReF's projections show an unfavourable trend in the medium and long-term debt ratio under a no-policy change scenario. The debt-to-GDP ratio will return to an upward path under the assumption of a no-policy change scenario and a constant primary structural deficit of two and a half points, placing it at 140% in 2050.*

- *The upward path of debt is significantly worsened by adding the structural expenditure relating to an ageing population, with a debt ratio of 190% of GDP projected for mid-century.*

- *The high levels of public debt mean that, when the crisis is over, consolidation plans must be designed to generate a path for sustained reduction in the debt ratio to more prudent levels.*

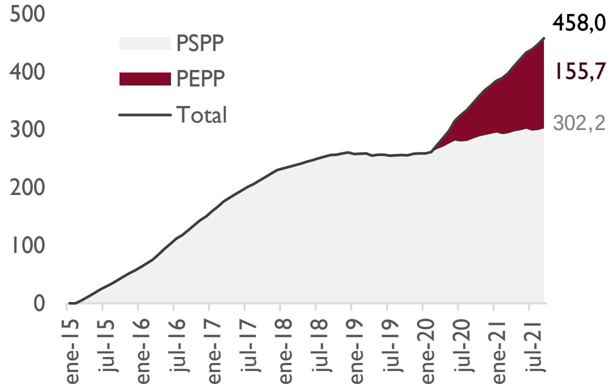
- *As shown by the simulations carried out by AIReF, achieving balanced public accounts in the next decade will require an annual structural fiscal adjustment of between 0.25 and 0.5 points in a period of between 8 and 16 years. This would reduce the debt ratio to between 80 and 95 percent of GDP in 2040.*

- *The absence of consolidation will result in an increasing path for the debt ratio, while stabilisation of the debt ratio at current levels will require a permanent structural adjustment of between 0.05 and 0.1 points of GDP.*

- *In the medium and long term, greater growth of the economy would make it possible to create more fiscal space. A combination of higher investment in public capital together with the adoption of reforms that raise the economy's potential future performance may lead to a fall in the long-term debt ratio of around 20 points for the same fiscal consolidation effort.*

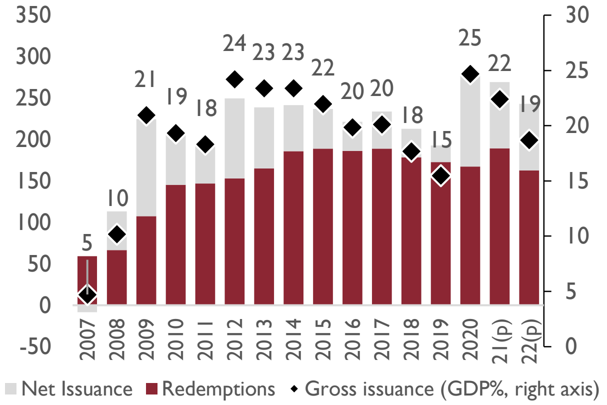
Large-scale monetary policy support in response to the health crisis has helped to preserve very favourable financing conditions for government bonds, but the high level of debt implies future sustainability that is strongly linked to the policies of the European Central Bank. The emphatic and swift action by the monetary policy body has avoided the resurgence of any doubt about the sustainability of historically high debt levels accumulated following the pandemic. Thus, the Pandemic Emergency Purchase Programme (PEPP) has made it possible to maintain stability in European sovereign debt markets, with yields close to their historic lows, covering most of the extraordinary borrowing needs. The current favourable financing conditions, with interest rates at virtually their lower limit, may lead in the short term to additional marginal improvements in debt interest, but the high level of debt will in all likelihood result in a future increase in the financial burden and, therefore, in the sustainability risk. How this takes place, both in speed and intensity, will largely depend on the evolution of inflation and the monetary policy reaction.

Net cumulative purchases of Spanish debt by the ECB (€bn)



Source: ECB and AIReF

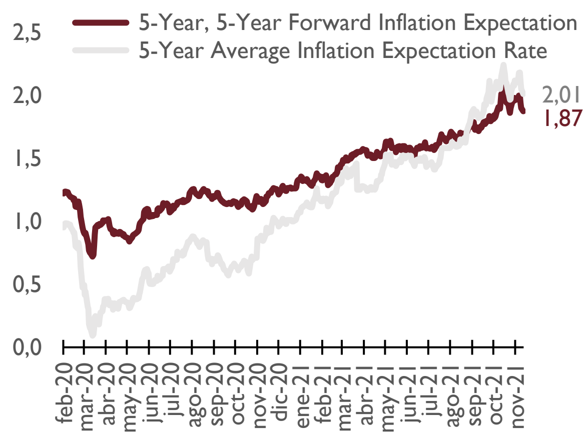
Treasury borrowing needs (€bn and % GDP)



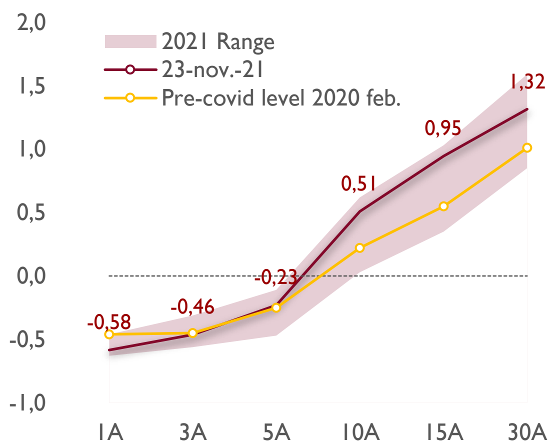
Source: Treasury and AIReF

The strong upturn in inflation worldwide is generating an upward trend in long-term sovereign bond yields and some signalling of the withdrawal of stimulus programmes by central banks. After a beginning of the year with interest rates at historic lows and below pre-COVID-19 levels, the economic reactivation together with the rise in the price of oil and other raw materials has generated a price increase that has far exceeded initial forecasts. This has placed upward pressure on long-term sovereign bond yields, although they remain at historically low levels. The ECB has substantially revised its inflation forecasts for 2021 and 2022, maintaining the outlook of more moderate inflation in the medium term. Inflation expectations continue to rise in the markets, placing the average for the coming years very close to the ECB's 2% target. This has led the ECB to moderate the pace of its asset purchases and indicate a certain progressive withdrawal of the stimulus measures over 2022.

Inflation expectations



Interest rate curve in 2021 (%)

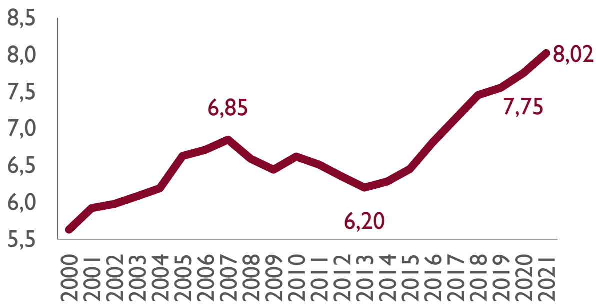


Source: Refinitiv

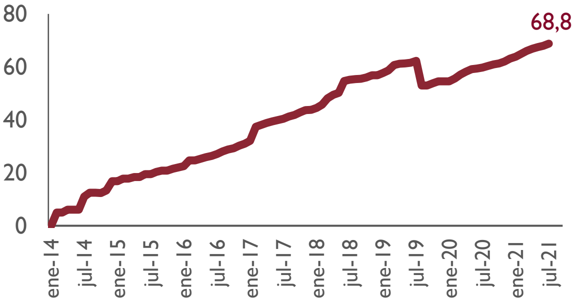
In the short term, a rise in sovereign debt interest rates would have a limited impact on the interest expenditure due to the high average maturity of the portfolio. However, a low interest rate environment will be essential to alleviate the fiscal effort in the medium and long term. The strategy of lengthening the average maturity of debt issues has generated some protection against possible interest rate hikes which, should they occur, would take eight years to be fully transferred to the average rate of the portfolio. Although in the short term the impact of a rate hike is small, in the medium and long term, it would end up being very significant in the evolution of the financial burden and, if not offset by adjustments in other expenditure or revenue items, in the debt path.

Beyond inflation expectations being passed on to the nominal return on debt, the increase in prices has a direct and substantial impact on the financial burden. Exposure to inflation through the portfolio of government bonds linked to European inflation has been increasing since the beginning of the programme in 2014, with a value of €68.8bn in October 2021. This exposure means that, for example, inflation that is 1.2 points higher than the ECB's inflation forecast for 2021 made at the start of the year would result in an increase in the financial burden of close to €800m.

Average maturity of State debt (years)

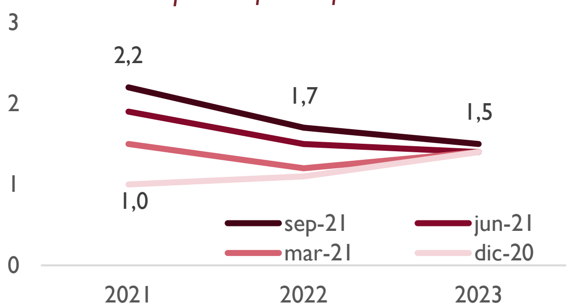


Outstanding debt linked to inflation (€bn)



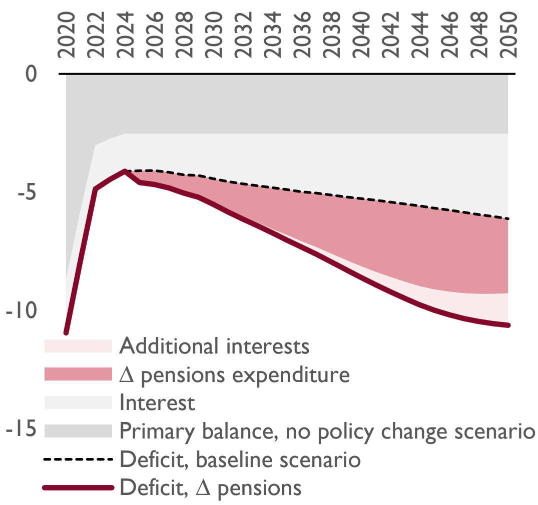
Source: Public Treasury

ECB's European inflation forecasts

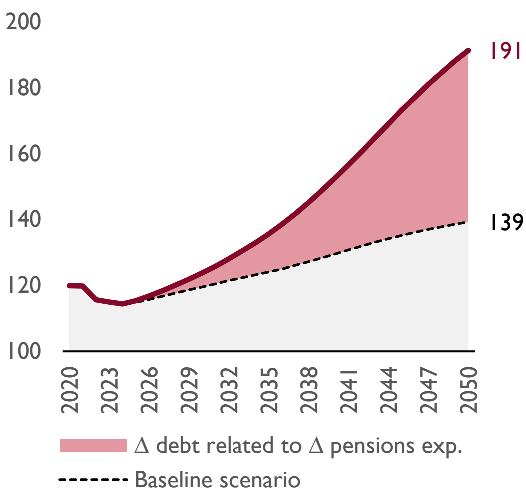


AIReF's projections show an unfavourable trend in the medium and long-term debt ratio under a no-policy change scenario The debt-to-GDP ratio will return to an upward path under the assumption of a no-policy change scenario, nominal average growth of 3.3% and a constant primary structural deficit of two and a half points of GDP from 2024. The debt path increases significantly by adding the structural expenditure relating to pensions, projecting a debt ratio of 190% of GDP by the middle of the century.

Scenarios for the evolution of the public deficit (% GDP)



Debt simulation (% GDP) according to deficit evolution scenarios



Source: Government and AIReF

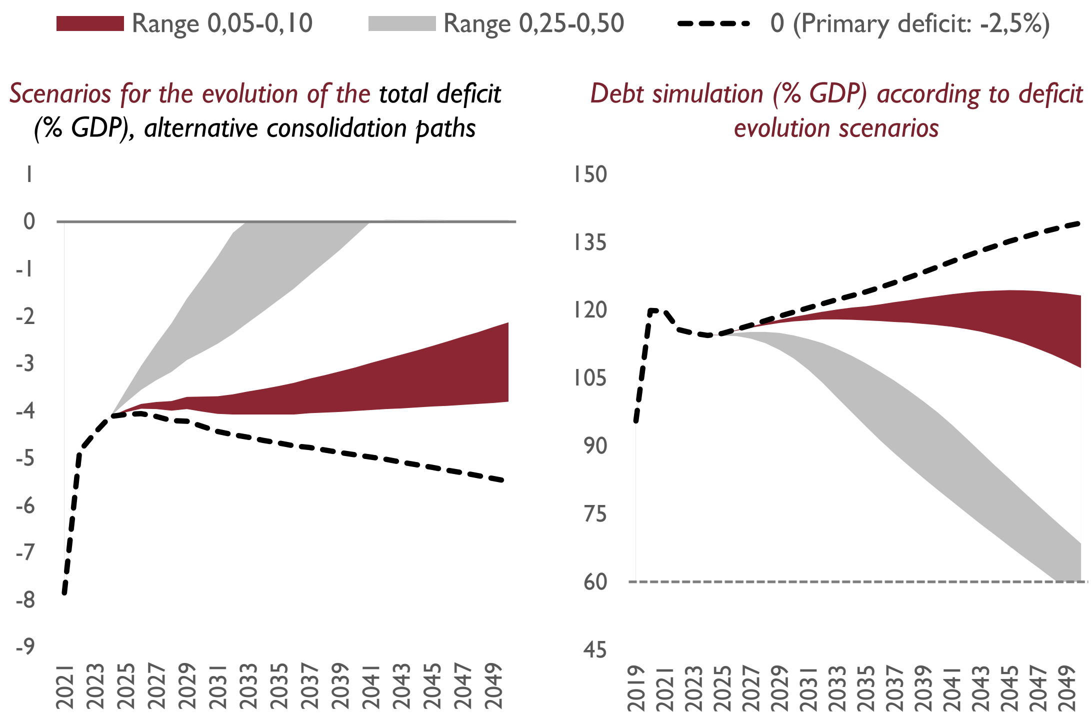
The negative interest rate differential over growth will not be sufficient to maintain the debt ratio stabilised if a primary deficit of over two points of GDP is maintained. The forecast of a lasting horizon of low interest rates allows the debt trend to stabilise with a total deficit of around 3.5%.

Beyond containing and stabilising the level of debt, the financial sustainability of the public accounts will require a path for reducing the debt ratio towards a much more stable position. A gradual and sustained reduction in the public deficit until budgetary balance, as indicated by the Spanish legal system, will generate a path of sustained reduction of the debt ratio to more prudent levels. As shown by the simulations carried out by AIReF, achieving balanced public accounts in the next decade will require an annual structural fiscal adjustment of between 0.25 and 0.5 points in a period of between 8 and 16 years. This would reduce the debt ratio to between 80 and 95 percent of GDP in 2040. The absence of consolidation will result in an increasing path for the debt ratio, while stabilisation of the debt ratio at current levels will require a permanent structural adjustment of between 0.05 and 0.1 points of GDP.

A fiscal framework based on credible, flexible and transparent rules will be a key element in guiding the necessary process of debt reduction.

FISCAL CONSOLIDATION PATHS AND DEBT PROJECTIONS

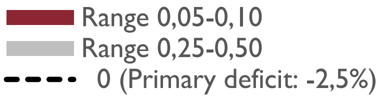
ANNUAL STRUCTURAL ADJUSTMENT (IN GDP POINTS UNTIL EQUILIBRIUM)



Source: AIReF

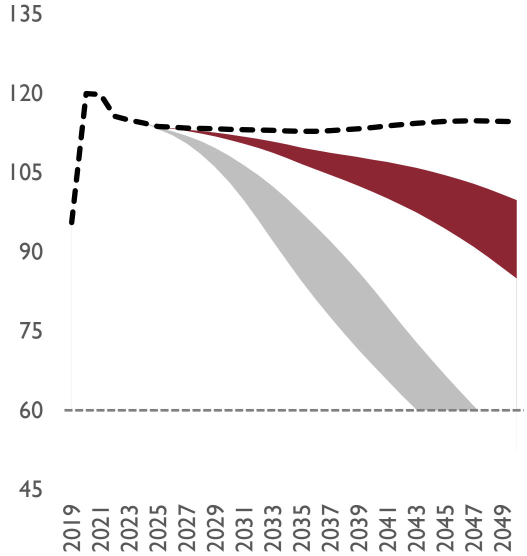
Budgetary balance and sustainability over the medium term

ANNUAL STRUCTURAL ADJUSTMENT (IN GDP POINTS UNTIL EQUILIBRIUM)



In the medium and long term, greater growth of the economy would make it possible to create more fiscal space. As shown by the simulations, higher medium and long-term potential growth associated with a combination of higher investment in public capital together with the adoption of reforms that raise the economy's potential future performance may lead to a fall in the long-term debt ratio of around 20 points for the same fiscal consolidation effort.

Debt simulation (% GDP) according to deficit evolution scenarios and higher growth (*)



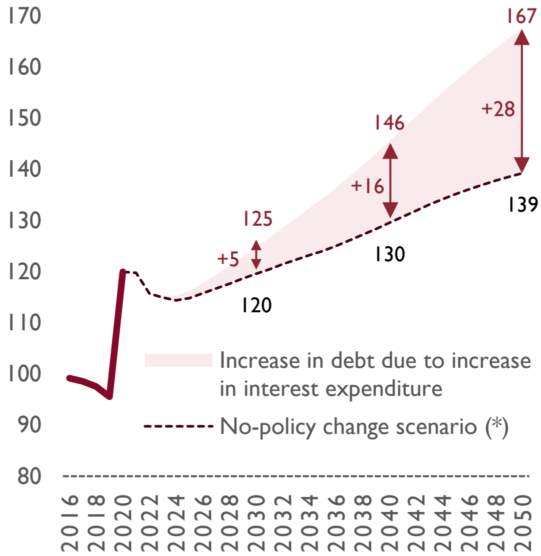
(*) The average growth over the period 2025-2050 is increased by one percentage point, from 3.3 to 4.3%

Source: AIReF

Interest rate and debt dynamics

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 close to historical lows favours debt sustainability. However, given the high debt level, an upturn in rates might compound the growing trend of the ratio, which would need to be offset with additional fiscal adjustments for it not to become unsustainable. Accordingly, a 100 bp rise in interest rate expectations would lead to an increase in the financial burden of 1.1 point of GDP in 2030, 1.7 in 2040 and 2.4 in 2050, placing the heading of interest expenditure at 3%, 4.4% and a 6% of GDP, respectively. This would result in an increase in the debt ratio of five points in 2030, 16 in 2040 and 25 in 2050.

Debt simulation (% GDP), scenario with no policy change and increase in interest rates (*)



(*) The no-policy change scenario is constructed under the assumption of maintaining a primary deficit in the long term similar to that projected for 2024, that is, 2.5%. The financial burden 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.

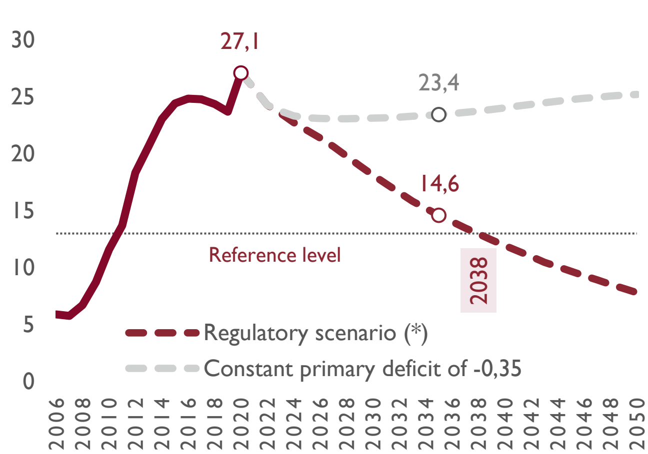
Source: AIReF

III. Long-term projections of the ARs under the regulatory scenario assumptions

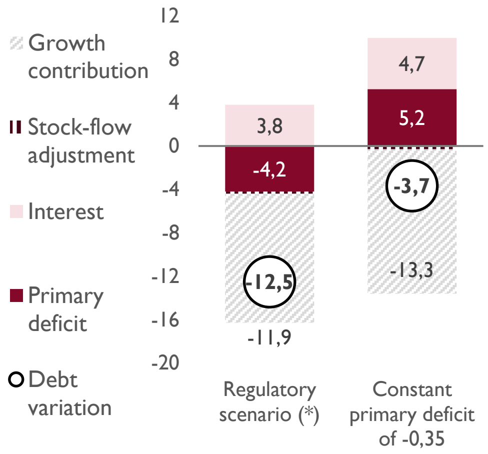
TOTAL SUB-SECTOR

Under the regulatory scenario assumptions[1], the debt ratio is projected to fall by 12.5 points of GDP in the next 15 years, reaching the pre-pandemic level in 2023. Under an alternative scenario that maintains a constant primary deficit (0.35% of GDP) from 2022, the debt ratio shows a stabilised profile, with a decrease in the ratio of 3.7 points in that period. In both scenarios, economic growth will be a determining factor in the reduction of the ratio, but it is evident that a reduction in the regional debt requires convergence to a balanced budget in the medium term.

Debt projections (% GDP) and year of attainment of the 13% reference level

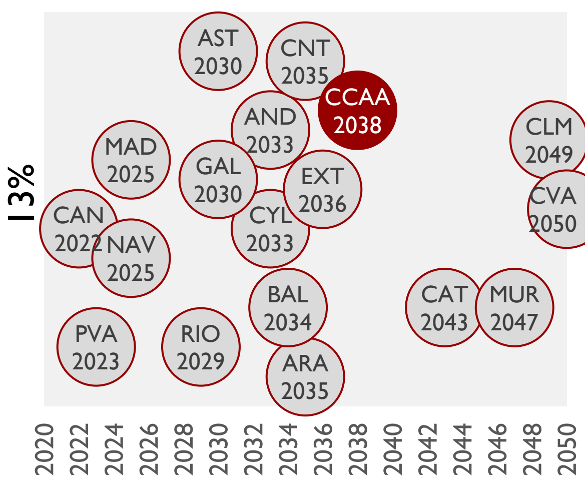


Contribution to the change in debt ratio (% GDP) in 15 years (2021-2035)



Under a regulatory scenario, it is projected that almost two decades will be required for the sub-sector as a whole to reach the 13% reference limit. At an individual level, in the coming years, both the Canary Islands and the Basque Country are forecast to be below the reference level of 13%, while Madrid and Navarre would be at values that are close to, but slightly higher than, that level. Regions such as Castile-La Mancha and Valencia would not reach this level until the middle of the century.

Year of arrival at the reference of 13% under the regulatory scenario

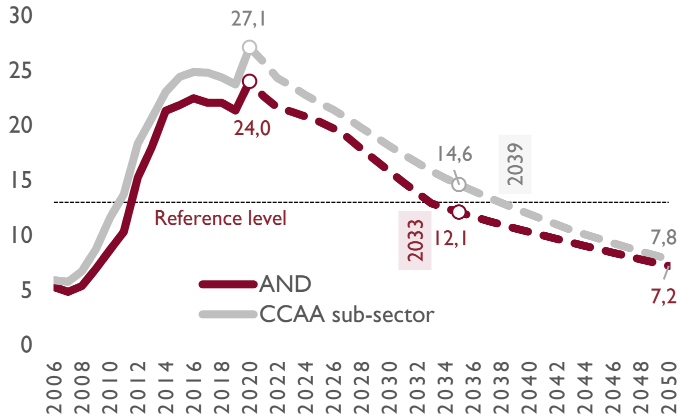


[1] The regulatory scenario implies an annual improvement in the primary balance of 0.25 points of GDP until a surplus of 0.75% is reached, which will be maintained providing the debt ratio exceeds the level of 13% of GDP. Once this limit is reached, the primary surplus will be equal to the financial burden, projecting a scenario of sustained budgetary balance.

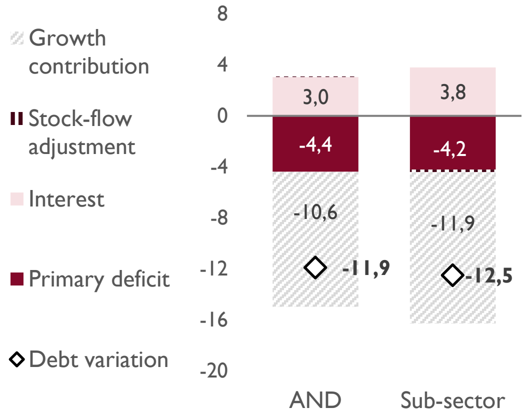
ANDALUSIA

Under the suppositions of a regulatory scenario, the debt ratio is projected to fall by 11.9 points of GDP in the next 15 years, reaching the pre-pandemic level in 2023. Under the same scenario, a reduction is projected for the sub-sector as a whole of 12.5 points. Economic growth will be the factor that most contributes to the reduction of the ratio in both cases. This will be driven by favourable financing conditions and a fiscal balance that would become positive in the middle of the decade, thus reaching the reference limit of 13% in 2033.

Debt projections (% GDP) on the regulatory scenario and year of attainment of the 13% reference level



Contribution to the variation in the debt ratio (% GDP) over 15 years (2021-2035)

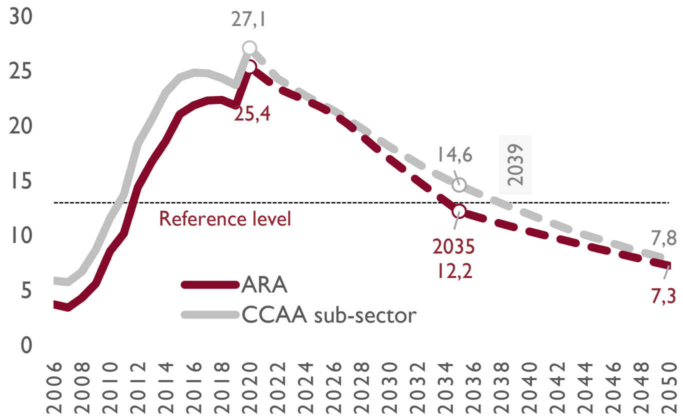


Source: AIReF

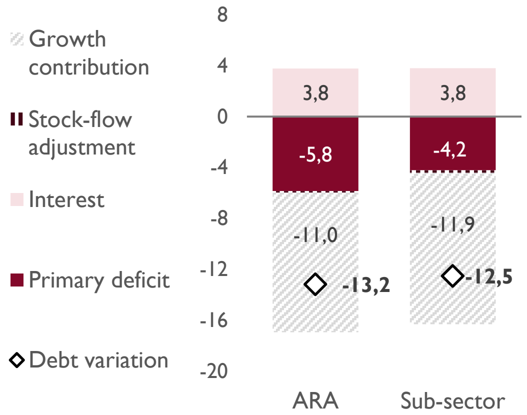
ARAGON

Under the suppositions of a regulatory scenario, the debt ratio is projected to fall by 13.2 points of GDP in the next 15 years, reaching the pre-pandemic level in 2025. Under the same scenario, a reduction is projected for the sub-sector as a whole of 12.5 points. Economic growth will be the factor that most contributes to the reduction of the ratio in both cases. This will be driven by favourable financing conditions and a fiscal balance that would become positive in the coming years, thus reaching the reference limit of 13% in 2035.

Debt projections (% GDP) on the regulatory scenario and year of attainment of the 13% reference level



Contribution to the variation in the debt ratio (% GDP) over 15 years (2021-2035)

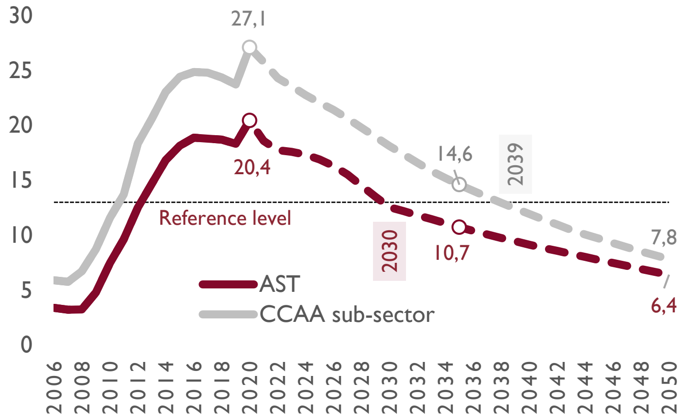


Source: AIReF

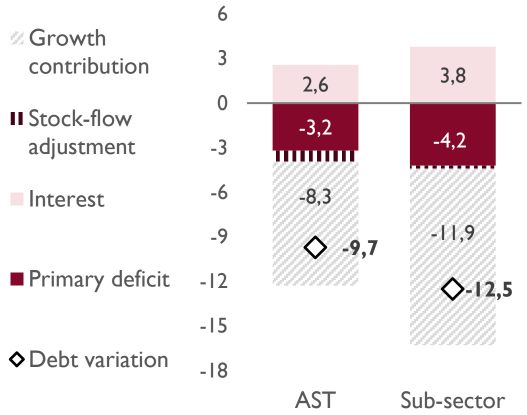
ASTURIAS

Under the suppositions of a regulatory scenario, the debt ratio is projected to fall by 9.7 points of GDP in the next 15 years, reaching the pre-pandemic level in 2022. Under the same scenario, a reduction is projected for the sub-sector as a whole of 12.5 points. Economic growth will be the factor that most contributes to the reduction of the ratio in both cases. This will be driven by favourable financing conditions and a fiscal balance that would become positive in the middle of the decade, thus reaching the reference limit of 13% in 2030.

Debt projections (% GDP) on the regulatory scenario and year of attainment of the 13% reference level



Contribution to the variation in the debt ratio (% GDP) over 15 years (2021-2035)

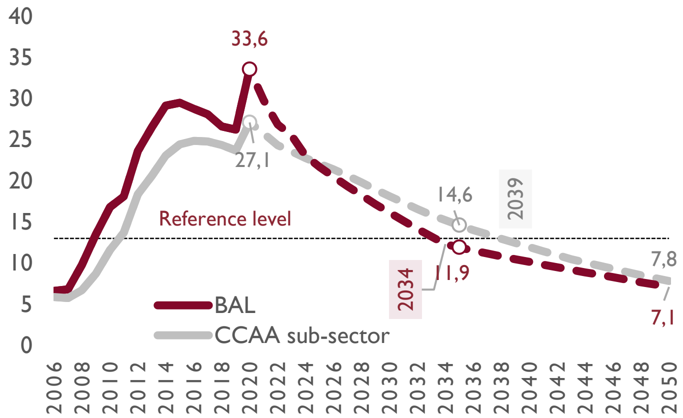


Source: AIReF

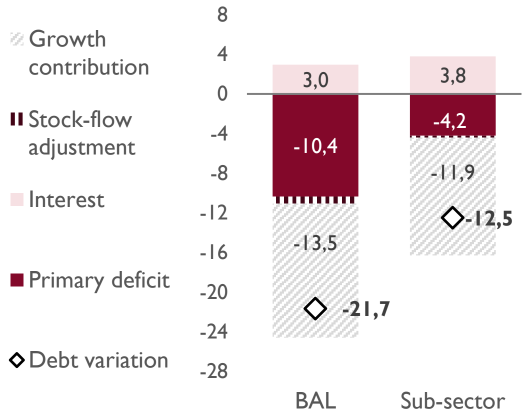
BALEARIC ISLANDS

Under the suppositions of a regulatory scenario, the debt ratio is projected to fall by 21.7 points of GDP in the next 15 years, reaching the pre-pandemic level in 2023. Under the same scenario, a reduction is projected for the sub-sector as a whole of 12.5 points. Economic growth will be the factor that most contributes to the reduction of the ratio in both cases. This will be driven by favourable financing conditions and a fiscal balance that would become positive in the coming years, thus reaching the reference limit of 13% in 2034.

Debt projections (% GDP) on the regulatory scenario and year of attainment of the 13% reference level



Contribution to the variation in the debt ratio (% GDP) over 15 years (2021-2035)

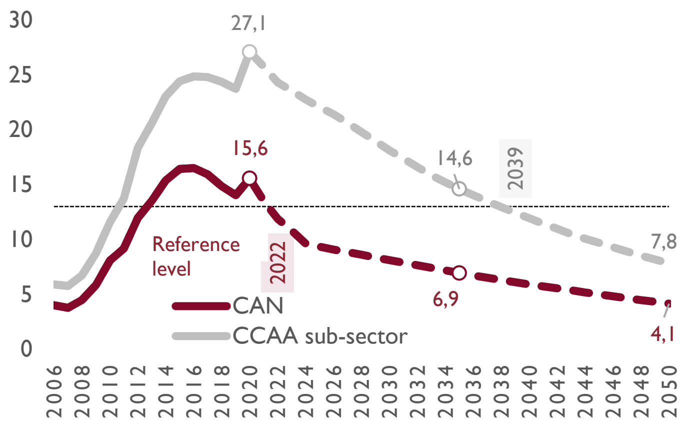


Source: AIReF

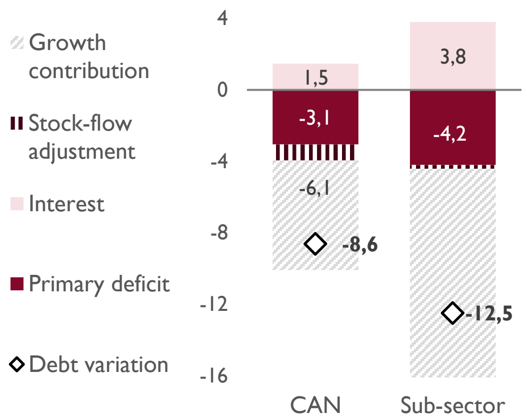
CANARY ISLANDS

Under the suppositions of a regulatory scenario, the debt ratio is projected to fall by 8.6 points of GDP in the next 15 years, reaching the pre-pandemic level in 2021. Under the same scenario, a reduction is projected for the sub-sector as a whole of 12.5 points. Economic growth will be the factor that most contributes to the reduction of the ratio in both cases. This will be driven by favourable financing conditions and a positive fiscal balance, thus reaching the reference limit of 13% in 2022.

Debt projections (% GDP) on the regulatory scenario and year of attainment of the 13% reference level



Contribution to the variation in the debt ratio (% GDP) over 15 years (2021-2035)

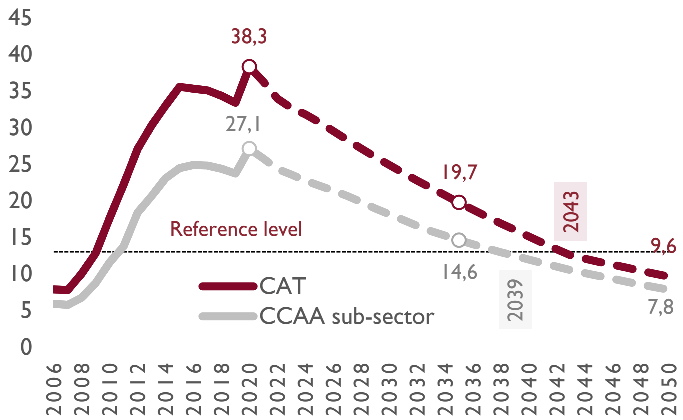


Source: AIReF

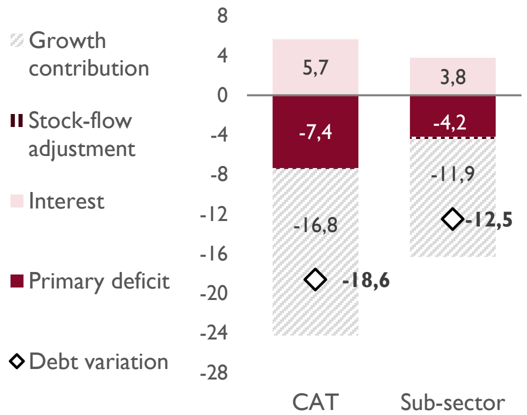
CATALONIA

Under the suppositions of a regulatory scenario, the debt ratio is projected to fall by 18.6 points of GDP in the next 15 years, reaching the pre-pandemic level in 2023. Under the same scenario, a reduction is projected for the sub-sector as a whole of 12.5 points. Economic growth will be the factor that most contributes to the reduction of the ratio in both cases. This will be driven by favourable financing conditions and a fiscal balance that would become positive in the middle of the decade, thus reaching the reference limit of 13% in 2043.

Debt projections (% GDP) on the regulatory scenario and year of attainment of the 13% reference level



Contribution to the variation in the debt ratio (% GDP) over 15 years (2021-2035)

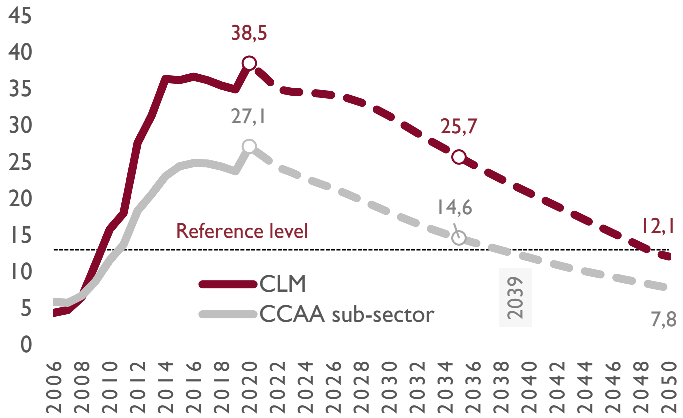


Source: AIReF

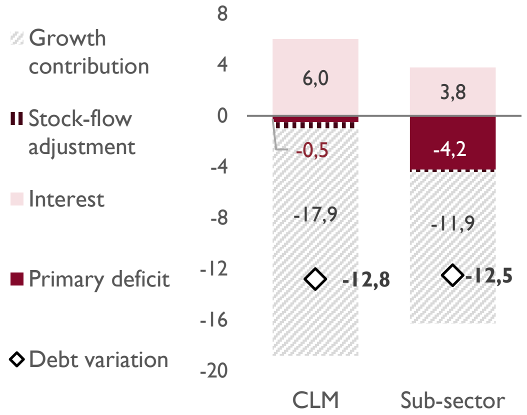
CASTILE-LA MANCHA

Under the suppositions of a regulatory scenario, the debt ratio is projected to fall by 12.8 points of GDP in the next 15 years, reaching the pre-pandemic level in 2023. Under the same scenario, a reduction is projected for the sub-sector as a whole of 12.5 points. Economic growth will be the factor that most contributes to the reduction of the ratio in both cases. In contrast, a persistent deficit would limit the reduction of the ratio of the autonomous region, thus delaying the achievement of the reference limit of 13% until the middle of the century.

Debt projections (% GDP) on the regulatory scenario and year of attainment of the 13% reference level



Contribution to the variation in the debt ratio (% GDP) over 15 years (2021-2035)

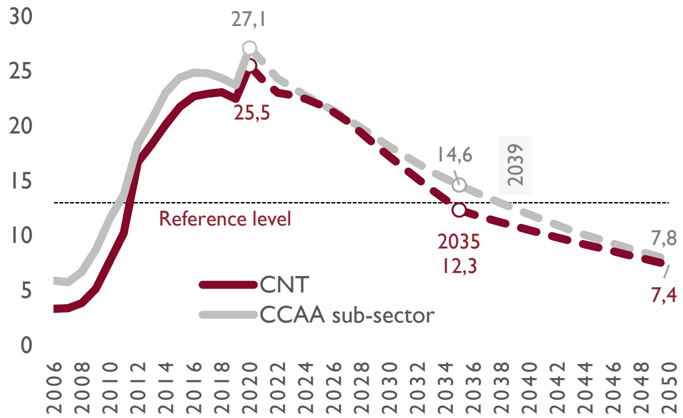


Source: AIReF

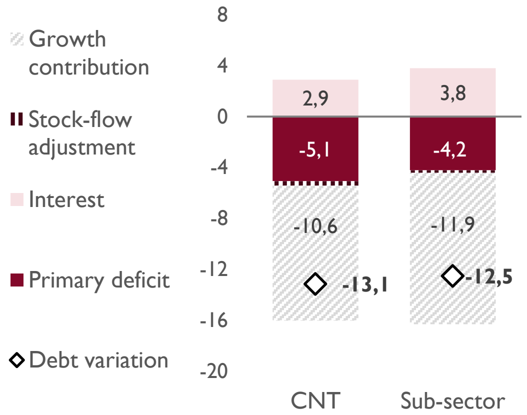
CANTABRIA

Under the suppositions of a regulatory scenario, the debt ratio is projected to fall by 13.1 points of GDP in the next 15 years, reaching the pre-pandemic level in 2024. Under the same scenario, a reduction is projected for the sub-sector as a whole of 12.5 points. Economic growth will be the factor that most contributes to the reduction of the ratio in both cases. This will be driven by favourable financing conditions and a fiscal balance that would become positive in the middle of the decade, thus reaching the reference limit of 13% in 2035.

Debt projections (% GDP) on the regulatory scenario and year of attainment of the 13% reference level



Contribution to the variation in the debt ratio (% GDP) over 15 years (2021-2035)

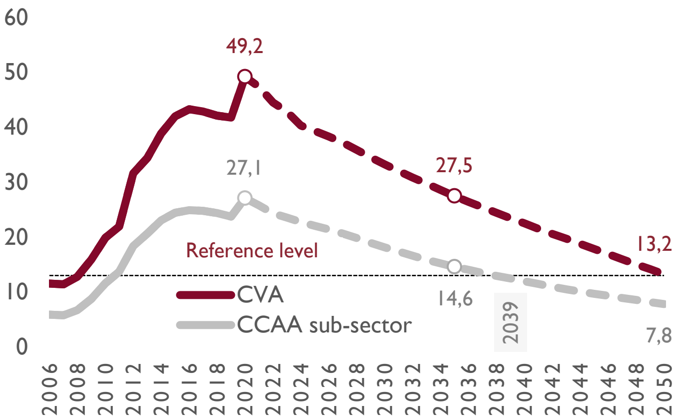


Source: AIReF

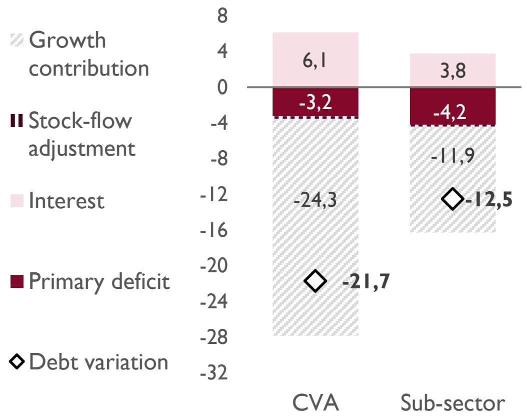
VALENCIA

Under the suppositions of a regulatory scenario, the debt ratio is projected to fall by 21.7 points of GDP in the next 15 years, reaching the pre-pandemic level in 2024. Under the same scenario, a reduction is projected for the sub-sector as a whole of 12.5 points. In both cases, economic growth will be the determining factor in the reduction of the debt, although in the case of Valencia, it will be very significant given the high level of the ratio. Favourable financing conditions and the achievement of a positive fiscal balance in the middle of the decade would make it possible to maintain a sustained path of ratio reduction, reaching the reference limit of 13% in the middle of the century.

Debt projections (% GDP) on the regulatory scenario and year of attainment of the 13% reference level



Contribution to the variation in the debt ratio (% GDP) over 15 years (2021-2035)

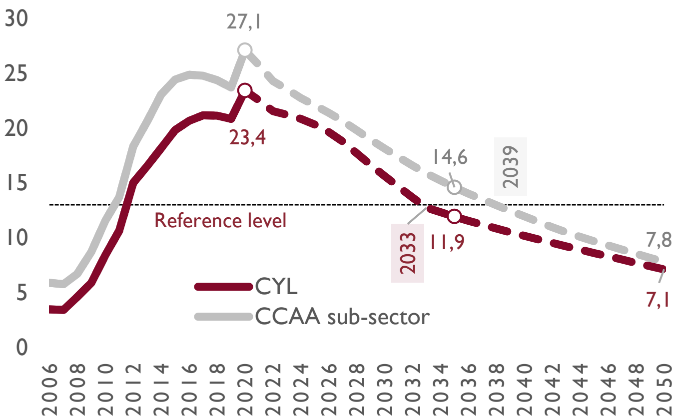


Source: AIReF

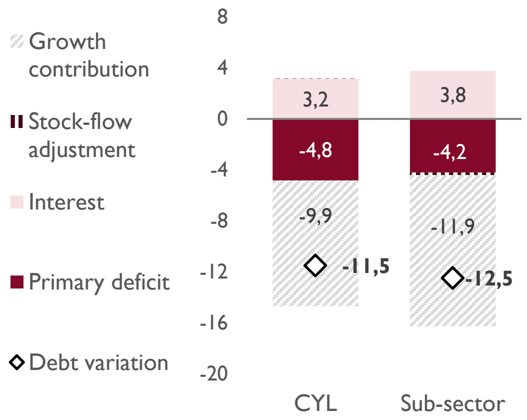
CASTILE and LEON

Under the suppositions of a regulatory scenario, the debt ratio is projected to fall by 11.5 points of GDP in the next 15 years, reaching the pre-pandemic level in 2024. Under the same scenario, a reduction is projected for the sub-sector as a whole of 12.5 points. Economic growth will be the factor that most contributes to the reduction of the ratio in both cases. This will be driven by favourable financing conditions and a fiscal balance that would become positive in the middle of the decade, thus reaching the reference limit of 13% in 2033.

Debt projections (% GDP) on the regulatory scenario and year of attainment of the 13% reference level



Contribution to the variation in the debt ratio (% GDP) over 15 years (2021-2035)

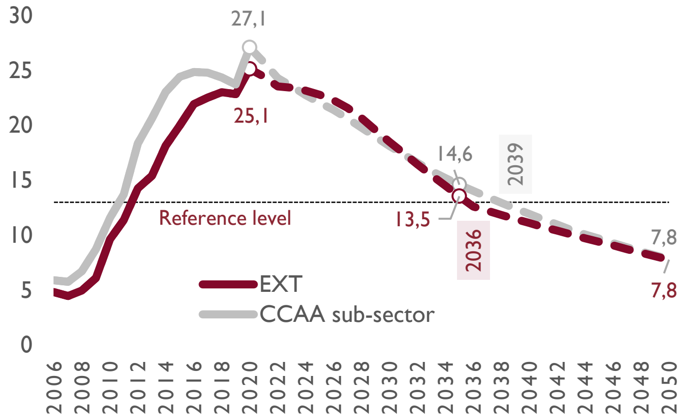


Source: AIReF

EXTREMADURA

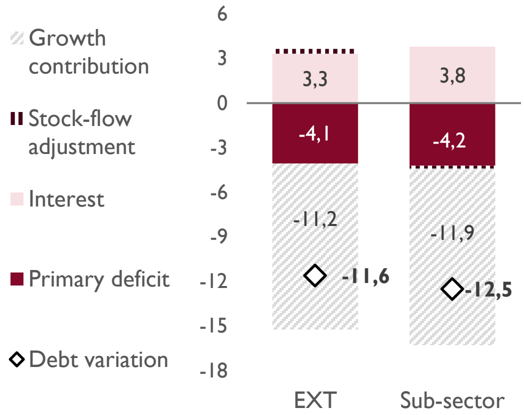
Under the suppositions of a regulatory scenario, the debt ratio is projected to fall by 11.6 points of GDP in the next 15 years, reaching the pre-pandemic level in 2025. Under the same scenario, a reduction is projected for the sub-sector as a whole of 12.5 points. Economic growth will be the factor that most contributes to the reduction of the ratio in both cases. This will be driven by favourable financing conditions and a fiscal balance that would become positive in the middle of the decade, thus reaching the reference limit of 13% in 2036.

Debt projections (% GDP) on the regulatory scenario and year of attainment of the 13% reference level



Source: AIReF

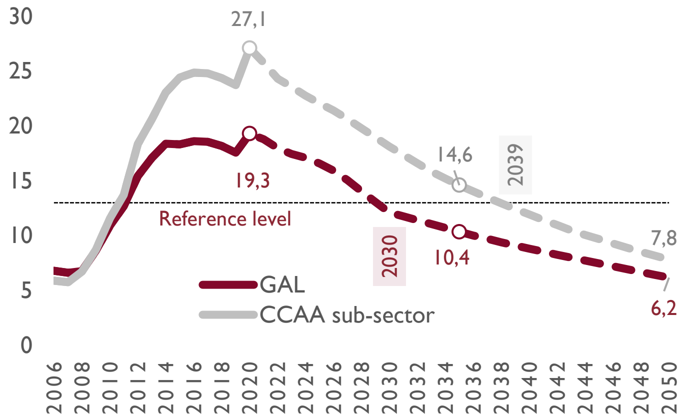
Contribution to the variation in the debt ratio (% GDP) over 15 years (2021-2035)



GALICIA

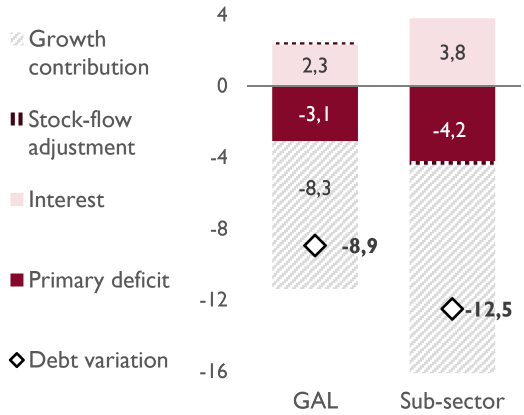
Under the suppositions of a regulatory scenario, the debt ratio is projected to fall by 8.9 points of GDP in the next 15 years, reaching the pre-pandemic level in 2023. Under the same scenario, a reduction is projected for the sub-sector as a whole of 12.5 points. Economic growth will be the factor that most contributes to the reduction of the ratio in both cases. This will be driven by favourable financing conditions and a fiscal balance that would become positive in the middle of the decade, thus reaching the reference limit of 13% in 2030.

Debt projections (% GDP) on the regulatory scenario and year of attainment of the 13% reference level



Source: AIReF

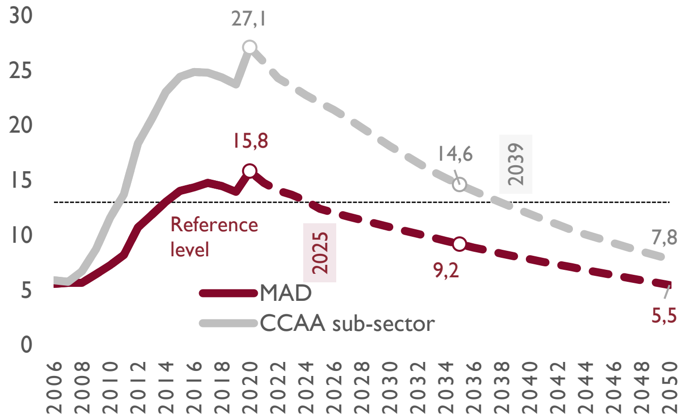
Contribution to the variation in the debt ratio (% GDP) over 15 years (2021-2035)



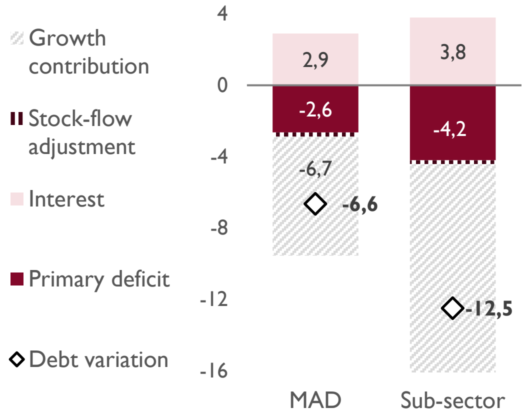
MADRID

Under the suppositions of a regulatory scenario, the debt ratio is projected to fall by 6.6 points of GDP in the next 15 years, reaching the pre-pandemic level in 2023. Under the same scenario, a reduction is projected for the sub-sector as a whole of 12.5 points. Economic growth will be the factor that most contributes to the reduction of the ratio in both cases. This will be driven by favourable financing conditions and a fiscal balance that would become positive in the coming years, thus reaching the reference limit of 13% in 2025.

Debt projections (% GDP) on the regulatory scenario and year of attainment of the 13% reference level



Contribution to the variation in the debt ratio (% GDP) over 15 years (2021-2035)

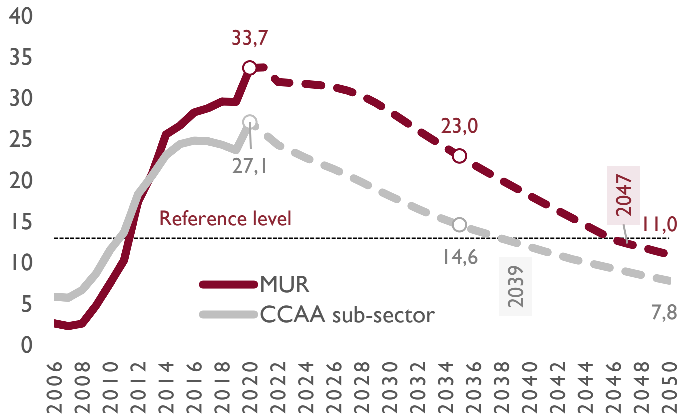


Source: AIReF

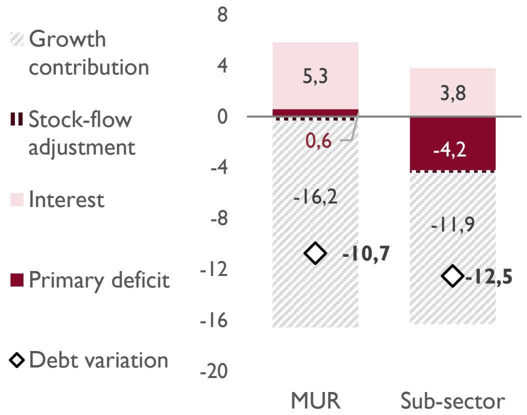
MURCIA

Under the suppositions of a regulatory scenario, the debt ratio is projected to fall by 10.7 points of GDP in the next 15 years, reaching the pre-pandemic level in 2029. Under the same scenario, a reduction is projected for the sub-sector as a whole of 12.5 points. Economic growth will be the factor that most contributes to the reduction of the ratio in both cases. In contrast, a persistent deficit would limit the reduction of the ratio of the autonomous region, thus delaying the achievement of the reference limit of 13% until the middle of the century.

Debt projections (% GDP) on the regulatory scenario and year of attainment of the 13% reference level



Contribution to the variation in the debt ratio (% GDP) over 15 years (2021-2035)

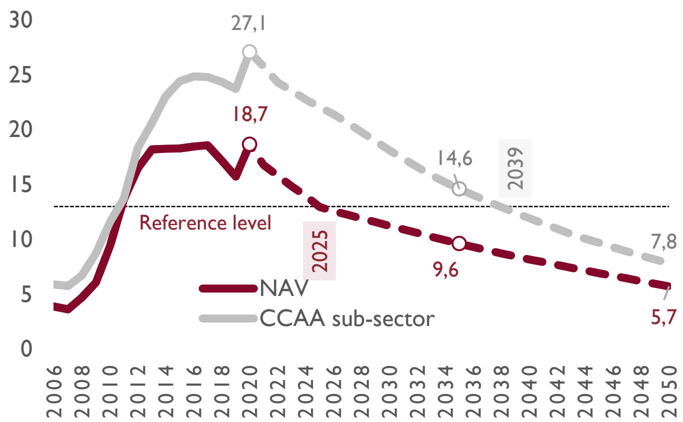


Source: AIReF

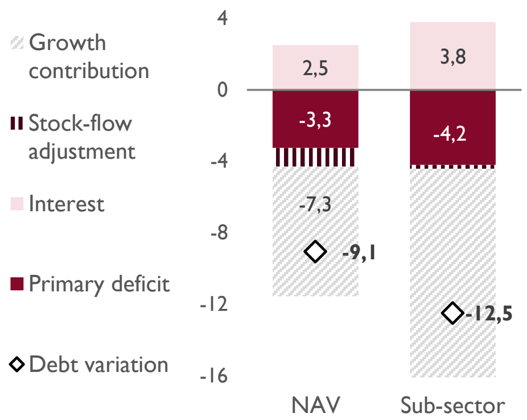
NAVARRE

Under the suppositions of a regulatory scenario, the debt ratio is projected to fall by 9.1 points of GDP in the next 15 years, reaching the pre-pandemic level in 2023. Under the same scenario, a reduction is projected for the sub-sector as a whole of 12.5 points. Economic growth will be the factor that most contributes to the reduction of the ratio in both cases. This will be driven by favourable financing conditions and a fiscal balance that would become positive in the coming years, thus reaching the reference limit of 13% in 2025.

Debt projections (% GDP) on the regulatory scenario and year of attainment of the 13% reference level



Contribution to the variation in the debt ratio (% GDP) over 15 years (2021-2035)

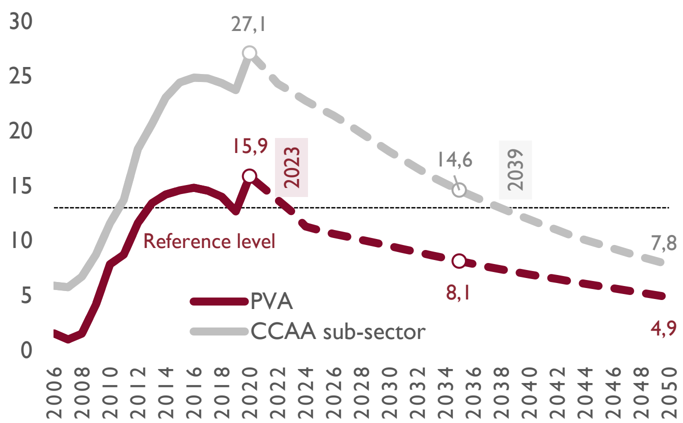


Source: AIReF

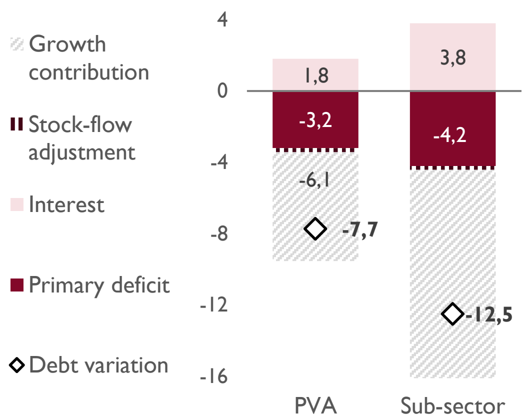
BASQUE COUNTRY

Under the suppositions of a regulatory scenario, the debt ratio is projected to fall by 7.7 points of GDP in the next 15 years, reaching the pre-pandemic level in 2024. Under the same scenario, a reduction is projected for the sub-sector as a whole of 12.5 points. Economic growth will be the factor that most contributes to the reduction of the ratio in both cases. This will be driven by favourable financing conditions and a fiscal balance that would become positive next year, thus reaching the reference limit of 13% in 2023.

Debt projections (% GDP) on the regulatory scenario and year of attainment of the 13% reference level



Contribution to the variation in the debt ratio (% GDP) over 15 years (2021-2035)

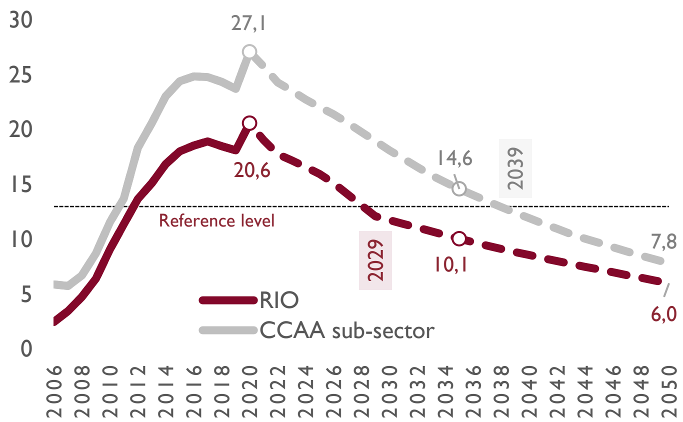


Source: AIReF

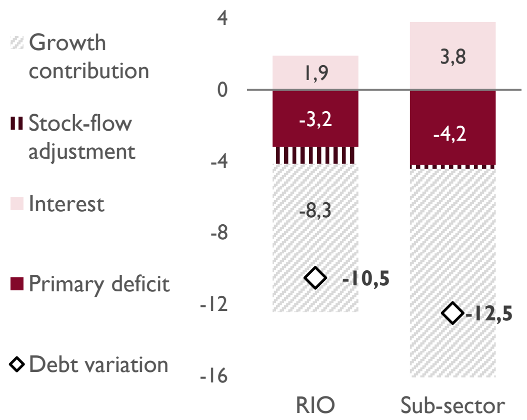
RIOJA

Under the suppositions of a regulatory scenario, the debt ratio is projected to fall by 10.5 points of GDP in the next 15 years, reaching the pre-pandemic level in 2022. Under the same scenario, a reduction is projected for the sub-sector as a whole of 12.5 points. Economic growth will be the factor that most contributes to the reduction of the ratio in both cases. This will be driven by favourable financing conditions and a fiscal balance that would become positive in the middle of the decade, thus reaching the reference limit of 13% in 2029.

Debt projections (% GDP) on the regulatory scenario and year of attainment of the 13% reference level



Contribution to the variation in the debt ratio (% GDP) over 15 years (2021-2035)



Source: AIReF